

Doing Business in Djibouti

A comprehensive guide to doing business

Table of contents

<u>Contents</u>	<u>Page no.</u>
Introduction	2
Economic overview	3
Foreign Direct Investment Policy	4
Key sectors	5
Advantages of doing business	7
Types of business	8
Minimum eligibility criteria for company registration	10
How to set up a business	11
Taxation	12
Accounting standards	13
Employment and labor laws	14
Employment policies	15
How we can help	16

Introduction



Djibouti, which is located in the Horn of Africa, is a relatively small country that plays an important strategic position. As the entry location for commercial traffic between the Red Sea and the Indian Ocean, it plays a crucial role in the global market's operation. The nation has been effective in attracting international investment in recent years due to its politically stable climate, investor-friendly regulations, and strategic location. Djibouti has taken steps to improve its investment climate by implementing business-friendly reforms and regulations. The government has established an investment promotion agency to assist foreign investors in navigating the business landscape. Moreover, the country's stable political environment and strategic alliances with international partners contribute to a positive outlook for foreign investment.

Djibouti is one of the smallest countries in Africa, with an area of 23,200 square kilometers and a population estimated at 90,000. The size of its economy limits its ability to diversify production and increases its reliance on foreign markets, making it more vulnerable to market downturns and hampering its access to external capital. With less than 1,000 square kilometers of arable land (0.04% of its total land area) and average annual rainfall of only 130 millimeters, Djibouti depends almost completely on imports to meet its food needs.

Economic overview

The trade, logistics, and service sectors have been the primary contributors to Djibouti's consistent economic expansion over the past decade. It has transformed into an important transshipment hub for East Africa and the Middle East due to its advantageous location. Government investments in infrastructure, such as ports, railroads, and free trade zones, have further stimulated economic activities.

The economy is dependent on imports and re-exports, and efforts are being made to diversify and strengthen other sectors to foster sustainable growth.

Gross domestic product ("GDP") in Djibouti is expected to reach 3.71 USD Billion by the end of 2023, according to Trading Economics global macro models and analysts' expectations. GDP growth eased to 1.2% in 2020 but rebounded to 4.8% in 2021, before moderating to 2.5% in 2022. Expansion is projected to accelerate to 4% in 2023 and 6% in 2024, according to the International Monetary Fund ("IMF").



Foreign direct investment policy

Djibouti encourages foreign direct investment ("FDI") and has taken numerous measures to ensure that investors are both rewarded and protected. The Investment Code provides incentives such as tax exemptions, the repatriation of earnings, and protection against government takeover. Foreign investors are permitted complete ownership of the businesses they establish in almost all sectors, except a few strategically significant industries. In addition, the government of Djibouti has created the Djibouti Investment Promotion Agency ("IPA") to facilitate the investment procedure for foreign companies and offer assistance throughout.

Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Foreign direct investment and net inflows (% of GDP) in Djibouti were reported at 4.9447 % in 2021, according to the World Bank collection of development indicators, compiled from officially recognized sources. Djibouti - Foreign direct investment, net inflows (% of GDP) - actual values, historical data, forecasts, and projections were sourced from the World Bank in August of 2023.



Key sectors



Logistics and transportation

Djibouti's strategic location at the crossroads of major international shipping routes, connecting Africa, Asia, and Europe, has led to the development of world-class port facilities. The Port of Djibouti is a crucial gateway for trade, serving as a transshipment hub and providing access to landlocked neighboring countries like Ethiopia.



Energy and Infrastructure

Given its limited domestic energy resources, Djibouti has been focusing on developing its energy infrastructure, particularly through renewable sources such as wind and geothermal energy. The country has initiated various projects to increase energy generation capacity, aiming to reduce dependency on imported energy. Infrastructure development, including the construction of roads, bridges, and airports, supports overall economic growth and connectivity.



Telecommunication

The telecommunications sector in Djibouti has experienced significant growth, driven by investments in fiber-optic infrastructure and expanding connectivity. Djibouti's role as an international communications hub is highlighted by the presence of undersea fiber-optic cables, linking Africa to other continents. This connectivity not only supports local businesses but also facilitates international data traffic.



Tourism and hospitality

Djibouti's unique natural attractions include stunning landscapes, pristine beaches, and diverse marine life. The government has been investing in promoting tourism and hospitality services to capitalize on these resources. Eco-tourism, adventure tourism, and water-related activities attract international visitors seeking unique experiences in a relatively unexplored destination.

Agriculture and fisheries

Despite its arid climate, Djibouti's agriculture and fisheries sectors have growth potential, especially with modern irrigation techniques and sustainable practices. The country aims to achieve food security by increasing agricultural production and improving water management. Additionally, the rich marine resources along its coastline provide opportunities for fisheries development.

Financial services and banking

Djibouti's financial sector has been expanding to support the growing economy. The government has implemented reforms to attract foreign investment and promote financial services. The establishment of modern banking systems, investment incentives, and the adoption of electronic payment methods contribute to the ease of doing business.

Advantages



Economic landscape

The country's strategic location has led to the development of significant port and shipping infrastructure, including the Port of Djibouti, which serves as a gateway for goods traveling between Asia, Africa, and Europe. Additionally, the construction of the Djibouti International Free Trade Zone has attracted global companies seeking to establish a presence in the region.

Investment incentives

Djibouti has implemented various investment incentives to attract foreign investors. These include tax exemptions, simplified administrative procedures, and the opportunity to own 100% of a business in certain sectors.

Cultural considerations

Understanding the local culture is essential for successful business operations in Djibouti. The majority of the population practices Islam, and business interactions should be conducted concerning Islamic customs and traditions. Building strong personal relationships and showing patience in negotiations is crucial in this context.

Types of business



Sole proprietorship

A sole proprietorship is a business structure that offers simplicity and autonomy to the individual owner. One of the main advantages of a sole proprietorship is its ease of formation. Entrepreneurs can start a business quickly and with minimal formalities, making it an attractive choice for those looking to test their business ideas or launch a small venture without the burden of complex legal procedures.

Limited Liability Company ("LLC")

A Limited Liability Company ("LLC") is a popular and versatile business structure that offers significant advantages to its owners, known as members. One of the primary benefits of forming an LLC is limited personal liability. This means that the member's assets, such as their homes, cars, and savings, are generally protected from business debts and legal liabilities. In the event of financial difficulties or lawsuits, the liability of individual members is limited to the amount they have invested in the business. This level of protection is similar to what shareholders enjoy in a corporation.

Joint venture

A joint venture ("JV") is a strategic business partnership in which two or more independent entities collaborate to pursue a specific business opportunity or project. Joint ventures are often formed to capitalize on the unique strengths and resources of each partner, creating a synergy that leads to mutual benefits and business growth. One of the primary advantages of joint ventures is shared risk and investment. By pooling resources, expertise, and capital, the partners can undertake ventures that might be too risky or financially challenging for them to pursue individually. This risk-sharing aspect can be particularly attractive for companies seeking to explore new markets, undertake large-scale projects, or venture into unfamiliar territories.

Branch of a foreign company

A branch of a foreign company is an effective way for businesses to establish a physical presence and conduct operations in a different country. By setting up a branch, the foreign company extends its reach and gains access to new markets without the need to create a separate legal entity. This can be particularly advantageous for companies seeking to test the waters in a foreign market or engage in specific projects or contracts without making a long-term commitment.



Eligibility criteria for company registration

The process for company registration in Djibouti involves a few minimum requirements:

- At least one director and one shareholder (can be the same person).
- Minimum share capital, depending on the type of company.
- A registered office address in Djibouti.

Business licence: All individuals engaged in commerce, industry or any profession, whether a national or a foreigner are required to pay the business licence fee. Exemptions apply under the provisions in the General Tax Code ("GTC"). The licence is valid for one year and must be renewed before the expiration of the deadline.

Under the 2023 finance law, the business licence fee structure in Djibouti is changing. Activities in classes 7 to 8 will be charged an additional \$0.07 per Djiboutian franc, and activities in classes 1 to 6 will be charged an additional \$0.09 per Djiboutian franc. Classes 9 and 10 are exempt.

Formation procedure & balance date: The government has eased business registration by reducing the investment capital requirement, as well as streamlining the application process and certain tax procedures. For example, foreign investors do not need a domestic partner to start a business unless they plan to conduct specified regulated activities. Formation procedures take an average of 14 days.



How to set up a business?

The steps for setting up a business in Djibouti typically include:

- Reserve the company name with the Commercial Court.
- Obtain a business license from the Ministry of Commerce.
- Register the company and its employees with relevant authorities.
- Open a local bank account and deposit the required share capital.
- Obtain any necessary sector-specific permits or approvals.

Employment regulations

Foreign individuals who wish to work in Djibouti are required to obtain a work permit and residence card, which is generally valid for one year and can be renewed through application. Visa fees vary depending on the category, and can be obtained online. A transit visa, which is valid for one to 14 days, costs \$12, while a short-stay visa, which is valid for 15 to 90 days, costs \$23.

Both local and foreign workers are required to make social security contributions based on their gross salary and benefits, which are capped at DJF400,000 (\$2300) except the uncapped pension portion. The social security contributions that an employer is responsible for paying include 5.5% for family allowance; 1.2% for work-related injuries; 4% for pension; and 5% for health insurance.



Taxation



Personal income tax ranges from 0% to 30%, depending on income levels.

Corporate Income Tax ("CIT")

The tax rate on business profits is set at 25% of taxable net profit in case of profit and 1% of income in case of loss, however, the tax authority applies the rate linked to the highest tax amount. The tax must not be less than DJF120,000 (\$676) – the minimum flat-rate tax. Royalties and dividends are exempt from CIT. Under the GTC companies are required to file an annual tax return before March 31 for the previous fiscal year.

Value Added Tax ("VAT")

In Djibouti, VAT is currently set at a standard rate of 10%. The value added at each stage of the production and distribution process is subject to this tax. If a business's annual turnover exceeds a certain amount, it must register for VAT.

Custom duties tax

Imported goods are subject to customs fees based on their value and classification. Some items are duty-free, and the rates change depending on the kind of imported goods. The Djibouti Revenue Authority ("DRA") is in charge of collecting customs fees.

Accounting standards



The accounting standards were largely influenced by the French accounting system due to the historical ties between the two countries.

Accounting framework

Djibouti's accounting framework is governed by the "Plan Comptable des Entreprises" ("PCE"), which translates to "Chart of Accounts for Companies." This chart of accounts is based on the French accounting framework and provides guidelines for recording and presenting financial transactions.

Regulatory bodies

The regulatory bodies responsible for overseeing accounting standards in Djibouti include the Ministry of Economy and Finance and the Djiboutian Accounting Standards Board. These entities work to ensure that companies operating in Djibouti adhere to the established accounting standards and financial reporting requirements.

Financial reporting

Companies in Djibouti are typically required to prepare and present financial statements that include the balance sheet, income statement, and cash flow statement. These statements are prepared by the PCE and are meant to provide a clear and accurate picture of a company's financial health.

Employment and labour laws

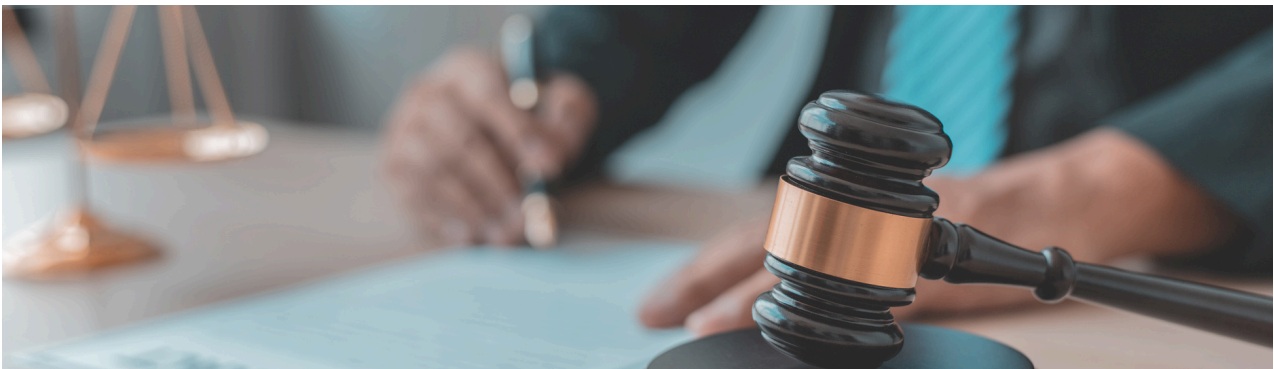
Djibouti's labor market is regulated by the Labor Code, which outlines the rights and obligations of employers and employees. It covers aspects such as working hours, leave entitlements, and termination procedures.

Employment contracts in Djibouti must be written and in the local language. Employment contracts can be indefinite, full-time, part-time, or for a definite fixed term that has an expiration date. Fixed-term contracts cannot exceed 12 months, can be based on work completion, and are renewable once. Any contract that does not have a fixed term is considered to be an indefinite contract. A contract stating the terms and conditions of employment should include:

- name and address of the employer
- name and address of the employee
- job description,
- salary, payment method, and payment date
- benefits
- probation period.

Working hours

The standard work hours in Djibouti are capped at 48 hours per week, spread over six days, at eight hours per day. A minimum of 24 hours rest is required, generally on Fridays.



Employment policy



Equal Employment Opportunity ("EEO") Laws: EEO laws prohibit discrimination based on factors such as race, color, religion, sex, national origin, age, disability, and genetic information.

Minimum wage laws: Minimum wage laws establish the lowest hourly wage rate that employers must pay to their employees. The aim is to ensure that workers receive a fair and reasonable wage that enables them to meet their basic needs.

Workplace safety and health: Occupational health and safety laws mandate that employers provide a safe and healthy working environment for their employees. Employers must implement safety measures, provide appropriate training, and maintain compliance with safety regulations to protect workers from workplace hazards.

Leave policies: Employment laws often provide guidelines for different types of leaves, such as sick leave, maternity/paternity leave, and annual leave. These policies ensure that employees have the right to take time off for various personal and health-related reasons without facing adverse consequences.

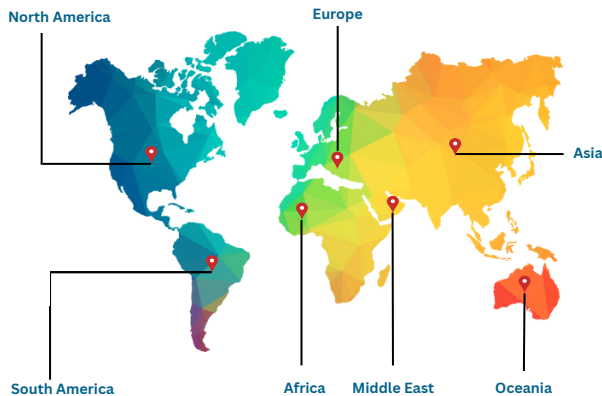
Privacy and data protection: Employment policies may address the collection, storage, and use of employees' personal information, ensuring compliance with data protection regulations.

How we can help?



- Our team of experts specialized in assisting businesses in Djibouti. Our team can provide specialized solutions to satisfy business objectives because our team has an abundance of expertise working with foreign companies in Djibouti.
- Our team of professionals will offer advice on various corporate advising services, including portfolio management, asset management, nominee director, nominee shareholder and other business formation processes.
- Our team can help in connecting with regional companies along with professional organizations. This can assist companies in forming beneficial connections and working together to grow their operations.
- Our team can provide consultancy on the regulatory framework for automotive sectors, and automotive companies to drive efficiently, unlock new value, improve the customer experience, and generate new business models.

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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on

[LinkedIn](#)

[WhatsApp](#)

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