

Report on Djibouti Workforce Development and Competitiveness Study

Submitted to USAID/Djibouti

Global Workforce in Transition (GWIT) IQC

USAID Contract No. GDG-1-00-02-0003-00

March, 2004

Education Development Center

1000 Potomac Street, NW, Suite 350, Washington DC 20007

202-572-3735

On the Web at www.gwit.us

Table of Contents

Executive Summary..... 4

Background and Introduction..... 6

Chapter 1: Competitiveness: The Development Dilemma of Djibouti..... 7

I. Foreign Assistance to Djibouti Is Clearly in the National Interest 7

II. Djibouti Is Currently an Uncompetitive Economy 8

III. Djibouti has a Window of Opportunity to Transform Itself Into a Competitive, High-Growth Country That Benefits the Average Citizen..... 10

IV. USAID Can Have a Major and Catalytic Impact in Helping Djibouti Make the Transformation to a High Growth Path With Specific and Timely Interventions..... 15

Chapter 2: Djibouti’s Labor Market: Institutional Capacity to Address Changing Needs..... 17

I. Djibouti’s Employment and Labor Market Situation is in Distress..... 17

II. Some Progress Is Being Made In Education But There Is a Severe Lack of Resources and Capacity That Impedes Further Progress..... 19

III. Djibouti’s Domestic and International Private Sector Can Be Leveraged to Improve Workforce Skills 22

Chapter 3: Recommended USAID Assistance Strategies..... 24

I. Strengthen the Capacity of Education and Training Providers to Improve Practical Employability, Work-Readiness and Entrepreneurship Skills..... 25

II. Increase the Capacity of the Private Sector and Private-Public Partnerships to Improve Workforce Skills 26

III. Strengthen Djibouti’s Capacity to Encourage Foreign Companies to Hire and Train Djiboutian Workers..... 27

IV. Build Workforce and Economic Growth Capacity in Outlying Areas..... 28

V. Encourage the IMF/World Bank to Sharpen Their Focus on Major Impending Investment and Growth Possibilities Using “Micro-Economic Conditionalities” 28

VI. Provide the Government of Djibouti with the Capacity to Implement Specific Reforms that Focus on the Micro-Economic Constraints and Opportunities..... 29

VII. Implementation Scenarios 29

Conclusion..... 31

Exhibit 1: Competitive Diamond for Djibouti

Exhibit 2: Competitiveness SWOT Analysis

Exhibit 3: Workforce SWOT Analysis

Interviews Conducted in the US and Djibouti

References

Endnotes

This report was prepared by the Global Workforce in Transition Study Team, comprised of Sr. Workforce Specialist Evelyn Ganzglass (GWIT Project Director, Education Development Center, eganzglass@edc.org), and Sr. Competitiveness Analyst Kevin Murphy (Director, Development Informatics, Kmurphy@jeaustin.com). The team was ably assisted in the field by Magda Chaher.

The GWIT team is grateful to the numerous USAID, Government of Djibouti, private sector, and other donor representatives who met with the team during their visit to Djibouti, and in the US. A full list of interviews held by the team is presented on Page 34.

The views presented here, however, are those of the authors and do not necessarily reflect those of the U.S. Government or USAID.

Report on Djibouti Workforce Development and Competitiveness Study

Executive Summary

Djibouti is a strategically important country in the region. Despite its major economic growth and poverty challenges, it has excellent potential to become a competitive high-growth economy in the future thanks to multiple development opportunities in transportation, energy and information and communications technology. Djibouti can become an even more important hub of international commerce than it currently is. It can greatly reduce its cost of energy production and it can take advantage of abundant and low-cost bandwidth to transform its telecommunications and education platform. In the long-run, putting Djibouti on a rapid economic growth trajectory will be the only sustainable way to address poverty alleviation and to improve living standards.

However, even if Djibouti takes advantage of opportunities for abundant energy, bandwidth and transport-related services, the current state of education and workforce development is such that many Djibouti citizens would be unable to obtain work because they lack the requisite market-oriented knowledge and skills. These skills include the new basics of good communication, problem-solving and analytical skills, as well as English language and computer literacy. They include technical skills, work discipline and the openness to learn new ways of working. They also include entrepreneurship skills that enable people to create their own employment by developing micro, small and medium-size businesses.

Improving workforce skills must therefore become a major priority of the Government of Djibouti and of donors seeking to help the country achieve rapid and sustainable economic growth. Changes are needed at all levels in Djibouti's education system, including vocational education, to make it more relevant and responsive to workers', students' and employers' changing needs. Needed workforce development strategies include industry-based training programs to improve workplace productivity as well as e-learning and adult literacy programs. At the secondary and postsecondary levels, they include school-to-work approaches such as youth apprenticeships, youth service programs, career academies and school-based enterprises in which students learn to integrate and apply their knowledge and skills to solve real-world community and work-based problems. Improving young people's work readiness skills is an essential strategy for reducing Djibouti's extremely high youth unemployment rate.

Djibouti's leadership needs help in taking advantage of the upcoming micro-economic opportunities. Much can be done to influence the positive outcome of these opportunities and to ensure that they are structured such that they benefit a broad base of the population. USAID should provide the Government of Djibouti with the capacity to implement specific reforms that focus on the micro-economic constraints and opportunities. Focusing on these sectors and micro-economic decisions is at least as important for future growth as focusing on current belt-tightening macroeconomic targets and should be given greater attention by the World Bank, IMF and bilateral donors.

A comprehensive package of assistance strategies is recommended to help Djibouti take advantage of its economic growth opportunities to reduce poverty, increase employment and spread the benefit of development more broadly. The recommended strategies will:

- Strengthen the capacity of education and training providers to improve practical employability, work-readiness and entrepreneurship skills
- Increase the capacity of the private sector and private-public partnerships to improve workforce skills
- Strengthen Djibouti's capacity to encourage foreign companies to hire and train Djiboutian workers
- Build workforce and economic growth capacity in outlying areas
- Encourage the IMF/World Bank to sharpen their focus on major impending investment and growth possibilities using "micro-economic conditionalities"
- Provide the Government of Djibouti with the capacity to implement specific reforms that focus on the micro-economic constraints and opportunities

Three assistance scenarios are presented. These range from adding a workforce dimension to the current USAID education project to mounting a modest workforce development project and developing a major competitiveness and workforce intervention.

1. Enhancements of the existing education project would allow USAID to act quickly to better prepare young people for earning a livelihood. Recommended activities include: developing student and teacher training modules; imbedding entrepreneurship training in formal basic education and vocational education programs; and developing work-related programming for use on the new social sector radio channel.
2. A separate workforce development project that would focus on: assessing private sector demand and skills gaps; promoting linkages between the private sector and education and training providers to support industry-based training and modernization assistance; developing strategies for encouraging foreign companies to hire and train Djiboutian workers; and building workforce and economic growth capacity in outlying areas.
3. A competitiveness and workforce project that would serve as a catalyst in helping to bring to fruition major private sector investments in energy, telecommunications and transportation-related industries. This would provide assistance in:
 - Structuring the upcoming investments such that they maximize the developmental impact;
 - Anticipating the workforce needs of the firms involved in these growth activities; and
 - Institutionalizing linkages between education and training providers and the private sector to respond directly to the workforce development needs of the market place.

Report on Djibouti Workforce Development and Competitiveness Study

Background and Introduction

A two-person team from the Global Workforce in Transition (GWIT) project conducted a workforce development and competitiveness study in the Republic of Djibouti as a follow-up to the Education Sector Assessment that was conducted in 2002. This study was conducted from January 25 to February 1, 2004. USAID asked the study team to:

- Examine the workforce development and related competitiveness challenges that Djibouti will face in achieving its goal of becoming a globally competitive communications, transport and value-added export facility, including related banking and IT requirements, and in developing its fishing, livestock and tourism sectors;
- Assess current capacity and willingness in the public, private and non-profit sectors to address these workforce development and competitiveness challenges;
- Identify short- and long-term workforce development and other strategies the Government of Djibouti (GOD) and the Djiboutian private sector can undertake to improve their competitiveness and increase the number and quality of employment opportunities in Djibouti Ville and rural areas; and
- Recommend holistic options for USAID assistance to support these efforts, particularly education and training related strategies and interventions in Djibouti's formal and nonformal education system and services so that education services meet the market demands, and strategies and recommendations for linking youth (whether school graduates or unemployed youth) to employment.

The team reviewed extensive materials on the economic and social conditions in Djibouti and conducted numerous interviews with US government, World Bank and UN experts on Djibouti in the US prior to visiting Djibouti. In Djibouti, the team conducted interviews with Djibouti government officials, members of the Djibouti and expatriate private sector community, US embassy and USAID representatives and representatives of other donors. The team visited several training programs in the city of Djibouti and Tadjoura.¹

This report is organized as follows: Chapter 1 looks at the prospects for Djibouti's economy. Chapter 2 reviews the current status of the labor market including skill gaps and the capacity of local education and training institutions to address Djibouti's workforce development needs. Chapter 3 presents specific recommendations for USAID investment in workforce development. Exhibits include a Porter Diamond analysis², SWOT analyses, and lists of people interviewed and documents reviewed for this study.

Chapter 1: Competitiveness: The Development Dilemma of Djibouti

This chapter argues that modest U.S. investment in the economic future of Djibouti is merited not only because it is a strategically crucial country for the USA in the region but because it offers a highly leveraged potential return on investment for the foreign assistance dollar not only in Djibouti but for the larger Horn of Africa, Sahel and Eastern African (COMESA) region. Djibouti is the strategic port through which humanitarian assistance and commerce flow to the region. It is a small but strategically critical juncture for both world trade and the global information infrastructure. Djibouti can serve a catalytic role for the region just as Hong Kong, Singapore and Dubai have served as modernizing and catalyzing forces for the economies of East Asia, South East Asia and the Middle East respectively. It can be central to a strategic approach to bringing the benefits of globalization to a region that is exceedingly poor, thereby demonstrating that integration into the world economy can have transformative impacts for the poor. USAID should invest in the economic competitiveness of Djibouti by assisting it in taking critical impending decisions and by helping it build a modern workforce that can take advantages of its unique opportunities as a regional hub.

Djibouti must address three development dilemmas. First, the country has a relatively high nominal GDP per-capita for sub-Saharan Africa (\$880), but has among the continent's worst poverty and social indicators. Second, Djibouti has severe macroeconomic imbalances; but applying the standard macroeconomic reforms would cause severe political and social instability without necessarily triggering immediate, private investment response as a direct result.³ Third, Djibouti has functioned as a low-growth, rent-based, uncompetitive dual economy but has the potential to make the transition to a modern, high-growth, participative economy that is globally competitive. This report will show that these challenges are daunting but can be achieved with the appropriate policy guidance and technical assistance. However, one of the critical constraints for Djibouti to achieve this is a workforce that is largely illiterate, lacking in formal education and bereft of the knowledge and skills required by a modern economy.

I. Foreign Assistance to Djibouti Is Clearly in the National Interest

Djibouti is an important strategic ally in the war on terrorism. It serves as one of the lily pads in the new global U.S. military footprint. It hosts the only U.S. military airstrip in Africa and acts as a key staging post for operations in war on terror.⁴ When the USS Cole was bombed in Yemen, the injured were brought to the French hospital in Djibouti for care. For 134 years it has served as a critical point of logistics in global sea travel for the West.⁵ A Muslim country, it has not yet shown itself susceptible to fundamentalism. However, the presence of a relatively illiterate and very poor population and high youth unemployment could provide a future breeding ground for the discontented.

Despite its strategic importance, Djibouti has experienced a decade long economic decline and is not currently an example of either economic success or social equity. Poverty has increased markedly in recent years. Unemployment has risen to a volatile 59%.⁶ Although Djibouti has a nominal GDP per capita of \$880, well above the median for Sub-Saharan Africa (SSA), the large bulk of the population lives in poverty. Growth in income per-capita has declined by more than 25% since 1984. The economy did grow

by 2.6% in 2002, the best performance in recent years but still not enough to raise income per-capita or reduce unemployment. Many trained Djiboutians must leave the country to get good jobs. Between 1996 and 2002, relative poverty increased from 64.9% to 74.4% of the population while extreme poverty increased from 34.5% to 42.2% of the population.⁷ Efforts to address this decline are taking place in the context of the World Bank sponsored Poverty Reduction Strategy.⁸

Not unrelated to its economic decline, Djibouti experienced its own ethnic conflict in the 1990s that could have destabilized a country in an already volatile region characterized by intrastate conflict in Somalia and Sudan and inter-state conflict between Ethiopia and Eritrea. It is clearly in the U.S. national interest to have a stable, prosperous and pro-Western government in this region and at this strategic entry point to the Red Sea.

There is an urgent need to reorient the economy to place it on a competitive growth path-investing in education and health are important but are not enough. Reducing unemployment and boosting investment and productivity is the only sustainable way to make an impact on poverty and improve the education and health indicators of the country. Investing in education and health is urgent and necessary. But taken alone it is not sufficient. History has shown that if the economic strategy of a country takes uneducated poor people and educates them but does not provide economic opportunity, they become healthy, educated *angry* people newly aware of the injustice of the situation and capable of taking action-this has proven to be a volatile mix.¹⁰ Therefore, there must also be a credible economic strategy that achieves high rates of private sector investment and jobs on the demand side and a workforce with marketable skills on the supply side. This is the only long-term and sustainable solution to the health and education problem, as the country cannot live off international largesse forever.

II. Djibouti Is Currently an *Uncompetitive* Economy

Djibouti is currently an *uncompetitive* economy. Djibouti has an overvalued currency, high labor costs and extremely high costs of utilities, which make it uncompetitive in general where relative costs are key to competitiveness. There is little natural agricultural and mining potential and there is only one major manufacturing plant—a Coca Cola bottling facility that also produces bottled water.¹¹ Its small internal market and high factor costs limit its manufacturing potential; it is unlikely that Djibouti will be able to take advantage of the US “AGOA” initiative that offers duty-favored import of apparel. The relatively unskilled workforce, the low levels of educational achievement and the dependency on qat¹² have a negative impact on Djibouti’s productivity. Adding to this, the high costs and/or limited availability of utilities such as energy, telecommunications and water further erode the country’s economic potential. Competitiveness is further hampered by fiscal imbalances. The Djibouti franc is pegged to the dollar, which has brought price stability at the cost of an overvalued currency that further erodes export competitiveness.

Djibouti is currently a service and *rent-based, dual* economy benefiting only a minority of the population. Djibouti is a service-based, dual economy living in large part from rents deriving from several major and many minor sources including: a strategically located port, foreign military bases, state-owned utilities, maintenance of a key node for the

global information infrastructure and the import of “qat”. Seeking to maintain rents on a declining economic pie, the government has resisted belt-tightening. Economic governance in a rent-based economy is often characterized by influence, nepotism and corruption and Djibouti is no exception.¹³ Djibouti’s rent-based economy has mainly benefited the elite population, notably from family influence to secure jobs in the formal private sector, state-owned enterprises and civil service.

Competitive Diamond analysis confirms that Djibouti’s competitive advantage is based almost entirely on basic natural assets or temporary factors.¹⁴ An application of the Porter competitive diamond reveals that Djibouti’s competitive advantage is based almost entirely on its natural comparative advantages such as a strategic location and a natural deep-water port. It also benefits from a few external but temporary advantages from which it finds itself the lucky beneficiary. U.S. investments related to the war on terror are providing a temporary boost to the economy. The conflict between Ethiopia and Eritrea has diverted commercial activity to the Port of Djibouti. The current investor preference of the Port Djibouti over the Port of Aden is related to recent terrorist activity. The shift to large-scale containerization is *not* a temporary phenomenon but Djibouti’s ability to profit from this has in part been a function of the current perception that Aden is susceptible to terrorist attacks.

Historical competitive advantages are not enough to sustain high growth. Djibouti’s original competitive advantage has been its strategic location at the southern entry to the Red Sea since the French signed an agreement with the local ruler in 1870, established the Port of Obock and later created the Port of Djibouti in 1889. For over a century this has served as a critical French facility. Said to be the largest French foreign legion base outside of Europe, there are approximately 8,000 French military personnel here along with many dependents. The French presence continues to generate significant economic value for the economy but this has not prevented an economic decline throughout the 1990s. The strategic location again became an economic asset when the USA rented space for a military base and air base, the only US air base on the continent of Africa and a critical site for supporting efforts in the Gulf and the Middle East region. This has brought significant economic and budgetary support to the government and has had an indirect economic impact by creating jobs for about 1,000 Djiboutians, mostly through KBR, its key defense contractor for logistics. Jobs are mainly in basic and low-skill areas such as laundry, food service and security. The ability to extract rents from the foreign military presence has made the economy dependent on geopolitical events and does not offer the prospects of sustained economic growth nor broad participation in the benefits of growth. It is fervently hoped that the war on terrorism will be won and the threat level diminished. At some point, the US will reduce its presence in Iraq and Afghanistan. This economic benefit of the U.S. military to Djibouti is not a sustainable source of growth and makes the economy partially dependent on U.S. military budgets. Regardless of the longevity of the US military presence, the US will want to see a strong economic partner than can serve as a model for economic transition in the region.

The World Bank and other donors should focus on the pending micro-economic decisions that are as likely to be just as important than the standard macro-economic conditionalities. Djibouti is a country with an overvalued foreign exchange, a large fiscal deficit and a bloated and inefficient civil service. Belt-tightening adjustments may be part of a comprehensive long-term solution. However, a focus only on these adjustments could well trigger political instability without *directly and immediately* triggering significant incremental private investment in their wake. If tomorrow Djibouti were to devalue its currency, tighten its belt and lay off civil servants, the likely result would be severe economic pain, political instability and social dislocation—without any guarantee of a compensating boost in economic growth and employment. Djibouti is a society where many extended family members live from the salaries of those fortunate enough to have jobs in the formal economy. This cannot be immediately disrupted without severe social consequences. And it is not yet clear that investors are lining up at the border waiting to see if the Government adopts the right macroeconomic framework. The IMF and the Bank would be well-advised to focus on the pending micro-economic decisions that could help generate future jobs and economic growth. For example, there is private investment interest in transportation, energy and telecommunications investments that are commercially feasible and that could also help reposition Djibouti. Micro-economic conditionalities might have more impact on future growth prospects than macroeconomic conditionalities. The future of Djibouti’s economy may be determined less by the number of civil servants laid off and more by the quality of the investment agreements signed between the Government of Djibouti and the respective investors. Will these simply create a larger rent-based economy or will there be a powerful developmental impact? Will the energy projects happen or be infinitely delayed? Will the free trade zone use primarily expatriate workers or will there be a strong effort to prepare Djiboutian for these jobs? Will the potential abundance of bandwidth be captured for economic purposes or go untapped? The World Bank, IMF, IFC and bilateral donors should recognize and focus on key upcoming decisions on private investment in transportation, energy and telecommunications projects so that these have maximum developmental impact. These “micro-economic conditionalities” or “growth conditionalities” would be an innovative complement if not a substitute for standard conditionalities.

III. Djibouti has a Window of Opportunity to Transform Itself into a Competitive, High-Growth Country That Benefits the Average Citizen

Fortunately, globalization is now offering unique opportunities for Djibouti to reposition itself in the global transportation, energy and information industries. Current trends in the economics and technology of these industries could help position Djibouti as a competitive hub for the global transportation and information industries. There are also opportunities to drastically reduce the production cost of electricity, further improving competitiveness and expanding the range of economic possibilities. To take full advantage of these opportunities, the government and donor community need to understand these industries and these technologies so that they can formulate policies to take full advantage of them in ways that benefit the average Djiboutian. Otherwise, the result could be a larger rent-based economy with greater distortions and where many economic opportunities simply go unrealized. The difference long-term may be a growth rate of 3-5% unequally shared versus a sustainable long-term growth rate of 5-8% in which many Djiboutians are pulled out of poverty.

Three specific investments could transform the economic landscape of Djibouti. The economy of Djibouti could be transformed by three major investments in transportation, energy and digital information and communications. Dubai Ports International (DPI) may soon invest between \$300M-\$400M in a container port and free trade zone at Doraleh. Energy investments, including private investment in a major geothermal electricity generation plant, could provide abundant supply while cutting the cost of electricity in half.¹⁵ Private investment could also provide abundant and low-cost telecommunication services for Djibouti and the larger region by taking advantage of the strategic SeMeWe3 optic fiber cable, Djibouti's two earth stations and the current Chinese investment ringing Djibouti City with fiber optic cable.¹⁶ Each will be discussed in turn.

Djibouti could position itself as the key commercial hub for the region. This conclusion is based on technology and hard numbers, not wishful thinking. World trade is expected to grow at 7% per year and will double within ten years. To handle this, the shipping industry is undergoing continual technological change. Current ship capacity is likely to grow substantially from its current 6,000 containers to 12,500 containers per ship. As these ships grow in size and cost, the per-day cost of running these "4th generation" ships will be between \$100,000 and \$200,000. This will make it difficult to go to Dubai, the leading current port in the region, as it requires a 3-day deviation up the Persian Gulf from the main shipping route. Doraleh, some 45 minutes outside of Djibouti, has sufficient depth to accommodate these ships. Djibouti, near the entrance to the Red Sea, requires only a 5-6 hour deviation, much less than Dubai. Aden is directly on the shipping route and involves only a one-hour deviation. However, it is not the current favored option because of concerns on security and terrorism. Salalah, another competing port, requires a 1.5-day deviation.¹⁷ One additional benefit of Doraleh will be the ability to serve as a transshipment point for the East African region and COMESA, a market of 300 million people that is likely to experience high growth rates because of its low economic starting point and high population growth rate. Dubai Ports International has already begun investing in a petroleum port at Doraleh and is said to be coming to a definitive decision on the proposed \$300M- \$400M investment in a large container port and free trade zone.

The benefits of this potential hub go far beyond the port itself. The Port of Djibouti currently employs between 950-1000 people. Having been put in the hands of Dubai Ports International, these people are now receiving training that has boosted their productivity. A further 232 people are employed by the Djibouti airport, also managed by DPI. The new container port, if built, will handle about 1.5 million containers a year but will not generate any net new jobs. It will be highly mechanized and some people will be brought from the Djibouti port. It will operate under international standards in terms of turnaround time and efficiency as measured by container transfers per hour. Therefore, it is important to anticipate the job requirements of ancillary companies not yet in Djibouti and begin to train now.¹⁸ Should the final go-ahead be given, the investment will also create immediate job possibilities in the construction industry.

The major long-term jobs impact is likely to come from the related free trade zone and the ancillary economic activity generated by the port. DPI reports that in its initial survey

of 4,000 existing companies at Dubai, some 164 companies expressed interest in setting up operations in a Djibouti free trade zone related to the port. These would include logistics companies, transshipment companies, Chinese assembly plants, Thai bulk rice shippers and consumer products companies. Banking, insurance and transportation companies would expand operations.

The terms of the proposed agreement between DPI and the Government of the Djibouti will have major implications for the economy but have not been widely understood. The agreements will most likely permit exemption from taxes, free repatriation of profits, freedom to provide its own electricity and telecommunications services at competitive prices and exemptions from other national laws and policies. This could mean that Djibouti would have two economies—a liberalized and competitive economy in a special economic zone and the rest of the economy under the currently more restrictive economic laws and policies. Over time, these would be likely to converge under pressure from the local business community. One implication of this is that donor conditionalities affecting national laws and policies may be overtaken by events—the key decisions may be those taken with regard to the terms of this current foreign investment. Over time, the private sector economic activity in this special economic zone will dwarf the private investment outside the zone. However, it is not clear that these negotiations have been widely shared or discussed with the World Bank, IMF or other donors. Yet, these policies and decisions are likely to be just as important with regard to Djibouti’s future economic growth and poverty reduction as policies and decisions which are currently the focus of IMF and World Bank attention.

The extent to which the port investment creates a “cluster” of firms that generate jobs for Djiboutians will depend in part on the availability of trained Djiboutians. The Government will most likely provide a liberal regime for allowing international companies to bring in expatriate workers who currently have the requisite knowledge and skills. The extent to which Djiboutians can be trained to fill jobs that expatriates might normally fill will have a major impact on local economic growth and poverty reduction. Foreign investors will in any case want to be able to bring in qualified expatriate labor. The point is not to try and force international companies to hire locally but rather to take advantage of the lower cost of hiring nationals versus expatriates and develop an intensive and well targeted workforce education and training effort. Impact on jobs and poverty can also be made by building the competitiveness of local Djiboutian companies to provide a variety of business services and subcontracting for both the construction as well as the ensuing myriad of ancillary commercial activity.

The ability to lower export and import transport costs to inland Africa can have a major developmental impact on Sub-Saharan African countries beyond Djibouti. Djibouti can also position itself as a key commercial and service hub for COMESA. Even before the prospect of the DPI investment, as early as 1992, researchers from the University of Malmo in Sweden concluded that the landlocked countries of Uganda, Rwanda and Burundi could be served competitively by multi-modal maritime-air transport via Djibouti. The authors analyzed the comparative costs of this option versus the current maritime-rail and maritime-air alternatives at Mombasa in Kenya and Dar es Salaam in Tanzania. The conclusion was that serving inland countries by air transport via Djibouti was cost effective when compared to the port charges, inland transport costs, inventory

carrying costs, pilferage and delays of the competing means of transportation from Kenya and Tanzania.¹⁹ Lowering the export and import transport costs to Ethiopia could also have a stimulative effect on that country's economy by lowering the costs of imported goods and making certain exports feasible or more profitable. The expansion and modernization of the port also have major implications for providing food relief to the Horn of Africa which has been plagued with famines.

Djibouti's energy problem could be solved with private investment as well and donors should give this at least as high a priority as other conditionalities. The current high cost per kilowatt-hour makes Djibouti very uncompetitive, especially when combined with an overvalued exchange rate and high labor costs. There are several possibilities for addressing this. One could bring transmission lines in from Ethiopia, which has lower cost hydroelectric power.²⁰ If the port goes forward, private investors might also simply develop their own electrical power generation using imported hydrocarbons under a separate policy regime. However, even more intriguing is Djibouti's unique position at the confluence of three major rift systems that give it access to unique geothermal sources that can be tapped to produce local sources of clean energy at relatively low cost.²¹ The World Bank/IFC should be encouraged to conduct its own feasibility study and to back this investment should the results prove positive, building on the regional geothermal initiative already underway. The Government of Djibouti, which derives significant rents from the state owned energy company, is said to be reluctant to lose control over this source of revenue by transferring production to a private company. Others cite technical questions and lack of technical expertise on contractual issues. If this is true, then World Bank and IMF conditionality should focus on getting the government to make these critical microeconomic decisions in a technically competent and transparent way. Providing energy costs at an internationally competitive rate could be critical to the future of all Djibouti's companies. The tie-in with DPI should also be investigated to assess the feasibility of locally generated electricity serving the port and free trade zone. Solving the energy problem will also help solve the water problem.

Encourage government receptivity to policies and investments creating a world-class information and telecommunications infrastructure. Making a telephone call from Djibouti can be prohibitively expensive. Access to the Internet can be slow, costly and problematic. Yet this need not be so. One of the world's principal optical fiber submarine cable systems runs through Djibouti where there is a critical maintenance point. The SeWeMe3 cable runs from the UK to France and Portugal, connects with North Africa, continues through the Suez and links Muscat and Dubai before heading onwards to Pakistan, India and Sri Lanka and from there connects via multiple links to Singapore and China. The cable actually comes up out of the sea and into the Djibouti Telecom facility where Alcatel engineers provide maintenance and support service. The signal is reinforced and relayed to the next station. Fees are earned by Djibouti for this station but the potential for Djibouti goes unused. Djibouti telecom could become the regional distribution hub for large volumes of data transmission, mirroring its potential as the major transportation hub for the region. Djibouti could receive revenue by buying bulk minutes and negotiating termination prices with countries such as Yemen or Ethiopia. Djibouti could take advantage of linkages between the undersea cable and its two earth stations but has thus far not done so. Djibouti could service other African countries, such as Uganda, by picking up traffic off the satellite and feeding it into the

cable. Currently there is no cable going up the eastern coast of Africa. If there were such a cable, it would still require inland connections to landlocked countries. Therefore, Djibouti could be a regional hub for carrying digital traffic. It is unclear whether authorities in Djibouti fully understand this potential, despite a number of presentations, or are planning to take action to capitalize on this potential in ways that could benefit Djibouti's population. Yet this could contribute to economic growth and government revenues.

Djibouti could also conceivably provide abundant bandwidth and telephone communications at very low prices to all potential users in Djibouti. With the optic fiber cable, two earth stations and fiber optic cable being strung around Djibouti, one can envision a smaller version of Dubai's "Media City." Should the Doraleh Port and free trade zone become a reality, Djibouti could offer world-class access to abundant bandwidth and very low prices as a means of attracting foreign investment and creating a cluster of firms. This will probably be a feature of the Doraleh free zone in any event. Making abundant bandwidth available to Djiboutians outside the zone can stimulate new economic opportunities for Djiboutian firms while also having major positive impacts on education and workforce development. The Internet will provide access to training and education resources. While the Chinese are creating a fiber optic ring around the city of Djibouti, there will still be a need for "last mile" investments as even the copper wire connecting households is of poor quality.

Encourage other investments enabled by these three key investments. The vision of a Djibouti with world-class and competitively priced electricity, telecommunications, Internet, and transportation logistics create further economic possibilities. New tourism investments would likely emerge. Some new manufacturing activity would now be feasible. The U.S. Trade Development Agency (TDA) has looked at a proposed \$8-10M desalinization investment that would be even more attractive with competitive energy costs.

Tourism would now have greater potential. Djibouti has always been a country of natural beauty, with breathtaking landscapes and azure seas. It boasts a San Francisco-like bay entering through a narrow mouth and continuing until it approaches the confluence of three great rift systems near an inland salt sea surrounded by volcanoes, canyons and eerie lunar landscapes. Snorkeling and scuba diving are quite good with reefs and abundant tropical fish. Temperatures limit the attractive season to the winter months, but the presence of an expanding expatriate community linked to a new port would generate additional tourism demand including conference tourism. Currently, only about 800 people come to Djibouti purely for tourism purposes.²² This mainly takes place during the cool season from November to February. The possibility of solving the electricity problem creates new possibilities for taking advantage of tourism possibilities in different regions where the water and energy problem could be resolved.

Livestock Exports Have Possibilities. USAID is currently undertaking investments to facilitate livestock exports through health certification and quarantine facilities. Livestock exports to lucrative Arab markets have often been impeded by alleged Rift Valley fever among livestock, although some feel importing countries use this as a non-tariff trade barrier. Certifying animals as disease free could open up export-earning

prospects and enable herders to earn more money. This is commendable and if successful, will help many of Djibouti's poor who derive their livelihood from herding goats, sheep and camels. There is also possibility for value-added meat products in addition to livestock exports. However, the future competitiveness and economic dynamism of the country will not come from livestock where productivity is relatively low. This is a commendable effort even if it will not solve Djibouti's three economic dilemmas.

IV. USAID Can Have a Major and Catalytic Impact in Helping Djibouti Make the Transformation to a High Growth Path With Specific and Timely Interventions

USAID should focus on helping the country find long-term solutions to its economic growth dilemmas by providing technical assistance and bringing influence to bear on the key impending micro-economic decisions affecting investments in transportation, energy and information technology. There are three scenarios for Djibouti. In one, these three critical private investments are not made or delayed leading to continued economic stagnation. Or private investments are made, but Djibouti continues to be a rent-based dual economy with a larger base on which to collect rents but with little structural change and very slow poverty alleviation. The third scenario is one where Djibouti repositions itself as a global transportation hub with world-class energy and telecommunications services and the fruits of growth are shared more broadly across the population. This last scenario is the most desirable. It requires the adoption of visionary and sound economic policies beginning with critical *microeconomic* decisions. USAID (and other donors) can make a most important contribution to the future of Djibouti by focusing on these first and providing technical competence and pressure to make decisions that will maximize the developmental impact including employment generation.

These decisions can improve the standards of living for the average Djiboutian. Lowering the cost of living will also create *aggregate demand impacts* in which Djiboutians will have more disposable income to spend on other goods and services that create additional economic opportunity. By raising the standard of living, lowering production costs and improving productivity, this approach will help resolve some of the macroeconomic anomalies. Just as China used its special economic zones to grow a powerfully dynamic private sector and take the pressure off the rest of the economy, so too Djibouti could use key investments to unleash private sector investment and growth that would over time bring its public expenditures into relative proportion. A growth focus will serve Djibouti better than focusing only on belt-tightening.

USAID should encourage the World Bank, the IMF and other donors to focus more urgently on the impending *microeconomic* decisions which have to some extent been crowded to the side by the macroeconomic factors that are part of its standard package of concerns. The World Bank and IMF have not been deeply involved in the negotiations regarding the port for example. More attention on the investments mentioned above could have greater impact in achieving high future economic growth than some of the current conditionalities.

In the case of USAID, the focus on education, health and livestock are commendable but they are not addressing the key *economic* dilemmas of Djibouti nor do they provide for a

sustainable approach beyond donor assistance. This chapter has surveyed the current and potential economic competitiveness of Djibouti and presents a case for optimism. Modest USAID investment directed at the dilemmas and opportunities presented above could make a major impact on future economic growth, competitiveness, sustainability and poverty reduction and could provide a high return on investment.

USAID's investment in economic growth should be targeted to specific, concrete and measurable country goals including boosting GDP annual growth to the 5-8% range job growth to 4-6% range (which would begin to bring down unemployment). Targets for gross domestic investment, private investment and foreign direct investment cannot be specified at this time but the highest performing countries have achieved. ?

Chapter 2: Djibouti's Labor Market: Institutional Capacity to Address Changing Needs

This chapter argues that strategic investment in workforce development will be a critical determinant of long-term poverty alleviation in Djibouti. Workforce development can remove one of the key barriers to job creation and help Djiboutian businesses and workers benefit from anticipated economic growth. Experience in other countries has shown that improving workforce skills is especially important in times of rapid economic change such as Djibouti is likely to experience in the coming years. The reason is that skilled workers are more flexible and better able to adapt rapidly and creatively to new challenges. A more skilled workforce will allow Djiboutian companies to modernize their operations so that they can become more competitive and begin to meet international productivity, quality, and cost standards. Raising workforce skills and changing workforce attitudes will also better qualify Djiboutian workers for employment with international companies that are likely to move to the Doraleh free zone. Without such improvements, companies such as DPI will continue to import foreign workers to meet their needs. Changing attitudes toward work and developing entrepreneurship skills will also contribute toward much needed job creation through micro, small and medium size enterprise development, especially in areas outside of the city of Djibouti.

I. Djibouti's Employment and Labor Market Situation is in Distress

Massive and rising unemployment, especially among youth, low workforce participation rates and high levels of poverty, require special attention.²³ The crisis in Djibouti's labor market is evidenced by its exceedingly high 59% unemployment rate (68% for women). Two-thirds of the unemployed are age 30 or below and half of the unemployed are looking for their first job. Such levels of youth unemployment are unsustainable and potentially can contribute to student radicalism and unrest. In addition, high levels of unemployment coupled with low workforce participation rates, especially among women and people living outside of Djibouti city, results in only about a third (33.5%) of the poor population actually working and just over a quarter (27.6%) of the extremely poor population working.²⁴ Furthermore, women face discrimination in employment. They have less education and less access to capital to finance self-employment. With so few people working, dependency rates are high and youth lack role models from whom they can learn appropriate work behaviors and skills. Low levels of economic opportunity cause people to flock to the city of Djibouti for employment resulting in a situation in which two-thirds of the country's population currently resides. Poor employment opportunity in outlying areas has an ethnic dimension which increases the social and political urgency of addressing this problem.

Skill gaps exist at all levels between the low skills of the current workforce and the needs of competitive international firms. Three-quarters (73%)²⁵ of the adult population is illiterate and many who do know how to read and write lack the new basics of problem-solving, analytical and communication skills as well as English language and computer skills. Many Djiboutians also lack the openness to learn new ways of work that are required increase productivity. Technical skill deficiencies exist in such fields as certified welders and qualified masons and there are insufficient training facilities that are qualified to certify trained welders. Supervisors need to learn decision making and

prioritization skills. In addition, mechanics and machine operators need to learn how to do preventative maintenance instead of waiting until things break down. Stevedores and others working on the docks need to learn safety procedures and drivers need to learn defensive driving techniques. Workers need to learn how carry out their work in ways that will protect the environment. Administrative personnel need to learn standard business practices such as basic accounting, filing and phone answering procedures. They need training in computer skills, English and French language skills. Security personnel need training in best practice procedures. In addition, employers cite problems related to poor work-related attitudes and behaviors, and lack of discipline. Many of these problems result from the pervasive use of qat. The use of qat reduces productivity on the job and reduces the amount of time workers are willing and able to work

Djibouti's wage rates exceed those in the region and cannot be justified in terms of worker skill levels or productivity. Although the plan is to move to a more flexible system, job classifications and wage guidelines are still specified in a 1976 convention. This convention requires that workers be paid salaries commensurate with their previous job classification regardless of competency level or what their new job is.

Public sector employment continues to dominate the labor market. Despite a 33% reduction of government payroll and a freeze on promotions since 1994, government salaries still account for 75% of the national budget.²⁶ Public sector jobs account for 56% of all jobs, the informal sector 23% and the private sector 21%.²⁷ Payroll taxes of 25% inhibit job growth and force many jobs into the informal sector which provides less stability for workers.

Although restrictions on hiring and firing have been lifted, jobs are obtained through nepotism and promotions are gained through connections rather than competence. While people register with the Ministry of Labor to obtain the equivalent of their social security number and even submit resumes in search of employment, the Ministry has too few job listings to meet demand. As a result, few people rely on the labor office to find employment and even fewer employers use it to find qualified workers. Rather, both employers and job seekers rely on influence and connections for labor market transactions. To avoid political pressure in hiring, Kellogg Brown and Root used several private labor brokers to recruit and screen job applicants for 800-1000 low level jobs that support the US military presence in Djibouti. Government produced labor market information is out of date (the most recent data is from 1997 when government's role in approving the hiring and dismissal of workers was abolished) and not easily accessible by the general public. In September 2003 the Ministry of Labor created the Service National de l'Emploi and the Service d'Insertion Professionnelle for unemployed college graduates. However, Ministry officials recognize that these services have difficulty meeting the needs of their intended beneficiaries. Although work permits are required for expatriates hired from abroad and there is technically a quota on expatriate workers, there is much abuse of the system. Furthermore, there is no regulation of expatriate employment once they are in the country.

Djibouti's government leaders recognize the need to accelerate labor market reforms. Five working groups of representatives of government, the private sector and civil society have been established to propose steps in labor market reforms. These groups are

proposing what needs to be done to improve: labor market statistics; work and training; labor market prospects; institutional structures for attracting investment; and micro-credit. These recommendations will be pulled together in a national policy.

II. Some Progress Is Being Made In Education But There Is a Severe Lack of Resources and Capacity That Impedes Further Progress

There is room for some optimism. Interviews with Ministry of Education and Ministry of Labor officials confirmed that the government is making great efforts to better prepare young people and adults for employment and that they are trying to strengthen linkages with the private sector. As discussed below, the creation of Pole University was a major step in that direction. Other reforms are under way. Vocational education is the Ministry of Education's second highest priority after basic education and the director of vocational education has an ambitious agenda for improving the quality and relevance of the initial vocational preparation programs under his jurisdiction. USAID's education project is working with the Ministry of Education to improve access and achievement levels.

Yet, despite these efforts, the education system serves less than half of the country's children and it remains very academically focused preparing the elite for advanced education in Europe. Only 47% of children (43 % of girls) go to school; and more than a quarter (28%) of children that do go to school dropout in the last year of primary school.²⁸ Vocational education programs, as academic ones, also are heavily focused on educational credentials. Because of weak labor market demand and lack of practical work-relevant skills, many secondary and tertiary level graduates remain unemployed for long periods of time, others work outside of their field of study and still others leave the country for employment elsewhere.

Djibouti will have to broaden its approach to education and provide more practical forms of instruction if it is to increase its competitiveness and reduce poverty. The skills, knowledge, attitudes and behaviors taught in schools must be ones that help people create their own jobs so that they can earn a decent living. They must also be ones that domestic and foreign employers need in the short- term and ones that are consistent with Djibouti's longer-term economic prospects as a competitive regional service hub. Unfortunately, these market-oriented entrepreneurial, problem-solving and decision-making skills are ones that are not currently taught either in traditional vocational education or academic programs. In addition, Djibouti needs to expand opportunities for lifelong learning outside the formal credential-focused education systems. It needs to create second-chance opportunities for adults who haven't been to school, for those who left before they gained a credential and for young people who have not attended school and are now too old to qualify for entry into the system.

Pole University is a tremendous asset that could be further exploited in providing relevant instruction and customized training to meet the needs of companies and students. Pole University was created by the government of Djibouti in 1999 as its only tertiary level institution. The university relies heavily on the internet to provide a wide range of 2-year post baccalaureate diploma programs, 4-year degrees, masters, and continuing education programs, largely at no cost to students. Pole University also provides legal and teacher training. Pole University is licensed as an extension campus by five French

universities: Bourgogne (Dijon); Franche Comte (Besancon); Pierre Mendes France (Grenoble); Nancy 2; and Bordeaux 3. This allows Pole University to award French university diplomas to their graduates. For the 2003-2004 school year, Pole University has 1144 students with about 60% (697) of the students in 4-year programs, which are provided through the University Institute (IFUD). The 2-year programs are provided through the Institute of Science and Technology (ISTD) with 79 students and the Institute of Business Administration (ISAD) with 368 students. ISTD programs include industrial maintenance, electronics, and civil engineering. ISAD courses include tourism, secretarial IT, management, accounting, marketing and Arabic language.

Since 2000 Pole University also has been providing continuing education programs on a fee basis for students, enterprises, government and NGOs. These programs include: 3-year diploma programs similar to that of the 2-year programs, but for students with a baccalaureate; certificate programs such as those in CISCO systems; short-term courses; and customized training programs for companies. Short-term courses are given in English, Microsoft systems, quality systems and many other subjects. About 200 students participated in such courses last year, with 80 of these in CISCO courses. Since most unemployed students don't have money to pay for their own training, approximately 80% of fees are paid by employers and 20% by individual students. Pole University officials indicate that most Djibouti companies tend to hire people with diplomas, but that when it comes to providing training, they prefer short-term training programs because they are concerned about not getting an adequate return on longer-term training if the worker leaves the company. Training for government workers and NGOs has been supported by donors.

Because of its access to hundreds of on-line courses, Pole University is able to customize training to the specific needs of companies. Programs can be of any duration and offered at the Pole University facility or in the company. They are currently working with the DPI to identify training needs and are providing customized training for Djibouti Telecom and local hires of the French military. Unlike big companies, small Djibouti employers also prefer to send workers to Pole University for courses because they don't have enough employees to make customized training cost effective.

While enrollment in Pole University programs has grown steadily, the employment outcomes for program completers has declined in the last year because of labor market saturation. While 70% of graduates of 2-year programs could find jobs several years ago, the employment rate has recently gone down to 25-30%. Pole University is trying to avoid flooding the market by replacing these courses every 2 years. For example, last year they provided courses in transportation and next year they will switch to insurance and banking.

Vocational training reforms are underway, but more needs to be done to strengthen links to employers and improve the relevancy of programs to Djibouti's changing requirements. The government's capacity for providing vocational training is limited because of lack of resources, there are few if any teachers with experience in modern companies and weak connections to the private sector. The programs are largely supply-driven, classroom and credential based rather than competency focused. Teachers teach what they know using outdated equipment. There are few opportunities for gaining work

experience and guidance from experienced workers in their field of study. Students aren't prepared for work in competitive enterprises. For example, they don't learn needed work habits, attitudes or practices related to workplace safety or environmental concerns. Nor are students prepared to create employment for themselves through entrepreneurship. Linkages between existing vocational education programs and the new Service National Adapte program discussed below are likely to provide new resources that will be used to enhance capacity of vocational centers to serve this new population. These linkages are currently being explored by the Ministry of Education, the Djiboutian military and the French.

The Ministry of Education's current initial preparation programs are of mixed quality. They include 3-year baccalaureate level programs delivered through the Lycees Industriels et Commerciaux (LICs) and 2-year diploma level programs available at vocational centers for youth who have completed lower middle school. The Djibouti LIC serves 1320 students up to the baccalaureate level and has 127 teachers. The LIC in Ali Sabieh has 150 students and 25 teachers and offers a 2-year program for middle school graduates. There is also a small vocational training unit in the Lycee of Tadjoura, which enrolls less than 50 students. In addition, there is a vocational center that teaches women sewing and artisanal crafts in Djibouti. While there is an unmet demand for skilled masons, welders and accountants, most program completers don't get jobs, especially in the fields in which they have been trained. For example, only 40% of graduates from the Djibouti's premier LIC get jobs after program completion. When graduates don't have an opportunity to use the skills they have learned in productive ways, they lose the skills they have learned. This neither helps them advance economically nor does it provide an adequate return to the government on its investment made in skill development.

The Ministry of Education plans to open six new vocational centers by the end of 2005 using \$7 million donated by the Saudi government. These centers will provide 3-year programs for 100 elementary school graduates per year and will have 90 to 100 teachers. The plan is to have one new center in each region and two in Djibouti Ville with the curriculum of each center to be competency-based reflecting the economic needs of the area. Potential areas of concentration include: fishing, administration and communication, auto maintenance, construction and health in secondary communities. The decision on the kind of training to provide will be informed by a needs survey of Djiboutian companies that was recently completed by the Djibouti Chamber of Commerce with the assistance of French Cooperation. The Ministry is interested in building an apprenticeship component into the program in one center. Each center will eventually have 300 students, but plans are to enroll only 100 students in each center during the first year. A major challenge is that approximately 100 new teachers will have to be recruited and trained to work in these centers. The plan is to cooperate with other francophone African countries in training of trainers and curriculum development. As discussed below, USAID could support this effort with student and teacher training modules on entrepreneurship, work readiness skills and attitudes, workplace safety and practices to protect the environment.

The Ministry of Labor's short-term training programs have poor employment outcomes. The Ministry's Centre de Formation Professionnelle (CFPA) provides three-month upgrade training in a variety of occupations for employed workers and people without qualifications. Two hundred students were enrolled in such programs in 2003 and they

expect to double this number by 2005. Although the exact relationship between these programs and those operated by the Ministry of Education is unclear, the short-term training program the study team visited in Tadjoura shares the training facility with the LIC. The CFPA is trying to reopen the hospitality training center that was closed several years ago because of lack of funds. Because of the poor employment prospects of the graduates of these programs, CFPA recently created a one-person office that does job development for recent program graduates.

New Service National Adapte program is a promising model for strengthening employability skills of out-of-school youth. The goal of this program is train out-of-school youth between the ages of 17 and 25 to become productive members of their community. The 2-year program is based on a French model and it is being implemented by the Djiboutian military and the Ministry of Education with the assistance of the French military. The goal is to have 1200 youth enrolled by the end of 2004. Three hundred youth started the program in January 2004 and each quarter 300 more youth will come on board. Participants will have military status during the program but not become members of the military. The program combines skill development with hands-on practical work experience. During the 3-month orientation period, participants learn discipline and are involved in team-building activities. They then participate in 9 months of vocational training and basic skill instruction. During the following 12 months, participants will gain practical experience in worksites. Realistically, because of the low level of economic activity in some communities, much of this work experience will take place in military facilities. Djibouti's Social Development Fund will provide seed capital to help program completers start their own businesses. The hope is that participants will return to their home communities rather than migrating to Djibouti.

III. Djibouti's Domestic and International Private Sector Can Be Leveraged to Improve Workforce Skills

Djibouti's International Chamber of Commerce and Industry is well positioned to facilitate communication between employers and educators, and to promote systemic change in education and training. The Chamber's priority is to increase the competitiveness and change the business practices of Djiboutian companies so that they are better able to penetrate regional and international markets. Several years ago, the Chamber surveyed its members to identify the training needs and worked with the Ministry of Education to influence the courses offered by the LIC so that they responded to the needs identified. In addition, the Chamber recently conducted a needs assessment among the 50-80 companies that are best positioned to participate in the activities related to the Doraleh port and free zone. These companies employ between 700 and 1000 people. The Chamber is also currently participating in a \$4 million USAID project to increase the regional exportation of livestock and proposes to create a training program for veterinarian aides in conjunction with this project.

The Chamber is also a training provider. In the past, the Chamber conducted 2 2-year post baccalaureate courses in secretarial skills, accounting, marketing and merchandising to respond to the identified needs. 49 of the 50 people trained in these classes found jobs. As a follow-up to the needs survey it conducted, it now proposes to conduct training in English, logistics and subcontracting procedures for employees of companies coming into

the Doraleh port. In addition, it wants to serve as an incubator for e-commerce by providing training in such fields as sourcing, e-business and call center operations. The chamber also wants to train current human resource directors in these companies and form partnerships with training institutions to serve as a resource to its members on training techniques, distance learning, and on-the-job training. It also proposes to train others in human resources management so that they will be able to qualify for such positions with companies coming into the Doraleh free zone.

International companies such as DPI bring their own up-to-date human resources systems that should be tapped in raising workforce skills. These systems will define job functions and skill requirements more precisely as well as increase accountability and transparency in the workplace. They provide formal and informal work-based training for employees. For example, DPI has an annual training budget of \$500,000. It is setting up its own \$220,000 training center at the port to train their 1200 direct hire employees in English, French, computer skills, administration, health and safety and high demand technical fields such as mechanics, diesel mechanics, hydraulics and air conditioning. Training will start in the container terminal in March 2004 using international trainers and local trainers to the extent they can be found in fields such as English. DPI officials indicated that they might be willing to make their new training facility available to others once their initial training needs are met. DPI is also sending some people to Dubai for training. Recently, 20 people were sent to Dubai for logistics training. However, DPI would prefer to conduct training in country in order to save money. In addition to this formal training, much of the training provided by DPI is on-the-job through effective supervision by expat experts who are being brought in to facilitate skill transfer. In the future, such on-the-job training capacity could be tapped in a youth apprenticeship program that combines work and classroom-based training. While in the program, apprentices would do productive work at training wages thereby reducing the wage cost to the company.

Chapter 3: Recommended USAID Assistance Strategies

The comprehensive package of assistance strategies recommended below is directed at helping Djibouti take advantage of the economic growth opportunities it now has to reduce poverty, increase employment and spread the benefit of development more broadly among youth, adult workers and the employer community. The recommendations address the following objectives:

- Strengthen the capacity of education and training providers to improve practical “employability,” “work-readiness” and entrepreneurship skills
- Increase the capacity of the private sector and private-public partnerships to improve workforce skills
- Increase the capacity of Djibouti’s workers and companies to compete effectively in Djibouti’s more dynamic economy
- Strengthen Djibouti’s capacity to encourage foreign companies to hire and train Djiboutian workers
- Promote workforce and economic growth capacity in outlying areas
- Encourage the IMF/World Bank to sharpen their focus on major impending investment and growth possibilities using “micro-economic conditionalities”
- Provide the Government of Djibouti with the capacity to implement specific reforms that focus on the micro-economic constraints and opportunities.

The recommended assistance strategies aim to strengthen communication and partnerships between the public and private sectors and to promote systemic change in Djibouti’s workforce related policies and practices. The recommended strategies aim to achieve visible results in a short timeframe for in- and out-of-school youth, unemployed adults, Djiboutian companies and their workers.

The recommended strategies provide excellent opportunities for joint programming among donors. Representatives of French Cooperation and the EU interviewed for this study indicated an interest in cooperating on workforce and economic development projects. These might include the proposed workforce development needs assessment of companies from Dubai considering setting up operations in the Doraleh free port or projects to upgrade workforce skills in specific sectors. USAID’s development of training modules on entrepreneurship and small business development could complement France’s assistance in launching the new youth service program. Germany’s GTZ might be an appropriate additional partner in many of these activities. The World Bank’s interest in moving into the tertiary education arena also may provide opportunities for collaboration, especially related to the proposed activities with Pole University. In addition, we recommend working with UNDP to build a more explicit learning component into the public works and other poverty reduction programs they support.

I. Strengthen the Capacity of Education and Training Providers to Improve Practical Employability, Work-Readiness and Entrepreneurship Skills

The following three recommendations can be carried out within the scope of USAID's current basic education program to help address Djibouti's critical youth employment problem. Thus, they can be mounted quickly to strengthen youth's ability to earn a livelihood and broaden the broader population's understanding of the opportunities and challenges afforded by Djibouti's emerging new economy.

Develop student and teacher training modules on employability skills and work-related attitudes and behaviors. Resources in the USAID funded education project should be used to develop training modules that can be used with in- and out-of -school youth programs including vocational programs, the new youth service program and other development projects. The modules should focus on the new basics of problem-solving, decision-making, analytical and communication skills that are needed for higher level employment and that contribute to productivity improvement. The modules should also focus on appropriate attitudes about work effort and customer services, the negative impact of qat chewing on productivity, business ethics, workplace safety and work-related environmental issues. The student modules should use real-world work-related situations or problems as the context for learning and include a practical component through which students learn and practice appropriate work-related skills, behaviors and attitudes. This practical component could be accomplished through work experience, school-based enterprises, simulated enterprises or community service programs that could be implemented in conjunction with community associations or school-based simulated enterprises.

Djibouti's employer community, including foreign companies, should be consulted in developing these modules so that the modules are relevant to real issues and concerns in the local labor market. In addition, efforts should be made to promote the development of public-private partnerships that will expand opportunities for practical work experience, formal and informal apprenticeship programs, mentoring, career exploration and job placement for program graduates.

Imbed entrepreneurship training in formal basic education and vocational education programs to foster job creation through development small, medium and micro enterprises. USAID, in cooperation with French Cooperation and Germany's GTZ, should develop entrepreneurship training modules that help students learn entrepreneurship skills and implement strategies for linking vocational training graduates to financing and assistance supports for micro, small and medium sized enterprises. Implementation of these modules should be accompanied by the development of school-based enterprises and/or simulated businesses that serve as useful learning environments for practicing entrepreneurship skills.²⁹ Such school-based activities might be conducted in conjunction with one or more local NGOs/associations who have the interest and potential capacity to mount such activities. In developing such programs, lessons should be drawn, to the extent possible, from the entrepreneurship training programs now being implemented in two centers in Djibouti in conjunction with the Canadians. In addition, linkages should be facilitated between entrepreneurship training programs and the \$5 million micro-enterprise fund created by Kuwait-based on a Benin model.

Develop work-related programming for radio instruction for use on the new social sector radio channel. Programming could be developed on topics such as career exploration, job seeking strategies including resume writing, and how to start a business. Entrepreneurs and their business development strategies could be featured. Existing programs developed by USAID in other countries could be adapted for the use in Djibouti. In addition, work-oriented literacy programs could be mounted targeted at out-of-school youth and adults. These would use work-related problems in fields such as fishing and animal husbandry as the context for teaching basic skills.

II. Increase the Capacity of the Private Sector and Private-Public Partnerships to Improve Workforce Skills

The following recommendations are directed at building the capacity of Djiboutian companies and workers so that they can participate in and contribute to the anticipated economic and employment growth that will occur related to the Doraleh port and free trade zone, and the other opportunities discussed earlier in this report. It is estimated that the free trade zone itself could generate as many as 100,000 new jobs that qualified Djiboutians could fill.

Assess private sector demand and skills gaps. USAID should support the Djibouti Chamber of Commerce in conducting a needs assessment of the 164 companies operating in the Dubai port that have expressed an interest in moving operations to the Doraleh free port. The study would identify the labor and skill requirements of these companies so that Djiboutians can be trained to meet these requirements. This would reduce the need for foreign companies to bring expatriate workers in to fill skill requirements that currently cannot be met in the local labor market. In addition, it would help Djiboutian companies better understand what it will take in terms of productivity standards, costs etc. to operate in the free port environment. The results of the study would also inform vocational education and broader education reforms regarding the areas of potential job creation and the skills that will be required to work in these fields.

The needs assessment could be conducted in conjunction with a study tour for a broadly representative group of Djibouti employers to a subset of these companies so that they can learn first hand about the cost and quality standards they will have to meet and the kind of modern workplace practices and policies they will have to adopt in order to be able to serve as subcontractors to these companies. A consultant familiar with training and competitiveness issues in the industries involved would participate as a resource person in these activities. The needs assessment and study tour could be funded in conjunction with French Cooperation that has expressed an interest in such a study.

Promote linkages between the private sector and the education and training providers to support industry-based training and modernization assistance. USAID should support a coordinated initiative by the Chamber, Pole University and perhaps other training providers to provide training and modernization assistance to Djibouti companies on a multi-employer basis. As the Chamber has done in the past, it would facilitate information sharing, learning among firms about competitiveness issues and work with Pole University and other local trainers to provide training for companies. Training

would be provided on a cost sharing basis, perhaps using a sliding fee scale to encourage certain kinds of training. Providing training for multiple employers has proven to help overcome employer reluctance to invest in workforce training because of fear that trained employees will leave taking the employer's investment with them.³⁰ The Chamber would aggregate demand for different kinds of training such as English, IT, logistics e-commerce, subcontracting procedures so that the training can be provided in a cost-effective manner at an easily accessible location and at times that accommodate workers' schedules. As discussed earlier, the Chamber proposes to provide training in human resources management and for veterinary assistants in conjunction with the USAID livestock project.

USAID should support such an effort by developing a partnership between Pole University and one or more US community colleges experienced in providing training and modernization services to small and medium sized employers in relevant industries. This could be done through the TA3 network of workforce and economic development focused community colleges affiliated with the GWIT project³¹ or through an Association Liaison Office for University Cooperation in Development (ALO) partnership agreement. In addition, USAID should explore joint funding of such a project with the EU representative in Djibouti who expressed a potential interest in collaborative support for an industry-focused workforce development initiative.

Leverage corporate expertise to support training and modernization efforts. USAID should broker a Global Development Alliance (GDA) partnership with an American company that has recognized corporate university or e-learning capacity in order to expand Pole University's capacity in business related certificate programs and fields such as e-commerce and quality management. A GDA could also be developed with Kellogg Brown and Root, VISA, a US company planning to set up operations in Djibouti or DPI to lend its human resources capacity to such an effort.

In addition, if decisions are reached to go forward with the development of geothermal energy or the creation of a modern information and telecommunications infrastructure, USAID should support such initiatives with a GDA modeled on the training partnerships between Singapore and foreign countries and companies developed in the 1970's and 1980's. These partnerships proved to be highly successful in establishing technology institutes to facilitate technology transfer from multi-national companies to small and medium size enterprises and to train workers in specialized high value-added technical skills in engineering and electronics. Additional training should be considered for government officials who will have to learn new ways of administering these new processes.

III. Strengthen Djibouti's Capacity to Encourage Foreign Companies to Hire and Train Djiboutian Workers

Promote the use of industry-based training to meet the requirements of foreign companies. USAID should support a partnership between the Chamber and Pole University and the Djibouti free trade zone authority to deliver industry-based training to foreign firms at the current free trade commercial zone area. The capacity built in working with foreign companies to design, finance and implement such programs would

enable Djibouti to market this service as an incentive to companies setting up operations in the free trade zone.

Test the utility of incentives to foreign firms for hiring and training Djiboutians in the free trade zones. USAID should support pilot testing the following kinds of incentive programs to encourage foreign companies to hire and train Djiboutian workers:

- *Customized training* programs that train Djiboutians to companies' specific skill requirements prior to their move to Djibouti. In return, companies would have to agree to hire Djiboutians who meet specified standards. Such programs have proven to be useful tools for the US states and other countries in attracting companies to set operations in their jurisdictions. However, such programs must be carefully designed so as to avoid abuses; and
- *On-the-job training subsidies* to encourage companies to hire Djiboutians and to use their in house capacity to provide them with formal and informal training. Such incentives could encourage companies to provide more training and compensate companies for the lower productivity of Djiboutian workers between the time they are hired and they are fully trained and get on-the job experience. Subsidies could be provided for different lengths of time depending on the length of training required. (Training for higher level jobs would be more highly subsidized). Subsidies would have to be paid by donor funds during the pilot phase, but, if proven successful, would be paid by the government from revenues generated by the port.

IV. Build Workforce and Economic Growth Capacity in Outlying Areas

Incorporate workforce and entrepreneurship development activities in all USAID assistance projects by strengthening synergies between sectoral programs. USAID should support veterinarian assistant training under phase 2 of the livestock project and train community health care workers and other medical assistants under the health project.

Work with other donors to add such activities to their public works and poverty reduction initiatives. USAID should implement a construction-focused youth employment program in conjunction with UNDP's housing rehabilitation project in Obock.³² Such training would help meet the demand for trained masons and carpenters capable of quality workmanship. It would also qualify program completers for construction jobs in building roads, health facilities, new homes and port-related facilities.

V. Encourage the IMF/World Bank to Sharpen Their Focus on Major Impending Investment and Growth Possibilities Using "Micro-Economic Conditionalities"

USAID should support IMF/World Bank efforts at reform but should encourage them to use "micro-economic conditionalities" or "growth-oriented conditionalities" as a complement to, if not alternative for, the macro-economic and institutional reform conditionalities. USAID should encourage the International Finance Corporation to get involved in upcoming major potential investments in the port, energy and

telecommunications industries so that these projects will maximize their developmental impact. The US has a stake in Djibouti as a strategically placed country and also has influence at the World Bank. There is growing awareness within the Bank that a stronger micro-economic focus is needed, although this is by no means held universally. USAID is slightly out in front on these issues and its influence can have a positive effect.

VI. Provide the Government of Djibouti with the Capacity to Implement Specific Reforms that Focus on the Micro-Economic Constraints and Opportunities.

USAID can provide specific assistance on policy and institutional reform. USAID has specific areas of expertise that can be of use in implementing policy and institutional reforms in Djibouti. USAID should focus on the promotion of transparency in government procurement and the modernization of labor markets as two areas that could contribute to future growth. USAID also has considerable expertise at providing advice in creating a policy and institutional environment encouraging of local Djiboutian investment, small and medium enterprise and also foreign direct investment.

However, it is specifically recommended that USAID provide technical assistance to the Government of Djibouti to enable it to take timely and well-informed decisions on key upcoming micro-economic investments that will have major macro-economic impacts and to help ensure that these will maximize the developmental impacts. Urgent decisions are to be made shortly on the new port facility. Much hinges on these negotiations. Other decisions, such as those on resolving the energy problem, are being put off in part because of lack of technical expertise and some reticence regarding the impacts of cheaper energy on current stakeholders. Still others, such as telecommunications, involve a lack of full understanding of the economics involved and the magnitude of the potential impacts. USAID could have a highly leveraged impact on the economic growth prospects of Djibouti by providing a full-time expert, trusted by the Government of Djibouti, who could advise the Government on its overall strategy for mobilizing investment and positioning the country for growth. This advisor would also help mobilize specific short-term technical assistance in the specific industries and in fields such as investment promotion and negotiation. The investment would be modest. The potential impact would be to set Djibouti on a growth path by helping to create an efficient and competitive transport hub supplemented with many free trade zone companies with access to abundant and competitively priced electricity, clean water and world-class telecommunications potential—all of these with an eye to maximizing the spin-off economic activity (tourism, banking, etc.) and support for programs equipping Djiboutians to fill these jobs.

VII. Implementation Scenarios

The ability to implement the above recommendations will depend on USAID resources. The authors believe that ongoing foreign assistance to Djibouti is both strategically important to U.S. interests as well as potentially large in economic impact. Depending on the USAID resource commitment, these recommendations can be implemented at three different levels: amending current projects to incorporate a workforce development component, a separate project focusing on workforce development alone or a more ambitious Djibouti Competitiveness Initiative that would help trigger and guide large

scale private investment while maximizing the employment impact by focusing the demand for and supply of trained Djiboutian workers.

Implementation scenario one would entail building workforce development activities into the existing education project to better prepare young people for earning a livelihood. Working within the program's existing scope of work and 3-year time frame, this scenario would strengthen young people's work-readiness and entrepreneurship skills through basic education by:

- Developing student and teacher training modules on employability skills and work-related attitudes and behaviors;
- Imbedding entrepreneurship training in formal basic education and vocational education programs to foster job creation through development of small, medium and micro enterprises; and
- Developing work-related programming for radio instruction and use on the new social sector radio channel.

Implementation scenario two would entail a separate USAID project focused on implementing the workforce development recommendations mentioned above over a 3-year period. The project would complement the work proposed under the existing education project. It would increase the capacity of Djibouti's companies and workers to compete more effectively in Djibouti's increasingly dynamic economy. These workforce strategies are clustered around the following themes:

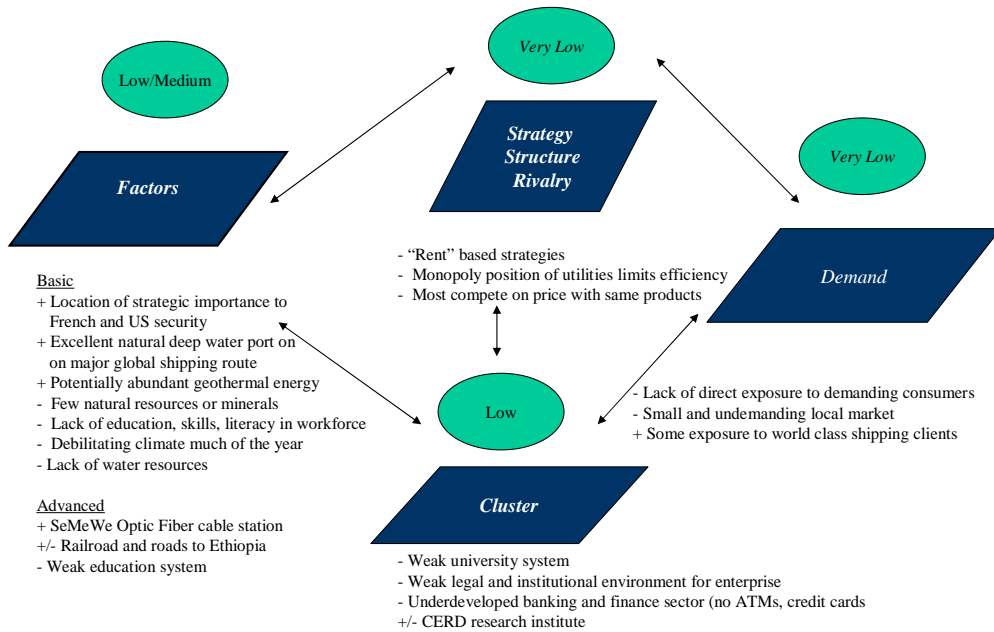
- Assess private sector demand and skills gaps;
- Promote linkages between the private sector and the education and training providers to support industry-based training and modernization assistance;
- Develop strategies for encouraging foreign companies to hire and train Djiboutian workers;
- Build workforce and economic growth capacity in outlying areas by including workforce development activities in other assistance initiatives.

The third implementation scenario would be to implement a Djibouti Competitiveness Initiative (DCI) along the lines of those being implemented by USAID in other countries, but specifically tailored to Djibouti's unique situation. USAID would provide long-term and short-term technical assistance to help the Government of Djibouti structure upcoming investments, determine technical and economic feasibility, negotiate appropriate contracts and expedite major new foreign investments in infrastructure, free trade zones, energy, telecommunications and perhaps other areas. At the same time, DCI would help ensure that these investments have the maximum possible developmental and workforce impact as measured by employment creation, value-added and other metrics. Policy advice as well as specific technical expertise would be mobilized with the goal of putting Djibouti on a growth path of between 5-8% per year led by *private* investment of between 11-15% of GDP. The project would anticipate workforce needs, link the private sector and the education sector and stimulate practical initiatives for training per the needs of Djibouti's growth sectors.

Conclusion

Djibouti is a strategically important country in the region and its economic growth should be supported by USAID. Although Djibouti faces major economic growth and poverty challenges, it has excellent potential to become a competitive high-growth city-state economy in the future thanks to multiple development opportunities in transportation, energy and information and communications technology. However, to take advantage of these opportunities in ways that dramatically improve the quality of life for its citizens, it is essential that these decisions be made with good technical input. It is equally important to increase the knowledge and skills of the workforce. Therefore it is imperative to support the economic transition of Djibouti by building its competitiveness. Workforce development must be a major priority of the Government of Djibouti and of donors seeking to help the country achieve rapid and sustainable economic growth. The recommendations in this report provide a roadmap for either comprehensive or contributing actions in this critical area.

Competitive Diamond for Djibouti



Sources: Industry interviews, various USAID studies, site visits, SME Cambodia and J.E. Austin Associates analysis

Exhibit 2

Competitiveness SWOT Analysis

STRENGTHS

- Strategic Location
- Key Station for Global Fiber Optic Cable
- Natural Deep Water Port on Major Global Shipping Line

WEAKNESSES

- Low education indicators
- High Illiteracy
- Low health indicators
- Weak policy environment

OPPORTUNITIES

- Dubai Port Authority interested in making major investment in world class port
- Potentially abundant bandwidth
- Potential cluster of firms interested in free trade zone to go with port
- Potentially abundant geothermal energy
- Current high level of interest by France and USA for strategic reasons
- Livestock exports to neighboring countries

THREATS

- Competition from competing ports
- Ethiopian normalization of relations with Eritrea leading to shift in port traffic
- Abatement of terrorism threat leading to less military base economic activity

Exhibit 3

Workforce SWOT Analysis

STRENGTHS

- Pole University
- Labor market and pension reforms initiated
- Chamber programs provide needed services
- Youth service program

WEAKNESSES

- Outdated labor laws
- Lack of effective labor market mechanisms
- Large informal labor market
- Insufficient focus on employability skills in education
- Limited vocational training capacity with poor employment outcomes

OPPORTUNITIES

- Strong leadership in vocational education
- DPI is bringing modern human resources practices to Djibouti
- USAID education project, a potential vehicle for workforce development
- New radio channel
- Labor market study just being completed by the Chamber
- Working groups established on national labor market policy
- World Bank considering expanding their education focus to include secondary and tertiary levels

THREATS

- Low capacity so important not to overwhelm system
- Small internal market so easy to saturate demand
- Small businesses that have weak HR capacity
- Risk adverse business community
- Tradition of nepotism and hiring expats

Interviews Conducted in the US and Djibouti

Government Of Djibouti

Agency for Public Service Project Execution (ADETIP)

- Kadar Ismael Guelleh, Director (adetip@intnet.dj)

Banque Centrale de Djibouti

- Ahmed Osman, Directeur (Tel. 253 35 27 51, bndj@intnet.dj)

Commissaire de District de Tadjourah

- Abdourazack Daoud Ahmed (Tel. 253 42 41 45)

Djibouti Army

- Capitaine Ali Hamid, responsable de la formation professionnelle

Ministry of Economy, Finances and Planning in Charge of Privatisation

- Simon Mibrathu, Director of External Financing, (Tel. 253 35 62 12, simon@intnet.dj)

Ministry of Education

- Abdi Ibrahim Absieh. (Tel. 253 35 09 97)
- Aden Aidid. Technical Advisor (Tel. 253 35 71 36)
- Mohammed Hassan. Chef de Service Enseignement Secondaire et Technique
- Mohammed Moussa. Directeur Enseignement Secondaire et Technique

Ministry of Labor

- Ali Yacoub. Conseiller Ministre de l'Emploi
- Awa Yama. Insertion Professionnelle (Tel. 253 82 79 66)
- Djibril Ousmane. Chef de Service National de l'Emploi

Education and Training

Pôle Universitaire De Djibouti

- Abdi Ali Mahamoud. Chef de Service, Département Formation Continue (Tel. 253 04 74, abdi_ali@univ.edu.dj)
- Palandri, Eric. Assistant Technique

USAID/EQUIP/AED

- Dorsey, Steve. Director, Education Project

International Donor Community

Commission Européenne

- Pierre Philipe, Chargé d'Affaires (Tel. 253 35 26 15, eudeldj@intnet.dj)

Embassy of France

- Aubaud, Yves. Chef de Projet Insertion Professionnelle
- Galland, Jean-Pierre. Conseiller de Coopération (Tel. 253 35 35 13, jean-pierre.galland@diplomatie.gouv.fr)

GWIT Workforce Diagnostic Assessment

- Général Jean-Claude Gandouly. Service National Adapté
- Goldstein, Bernard. L'Attaché Culturel (bernard.goldstein@diplomatie.gouv.fr)
- Kadri, Yassine. Conseiller de Coopération Adjoint (yassine.kadri@diplomatie.gouv.fr)

IMF Resident Mission

- Dr. Emmanuel O. Kumah. Resident Representative (Tel. 253 35 27 51, ekumah@imf.org)

UNDP

- Mme. Mbaranga Gasarabwe. Sr. UN Representative for Djibouti (Tel. 253 35 13 61, mbaranga.gasarabwe@undp.org)
- Pansieri, Flavia. Chief, Country Operations Bureau for Arab States, New York Office (flavia.pansieri@undp.org)

World Bank

- Anos, Paloma. Economist, Social and Economic Development Group, Middle East and North Africa Region, Washington, DC. (Tel. 202 473 1780, panoscasero@worldbank.org)
- Dubei, Astosh. Djibouti Education Officer (adubey@worldbank.org)
- Essakali, Mohammed Dalil. Engineer, Finance, Private Sector and Infrastructure Group, Middle East and North Africa Region, Washington, DC. (Tel. 202 473 2298, mdalilessakali@worldbank.org)
- Fetini, Habib M. Country Coordinator, Djibouti, Egypt and Yemen, Washington, DC. (Tel. 202 473 4471, hfetini@worldbank.org)

Private Sector

Banque Indosuez Mer Rouge

- Anglada, Jean-Bernard. Directeur General, Credit Agricole Indosuez (Tel. 255 35 30 16, indomr@intnet.kj)
- Gilet, Jean-Luc. Direceru General Adjoint (Tel. 255 35 30 16, indomr@intnet.kj)

Chambre International du Commerce et de l'Industrie de Djibouti

- Courtois, JP. Advisor to the President
- Said Omar Moussa. Président (Tel. 253 35 10 70, cicid@intnet.dj)

Consultants, US-Based

- Hirsch, Stephen. (stephenhirsch@msn.com)
- Wright, Jay. IBM Consulting

Djibouti International Airport

- Hawker, David. Directeur Général de l'Aéroport International de Djibouti (Tel. 253 34 18 33, d.hawker@dpa.co.ae)

Entrepreneur, Djibouti

- Mohammed Ahmed Warsame (mohamedg54@hotmail.com)

Port of Djibouti

- Pellegrini, Daniello. (daniello.Pellegrini@port.dj)

GWIT Workforce Diagnostic Assessment

- Jong, Johannes de. General Manager (Tel. 253 35 10 31, hans.dejong@port.dj)
Sheraton Djibouti Hotel
- Mr. Shideh, Front Desk Manager

US Government Agencies

- Alikonis, Anne P. International Economist, US Department of the Treasury (anne.alikonis@do.treas.gov)
- Garvey, Nole. Djibouti Desk Officer, US Department of State (gareyNH@state.gov)
- Colonel Gruber, USAF, Chief, Telecommunications Division, Combined Joint Task Force, Horn of Africa (gruberdj@hoa.centcom.mil)
- Kohler, Lukas. Djibouti Desk Officer, US Department of the Treasury
- Lucas, Kimberley. Agriculture Development Officer, USAID/EGAT/WA (klucas@usaid.gov)
- Samatar Miguil. USAID/Djibouti
- Reid, Erin. Economic Growth Officer, US Embassy, Djibouti
- Schermerhorn, Lange. Former US Ambassador to Djibouti (schermerhornl@hotmail.com)
- Smith, Timothy. Chargé, US Embassy, Djibouti
- Wolczak, Carrie. US Trade and Development Agency (Tel. 703 875 4357)

References

Booz Allen Hamilton. (November 2001) "Republic of Djibouti: Investors' Roadmap." Prepared for USAID's SEGIR/GBTI Initiative.

European Union. (August 2003) "EU Relations with Djibouti."
<http://europa.eu.int/comm/world/>

Kelley, J. Kevin. (November 2003) "Country set to become biggest US AID recipient in Africa." The East African.
<http://allafrica.com/stories/200311111071.html>

Kurtz, Rod. (November 2003) "How to shake Djibouti." Inc. Magazine.
<http://www.inc.com/magazine/20031101/globalization.html>

Laballe, R. (May 2003) "Djibouti ICT strategy and action plan." Prepared for ICTs for Development, UNDP.
www.hartford-hwp.com/archives/33/034.html

Ministry of Education, Republic of Djibouti. (September 2003) "Projets Education-Extension Des Capacites D'Accueil, Phase 1."

Ministry of Finance and Planning, Republic of Djibouti. "Loi D'Orientation Economique Et Sociale Pour La Decennie 2001-2010."

Ministry of Labor, Republic of Djibouti. (January 2004) "Draft-Population et Emploi a Djibouti : Résultats des enquêtes auprès des ménages, Profil Du Marche De L'Emploi A Djibouti."

Ministry of Labor, Republic of Djibouti. (December 2003) "Politique Nationale De L'Emploi-Adequation Emploi/Formation."

Ministry of Labor, Republic of Djibouti. (January 2004) "Draft-Elaboration De La Politique Nationale De L'Emploi, Note De Synthese."

Omolo, O. Eliud; McMillan, E. Della; Sanders, H. John. "Wadis and Herders in an Arid Land."

Pole University, Republic of Djibouti. (2004) "Continuing Education Programs Catalogue."

Regulations Governing Wages. (Djibouti before Independence)

The Nation, Djibouti/European Union. (November 2003) "Beginning of the alteration work of the urban by-pass and périurbaines." <http://www.djibnet.com/>

UNDP. (July 2002) "Plan Cadre des Nations Unies pour l'Assistance au Développement."

UNDP. (December 2002) “Profil de la Pauvreté à Djibouti.”

UNDP Brochure. “Djibouti Vers Un Avenir Meilleur.”

United Nations, Report of the Secretary General. (July 1996) “Assistance for the reconstruction and development of Djibouti.” Prepared for the UN General Assembly.

US Trade and Development Agency. (July 2003) “Multisectoral Projects in Djibouti/Ethiopia, Definitional Mission Report.”

USAID. (2002) “Annual Report: Office for East and Southern Africa (REDSO/ESA) and Greater Horn of Africa Initiative (GHAI).”

USAID/Africa Bureau/Education Division. (December 2003) “Draft Report on Djibouti: Education Sector Needs Assessment.”

World Bank, Human Development Sector, Middle East and North Africa Region. Report No. 24204-DJI (June 2002) “Republic of Djibouti: Education Strategy Note.”

World Bank, Middle East and North Africa Region. Report No. 21414-DJI (February 2001) “Country Assistance Strategy for the Republic of Djibouti.”

World Bank. (August 2003) “Republic of Djibouti: Poverty Reduction Strategic Framework.”

World Bank. (June 2001) “Republic of Djibouti: Poverty Reduction Strategy Paper, Interim Report.”

Endnotes

- ¹ The individuals and documents consulted are listed in the appendices of this report.
- ² The Porter diamond is a methodology developed by Michael Porter and utilized increasingly by USAID to analyze competitiveness and workforce development.
- ³ Potential private sector investment opportunities do exist, but these are not likely to be affected by the foreign exchange rate, budget deficit, and composition of government expenditures. Government *microeconomic* policy and decisions regarding these specific investments *are* likely to be crucial.
- ⁴ The U.S. military is planning on staying anywhere from 5 to 20 years at its base in Camp Lemonnier.
- ⁵ After the opening of the Suez Canal in 1869, the French signed an agreement with local rulers in 1870 and established a port at Obock in 1870 followed by the Port of Djibouti in 1889. Since then, Djibouti has also been a key military asset for France which still maintains a strategically important base for the French Foreign Legion, said to be its largest overseas base outside of France and Europe.
- ⁶ Good statistics are hard to come by in Djibouti. All numbers cited are taken from the World Bank sponsored Poverty Reduction Strategy Framework.
- ⁷ EDAM-IS study. The extreme poverty level is defined at \$1.80 per day and the relative poverty line is set at \$3.00 per day.
- ⁸ Republic of Djibouti, "Poverty Reduction Strategy Framework," August 2003 (draft).
- ¹⁰ Sri Lanka was praised for its high investment in health and education in the 1970s and 1980s but its socialist economic policies also led to high unemployment. In the 1990s it became the home of a violent ethnic civil war during which the Tamil Tigers pioneered the current tactics of suicide bombings that have been emulated elsewhere. High rates of unemployment among educated but unemployed young males can be a formula for unrest.
- ¹¹ Other minor manufacturing includes salt processing for export and the manufacture of construction materials. Potential exists for some value-added in livestock as well.
- ¹² Qat is a mild narcotic stimulant imported daily and taxed by the government and upon which many Djiboutians are dependent. The custom of qat-chewing in the afternoon saps the productivity of the Djiboutian workforce while diverting income from family health and education needs. Qat arrives daily from Ethiopia about 1 p.m. after which time many people devote the subsequent hours of the day to the practice.
- ¹³ Some judges are particularly notorious and this has affected the interests of some U.S. companies including large multinational oil companies.
- ¹⁴ The analysis is based on the tools developed by Michael Porter, *The Competitive Advantage of Nations*, 1990. See Exhibit 1.
- ¹⁵ A feasibility study, financed by TDA and conducted by Geothermal Development Associates of Nevada concluded that Djibouti has unique geothermal potential because of the confluence of three rift systems. Initial drilling revealed high temperature sources that could be exploited.
- ¹⁶ This last project is being financed by the Chinese.
- ¹⁷ Sources for maritime transport figures were executives of Dubai Ports International interviewed in Djibouti for this study.
- ¹⁸ The DPI decision seems likely to be positive but one DPI official noted that the final decision will be made this summer based on the feasibility analyses and the ability to arrange financing.
- ¹⁹ "Opportunity for Djibouti to Become Sea-Air Cargo Hub for the East African Landlocked Countries," by Aboubaker Omar Hadi, World Maritime University, Malmo, Sweden.
- ²⁰ Some believe that transmission could also come from Yemen which has lower cost production.
- ²¹ The actual cost is unknown but the current proposed cost of 8 cents/kwh compares favorably with the current cost of imported energy and would represent roughly a halving of the energy cost. Consumers now pay different rates but average rates are said to be around 24 cents per kwh.
- ²² Interview with Dauphin, one of Djibouti's leading tour guide and adventure tourism companies.
- ²³ The World Bank's Poverty Reduction Strategic Framework (PRSP) for Djibouti dated August 2003 recommends implementation of "a coherent and integrated employment policy" with the following imperatives: improvement of the economy's competitiveness and growth; setting up a true human resources policy including expansion of literacy and job training; and implementation of employment programs including those supporting the development of self-employment and micro-enterprises.
- ²⁴ These statistics are from the EDAM-IS2 (2002) study cited in the World Bank's 2003 PRSP.
- ²⁵ PRSP August 2003

²⁶ Interview with Ministry of Labor officials.

²⁷ Politique Nationale de l'Emploi et de la Solidarite Nationale, September 2002 draft

²⁸ EDSF/PAPFAM study cited in the World Bank's 2003 PRSP.

²⁹ A school-based enterprise could, for example, prepare and sell food to students, repair school computers or upgrade the wiring in schools. This has the benefit of potentially generating program income that could be used to support the program and/or provide income to students which may enable them to stay in school for a longer period of time. However, such an enterprise should not to take jobs away from others by competing with existing businesses. Therefore, it may be desirable to create a simulated enterprise in which students can learn many of the same skills as a real enterprise. In either case, the entrepreneurship curriculum would include business math, business ethics, marketing, and strategies for financing and managing the enterprise. Students would learn how to recognize business opportunities in the community and how to develop a business plan. In addition, an entrepreneurship program could include mentorships with small business owners, work experience in and/or field trips to small enterprises in the community and links to financing opportunities and small business incubators where they exist. Such incubators are sheltered environments for start up businesses that provide technical support and counseling as well as opportunities to share space, equip and support services. REAL Enterprises, a US-based nonprofit organization, has years of experience in supporting school-based enterprises in rural areas. Junior Achievement operates school-based experiential programs throughout the world.

³⁰ Employer's reluctance to invest in training because of fear of losing trained employees is often called the "free-rider" problem.

³¹ *Trans-Atlantic Technology and Training Alliance* is a network of 30 leading technical and community colleges in the US, Europe and South Africa. Regional Technology Strategies Inc. serves as the U.S. secretariat for this alliance.

³² A useful model for such a program is Youth Build. Youth Build is a highly successful US-based training program for unemployed and undereducated young people that has been implemented in South Africa and is now being adapted for implementation in other countries. Youth Build participants divide their time between working toward an educational credential and learning construction skills by building or rehabilitating affordable housing for low-income people. The skills they acquire qualify them for positions in carpentry, demolition, masonry, painting, and other construction-related jobs. Strong emphasis is placed on leadership development, community service and the creation of a positive mini-community of adults and youth committed to success.