

DOING BUSINESS IN

DJIBOUTI

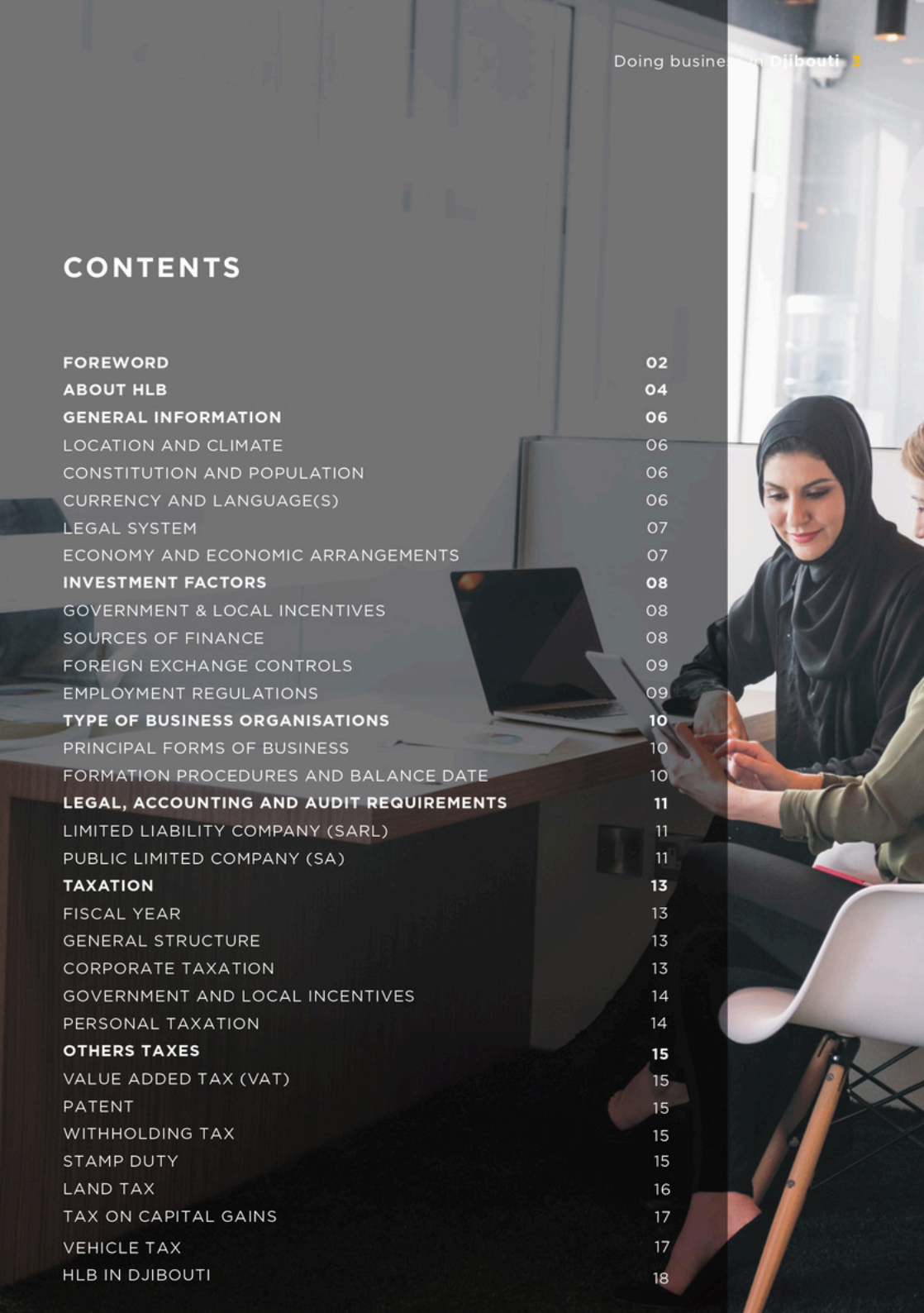


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Formed in 1969, HLB is a global network of independent advisory and accounting firms. HLB has member

firms in 156 countries who, collectively, have 40,831 staff in 1,128 offices. Member firms provide clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Up-to-date information and general assistance on international matters can be obtained from any of the member firm partners listed in this guide or from the Global Office in London.

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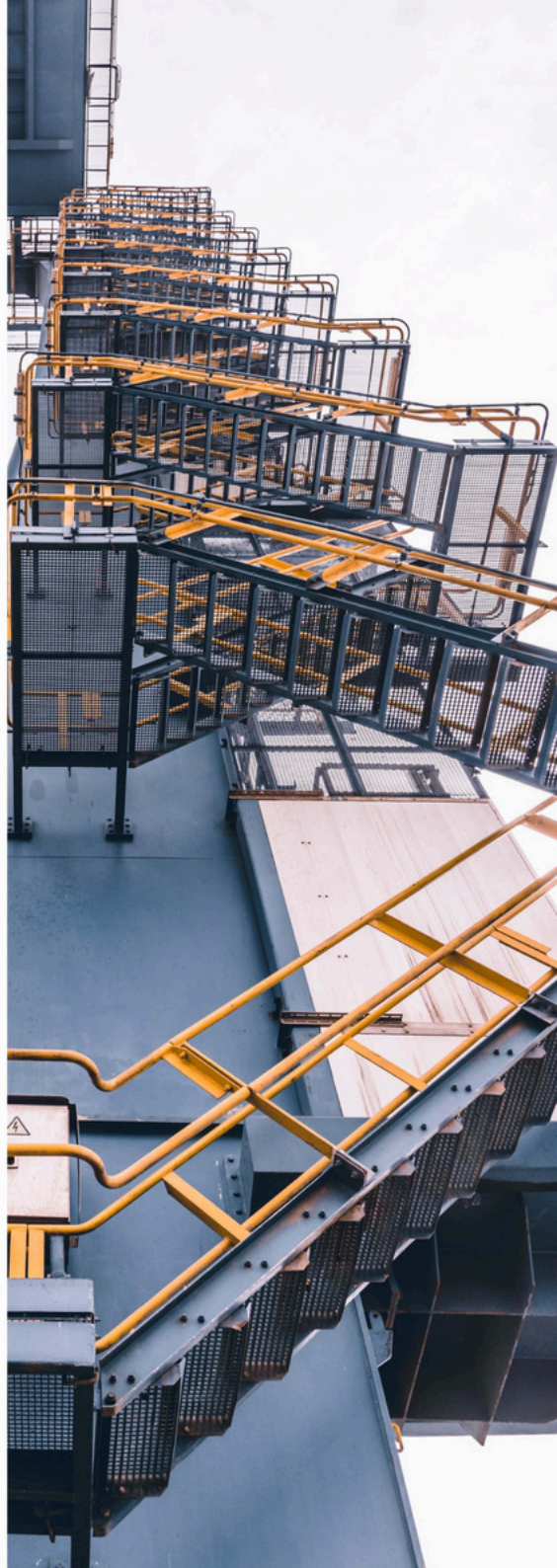
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ABOUT HLB DJIBOUTI

Ramiss HOUMED, HLB Djibouti Managing Partner, founded our Certified Firm in May 2011. Initially, we operated under the brand Alephe-Consulting. In February 2015, we joined HLB Network.

To strengthen our presence in the Djibouti market and beyond, we re-branded ourselves as HLB Djibouti. Our commitment to innovation, collaboration, and helping our clients' growth has been integral to our success. This dedication extends to our branch, HLB SOM, which serves the regions of Somaliland and Somalia.



GENERAL INFORMATION



LOCATION AND CLIMATE

Djibouti is situated in East Africa, sharing borders with Eritrea, Ethiopia and Somalia and has just over 300 km of coastline along the Red Sea and Gulf of Aden, occupying an area of around 23,200 Km² and lying on the Bab-El-Mandeb Strait, Djibouti serves as a gateway to the Suez Canal, one of the world's busiest shipping routes.

The country's landscape is varied. Djibouti has an elevation range exceeding 2000 meters, running from Lac Assal, at 155 meters below sea level, to Moussa Ali, at around 2 km above sea level. Djibouti has a sub-tropical desert climate. It is hot and arid. Average temperatures here range from 23°C in winter to 42°C in mid- summer.



CONSTITUTION AND POPULATION

Currently the country is a republic with a semi-presidential system of government. The next presidential election is to be in 2026. Djibouti is a democratic nation. The country has a President who is chosen by the peoples for a period of 5 years. In addition, the president is commander-in- chief of the military forces.

The current population of Djibouti is estimated to be 973,560 (2019 WFP). The country is culturally and ethnically diverse and composes of Afar, Somalis and Arab. This diversity enriches the country.



CURRENCY AND LANGUAGE(S)

There are no foreign exchange control regulations applicable in Djibouti. The Djibouti currency unit is the Djiboutian franc (DJF). The exchange rate for the Djiboutian francs is 177.50 DJF to 1 USD and 187.71 DJF to 1 EUR (subject to fluctuation).

The official languages in Djibouti are French and Arabic; however, with the ethnic composition of the country consisting mostly of Somalis and Afar, these groups' languages are also widely spoken.



LEGAL SYSTEM

The judicial power is exercised by the Supreme Court and other courts and tribunals. The judiciary is independent of the legislative power and the executive power. Djibouti's legal and judicial system is largely inspired by French law. The laws are codified. A particularity lies in the coexistence of Islamic law, customary law and civil law inherited from the French Napoleonic code.



ECONOMY AND ECONOMIC ARRANGEMENTS

Djibouti's economic advantage lies in its strategic geographical position, at the southern entrance to the Red Sea, which makes it a bridge between Africa and the Middle East. Located near some of the world's most interesting sea lanes, at the crossroads of Asia and Europe, Djibouti is home to French, American, Japanese, Chinese and NATO military bases, as well as other foreign forces. Installed in the country to support the global fight against acts of piracy.

Its economy is based on a port complex which is among the most modern in the world. Trade through the port of Djibouti is expected to experience rapid development. Djibouti also has a natural heritage that lends itself to tourism, marine resources and an infrastructure of submarine telecommunications cables that serve as a basis for the development of new digital activities and services.

Renewable energies are also a source of growth for the country which has embarked on the installation of a solar, wind farm and geothermal fodder given its geothermal, solar and wind potential.

Djibouti is a member of many international organizations, in particular the United Nations (UN) and its sub-groups (FAO, WHO, etc.), the African Union (AU), the Arab League, the Intergovernmental Authority for development ; in addition it is a member of the Common Market for Eastern and Southern Africa (COMESA - Common Market for Eastern and Southern Africa), as well as the Intergovernmental Authority on Development (IGAD - Intergovernmental Authority for Development).

Djibouti is also a member of the International Monetary Fund (IMF) and the World Bank and the Organization of Islamic Cooperation.

The country is also a member of the International Organization of the Francophonie.

INVESTMENT FACTORS

GOVERNMENT & LOCAL INCENTIVES

The freedom to invest and to undertake an economic activity is guaranteed throughout the territory of Djibouti by the Investment Code to any natural or legal person, of Djiboutian or foreign nationality. No joint venture obligation with a national is required for foreign investments in the country. Equality before the law is guaranteed between local and foreign investors.

A certain number of professions are regulated, which means that unlike other sectors, it is necessary to obtain approval from the relevant ministry to be authorized to practice.

Certain sectors of activity benefit from the general exemption regime granted by the Djibouti Investment Code.

Furthermore, the Investment Code contains two preferential regimes.

The Regim A:

For an investment of a minimum amount of 5,000,000 DJF (equivalent of US \$ 28,000), an investor will benefit from the advantages of Regime A, namely the following tax exemptions:

- Exemption from the Internal Consumption Tax (TIC) on materials and equipment necessary for carrying out the investment programme as well as raw materials imported and used during the first three years by the approved company.

The Regim B:

Are considered investments or companies of interest economic or social particular under the terms of Regim B, under reverse to fulfill one or the other of the following conditions:

1. make an investment of a minimum amount of 50,000,000 FD;
2. create a minimum number of permanent jobs.

A decree taken by the Council of Ministers will define the conditions for the application of the second criteria of the point mentioned above.

Investments and companies having for object the following activities benefit from the advantages of regime B:

- the construction of buildings for exclusively industrial, commercial and tourist use;
- the construction, creation and operation of educational establishments and training

SOURCES OF FINANCE

There are many Commercial and Islamic Bank in Djibouti including BCIMR-BRED, BOA-MR, EXIM Bank, IB Bank, IIB, East Africa Bank, Saba African Bank, Salaam African Bank who offer a various type of product namely housing loans, personal banking, asset loans and other products.

FOREIGN EXCHANGE CONTROLS

Djibouti has no foreign exchange restrictions. Businesses are free to repatriate profits. There are no limitations on converting or transferring funds, or on the inflow and outflow of cash. The Djibouti franc, which has been pegged to the U.S. dollar since 1949, is stable. The fixed exchange rate is 177.721 Djibouti francs to the U.S. dollar. Funds can be transferred by using banks or international money transfer companies such as Western Union which are monitored by the Central Bank.

There are no recent changes or plans to change investment remittance policies.

There are no time limitations on remittances. The government does not issue bonds on the open market, and cash-like instruments are not in common use in Djibouti, so direct currency transfers are the only practical method of remitting profits

EMPLOYMENT REGULATIONS

Foreign individuals working in Djibouti territory must obtain a work permit and

residence permit provided by Djiboutian institutions. The permit is generally issued for 1 years and is renewable on application. The Djiboutian visas can be provided online. The fees for the eVisa change depending on the type of visa; a transit visa (1 to 14 days) costs \$ 12 and a short stay visa (15 to 90 days) will cost you \$23.

Both local and foreign workers are required to make social security contributions based on their gross salary and benefits, which are capped at DJF 400,000 (\$2300) with the exception of the pension portion which is uncapped. The social contributions that an employer is responsible for include:

- 5.5% family allowance;
- 1.2% work-related injuries;
- 4% pension;
- 5% health insurance.

It's important to note that foreign workers in the Djibouti Free Zone are exempt from paying social contributions payments, and companies are not obligated to make payments for such employees.



TYPE OF BUSINESS ORGANISATIONS

PRINCIPAL FORMS OF BUSINESS

The main types of companies in Djibouti are:

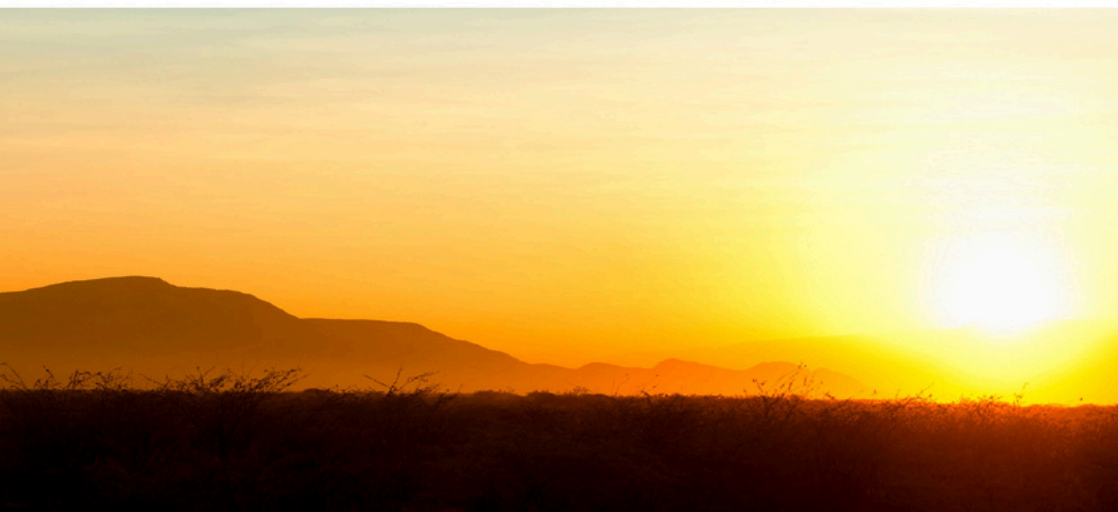
- Sole-personal limited liability company (EURL)
- Limited liability company (SARL)
- Public limited company (SA)
- Simplified Joint Stock Company (SAS)

FORMATION PROCEDURES AND BALANCE DATE

The government of Djibouti has facilitated the registration of business by reducing the capital needed for investment, simplifying the formalities needed to register with the Intellectual Property office, and simplifying certain tax procedures. The most important result is the finalization of a one-stop shop, managed by ANPI. The one-stop-shop brings together all the agencies with which a company must register.

The foreign investor does not need a Djiboutian partner to start a business in Djibouti except for certain regulated activities. All procedures are carried out by the Single Window of the National Agency for the Promotion of Investments (ANPI), which brings together representatives of the various institutions involved in business creation.

The ease of doing Business score of Djibouti is 60.5 according to the world bank group study in 2020. It takes 14 days in Djibouti for the formation procedures of a company.



LEGAL, ACCOUNTING AND AUDIT REQUIREMENTS

LIMITED LIABILITY COMPANY (SARL)

The amount of the company's capital is set by the articles of association. It is divided into equal shares.

The number of members of a limited liability company may not exceed hundred. If the company has more than hundred members, it must, within two years, be transformed into a public limited company. Failing this, it is dissolved, unless, during the said period, the number of members is equal to or less than hundred.

The limited liability company is managed by one or more natural persons.

The managers can be chosen outside the partners. They are appointed by the partners, in the articles of association or by a subsequent act by a decision of the general meeting of partners. Under the same conditions, the mention of the name of a manager in the articles of association may, in the event of termination of functions of this manager for any reason whatsoever, being a proxy by decision of the partners. In the absence of statutory provisions, they are appointed for the duration of the company.

The report on the operations for the year, the inventory, the general operating account, the profit and loss account and the balance sheet, drawn up by the managers, are submitted for the approval of the members meeting, within six months from the end of the financial year.

THE MEMBERS CAN APPOINT ONE OR MORE AUDITORS.

To appoint statutory auditors, a SARL's partners must either vote on the matter at a meeting or propose such appointments via a written consultation adopted by one or more partners representing more than half of the entity's shares. A statutory auditor must be appointed by companies with limited liability that fulfil two of the following three criteria at the end of at least one financial year:

- total balance sheet exceeding DJF500m (\$2.8m),
- turnover exceeding DJF250m (\$1.4m) excluding tax,
- and/or more than 150 employees on average during the previous financial year.

Auditors are responsible for checking the books and values of a company and verifying the conformity of company accounts.

PUBLIC LIMITED COMPANY (SA)

The capital of a Public limited company must be 50,000,000 DJF, at least, if the company makes a public offering, and 5,000,000 DJF, at least, otherwise. Its reduction to a lower amount must be followed, within a period of one year, by an increase having the effect of bringing it to the amount provided for in the preceding paragraph, unless, within the same period, the company has been transformed into a company of another form. Failing this, any interested party may apply to court for the dissolution of the company, after having given notice to its representatives to regularize the situation.

MEMBERS

The public limited company is administered by a board of directors comprising at least three and at most 12 members. However, in the event of a merger, this number increases to the total number of directors in office for more than six months in the merged companies without exceeding 24. Auditors are appointed during an ordinary general meeting.

One or more substitute auditors may be appointed during an ordinary general meeting. Auditors certify the conformity of inventory, the general operating account, the profit and loss account, and the balance sheet. The board of directors or management board publishes documents to shareholders on the company's financial situation and accounts.



TAXATION

FISCAL YEAR

Taxation is administered by the Ministry of Budget. The fiscal year end for all taxpayers is 31st December. However alternative tax year ends can be applied for under certain circumstances for the first year of activity.

CORPORATE TAXATION

A territorial tax system is operated in Djibouti. Resident and non-resident entities are subject to corporate tax only in income generated from activities carried on in Djibouti. The tax rate on business profits is set at 25% of taxable net profit in case of profit and 1% of income in case of loss, however the tax authority applies the rate linked to the highest tax amount. The tax must not be less than 120,000 (minimum flat-rate tax) Djiboutian francs (equivalent of \$676 USD).

Royalties and dividends are exempt from corporate income tax. Under the General Tax Code (GTC) companies are required to file an annual tax return before March 31 for the previous fiscal year.

The 2024 Finance Law introduces a 5% tax on distributed dividends to shareholders, applicable to all individuals or entities, regardless of domicile. This tax applies to common law companies, free zone companies, and entities under the investment code, excluding dividends below 10 million DJF.

PENALTIES:

VAT- As per art 265 to the tax law, the non-declaration or late submission of VAT is covered by delayed payment interest and penalty increases laid out in Articles 246 of the GTC, with a minimum penalty of DJF50,000 (\$280).

CIT-As per art 246 to the tax law, if a declaration is not filed on due date, late payment interest 5% of the amount of tax due per month of delay is applicable.

WHT- As per art 249 to the tax law, for the WHT the penalty amount is equal to the full amount of unpaid tax.

BUSINESS LICENCE:

The business license fee is payable by anyone, whether a national or a foreigner, who engages in commerce, industry or profession, except for those who are exempted as per the provisions mentioned in the General Tax Code. The license is valid for only one year, and the company must renew it before the expiration of the deadline.

Under the 2023 finance law, the business license fee structure in Djibouti is changing. Activities in classes 7 to 8 will be charged an additional 7 cents per Djibouti franc, and activities in classes 1 to 6 will be charged an additional 9 cents per Djibouti franc. Classes 9 and 10 are exempt. The Chamber of Commerce and Industry will be responsible for collecting the fees.

GOVERNMENT AND LOCAL INCENTIVES

Business tax exoneration is given to all newly registered foreign and Djiboutian companies for the first three years of operations for those operating in Classes V to VIII (110,000 DJF to 513,000 DJF worth of annual business taxes). For those above Class VIII (>513,000 DJF worth of annual business taxes) and for all banks, they are exonerated from the "proportional" business tax which is equivalent to 20% of their business revenues.

SUPPORTING MICRO AND VERY SMALL ENTERPRISES:

In an effort to support micro and very small enterprises, the Djibouti government has introduced a stable and specific tax regime through the 2023 finance law. Micro-enterprises are defined as business entities with a turnover of two million Djibouti francs or less and employing 0-5 employees. Very small enterprises are defined as business entities with a turnover of five million Djibouti francs or less and 0-10 employees.

The law provides the following provisions for these companies:

- A tax exemption for the first two years of activity
- An annual global flat tax in the following years as follows:
 - DJF 35,000 for microenterprises in Djibouti City and DJF 17,500 for the rest of the country
 - DJF 50,000 for very small enterprises in Djibouti City and DJF 25,000 for the rest of the country
- Exemption from all company creation costs payable at the one-stop shop during formalities
- No requirement for auditing for microenterprises.

PERSONAL TAXATION

A salary tax is applied in Djibouti for local and foreigners on incomes above 50,000 DJF.

The rate is as follow:

- On fractions of income under DJF 30,000 the tax rate is 2%
- On fractions of income between DJF 30,001 and DJF 50,000 the is 12%
- On fractions of income between incomes between DJF 50,001 and DJF 150,000 the tax rate is 15%
- On income between DJF 150,001 and DJF 600,000 the tax rate is 20%
- On income between DJF 600,001 and DJF 1,000,000 the tax rate is 30%
- On income between DJF 1,000,001 and DJF 2,000,000 the tax rate is 35%

The new Finance Law requires tax returns for salaries and wages to be submitted and paid by the 10th of each month, instead of the 5th.

The free Zone Code grants qualifying companies an exemption from all tax included corporate tax, except social and salary tax for a renewable period of up to 50 years. Up to 30% of the company's employees may be local for the first five years; after that the quota will be reversed, requiring the company to employ a minimum of 70% local workers.

OTHER TAXES

VALUE ADDED TAX (VAT)

All business with a turnover between DJF 10,000,000 and DJF 20,000,000 is required to register for VAT purposes depending on activities. Entities with turnover below this threshold may elect to be subject to VAT if certain conditions are fulfilled.

The standard rate for VAT is 10%. The Export and international transport transactions are exempt from VAT.

New companies will be eligible to VAT free importations during construction period under certain conditions, only if they invest in hotels, real estates and industries of transformation.

Additionally, liberal professions like chartered accountants, lawyers, and doctors are now subject to VAT, irrespective of turnover.

PATENT

The contribution to Patent is due by anyone, national or foreigner, who possess commerce, an industry or a profession not included in the exceptions indicated in the General Tax Code.

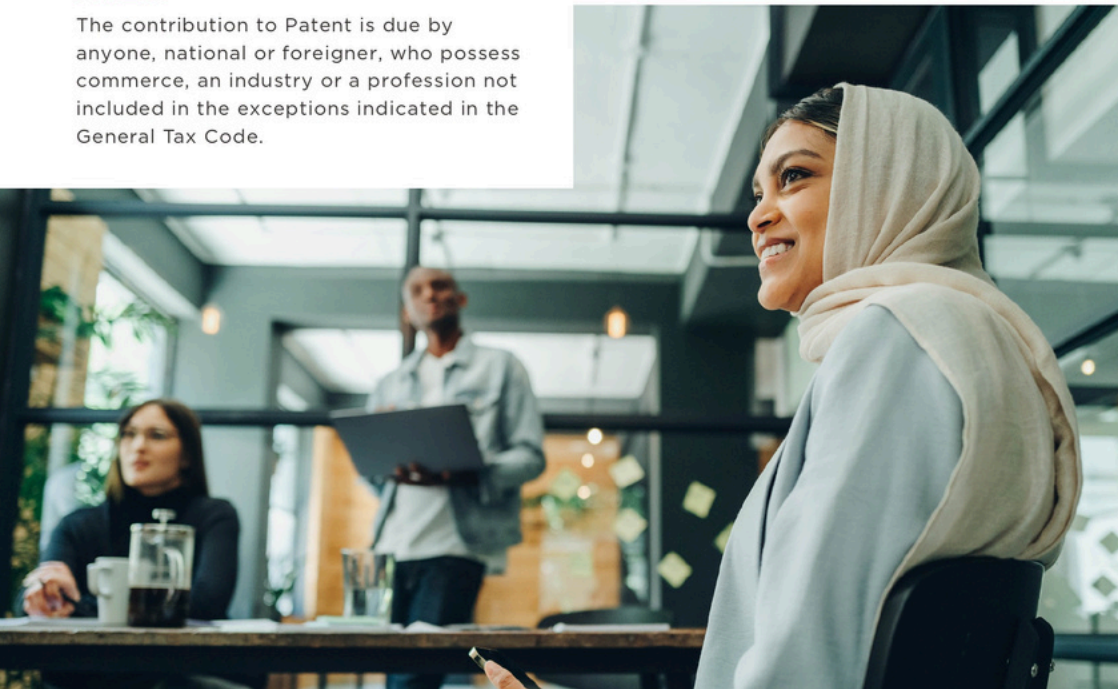
The amount to be paid for the patent is determined by a fixed or/and proportional fee according to a scale annexed to the General Tax Code. Import activities also require an import license. The cost of patent varies from DJF 150,000 to DJF 1,5 million (approximately USD 850 to USD 8,500). The patent is valid just for one year and the company is to suppose renew her patent before expiration the timeline.

WITHHOLDING TAX

The payment made to non-resident company and investors are subject to a withholding tax (WHT) rate of 25%, as per the 2024 Finance Law, replacing the previous rate of 15%.

STAMP DUTY

Stamp duty is payable on documents subject to registration. Except for a few specific deeds, stamp duty generally is paid at a rate of 1,000 DJF per page.



LAND TAX

The land tax differs according to build on (developed) property or undeveloped one:

For built Property Tax the base is:

- The amount of annual rental revenue for rented property;
- The rental value for not rented property;
- The higher amount resulting from either or both previous assessment, in the case of rented property on a timeshare basis;
- A reduction of 20% is apply on the Property tax base taken into consideration the costs of administration, insurance, depreciation, maintenance, and repair.

Collected on the annual rental value from the sixth year after the building was completed.

- from 0 to DJF 1,120,000 the rate is 10 %
- from DJF 1,120,001 to DJF 3,840,000 the rate is 18 %
- above DJF 3,840,000 the rate is 25 %

For undeveloped property Tax base is:

- The amount of annual rental revenue for rented property;
- The rental value for not rented property
- The higher amount resulting from either or both previous assessment, in the case of rented property on a timeshare basis.

For the undeveloped property the rate of 25% is applied on the tax base.





TAX ON CAPITAL GAINS

Payable by the transferor on the transfer of a built or undeveloped property. It corresponds to 5% of the net value. The rate corresponded to capital gain result on non-built in second session is fixed to 15%.

The principal residence, real estate registered as an asset of a business and the capital gains of less than DJF 100,000 are exempt from this tax.

VEHICLE TAX

Annual vehicle tax applies to all motorized vehicles transporting people and goods in Djibouti, except for two-wheeled vehicles. The tax rate varies from DJF18,000 (\$100) to DJF50,000 (\$282) based on the engine power of the vehicle. Payment is due on the first day of the taxable period after the vehicle enters service in Djibouti or after the end of tax exemption.



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Doing Business in the Djibouti is a practical guide to help you to deal effectively and efficiently with the most important issues that you might face upon your arrival in the Djibouti. The information contained in this booklet is not exhaustive. In many instances, only the main points are mentioned due to lack of space, as a result of which you may still need to consult a specialist. Your SRA consultant will be able to advise you; so, please do not hesitate to contact your consultant for more detailed information.

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