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SPECIAL PROGRAMMES OF ECONOMIC ASSISTANCE

Assistance for the reconstruction and development of Djibouti

Report of the Secretary-General

I. INTRODUCTION

1. The Republic of Djibouti lies halfway between the equator and the Tropic of Cancer. Its location, on the east coast of Africa, where the Red Sea meets the Gulf of Aden, between Suez and the Far East, gives it its strategic importance. Djibouti has boundaries on both land and sea: to the north, west and south it is bounded by Ethiopia (450 km) and to the south-east by Somalia (65 km). To the east it has 370 km of coastline. Its total area is 23,200 square kilometres.

2. Djibouti's climate is semi-desert and very harsh. Nearly 90 per cent of the country is covered by desert and extremely arid land. Volcanic mountains in the north give way to desert plains and lakes Assal and Abbé in the centre. The major mountain chain that runs along the Gulf of Tadjourah includes Mt. Goda (1,750 metres), the Day forest and the Mablas chain (1,380 metres), which are the only parts of the country with permanent plant cover. In the south, a series of parallel depressions separated by plateaux give rise to plains that suit the population's nomadic lifestyle. The largest of these is the plain of Hanlé, which is 35 km long and 20 km wide.

3. The country's varied geology thus defines its human geography, since it determines the distribution of aquifers and pasture land as well as the quality of the access routes between the different population centres of the country.

4. The country suffers from a notable lack of resources, its sole resources being fisheries, which are estimated at between 1,100 and 10,000 tons, and

* A/48/150 and Corr.1.

geothermal resources; the latter, though significant, have not yet been tapped. Finally, the country's ecosystem is threatened by increasing desertification, soil erosion and groundwater depletion.

5. In 1991 Djibouti's population was estimated at 480,000, with a population density of 20.7 inhabitants per square kilometre. Women account for 50.6 per cent of the total population and men for the remaining 49.4 per cent.

6. The population of Djibouti consists of two main ethnic groups of nomadic origin: the Issas (mainly Somali in origin) together with the Issacs and the Gadaboursis, and the Afars (mainly from eastern Ethiopia). The largest minority group is of Yemeni origin; it accounts for approximately 5 per cent of the population and engages for the most part in retail trade and maritime transportation activities.

7. Djibouti also has a large, mainly French, expatriate community comprised of French military and technical assistance personnel and their families (approximately 10,000), as well as various other merchants.

8. The population is mostly urban (81 per cent) and is concentrated in the capital. This high urban concentration has led to many economic and social problems, such as rising unemployment, public health problems, etc. More than 80 per cent of the rural population (19 per cent of total population) are nomads. The annual natural rate of population growth is 3.1 per cent; migration from neighbouring countries, mainly Ethiopia and Somalia, raises the rate by a further 1.5 per cent bringing the overall rate of population increase to 4.6 per cent per annum. In real terms therefore, the economy's growth rate (GDP) averaged only 1 per cent between 1988 and 1991, a rate lower than the natural rate of population increase (3.1 per cent). Nearly 45 per cent of the population is less than 15 years old, the median age being 18.5 years, while those aged over 60 years account for a mere 2 per cent. The average household comprises 7.2 persons.

9. While it is difficult to know exactly how many people are economically active, the working population can be divided into three main categories of unequal size: the modern sector of the economy (most public servants), which employs 23,300; the informal sector, employing approximately 148,943; and the rural employed, who number 45,236, making a total of 217,479 in 1989. 1/

10. Little is known about the composition of the informal sector, although most of those employed in this sector live in urban areas and account for nearly 75 per cent of the country's unskilled labour force. Studies of this sector show that the vast majority of those employed earn less than 50,000 Djibouti francs per month. In the rural areas, the employed are mainly farmers whose production is largely for subsistence.

11. The official languages are Arabic and French. Other languages spoken include Afar and Somali. Almost the entire population is Muslim.

II. ECONOMIC AND SOCIAL REVIEW

12. Its per capita gross domestic product is estimated at US$ 600, placing Djibouti in the category of least developed countries according to the United Nations classification.

13. According to the 1991 Human Development Report of UNDP, the country ranks 153rd among the 160 least developed countries. Its human development index is a low 0.084, which is due, *inter alia*, to a very low life expectancy at birth (48 years) and to one of the lowest literacy rates in the world (approximately 19 per cent).

14. As regards international relations, the Republic of Djibouti is a member of, *inter alia*, the United Nations (1 February 1978), Organization of African Unity, the League of Arab States, the Preferential Trade Area (PTA), the EEC/ACP (Africa-Caribbean-Pacific) Convention, the Non-Aligned Movement and the Group of 77.

15. Djibouti is also a member of the International Monetary Fund, the World Bank, the African Development Bank, the Islamic Development Bank, and the Lomé Convention. Its currency is the Djibouti franc (DF), which is pegged to the United States dollar at a parity that has been fixed since 1949. Since 1973, however, the United States dollar has been worth 177.7 DF. The currency is convertible upon demand into dollars without any restrictions, for both residents and non-residents.

A. Main products

16. Djibouti has the potential to play a key strategic role at the subregional, regional and international levels. Its long-term development must be planned with this in mind, since the country has the attributes to become a major hub between Africa and the Middle East, an international financial centre, a way station for products exported by neighbouring countries, and a redistribution centre for imports into the Preferential Trade Area.

17. The structure of Djibouti's economy can best be examined by looking at the contribution of each sector to the country's gross domestic product. The primary sector, which includes agriculture, small-scale fishing and cattle raising, accounts for only 4 per cent of the gross domestic product. The area under cultivation is less than 600 hectares and employs less than 1,000 persons who produce approximately 2,000 tons of agricultural produce. Cattle raising is a major activity, providing employment for 100,000 persons. However, it is not pursued on a commercial basis, since cattle farmers regard their cattle as capital rather than as a source of income. Water resources are scarce and this poses a considerable obstacle to agricultural development. For these reasons, Djibouti imports almost all of its basic consumer goods. Finally, although the country has 370 km of coastline, fishing remains a small-scale industry with a yield of approximately 700 tons per year and a fleet of some 140 vessels. The entire catch is consumed locally.

18. The traditional secondary sector, i.e. the industrial sector, remains small, accounting for approximately 18.1 per cent of gross domestic product in

1989. It produces mainly consumer goods and a few other essential items. The industrial plant consists of a few bottling factories, a milk processing plant, a flour mill, and a few factories producing construction materials. Manufacturing accounts for less than 4.9 per cent of the 18.1 per cent total. The expansion of the industrial sector has been further impeded by the fact that technological advances have led to mass production methods which require a very large market. The size of Djibouti's market, however, is limited by the small population and the low household incomes. The shortage of skilled labour and the extremely high cost of energy are also serious obstacles to industrialization. Market constraints and limited profits have thus been an impediment to industrialization because of weak domestic demand, and the high cost of the factors of production and the country's inability to meet the high standards of international competitiveness have limited development of export-oriented industries.

19. The tertiary sector accounts for 77.9 per cent of GDP. In view of the marginal role of the productive sectors (agriculture and industry) in the creation of resources, the tertiary sector, and specifically services relating to port infrastructure and telecommunications facilities, remains the priority sector in the Government's medium- and long-term development strategy.

20. The tertiary sector is the country's largest foreign exchange earner. Most of this is derived from the services provided to the French military units stationed in the country or related to the other services linked to the country's role as a regional centre. Djibouti thus has a tri-polar service economy based on trade, transport and telecommunications.

21. The economy is dependent on the intense activity of the International Autonomous Port of Djibouti (IAPD); the latter is the second largest employer in the country and serves as a base for: (a) the port and airport complex for traffic to and from landlocked countries and those countries whose traditional systems of transport have been cut off (Ethiopia); (b) the port and railway complex for Ethiopian traffic; (c) the port complex alone for transshipment; and (d) the port and road complex for traffic to Somalia and Ethiopia.

22. The port of Djibouti is thus the key element of the transportation system, serving as both a commercial port and a refuelling port for trading vessels and warships. The amount of traffic varies according to political developments in neighbouring countries, but transshipment remains the most important activity. Port traffic may be broken down as follows: (a) Djibouti (24 per cent); (b) transit (10 per cent); (c) transshipment (36 per cent); and (d) hydrocarbons (30 per cent).

23. Djibouti has always enjoyed (at least up until 1991) a reputation as a haven of peace in the troubled Horn of Africa region. The country also enjoys the benefits of a well developed banking sector; a bridge which is linked to the 781 km Djibouti-Addis Ababa railway, 100 km of which is situated in Djiboutian territory and which rises from sealevel in Djibouti to an altitude of 2,350 metres at Addis Ababa and provides employment for 2,400 persons; an international airport; a 2,800 km road network of which 415 km are paved, thus facilitating the development of inter-modal traffic; adequately managed public services (electricity, water, etc.); and the most developed international telecommunications system in Africa. 2/

24. It should be noted, however, that Djibouti’s so-called service economy is heavily dependent on the country’s strategic location. Moreover, the dominance of the tertiary sector is reflected in the country’s foreign trade. Exports of goods of local origin are insignificant and the country is heavily dependent on imported consumer goods, especially food products and capital goods. Indeed, the country’s balance of payments shows that Djibouti imports almost all the goods it needs, since the primary sector is relatively undeveloped and the country has few natural resources. Exports consist mainly of food products. Approximately 8,000 tons of vegetables and cereals are imported each year, as well as 60 per cent of the meat consumed locally and 80 per cent of milk products. Other imports include textiles, various machines and electrical appliances.

25. Djibouti’s principal trading partners where imports are concerned are France, the EEC countries, Ethiopia, and the Asian countries. In real terms, imports have increased by 3 per cent per annum between 1987 and 1991.

26. Between 1987 and 1991, imports amounted to 36.7 million Djibouti francs on average as against 4.2 million Djibouti francs in exports. The rate of coverage of imports by exports was thus under 11.5 per cent.

27. Exports of products of local origin account for less than 10 per cent of all exports and consist mainly of live animals (cattle on the hoof), which are driven across the frontier with Somalia and Ethiopia, leather and hides. In real terms, exports, mainly to Ethiopia, France and the countries of the Near and Middle East, rose by an annual 2 per cent between 1987 and 1991.

28. Because of the importance of the transit trade, especially with its neighbours on the coast (Ethiopia and Somalia), Djibouti’s economy is very sensitive to political and economic developments in these countries. Indeed, recent events there have caused the traditional markets for services, transit and trade to shrink and have reduced the country’s budgetary income during the period 1989-1991.

29. Djibouti’s economy is very sensitive to and dependent upon the domestic situation of its neighbours. This may be seen in the food aid which is offloaded in Djibouti for transshipment to Ethiopia; the supplying of the northern regions of Somalia; and the passage of warships and transshipment activities during the Gulf crisis.

30. The recent Gulf crisis, which cost Djibouti’s economy US$ 120 million between August 1990 and March 1991 (as a result of the folding of the national airline, Air Djibouti, which declared bankruptcy in February 1991, the increase in fuel prices and delays in the implementation of various externally financed investment projects, particularly those financed by the Gulf Arab States; 3/ the recent severe crisis in Ethiopia; the prolonged closure of the border with Somalia (up to 1991); the problem of stabilization of the factors of macroeconomic equilibrium, compounded by the internal conflict that broke out in 1991 causing an even more severe drain on Government expenditures, 4/ have all demonstrated the urgent need to restructure the economy and to replace short-term economic mechanisms by structural, productive and diversified activities.

31. The priorities of the 1991-1995 Plan are therefore geared towards promoting infrastructural programmes as well as the training of human resources, in order to permit a greater opening of the economy of Djibouti to economic flows from outside the region.

B. Social dimensions

32. The social indicators underscore the urgent need for more determined efforts to be made. Only 42.5 per cent of children attend primary school, while the illiteracy rate for the population as a whole is 61.1 per cent and for women 72 per cent. Among women aged 40 years and over, the rate exceeds 90 per cent. There is one doctor per 4,752 inhabitants and one hospital bed per approximately 351 inhabitants. In addition, because of political factors, the influx of illegal immigrants has imposed additional burdens on the education and health-care systems. This so-called floating population was estimated to be about 100,000 in 1991 (approximately 24,000 in camps and 76,000 in the capital), representing 20.8 per cent of the country's total population. The projections for 1992-1993 are hardly more encouraging, since this figure is expected to double. That Djibouti is prepared to bear this cost is due in large measure to the fact that the refugees belong to the two ethnic groups that comprise the country's population: the Issas (of Somali origin) and the Afars (of Ethiopian origin).

33. The economically active population accounts for 46.2 per cent of the population of active age. Most (88.9 per cent) are employed in the tertiary sector as against 8.5 per cent and 2.6 per cent respectively in the secondary and primary sectors. Wage earners account for 79.5 per cent of the total number of employed persons, as against self-employed persons (17 per cent), domestic help and apprentices (1.9 per cent) and employers (a mere 1.6 per cent).

34. Women play an active role in the economy of Djibouti and constitute 32.2 per cent of the active population. In rural areas, they play an important role in cattle raising. In the formal urban sector, they are employed mainly as clerical or administrative staff. In the informal urban sector, most are "*charcharis*", unlicensed traders who travel to Saudi Arabia to purchase electronic equipment, jewellery and textiles, which they then resell in Djibouti or re-export to Somalia and Ethiopia. It has been estimated that their turnover declined by almost 70 per cent during the Gulf crisis, due to the interruption of trading activities. It is further estimated that during the eight months of the crisis, this sector lost nearly 630 million Djibouti francs, not including the losses suffered by all the small retailers involved in this trade. 5/

35. Overall, unemployment is very high, affecting 43.5 per cent of the total labour force. The country's unemployment and under-employment problems are due to the disparities between the needs of the labour market and the educational system; the absence of any system for retraining young people who have been rejected by the traditional educational system (a problem which affects nearly 75 per cent of young people under 13 years of age); the shortage of skilled labour in all fields; and the absence of a dynamic private sector.

36. Djibouti suffers from a grave shortage of skilled labour, and this has a direct impact on the country's economic management and reduces the benefits of

technical assistance, since there are not enough qualified national counterparts. In addition to the low productivity of its labour force, Djibouti suffers from serious structural problems attributable to the very high wage levels. Labour is therefore expensive and relatively untrained. The average cost of an employee in Djibouti is US$ 400 per month, as against US$ 250 in Tunisia and US$ 80 in Mauritius. Djibouti gives the impression of trying to maintain, particularly in its civil service and in the modern sector of the economy, practices similar to those of France in the field of wages and social benefits. It is therefore essential to reduce wages in the formal and structured sector of the economy in order to give Djibouti a chance to expand its role and its regional vocation by making it more competitive with other countries of the region.

37. In the field of education, despite the efforts of the authorities and of France, overall school enrolment remains low. There are fewer than 61 primary schools (including both public and private), with a total enrolment of approximately 33,492 pupils (30,157, of whom 41.4 per cent are girls, at public schools and 3,335 pupils at private schools). The pupil/teacher ratio is 43:1. The percentage of children attending primary school is only 42.5 per cent, one of the lowest in Africa.

38. The numbers drop precipitously at the end of primary school (CM2). Indeed, only 25 per cent of pupils who graduate from primary school are accepted into the first year of secondary school; 30 per cent of pupils in the fourth year prepare for the BEPC examination, and 30 per cent make it into the fifth year. In 1991, 174 pupils were successful in the school leaving examinations marking the end of the high school cycle. The young people who fail to gain admittance into secondary school therefore join the ranks of the unemployed, particulary in urban areas.

39. Enrolment figures for secondary schools (general and technical) are 7,319 for public and 1,461 for private schools. There are 544 students currently pursuing higher studies on scholarships. The consolidated primary and secondary school attendance rate is approximately 32 per cent.

40. Adapting the French education system to local needs is a slow process. Indeed, the curriculum is inappropriate to Djibouti’s culture and environment. The Government and the French Cooperation Mission have undertaken to review primary school texts with a view to better adapting them to the national environment and also to review the entire primary education curriculum.

41. In this connection, the Government recently adopted a limited five-year plan (1990-1994) for education and increased budgetary appropriations for primary, secondary and technical education from 8.7 per cent for the 1987-1991 period to 13.8 per cent in 1992.

42. Overall, the Government’s policy for the next decade will be aimed at expanding primary education and increasing access to secondary schooling; enhancing the effectiveness of the school system and adapting it to national needs; improving standards of technical vocational training and strengthening overall planning and management in education in order to improve efficiency and reduce costs, which are currently too high.

43. Djibouti has the best health system in the Horn of Africa, not only in terms of technical quality of the services but also in terms of availability of medicaments. Access to health services is virtually free and without restrictions. Moreover, considerable efforts have been made to provide health services to rural populations. However, the system depends heavily on technical assistance (bilateral, particularly French, assistance) and grants of equipment and medicines (usually provided under individual assistance packages from countries such as Italy and Japan). The latter cover the construction of infrastructure and gifts of medical and non-medical equipment. Approximately 1.3 per cent of GDP is allocated to the health sector, with 80.1 per cent of this amount financed from foreign assistance. To increase the proportion of domestic financing in future, the Framework Plan provides for the gradual introduction of medical fees to recover the costs of hospital care; autonomous management of major hospitals; and expanded training for nurses and nursing assistants.

III. AID COORDINATION

44. The increase both in the need for financing and in the number of donors has made proper coordination of foreign assistance to Djibouti all the more essential.

45. The setting up in February 1988 of an Interministerial Planning Commission to coordinate foreign aid and to determine the economic and social viability of investment projects before they are submitted to the Council of Ministers and to the various donors has been a promising step in this direction, particularly since the technical ministries frequently seek financing for their projects directly, often without taking into account criteria of profitability, the State’s capacity to assume the debt and coordination with other institutions. A direct consequence of this procedure is that the Planning Department - the official organ responsible for elaborating the National Development Plan and for determining, through the centralization of information, the amount of financing required in the medium term to achieve the objectives set - is often completely unaware of disbursements in respect of many projects implemented through external assistance. Proper coordination should normally improve management or even optimize the overall utilization of external resources, as well as permit better harmonization of the actions of donors with the country’s global development strategy.

46. In the absence of a genuine planning process, the public investment programme and the master plan for economic and social development activities and projects for 1991-1995, which cover both sectoral policies and institutional reforms, are currently the only points of reference that draw together the elements of sectoral strategies, identification of new programmes and projects, and follow-up and evaluation of projects that are under way. The plan was adopted by the Council of Ministers in December 1991 and approved by the National Assembly on 14 May 1992.

47. UNDP has already provided technical assistance to strengthen planning capabilities in this area and to participate, through its project of assistance in management planning, in the elaboration of the Economic and Social Framework Law for 1990-2000 and in the Economic and Social Plan (1991-1995), in the

elaboration of which the private sector has participated for the first time. Development planning, which has hitherto been premised on the joint efforts of public services, has been enriched by the effective participation of the private sector, particularly with regard to the determination of the modalities for the implementation of the reforms envisaged in this sector.

48. The Act establishing the Interministerial Planning Commission provides that the latter shall be chaired by the Prime Minister and that its members shall include the Minister of Finance with respect to recurrent charges and the Minister of Foreign Affairs and Cooperation with respect to coordination of external assistance. While the provisions of that Act have not been affected by the recent ministerial changes, one may assume that, if any determined attempt is made to reconstitute its membership, the Commission will be chaired in future by the Minister of Planning. Unfortunately, the Commission has not yet assumed the role which has been assigned to it and its approach and working methods must be better adapted to the programming approach. For example, it should meet on a regular basis; require technical ministries and public enterprises to submit progress reports on projects that are under way or planned; and formulate a programme of public investments which could be reviewed annually.

49. There are also various bilateral or multilateral mechanisms for coordinating aid such as the Franco-Djibouti Mixed Commission set up to determine the budget of the Fonds d’aide et de coopération; the Lomé lV Convention with the EEC and the five-year country programme (1987-1992) for cooperation between UNDP and Djibouti, the budget, indicative planning figure and allocation of which are discussed in the Interministerial Planning Commission.

50. Finally, up to February 1993, the date of the ministerial reshuffling which followed the legislative elections of 18 December 1992, coordination of foreign aid was the responsibility of the Ministry of Foreign Affairs and Cooperation. The Prime Minister, in addition to having responsibility for planning, was also charged with promotion and coordination of economic activities, including economic analysis and the programming of all projects. These two areas of responsibility now come under the Ministry of Planning, Land-use Management, Environment and Cooperation, which will therefore be responsible for both cooperation and investment planning. These changes are expected to result in improved planning and aid coordination.

Notes

1/ G. Foulon/M. Mahyoub; "Analyse du financement du système de santé en République de Djibouti", July 1992, p. 18.

2/ The IAPD consists of 14 quays offering berths in depths of between 9 and 12 metres; 110,000 m^2 of storage space, comprising 18 hangars; a container terminal with two 35 ton gantries and a 15 hectare free zone (used mainly as a storage area rather than as a processing zone, since the products are re-exported). Butel-Gamet report, 1988.

3/ All of the projects that were to have been financed by the Arab countries affected by the Gulf crisis had been considered in the year when the report was prepared (1991) as abandoned. However, at the meeting on the least developed countries held in Paris, a promise was made to continue those projects financed by Kuwait, Saudi Arabia, IDB and AFESD.

4/ Since 1992, much of the State budget has gone to the defence of the country's territorial integrity, forcing the authorities to levy a 10 per cent patriots contribution on wages and to severely reduce funding of public agencies.

5/ UNDP: "Report on the impact of the Gulf crisis on the economy of Djibouti", July 1991.
