



# **Republic of Djibouti**

## **Recommendations for the establishment of an SME incubator**

TPSDE Facility  
Assignment report  
August 2017

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## ACRONYMS AND ABBREVIATIONS

AFD	French Development Agency
NAETPI	National Agency for Employment, Training and Professional Insertion
NAPI	National Agency for the Promotion of Investment
BCIMR	<i>Banque pour le commerce et l'industrie Mer Rouge</i>
EIB	European Investment Bank
DCC	Djibouti Chamber of Commerce
EC	European Commission
CEL	<i>Centre pour l'entrepreneuriat et le leadership</i>
AMC	Authorised Management Centre
DYEC	Djibouti Young Entrepreneurs Club
COMESA	Common Market for Eastern and Southern Africa
DG DEVCO	Commission's Directorate-General for International Cooperation and Development
EdD	Électricité de Djibouti
EUR	Euros
FBS	Farmers Business School
DEDF	Djibouti Economic Development Fund
DJF	Djibouti francs
EDF	European Development Fund
DPCGF	Djibouti Partial Credit Guarantee Fund
EIG	Economic Interest Group
GIZ	<i>Gesellschaft für Internationale Zusammenarbeit</i>
NHCPPD	National High Council for Public-Private Dialogue
DFI	Direct Foreign Investment
IGAD	<i>Autorité intergouvernementale pour le développement</i>
IRENA	International Renewable Energy Agency
LIC	Industrial and commercial high school
MEFI	Minister of the Economy and Finance
WHO	World Health Organisation
GDP	Gross Domestic Product
NIP	National Indicative Plan
SME	Small and Medium Sized Enterprises
SMI	Small and Medium Sized Industries
NEP	National Employment Policy
UNDP	United Nations Development Programme
SAGJP	Strategy for Accelerated Growth and Job Promotion
SNA	<i>Service national adapté</i>
ICT	Information and Communication Technologies
EU	European Union
UNCHR	United Nations High Commissioner for Refugees
UNECA	United Nations Commission for Africa
UNICEF	United Nations Children's Fund

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## EXECUTIVE SUMMARY

This report was prepared after an assignment to Djibouti by François Kacenenbogen from 30 July to 3 August 2017. It aims to provide an analysis and propose recommendations for the establishment of an incubator for small and medium-sized enterprises (SMEs) in Djibouti.

The principal objective in creating an incubator in Djibouti is to strengthen local economic activity and support job creation, an objective which is very much in line with the strategy of the Government of Djibouti. The incubator model proposed is that of a public-private partnership (PPP), based on a non-profit-making and multi-sector objective. Based on an analysis of key growth sectors which can lead to job creation - while seeking synergies and complementarities with other donors - it is recommended that the focus should be on three clusters: transport / logistics / ports; renewable energies; and agrobusiness.

The activities of the proposed incubator are divided into three groups: pre-incubation, incubation and post-incubation. The results expected from this incubation process are the creation of 20 companies annually and the generation of 100 jobs per annum. The services provided by the incubator are detailed in the report, while making recommendations to mitigate the risks inherent in this project, namely solutions for access to finance for beneficiaries of the incubator, the sustainability of the incubator and the attraction to potential beneficiaries.

The estimated budget has been established at EUR 2.7 million over five years, or EUR 3.5 million if the creation of a funding facility is retained. Based on GIZ's expertise in providing technical assistance and support to the private sector, and in addition to its experience in similar projects, the report proposes implementation of the project by GIZ via an agreement with the EU Delegation to Djibouti, and through indirect management.

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## 1 CONTEXT AND JUSTIFICATION

### 1.1 Justification of the assignment

The Republic of Djibouti has some major economic advantages, principally by virtue of its geo-strategic situation and its young population. Despite that, unemployment and poverty represent two significant problems in Djibouti. In 2013, 23% of the population were in a situation of extreme poverty, with 44% in rural areas. The unemployment rate was 39% of the Djibouti population in 2015, mostly affecting women in rural areas.

Moreover, despite a relatively high level of training compared to other African countries, the majority of entrepreneurs who wish to create a company do not have the managerial skills necessary to ensure the sustainability of their activities. These two factors have led to calls for creating an SME incubator which will contribute to national development and job creation by offering entrepreneurs a favourable environment for the formation and development of their companies.

THE Directorate General for International Development Cooperation (DG DEVCO) of the European Commission considers the development of the private sector, commerce and regional economic integration to be powerful levers for the reduction of poverty. Its strategy of engagement with the private sector is aimed at stimulating growth and investment, at creating jobs and at generating tax revenues to finance public services. In order to maximise the impact on the development of its private sector partnerships, the European Commission created the Trade and Private Sector Development (TPSD) Facility to support Unit C4 in DEVCO as the unit responsible for private sector development and engagement.

The creation of an SME incubator in Djibouti will enable the EU Delegation – and by definition DEVCO – to follow up on its private sector development objectives by providing entrepreneurs with the opportunity of an incubation centre to provide the necessary support services (mentoring / coaching, drafting business plans, legal assistance, access to funding etc), managerial training and hosting office services (computers, photocopiers, mail, internet access etc) whilst promoting an entrepreneurial culture and exchange of experiences through networking activities.

This report is divided into 7 chapters:

- Chapter 1 presents the socio-economic situation of the Republic of Djibouti as well as the strategies of the Government, the European Commission and the other stakeholders with regard to strengthening the private sector. It also contains an analysis of the problems encountered by Djibouti companies.
- Chapter 2 proposes the creation of an SME incubator, details and substantiates the characteristics of that incubator. It presents the general and specific objectives of the SME incubator project and all the activities to be implemented.
- Chapter 3 explains the risks inherent in the SME incubator project in Djibouti and makes recommendations to reduce them.
- Chapter 4 deals with the synergies and complementarities with other donors.
- Chapter 5 offers an assessment of the budget for establishing the incubator.
- Chapter 6 proposes terms for implementation of this SME incubator project.
- Chapter 7 provides a set of conclusions for the next steps in establishing the SME incubator.

## Objectives and expected results of the assignment:

The objectives of the assignment as shown in this report were as follows:

- Analysis and recommendations for the establishment of an incubator for small and medium sized enterprises (SMEs) in Djibouti.
- Feasibility for the incubator to provide professional training for staff working for companies already subscribing to the incubator).

The expected results of this assignment were as follows:

- A report providing a substantial contribution for the formulation of a roadmap taking into account the economic context in Djibouti as well as the policies of the EU in this area.
- Suggestions on the objectives, results and activities of the incubator.
- Budget breakdown for operating the incubator.
- Advice on creating synergies with the follow-on GIZ project

## 1.2 Socio-economic context

Djibouti covers an area of 23,200 km<sup>2</sup>, and is situated at a major geo-strategic location on the west coast of the southern outlet of the Red Sea. Its neighbouring countries are Somalia, Ethiopia, Eritrea and Yemen. In view of regional instability, open crises (such as Somalia and Yemen), and low intensity conflicts (Eritrea), it represents a crossroads of international migration and currently has 17,683 refugees and 8,061 asylum seekers within its borders<sup>1</sup>.

In 2013, more than 23% of the population were living in a situation of extreme poverty. Djibouti is confronted by extremely constraining climatic conditions, with less than 1,000 km<sup>2</sup> of arable land and an average annual rainfall of 121 mm per annum<sup>2</sup>. Djibouti has chronic food shortages and suffers from an acute dependency on imports to provide food security, and this makes it vulnerable to external shocks such as increases in the price of oil, rising foodstuff prices and the consequences of climate change. According to a report by the World Food Programme published in 2014, 14.5% of Djibouti households are in a situation of food insecurity, of which 2.8% in severe food insecurity (approximately 14,200 people) and 11.7% in moderate food insecurity (approximately 56,000 people)<sup>3</sup>.

At an economic level, the Government of the Republic of Djibouti relies on a growth model aligned to the development of infrastructures (ports, railways), and follows the objective of making the country a regional hub for the transit of minerals and goods with Ethiopia. It is important to note that infrastructure works are for the most part financially supported by China Exim Bank and technically carried out by Chinese companies. Moreover, economic growth in Djibouti relies to a great extent on foreign direct investment (FDI) (in 2016, FDI represented 9.1% of GDP against 7.2% in 2015), on income guaranteed by the presence of Chinese, French and American military bases and income from the Port of Djibouti. The pillars of growth in Djibouti are thus focussed on port activities, transport services and infrastructure development<sup>4</sup>.

According to data from the World Bank, GDP growth was estimated at 6.5% in 2016, by virtue of the development of transport activities, investments in port infrastructure and investments received for

<sup>1</sup> <http://reporting.unhcr.org/node/2526>

<sup>2</sup> <https://fr.climate-data.org/location/537/>

<sup>3</sup> <http://reliefweb.int/sites/reliefweb.int/files/resources/Analyse%20Globale%20de%20la%20Vulnerabilite%20de%20la%20securite%20alimentaire%20et%20de%20la%20nutrition%20octobre%202014.pdf>

<sup>4</sup> <http://www.diplomatie.gouv.fr/fr/dossiers-pays/djibouti/presentation-de-djibouti/>



the construction of the railway line to Ethiopia. Inflation rose from 2.6% to 3.5% between 2015 and 2016 due to an increase in demand for housing and services. Despite strong GDP growth, and its moderate inflation, Djibouti remains severely affected by poverty and unemployment. The most recent assessment of the national rate of extreme poverty shows a prevalence of 23% in 2013, mostly in rural areas (44%). Unemployment is a major obstacle to the economic development of Djibouti, at close to 39% in 2015 according to national statistics, and even greater economic exclusion in female and rural categories<sup>5</sup>. The lack of job opportunities for young people in Djibouti threatens the economic and social stability of the country. Many unemployed young people are tempted to turn to the informal economy, or even sometimes to illegal economic activities such as people smuggling or human trafficking<sup>6</sup>.

Economic growth forecasts for Djibouti prepared by the World Bank are however optimistic, providing for annual GDP growth of approximately 7% between 2017 and 2019 and a fall-off to 6% in 2020. Since 2015, the current account deficit has fallen considerably, from 29.5% to 14.5% of GDP in 2018, and this is explained by the decline in imports associated with the completion of infrastructure projects (such as the project for a railway linking the ports of Tadjoura and Deraleh to Addis Ababa) and a consequent increase in exports. FDI flows should remain significant, as well as inflation, with a forecast of 3.5% in 2017-2018. Djibouti's growth is heavily dependent on FDI and contributes very little to job creation and the reduction of poverty<sup>7</sup>. It is therefore a priority for the Government of Djibouti to implement strategies to face these challenges, to reduce the unemployment rate and to improve the living conditions of the local population.

## 1.3 Assessment of public policy

### 1.3.1 Vision Djibouti 2035

Under the initiative of the President of the Republic, Ismail Omar Guelleh, *Vision Djibouti 2035* is a strategic framework for development planning by the Government of the Republic of Djibouti. This strategy was conceived on a participative basis with civil society, and with the support of the United Nations Economic Commission for Africa (UNECA), the United Nations Development Programme (UNDP) and the World Bank. This strategy has the objective of consolidating the position of Djibouti as a geo-strategic, logistical and commercial hub on the Red Sea, by tackling the major challenges represented by access to water, energy, health and education, as well as combating youth unemployment, reducing poverty and increasing national cohesion<sup>8</sup>.

The strategies followed by Vision Djibouti 2035 revolve around 5 pillars: Peace and National Unity; Good Governance; Economic Diversification; Consolidation of Human Capital; Regional Integration. For the pillar "Diversified and competitive economy with the private sector as its driving force", the lines of intervention put forward by the Government are economic diversification with the support of the private sector, internationalisation of the Djibouti economy, improvement of the macroeconomic framework, strengthening of the financial sector and broadening of the tax base by the mobilisation of internal resources, and the promotion of ICT<sup>9</sup>. The objective is to create 200,000 jobs, to achieve GDP growth of 7.5% to 10% per annum, to reduce the unemployment rate to 10% and to reduce absolute poverty by more than one third by 2035.

The growth sectors highlighted by the Government in Vision Djibouti 2035 are tourism (on the Red Sea and within the country by exploiting its cultural and archaeological heritage), fisheries (by

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<sup>5</sup> <http://pubdocs.worldbank.org/en/260951475460656332/Djibouti-MEM-Fall-2016-ENG.pdf>

<sup>6</sup> The Emergency Trust Fund for Africa in favour of stability and combating the deeper causes of irregular migration and the phenomenon of displaced persons in Africa, Professionalising young people and sector professionals in the transport-logistics-port activity line, p 2

<sup>7</sup> <http://www.banquemoniale.org/fr/country/djibouti/publication/economic-outlook-fall-2016>

<sup>8</sup> Republic of Djibouti, Vision Djibouti 2035, 2014, pp 2-3

<sup>9</sup> Republic of Djibouti, Vision Djibouti 2035, 2014, p 63

developing an under-exploited fishery potential estimated at 47,000 tonnes per annum), ICT (taking advantage of considerable underwater fibre optic cable infrastructures), the transport and logistics sector (relying on the existence of the port complex in Djibouti at the hub of global maritime exchanges and on major infrastructure investments; development of railways, airport, road transport, special logistics zone), mining and hydrocarbons (by the extraction of perlite, bauxite, natural gas, copper, zinc, iron, aluminium), crafts and industry (focussing principally on agro-food processing), agriculture and livestock breeding (by improvements in agricultural productivity, modernisation of techniques and rationalised management of water resources)<sup>10</sup>.

In employment, the Government aligns its policy around the following lines of intervention: improvements to the business climate and the promotion of entrepreneurship in particular by way of support to the creation of companies, adoption of incentives and public investment in economic infrastructure to encouraging de-centralisation and the establishment of foreign companies in Djibouti. Emphasis is also placed on the level of human resources and reduction of the gap between (university and professional) training and job opportunities by achieving a better articulation between the two. The ambition of the Government of Djibouti is to make a country which promotes creativity and innovation particularly through national centres of excellence<sup>11</sup>.

### **1.3.2 Strategy for Accelerated Growth and Job Promotion**

The Strategy for Accelerated Growth and Job Promotion (SAGJP) adopted by the Government of the Republic of Djibouti serves as a benchmark for planning its economic policy over the period 2015-2019. The SAGJP revolves around four strategic axes: (i) economic growth, competitiveness and the driving role of the private sector, (ii) the development of human capital, (iii) public governance and strengthening institutional capacities, and (iv) regional development and sustainable development poles<sup>12</sup>. With the objective of making growth inclusive, the Government of Djibouti plans further to develop traditional growth sectors such as transport/logistics and telecommunications, and to encourage the development of similar new sectors, as well as fisheries and tourism, so that the increase in GDP continues in a fairer and more balanced manner taking advantage of the comparative assets of Djibouti whilst creating jobs.

The ten objectives of the SAGJP are as follows: to accelerate growth, to combat unemployment, to reduce extreme poverty, to make Djibouti a regional hub, to improve education and training, to improve access to essential healthcare, to reduce gender inequality, to increase access to water, to increase housing supply and to cope with climate change<sup>13</sup>. As for reinforcing the private sector, the SAGJP plans to encourage economic diversification by improving the business climate and by reducing the costs of production elements such as electricity, by adopting visible strategies for production sectors, by creating support institutions to increase capacities, and by promoting public/private dialogue. In order to support the development of SME/SMI, the Government of Djibouti has a National Employment Policy (NEP) conceived to promote the culture of entrepreneurship (particularly with young people and qualified women) and provides support mechanisms to reinforce the sectors of commerce, tourism, agrobusiness, construction materials and services to companies and individuals. The objective set by the NEP is to increase the share of the formal private sector (in contrast to the informal private sector) in total employment from 15.4% in 2012 to 20.4% in 2024 with the creation of approximately 90,000 new jobs there over the period from 2014 to 2024<sup>14</sup>.

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<sup>10</sup> Republic of Djibouti, Vision Djibouti 2035, 2014, pp 64-75

<sup>11</sup> Idem, p 83

<sup>12</sup> Republic of Djibouti, Strategy for Accelerated Growth and Job Promotion, p3

<sup>13</sup> Republic of Djibouti, Strategy for Accelerated Growth and Job Promotion, p48

<sup>14</sup> Idem, p74

The strategic orientations concerning promotion of the private sector retained by the SAGJP are as follows<sup>15</sup>:

- A- Emergence of a favourable business environment: improvement of the legal framework, and adoption for instance of the Charter of Investors' Rights; improvement of the visibility of communication: making investors aware of the *Doing Business* classification; Creation of support mechanisms like the "one-Stop Shop" or centres for the promotion of entrepreneurship and the formalisation of companies. **It is important to note the expressed desire to create technical support structures and services to assist entrepreneurs.** In order to free the growth of SME, the SAGJP also plans a reform of corporate taxation by revision of the tax and social contributions system; attraction of foreign investment.
- B- Development of SMEs in growth sectors: by the adoption of strategies per sector and the establishment of a multi-sector steering committee, increasing access to funding by SMEs and the institutional strengthening of the Department for SMEs.
- C- Promotion of entrepreneurship and formalisation of companies: the SAGJP plans to create a "Company Chamber", as well as the **introduction of an incentive mechanism to foster the emergence of sustainable young companies.**
- D- Reinforcement of technical support and SME counselling services: on this subject, it is a matter of developing the activities of the Djibouti Chamber of Commerce (DCC) for it to offer SMEs a series of training services, technical expertise and networking. Emphasis is also placed on improving training, its labelling and suitability for the labour market.
- E- Internal and external communication: with a view to promoting exports, in particular Djibouti craftsmanship.
- F- Promotion of Djibouti as a regional hub: by the development of infrastructure in the Free Trade Zone, and hosting international events.

### **1.3.3 National Indicative Programme – NIP 2014-2020 (Republic of Djibouti – European Union)**

The EU strategy for 2014-2020 is concentrated on inclusive sustainable development and combating poverty with the observance of fundamental rights, good governance and adaptation to climate change. The envelope of the European Development Fund (EDF) for Djibouti amounts to EUR 105 million and is concentrated on water and sanitation (49%), food security (33%), and secondarily on measures to support civil society / decentralisation / gender equality (8%) and measures to support the national authorising office / technical cooperation (10%). Concerning water and sanitation intervention, EU projects aim to increase the production of and improve access to drinking water, purification of waste water and solid waste management. As for food security, the EU is planning projects enabling agricultural productivity to be increased, sustainable economic development of regions in the interior of the country, combating malnutrition and developing resilience to the effects of climate change<sup>16</sup>.

### **1.3.4 National High Council for Public-Private Dialogue (NHCDPP)**

On the advice of the MEFI, the National High Council for Public-Private Dialogue was created in August 2012 and placed under the authority of the Head of State. It is a platform for consultation between the public and private sectors, and has the aim of establishing a business environment favourable to private sector development. It meets once per annum at the Annual Public-Private Consultation Forum and is composed of a strategic Orientation Committee (co-chaired by the Minister of Finance responsible for Industry and the President of the Djibouti Chamber of Commerce), a Technical Committee and a Permanent Secretariat. The responsibilities of the Strategic Committee are in particular to elaborate strategies for private sector development in Djibouti, to promote job creation,

<sup>15</sup> Idem, pp75-77

<sup>16</sup> European Union – Republic of Djibouti, National Indicative Programme 2014-2020, pp 6-14

to examine and validate proposals by the Technical Committee with regard to the creation of mechanisms to support the private sector as well as to assess its impact. The Technical Committee is composed of numerous representatives of the public sector (Directors of the ANEFIP, ANPI, ONTD, Taxation, FDED, and so on) and the private sector (representatives of the CCD, Federation of SME-SMI, Banking Association, forward agents' Economic Interest Group)<sup>17</sup>.

## 1.4 Stakeholder analysis

### 1.4.1 Ministry of the Economy and Finance responsible for Industry (MEFI)

The Ministry of the Economy and Finance responsible for Industry (MEFI) is at the core of the training project of the Centre for Entrepreneurship and Leadership (CEL). This project was conceived on the basis of recommendations made at the first National Entrepreneurship Days (18-20 February 2016), organised by the MEFI, advising the establishment of a structure to promote entrepreneurship among young people. Through a partnership with the Indian Government (which will finance construction of the incubator), MEFI has provided the ways and means for the creation of the SME incubator and the promotion of leadership. To date, different actions have been carried out by MEFI with a view to the creation of the CEL: the grant of a parcel of land for the construction of the incubator; the call for tenders and the selection of a construction company; and the holding of a workshop for consideration and consultation with international experts in entrepreneurship and company incubation<sup>18</sup>.

The SME incubator model conceived by MEFI is that of a non-profit-making public-private partnership (PPP) addressing several economic sectors. The aim of the CEL would be to promote entrepreneurship through a change of mentality, and to increase synergies between the various Government training and SME support mechanisms. Among the sectors involved in incubation are logistics, crafts, industry, information and communication technologies (ICT), agro-pastoral farming, renewable energies, tourism and construction<sup>19</sup>. It is planned to organise training and seminars with national and international experts. In order to support the creation of companies, MEFI offers an exemption from patent duties for the first three years and efforts are being made by the Government to reduce the number of procedures and the cost of creating a company. According to MEFI's strategy, the CEL should also welcome 50 start-ups, offer legal and secretarial services, and facilitate the procedures for entering companies in the register of commerce through the One-Stop-Shop or "Guichet Unique" (cf. below). It is important to note that, during this assignment, a visit was made to the parcel of land where the CEL is to build and it was confirmed that a Turkish company selected for the construction of an incubator should soon complete the work (within six months) in view of its prefabricated construction.

### 1.4.2 Djibouti Partial Credit Guarantee Fund

The Djibouti Partial Credit Guarantee Fund (DPCGF) was created by Decree No 2016-095/PR/MEFCI dated 15 March 2016 in the Council of Ministers. It has the task of contributing to the development of SME active in the growth sectors retained by the Government and the improvement of access to funding through the sharing of risks with commercial banks, microfinance establishments and other financial institutions. The DPCGF also has the attribution of accompanying project developers in the

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<sup>17</sup> Presidency of the Republic of Djibouti, Draft Decree amending Decree No 2012-0188/PR/MEFIP creating, granting attributions to and organising the National High Council for Public-Private Dialogue, August 2012, pp 1-4

<sup>18</sup> Ministry of the Economy and Finance responsible for Industry, Centre for Entrepreneurship and Leadership – Presentation of the Vision of the Incubator in Djibouti, pp 7-8

<sup>19</sup> Ministry of the Economy and Finance responsible for Industry, Centre for Entrepreneurship and Leadership – Presentation of the Vision of the Incubator in Djibouti, pp 9-11

processes of preparation, implementation and monitoring of funding search projects. A significant characteristic of the DPCGF is that the guarantees offered only partially cover the funding risks of the SME and only relate to short and medium-term loans and credit leasing. The DPCGF is a public company placed under the supervision of the MEFI, as a specialist financial institution with a legal personality and autonomous management. **On the basis information gathered in our interviews, it emerges that the DPCGF is still not operational**, although its Board of Directors has been determined (the Chairman of the Board of Directors being the President of the Young Entrepreneurs Club). The equity capital (initial allocation) amounts to FDJ 200 million, and was subscribed and fully paid up by the State of Djibouti. In the future, the capital of the DPCGF might be open to commercial banks, up to a maximum of 30% of the capital. For its operation and for the grant of guarantees to banks, the financial institution receives a budget of FDJ 100 million (EUR 465,844) per annum for three years<sup>20</sup>.

#### 1.4.3 One-Stop-Shop (Guichet Unique)

Inaugurated in March 2017, the One-Stop-Shop is under the supervision of the National Agency for the Promotion of Investments (NAPI), itself dependent on the Ministry to the Presidency responsible for Investments. The objective of the One-Stop-Shop is to facilitate the formalities in relation to the creation of companies through four functions; offering a one-stop shop for the registration of companies with the Djibouti Office of Intellectual and Commercial Property (DOICP), the General Directorate of Taxes and the National Social Security Fund (NSSF); organising connections to the electricity supply (EdD), water (ONEAD) and telecommunications (Djibouti Telecom); facilitating land procedures (building permits and transfers of ownership); serving as a point of entry in particular for the services of the National Agency for Employment, Training and Professional Insertion (NAETPI), the Djibouti Economic Development Fund (DEDF, cf. below), and the Djibouti Chamber of Commerce (DCC, cf. below)<sup>21</sup>.

#### 1.4.4 Djibouti Economic Development Fund (DEDF)

The Djibouti Economic Development Fund (DEDF) is a public institution of a commercial nature aimed at supporting the creation or development of SME through the grant of loans and technical assistance. The DEDF offers long and medium-term loans of between FDJ 3.5 million and FDJ 50 million<sup>22</sup> (EUR 16,000 to EUR 230,000). It proceeds through financial intermediation by virtue of open credit lines offered in particular by the Arab Fund for Economic and Social Development (AFESD) in an amount of USD 20 million (EUR 16,650,000) allocated for the period 2014-2018 in order to offer loans at concessionary rates (5% to 6% per annum), with a maximum maturity of 5 years and a six-month period of grace. The DEDF intervention ceiling is 30% of the total investment of the project concerned. Guarantees are required on the part of project developers, for example in the form of personal sureties. On the basis of information gathered from the different actors met during the assignment on the ground, **it emerges that the DEDF is suffering from operational and recovery problems and is weakened by a risk portfolio (PAR) at 90 days close to 40%**.

#### 1.4.5 Djibouti Chamber of Commerce (DCC)

The Djibouti Chamber of Commerce (DCC) was created in 1907 to represent the interests of the private sector in Djibouti, to contribute to the elaboration of policies and regulations enabling its development and to facilitate commercial exchanges. In addition to these traditional prerogatives, the DCC also offers training, information, technical assistance and advisory services<sup>23</sup>. In this regard,

<sup>20</sup><http://www.presidence.dj/texte.php?ID=2016-095&ID2=2016-04-21&ID3=D%E9cret&ID4=8&ID5=2016-04-30&ID6=n>

<sup>21</sup> Presentation Brochure of the Guichet Unique

<sup>22</sup> <http://www.fdeddjibouti.com/>

<sup>23</sup> <http://www.ccd.dj/decouvrir-la-ccd/>

the DCC has the Djibouti Authorised Management Centre, which provides a support service to the specialist company in company management, taxation and the prevention of difficulties. The AMC is **reserved for companies entered in the register of commerce** and paying their dues (FDJ 50,000 FDJ, or EUR 233). It is important to note that the services of the AMC are charged (for accounting, the amount varies from FDJ 25,000 to FDJ 90,000 per month (EUR 165 to EUR 420) depending on turnover; for social management services, tariffs proportional to the number of employees, and so on. It is interesting to note that membership of the AMC gives access to a tax deduction of 20% on the taxable profits of companies with turnover not exceeding FDJ 50 million<sup>24</sup> (EUR 235,000).

The AMC also contributes to the creation of companies: if a young entrepreneur already has a concrete project proposal, they will be assisted free of charge for three years by the ANC through access to market studies, legal and tax advice. If they do not have a concrete project proposal, the DCC can offer assistance through its Entrepreneurship Unit (project development, assistance in company creation, market study and training for example). The DCC has also published a practical guide for the creation of companies which presents all stages to be completed and the necessary formalities<sup>25</sup>. The AMC team consists of 6 qualified employees who for the most part have been through higher education (particularly in France). The training offered by the AMC includes: English, Arabic, Amharic, IT, management IT, reception, commercial communication, secretariat techniques, stock management, company tax and accounting statement, lean management, supply management (with the ICC in Geneva), food quality and hygiene (with a French company), and certain tailored training<sup>26</sup>. It is important to observe that the AMC does not offer training, or business planning services and that no mechanism for access to funding is in place.

#### **1.4.6 Djibouti Young Entrepreneurs Club (DYEC)**

The DYEC was created in April 2015 and officially opened by the Minister of the Economy and Finance, Ilyas Moussa Dawaleh, in April 2017. To date it consists of some twenty young entrepreneurs from different sectors. Its mission is to increase entrepreneurship in Djibouti by assisting young project developers by providing them with a platform for meetings, exchange and work tools. During our assignment, we met a dozen or so members of the DYEC, and they presented their respective activities, as well as the constraints they faced in developing their company. The sectors represented are diverse: IT, commerce, construction, automobile engineering, logistics and transport, chalk and pen production, fishing, agriculture and animal breeding, maritime promotion centre, air conditioning. The majority of young entrepreneurs who are members of the DYEC have not yet created their company, or it was created less than three years ago. At this stage of company development, funding needs are relatively low, with an average between FDJ 5,000,000 and FDJ 25,000,000 FDJ (EUR 23,000 and EUR 116,000) or even less. On average, these young companies employ 5 employees. A survey was undertaken among members of the DYEC to assess their funding needs and their capacity strengthening requirements.

## **2 CREATING AN SME INCUBATOR: JUSTIFICATIONS AND MODEL PROPOSED**

### **2.1 Justifications for creating an SME incubator**

Following meetings with Atou Seck, the World Bank's resident representative in Djibouti, it appears that diversifying the economy and creating jobs are two of the World Bank's strategic priorities in Djibouti. According to the World Bank's Doing Business classification, Djibouti is 171<sup>st</sup> out of 190 countries when it comes to regulating business. Despite the Government of Djibouti's efforts to

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<sup>24</sup> Djibouti Chamber of Commerce, Authorised Management Centre, pp 5-8

<sup>25</sup> Djibouti Chamber of Commerce, Company Creation Formalities (cf <http://www.ccd.dj/w2017/wp-content/uploads/2016/01/formalite-creation-entreprise-FINALE.pdf>)

<sup>26</sup> Djibouti Chamber of Commerce, Training Centre, Catalogue 2014, pp 1-17



improve the business climate, particularly by creating the One-Stop Shop, entrepreneurs are still facing major difficulties in setting up their businesses, for example (which takes 14 days and seven procedures on average)<sup>27</sup>, connecting electricity, conveying property and performing contracts. We find things have improved recently, however: the cost of setting up a business has fallen considerably in itself, from USD 2000 to USD 270 (EUR 1666 to EUR 225). Conveying property has also been made easier recently by reducing property transfer tax.

Another major obstacle in growing businesses in Djibouti is access to finance. According to the Doing Business classification again, the country is 181<sup>st</sup> out of 190 in terms of getting business loans<sup>28</sup>. The World Bank will be making efforts to improve the situation by creating a loan agency, a specialist reference agency which acquires and compiles individuals' credit histories. From meetings with Issam Otman Saïd, Deputy Banking Manager at BCIMR (the country's leading bank in terms of total assets, total deposits, exposure volume and customer numbers), this is because Djibouti's entrepreneurs are unable to present bankable projects, keep accounts and offer guarantees. From businesses' point of view, it may also be pointed out the constraining effects of bank loans which local banks offer (up to 17% p.a.) and their short-term maturity (three years at most).

What all this shows is that Djibouti's commercial banks are not currently looking at the SME sector and are concentrating on their usual clients by providing funds to businesses involved in public works (if they can show they have won public contracts) and business (against letters of credit). Local banks do not at present use financial instruments like leasing or factoring, although they are instruments of interest when it comes to funding SMEs. The French Development Agency [Agence Française de Développement (AFD)] says that the distribution of credit is focused on a small number of businesses – just 5% of formal businesses have access to bank finance, because of the obstacles which traditionally make it harder for SMEs: commercial banks do not have much ability to analyse credit risks, businesses do not have financial statements available and the importance of the informal economy.

While including young people in work is a priority for the Djibouti Government, *"Djibouti does not have any structured technical or professional training system. [...] What technical and professional training resources there are not very diversified, not very educational and inadequate. They are concentrated in a few training courses (office automation, culture, cuisine, mechanics, masonry and electricity) and account for just 4.2% of young people aged 16-24 at primary level at most, who are not employed or involved in the national education system. Also there are a number of vocational training centres belonging to private or public players which have closed or working partly at best, such as nationalised company training centres, the training centre in public works and the Ali Sabieh vocational training college; and the SNA which trains skilled workers in different fields well regarded by employers in the private sector has also closed."*<sup>29</sup>. To help create businesses in Djibouti, what we need is to strengthen technical and vocational training and above all ensure that, once trained, young people can find jobs or set up their own businesses easily.

Stakeholder analysis shows that the national system for growing SMEs is weak and based on a limited number of structures (mainly the CGA of the CCD, the ANPI and the One-Stop Shop). The services which these structures offer are i) consultancy; ii) training; iii) support (seeking funding) and iv) helping businesses grow, but none of them offers financial facilities. While the private sector generally regards these initiatives as relevant, dynamic and competent, few of them are aimed specifically at project developers; and the limited and chargeable nature of their services limits their scope of action. We therefore advise setting up an SME incubator to help create businesses in Djibouti, combat unemployment, strengthen entrepreneurs' abilities, improve access to finance and ensure a balance between vocational and technical training and the job market.

## 2.2 What is an SME incubator?

Infodev (the reference FOR international incubation bodies, under the auspices of the World Bank) defines an SME incubator as *a physical space which houses an incubation process defined as a public*

<sup>27</sup> World Bank, Doing Business 2017, Economy Profile 2017, Djibouti, p 19

<sup>28</sup> World Bank, Doing Business 2017, Economy Profile 2017, Djibouti, pp 57-59

<sup>29</sup> Republic of Djibouti, national employment policy 2012

or private process, entrepreneurial, of economic and social development which aims to help turn business projects into businesses (start-ups) using a support program which can help them start up, grow and succeed. The Global Entrepreneurship Monitor (GEM) says the incubation process covers the 'initial business activity' period which starts when an entrepreneur has an idea for a business, creates that new business and manages it **for three and a half years. We therefore conclude that businesses more than three and a half years old are excluded from the incubation process**<sup>30</sup>. There are four functions which SME incubators offer, as follows:

- A. **Infrastructure:** most incubators provide accommodation for which they may charge rent: beneficiaries then have a space to work in and access to telephones, faxes, meeting rooms and a physical address. Some incubators also provide industrial facilities such as agro-food processing equipment.
- B. **Services:** services which SME incubators offer include legal services, accounts, marketing, sales support, export support services; helping produce business plans, setting up businesses (creating a business model); company registration support services which know and can help with the regulatory procedures required to set up a business; ITC training, such as creating a website; sector-specific technical training; coaching and mentoring services; business management, strategy and leadership training; identifying technologies and equipment and specific technical expertise
- C. **Accessing finance:** SME incubators help project developers access different sources of finance. Depending on how mature a business is, the incubator may try to help beneficiary businesses access finance with commercial banks, development banks and lenders, private equity and venture capital funds. Financial instruments also vary, and include capital finance, loans, guarantees, donations, seed capital, seed loans or seed grants.
- D. **Networking:** incubators are places which can help professional networks grow: they enable project developers to meet customers and potential technical or commercial partners, meet potential investors, international experts to gain experience and share best practices, share their problems and find solutions together with other beneficiaries, being in a shared space with other businesses helps people copy, motivates them and pushes them to excellence

### 2.3 Incubator model proposed for Djibouti

SME incubators differ in terms of four factors: their appearance; their nature; the sector(s) they cover and their aims. The type of incubator selected for Djibouti is shown in the table below. The boxes shown in yellow show the type of incubator chosen for each factor. Then we present our reasons in support of selecting the type of incubator for each factor.

**Table 1 Incubator models**

Ownership	Type	Sector	Aims
Public	Profit-making	Focused on one sector	Promoting a specific category

<sup>30</sup> Infodev, Business Incubation and Principles, p. 33



Private	Non-profit-making	Focused on multiple sectors	Developing the local economy
PPP		Technology	Transferring technology
Academic			Creating profits
NGO			Maximising profits

F. Kacen

**Ownership:** This incubator could be set up under a form of Public-Private Partnership (PPP). It is essential that the public and private sectors work together successfully, as neither of them can handle the operations, management and investment required 100% on its own. Sharing between the public sector, private sector and a lender in investments and involving them in the management and operation of this incubator is highly desirable to ensure that its management is consistent financially and in management terms.

Secondly, the President of the Republic and Government's strategy in developing the private sector is based on the public and private sectors working together via the HCNDPP. It is only logical that the SME incubator should be part of this dynamic and include representatives of both sectors so that it can serve as an instrument of public policy and a testbed for promoting the private sector on the one hand and a platform reflecting the needs of the business people of Djibouti on the other.

**Type:** non-profit-making incubators are more liable to be assigned economic development goals while profit-making ones tend more to favour state of the art projects offering high potential returns without considering how this might affect creating jobs. Research into business incubators has shown that SME incubators are excellent tools for pursuing public policy aims in terms of return on investment (the average cost of the number of jobs created is relatively low compared with other types of public investments<sup>31</sup>, and they are becoming more sustainable). The incubator should be physical (a place which actually provides accommodation for business people) as opposed to virtual, as the current level of resources available in Djibouti is low and telecommunications costs such as the Internet are very high.

**Sectors:** The Djibouti incubator should be multi-sectorial. Young entrepreneurs' projects are highly varied, as seen from meetings organised with the CJED during our assignment. To avoid losing focus, and to obtain economies of scale in terms of specific sector expertise, it is recommended nonetheless that three incubator clusters should be prioritised, as follows:

- 1) *Cluster: transport/logistics/ports:* this cluster is a natural choice, given how important the port of Djibouti is in the northern area of COMESA and that it is Africa's number three container port. This cluster accounts for 25% of Djibouti's GDP. As seen earlier, Djibouti has invested heavily not just in the port but also in the logistics chains and transport and shippers involved in the corridor which links the country to Ethiopia. These investments are helping develop the freight and passenger transport sectors, air and rail transport, port activity,

<sup>31</sup> European Commission Enterprise Directorate General, Benchmarking of Business Incubators, February 2002, p6

creating jobs directly in transit, road transport and warehousing. All this has major pull effects on other spheres of economic activity such as maintenance, business services and construction. This cluster currently consists of around 200 businesses and currently employs nearly 15,000 staff, either directly or indirectly (representing 10% of the population actively employed). Current and future investments in the port industry and free trade area should generate positive returns in related economic sectors such as road transport and equipment maintenance and warehouse logistics with a multiplier effect of 2.5 to 3 on jobs, according to the World Bank<sup>32</sup>.

- 2) *The renewable energy cluster*: The President and Government of Djibouti aim to use Vision 2035 to reach 100% renewable electricity by 2020, benefitting from the country's geothermal, solar and wind potential and the interconnection with Ethiopia and its mainly hydroelectric power generation. A report by the International Renewable Energy Agency (IRENA) says around 55% of the people of Djibouti do not have access to electricity<sup>33</sup> and that this is extremely expensive (despite being interconnected with the Ethiopian network (FJD 41.67/kWh or EUR 0.19/kWh)<sup>34</sup> because of *Electricité de Djibouti* (EdD)'s transport and distribution costs, which is putting a major brake on business development (electricity bills account for around 25% of Djiboutian businesses' costs). The IRENA study says that Djibouti could generate enormous amounts of solar power (the horizontal insolation overall is 5-6 kWh/day, compared with 3.5 kWh/day at most in Germany, for example) and could be used to help off-grid applications heavily in rural electrification, refrigeration, pumping water and communications<sup>35</sup>.

A project has been implemented successfully in this field involving the Chamber of Trades of the Saar (Germany), the CDD and the *Lycée Industriel et Commercial* (LIC) involved installing solar panels at the LYC and training students there. This project's financial projections show that solar power installations of 25 kW could break even very quickly in Djibouti, in five years at most (or even 3.5 years in the case of a project with the Hôtel Acacia, for example). Djibouti households and international organisations (WHO, UNICEF, UNHCR) are also enthusiastic about solar power. It is important to note that other renewable industries are bearing fruit, such as wind power and making and distributing improved cooking ovens (possibly running on biomass with household waste or biogas using camel waste). All these initiatives could be used to help reduce the use of fossil fuels, combat deforestation and the impact of climate change and transfer knowhow while at the same time creating jobs in distribution, installation and production. Indirectly, developing renewable energies in Djibouti could support rural, industrial and agro-industrial development, e.g. through refrigerating fresh produce.

- 3) *Agrobusiness cluster*: Djibouti faces a major deficit in terms of agricultural production, and its food sector depends on imports. The situation is difficult, and the European Union, IGAD and other lenders are working with the Government of Djibouti to boost farming, fishing and animal breeding production. Based on the information we received during the course of our work, we think there is a need to strengthen the managerial abilities of operators involved in the farming, fishing and breeding value chains in Djibouti. There are a number of routes to be explored here: in terms of agricultural production, the incubator could help create businesses selling and distributing drip-feed irrigation kits, including improved seeds and fertilisers/pesticides and businesses offering farming-related services; in terms of breeding camels, there is a potential for processing camel's milk; and in fisheries in particular, fishers are tending to professionalise their fishery methods, which are artisan at present. They could

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32 Le Fonds fiduciaire d'urgence pour l'Afrique en faveur de la stabilité et de la lutte contre les causes profondes de la migration irrégulière et du phénomène de personnes déplacées en Afrique, Professionnaliser les jeunes et les professionnels du secteur dans la filière transport-logistique-portuaire, p4

33 IRENA, Renewables Readiness Assessment, Mai 2015, p2

34 <http://www.doingbusiness.org/data/exploreeconomies/djibouti#getting-electricity>

35 IRENA, Renewables Readiness Assessment, Mai 2015, p16

therefore benefit from potential fisheries which the FAO estimates at 48 000 t/year, substituting for fish imported from Ethiopia and benefiting from the incubator by acquiring modern fishing vessels, creating distribution, processing and conservation channels in Djibouti. This would enable fishers to stabilise their income and encourage competition in a highly concentrated market - Red Sea Fishing holds more than 30% of the market<sup>36</sup>.

## 2.4 Locating the incubator

As for how many beneficiaries there should be, the assumption is that the incubator will have 25. This figure is in line with international best practice used by Infodev (World Bank) in terms of incubators, which prefers between 20 to 30<sup>37</sup>, and is explained by the concern to offer personal quality services to project developers and entrepreneurs. Work on building the incubator has already started, as noted earlier. The Government has provided a site in Djibouti, while the Indian government is financing constructing of the building which is being built by a Turkish company. How large incubation centres are varies, depending on the models and regions concerned (3000-4000 m<sup>2</sup> in Europe and the USA, for example, as against 10,000 m<sup>2</sup> in China). We propose considering an area of at least 2000 m<sup>2</sup> in Djibouti's case. It is important to bear in mind that each beneficiary's incubation space varies depending on how far they have developed (10-20 m<sup>2</sup> at first and 60- 150 m<sup>2</sup> once they are growing) and what kind of business they are involved in: so it is important to provide incubation units of different sizes from 10 to 150 m<sup>2</sup>. Facilities must also include conference rooms, a reception and switchboard, an events room (for organising conferences, for example), a seminar room for training, a photocopier room, storage facilities (for materials and equipment), a car park, a cafeteria and toilets and cloakrooms. The incubator will offer those using it Internet access, telephones and messaging services (the businesses created will have postal addresses within the incubator).

## 2.5 Legal and management models

As part of this project, and within the logic of the public-private partnership, we suggest creating an SME incubator in the shape of a non-profit-making association as a separate entity. The funding will come from the public sector and be managed by the private sector via a non-profit-making association. This will have two governing bodies: a general meeting and a Board, to which may be added an Audit Committee. The Board will be made up reflecting the financial contributions of each of the parties involved (MEFI, European Union, GIZ, for example), and will appoint the members of the General Meeting and the Audit Committee as the case may be. The Board will have at least three members and will be the strategic executive body of the incubator. To which we could therefore add the Audit Committee, made up of members who are independent of the incubator's Board, which would ensure that the incubator's practices are in line with the rules of governance as laid down in its policies, procedures and other statutory texts.

The management team would consist of the Director-General (DG), the Administrative and Financial Director (DAF) and three cluster coordinators. This team would have to be supported by an external technical stakeholder which could be GIZ. The incubator's management would recruit middle managers permanently. Beneficiaries would be supported technically both internally and externally, shared between the incubator team and external experts it recruits. This institutional architecture is recommended first to ensure the technical and financial support of external stakeholders (lenders, chamber of commerce, business banks), and second to ensure the incubator is managed professionally, profit-oriented, flexible and dynamic. We give some more details below:

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<sup>36</sup> FAO, Fisheries in the ESA-IO Region: Profile and Trends, Country profile Djibouti, 2014, pp 10-12

<sup>37</sup> Infodev, Planning an Incubator, p51

- a) Board: the Board's role will be to decide the incubator's strategic direction, its activities and management. The Board's members must, as we have seen, be divided between the public and private sectors. Depending on the respective financial contributions of the Government and its lenders, a certain number of seats would be allocated to each of the parties involved (MEFI, European Union, GIZ etc.). This distribution of seats on the Board will have to be negotiated subsequently. We would also advise reserving a certain number of seats to the private sector, particularly the Chamber of Commerce, and possibly to its partners (universities, banks, Young Djiboutian Entrepreneurs Club).
- b) Incubator's staff: the staff will be made up as follows:
- Director-General: the Director-General will be responsible for relations with the incubator's stakeholders (Government, lenders, financiers, chamber of commerce, training centres, universities etc.) and managing their team. It is crucial that the Director-General should be a **champion**: a strong leader with outstanding management abilities, respected by everyone involved in the incubator
  - Administrative and Financial Director: supervises the administration and finance of the incubator
  - Three cluster coordinators: **sector experts** should be appointed for each cluster, in charge of recruiting and supporting the beneficiaries of each cluster via the incubation process through providing advice (business modelling, strategy, mentoring) and guiding beneficiaries towards training and relevant external stakeholders (customers or suppliers) to develop their businesses (particularly via setting up a database, external experts, market studies and technical manuals)
  - A secretary who will provide secretarial services and facilitate beneficiaries' administrative and legal processes.

## 2.6 Detailed description of the incubator's aims, results and strategic activities

Combating unemployment and matching training and jobs is at the heart of the Government of Djibouti's strategy (Vision 2035 and SCAPE). Setting up an incubator in Djibouti will be aimed mainly at reinforcing local economic activity and helping create jobs, which is therefore in line with the Government of Djibouti's aims. An incubator will encourage businesses and contribute directly to creating jobs both directly and indirectly, which will help improve the living conditions of the population, fighting poverty, reducing migration by encouraging people to settle down, and help the national economy through increasing tax revenues. By including agrobusiness clusters, it will also help food security in Djibouti; and the renewable energy cluster will help combat the effects of climate change and support sustainable development.

To assess this incubator's results, we may realistically assume an average success rate of 80%<sup>38</sup> of project developers who create their businesses and register them with the Register of Commerce after an incubation period of one year. This will take the number of businesses created to 20 a year and the number of jobs created directly to around 100 a year, assuming each business created employs five people on average (average based on data gathered from young entrepreneurs in Djibouti). The average survival rate of three years for businesses which are created in an incubator is around 70% based on a study of 27 SME incubators in South Africa<sup>39</sup>).

As far as the activities and number of beneficiaries are concerned, we propose that they break down in each phase as follows:

- Pre-incubation: 100 beneficiaries a year (three cycles of 30-35)
- Incubation: 25 beneficiaries a year (at the end of this incubation phase, the incubator will fund 10-15 beneficiaries a year (seed funds))
- Post-incubation: 10 beneficiaries a year

38 African Development Bank, OECD, [Economic prospects in Africa 2017, May 2017, p. 240

39 <http://www.smesouthafrica.co.za/15688/The-BIG-reason-why-startups-with-business-support-do-better-than-those-that-dont/>

In terms of strategic activities, the Djibouti incubator's are divided into phases as follows:

**2.6.1 Activity 1: Pre-incubation phase:** this phase will bring together beneficiaries who have plans to create businesses in the three clusters covered (transport/logistics/ports; renewable energies, agrobusiness). Beneficiaries will be trained so they can develop their business models, via a standard development process for each business model ([www.businessmodelgeneration.com](http://www.businessmodelgeneration.com) or <https://strategyzer.com/>). This will force beneficiaries to plan soundly and will enable the incubator's assessors to analyse rapidly whether they have the ability to ultimately benefit from the incubator's accommodation and services. These interested beneficiaries can also consult experts who will be regularly available at the incubator to support start-ups. The incubator will select pre-incubation beneficiaries based on criteria it sets, and they will have a limited period of access to the incubator proposed of three months. Beneficiaries will not be required to contribute financially at this stage.

**2.6.2 Activity 2: incubation phase:** brings together the candidates selected at the end of the pre-incubation phase. The maximum incubation period proposed is one year (with a possible extension for six months). We propose asking beneficiaries for a symbolic financial contribution at this stage (see section 5.1) of EUR 30/month. Based on the needs expressed by the young entrepreneurs of the CJED, the services and training the incubator will offer will be as follows:

*Services:* business accommodation, secretarial services, legal services; accounting and human resource management services; marketing services, sales support services; helping produce a business plan; business startup support services (to know and assist with the regulatory procedures involved in setting up a business); funding access services (details see below); coaching and mentoring services; services identifying technology and equipment; networking services and organising seminars and conferences to share best practices.

*Training:* basic and advanced ITC training (developing a website, for example); training in business management, strategy and leadership, basic and advanced accounts training; training in accessing finance (the training plan is presented in the budget, see 5.1)

At the end of the incubation process, the best projects would be financed by the FED or another lender via a seed loan or seed grant of around EUR 20,000 – 40,000. Assuming a success rate of 80% (see 2.6), we believe more than half the beneficiaries should be able to get a seed loan (or seed grant). If they opt for a seed loan, this kind of loan is often preferred to seed capital because the paperwork is relatively simple and the legal costs involved are low too. Seed loans should be low-cost (subsidised loans, below market interest rates) and do not need to be guaranteed.

**2.6.3 Activity 3: post-incubation phase:** the third group of beneficiaries are those who have obtained seed loans or grants to start trading. They will continue to be coached and trained and have access to external experts to deal with all the challenges start-ups involve. This is essential to ensure incubated businesses survive. The aim here is to continue working with business people in their first post-start-up years. Entrepreneurs who have obtained seed loans or grants will continue to have access to made to measure training and services. At this stage, we recommend that the rents should be increased (EUR 250/month, for example) and that beneficiaries should pay them to access the incubator's services and training. The maximum post-incubation period is one year at the incubator, renewable once. The aim of this period is to beneficiaries to obtain a proof of concept (POC- proof that the business is profitable and sustainable) by showing their business model is relevant to the market so beneficiaries can access more finance (EUR 150,000, for example) from local business banks or other lenders to finance their businesses' growth (financing CAPEX, capital and operating costs and business operating costs).

**We also recommend the incubator could welcome post-earning businesses which have not followed the incubation process, but which would like to access the incubator's services and seek funding against payment of a commercial rent.**

### 3 RISKS AND RECOMMENDATIONS

The study has enabled us to identify three risks which must be addressed to ensure that the incubator's impact is maximised: selecting beneficiaries, access to funding and sustainability. The recommendations formulated here are mainly about looking for synergies with the parties involved and lenders. These risks and mitigating measures are shown in the table below.

**Table 2 Risks and mitigating measures**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
- Cannot recruit beneficiaries effectively, beneficiaries weak in terms of skills	H	<ul style="list-style-type: none"> <li>- Identify channels to make beneficiaries aware and recruit qualified beneficiaries for the incubator</li> <li>- Provide a major communications budget</li> <li>- Conduct a feasibility study</li> </ul>
- Weak access to funding for businesses incubated	H	<ul style="list-style-type: none"> <li>- Involve FDED, operationalise FGPCD</li> <li>- Set up lines of credit and guarantees with local commercial banks or via involving lenders</li> <li>- Train local bank staff in funding SMEs</li> <li>- Develop new financial instruments in local commercial banks</li> </ul>
- Incubator's financial sustainability weak	M	<ul style="list-style-type: none"> <li>- Ensure financial support from lenders and Government for the long term</li> <li>- Set up a monitoring and assessment system</li> <li>- Ensure income generates income via rent</li> </ul>
<b>Assumptions</b> <ul style="list-style-type: none"> <li>- Supported by central and local authorities and the clusters concerned (transport/logistics/ports, renewable energies and agrobusiness); involving the authorities concerned is a <i>sine qua non</i> condition of sustainability and continuing activities with the country's own resources once the project ends;</li> <li>- Players are coordinated and their involvement complements one another.</li> <li>- The project offers a development model adapted to economic reality and jobs and the supporting sectors have been identified correctly.</li> </ul>		

#### 3.1 Attracting beneficiaries

Having a critical mass of potential beneficiaries is essential if an SME incubator is to succeed. To ensure beneficiaries are of sufficient quality, we recommend developing partnerships with universities and professional and technical training centres. To be more precise, to recruit and select beneficiaries, we suggest cultivating the partnerships below:



- 1) Project TRANSFORM: this project, financed by the EU's trust fund for Africa, will be managed by the French Development Agency (FDA) via a delegation agreement. It aims in particular to create a Resource and Competence Centre (RCC) providing technical and professional training to staff, professionals in the transport/logistics/port sector, initial qualifying training for young people without any qualifications and complementary initial training to bachelors and graduates in Djibouti. The various training this centre offers will include business management, port handling, motor, engine and vehicle maintenance, transport and transit and warehouse logistics. The project aims to train from 800 to 1700 beneficiaries a year between 2017 and 2020<sup>40</sup>. The partnership with the RCC will aim to recruit potential beneficiaries for the transport-logistics-port cluster via the training centre, i.e. young people trained on the technical and professional training courses who want to set up their own businesses. This could be done via developing communication tools about what the incubator does, awareness sessions and invitations to applicants.
- 2) GIZ project for professional and technical training in renewable energy: like the TRANSFORM project, GIZ will soon be launching a professional and technical training programme for refugees and local communities in Djibouti in the renewable energy sector (mainly solar and wind) with a budget of EUR 4 m. **Please note, experts are currently involved in conducting a study in Djibouti and that the report describing the project is not yet available.** Working with this technical and professional training project will also aim to recruit potential beneficiaries for the incubator's renewable energy cluster. This could also be done by developing communication tools to tell people what the incubator is doing, awareness sessions and calls for applicants. Based on a meeting with German expert, Ralph Matschinsky, it is also proposed to identify beneficiaries via the *Lycée Industriel et Commercial de Djibouti* (LIC), specifically (but not only) in the electrical faculty).
  - 1.
- 3) The agribusiness cluster could also attract beneficiaries via a future programme of IGAD which will be approved by the European Union to improve agricultural production and promote agri-pastoralism.

Other channels will need to be used to ensure that the number of project developers reaches critical mass: potential applicants could also be made aware via the CCD (and CGA), the Young Entrepreneurs Club of Djibouti (CJED), the University of Djibouti, the *Lycée Industriel et Commercial de Djibouti* and the National Agency for Jobs, Training and Professional Integration (ANEFIP). **A major budget must be provided for communicating what the incubator does in the media (radio, TV, the Internet and newspapers) and promote business in Djibouti.**

**To get a better idea of the channels which can be used to increase awareness amongst and attract future beneficiaries to the incubator and gather quantitative and qualitative data on the demand for incubation in Djibouti and who could sponsor projects, it is suggested that the European Union conduct a technical and economic feasibility study.** This could be used to provide a better definition of the critical mass of the incubator and what project developers need in terms of training and funding.

### 3.2 Access to funding

Access to funding is crucial to ensure that businesses the incubator houses can develop. To help finance the SMEs which are incubated, a number of solutions could be considered:

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<sup>40</sup> The Emergency Trust Fund For Africa for stability and combating the underlying causes of irregular migration and the phenomenon of displaced persons in Africa, Professionalising young people and professionals in the transport-logistics-port sector, p8

### **3.2.1 Operationalise the Partial Credit Guarantee Fund of Djibouti (FGPCD) and involve the Djibouti Business Development Fund (FDED)**

As we have seen, the Government created the FGPCD to share the risks involved in funding SMEs with the commercial banks, microfinance and other financial institutions. It should be operationalised rapidly so it can act as a lever to finance the businesses which benefit from the incubator. We also suggest involving the FDED in what the incubator does to offer start-up loans to beneficiaries with subsidised interest rates and low personal contribution and guarantee requirements on the part of project developers and over a longer term. And, finally, we propose strengthening the FDED's resources to improve its activities financing SMEs (such as via training its staff specifically in credit risks designed to reach the SME segment or training in analysing funding cases) and to enable it to develop new financial instruments like leasing or factoring. We would also suggest that the Government of Djibouti allows beneficiary businesses to enjoy a tax rebate of 20% (or even total tax exemption) on their taxable profits for their first three trading years (as it already does for businesses which belong to CGA), see section 1.3.5.

### **3.2.2 Establish lines of credit and guarantee at local commercial banks or via lenders and international financial institutions**

International financial institutions offer funding facilities to African commercial and development banks, often via lines of credit or guarantees. By way of example, we could mention the partnership between the European Investment Bank (EIB), the World Bank and the Ethiopian Development Bank: small businesses in Ethiopia will benefit from a new programme of loans and leasing worth EUR 247 m to be managed via the Ethiopian Development Bank. This initiative aims to reinforce the financial activities of Ethiopian microfinance institutions, commercial banks and leasing companies in favour of local businesses<sup>41</sup>. Another example is the EIB granting Equity Bank a line of credit of EUR 75 m: these funds are destined for three subsidiaries: EUR 36 m for Equity Tanzania, EUR 20 m for Procredit RDC and EUR 19 m for Equity Uganda. This line of credit aims to increase SME funding in these countries, help create jobs and reduce poverty. The Equity group will also enjoy a programme of technical assistance from the EIB of EUR 2 m to help it offer SMEs more PME<sup>42</sup>. Lenders like AFD or KFW could also be mobilised: the ARIZ Guarantee is a risk-sharing pool aimed at helping SMEs and microfinance institutions access funds. It aims to support projects creating and developing SMEs by involving local financial institutions in funding them. The ARIZ portfolio guarantee could be an interesting solution to guaranteeing credits over one to five years for amounts from EUR 10,000 to EUR 300,000<sup>43</sup>.

**One major initiative which Djibouti could capitalise on is the Boost Africa investment programme:** Boost Africa is a project in the shape of a partnership between the African Development Bank and the European Investment Bank aimed at supporting business and innovation in Africa via a mixed finance mechanism with the European Commission. The Boost Africa Investment Programme represents a joint investment agreement between the African Development Bank and the European Investment Bank originally for EUR 150 m, the aim being to invest in start-up funds, Business Angel funds (providential investment funds), accelerator tracking funds and Private Equity (risk capital) funds which finance innovative start-ups and high-growth SMEs. One point worth noting is that SME incubators can also apply for Boost Africa funds to set up mechanisms to fund the businesses they host<sup>44</sup>. Boost Africa's three pillars are: to facilitate funding via financial intermediaries, strengthen

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<sup>41</sup> <http://www.eib.org/infocentre/press/releases/all/2017/2017-169-eib-confirms-support-for-6-billion-birr-private-enterprise-financing-programme.htm>

<sup>42</sup> <http://www.eib.org/infocentre/press/releases/all/2017/2017-085-eib-signs-kshs-10-45-billion-support-for-east-african-entrepreneurs.htm>

<sup>43</sup> <http://issuu.com/objectif-developpement/docs/afd-ariz-fr/4?e=0>

<sup>44</sup> African Development Bank, Boost Africa initiative: frequently asked questions, p. 1



resources and technical assistance to financial intermediaries and beneficiary start-ups, share information and promote best practice<sup>45</sup>.

**To ensure the beneficiaries are funded in the incubation phase and avoid the problems involved with the weak capacity of the FDED, we suggest GIZ sets up a funding facility for seed loans or seed grants in the shape of a separate legal entity, such as a limited company, for example. The annual volume of seed loans or seed grants should be analysed, and could be as much as EUR 150,000 a year, if we consider that the five best beneficiaries' projects will be funded at EUR 30,000 per year each. If this option is chosen, we recommend writing a financial plan to determine precisely how much funding start-ups need and the procedures to be used in selecting and funding projects. We should say this recommendation is based on the SIGMA social enterprise accelerator project GIZ has implemented in India<sup>46</sup>.**

### 3.3 Ensuring that the incubator is financially sustainable

To ensure that the incubator is sustainable, we need not just to identify but also to secure funding to cover its operating costs in the long term. In the next section, we will draw up an estimate of the incubator's operating costs in year one, but it will subsequently be important to produce a detailed financial plan presenting all possible funding sources and the operating costs for the first five years. As most of the funding will be public, it will be essential for the incubator to pursue aims which are in line with the Government of Djibouti's strategies and those of the project's lending partners. Being backed by the population of Djibouti and the private sector is also if the incubator is to succeed, and can be supported by employing local human resources, organising frequent business meetings and conferences on what the incubator is doing and being involved in other activities (notably those organised by the CCD) and intermediary organisations in the incubation sectors concerned.

We suggest **setting up a mechanism to monitor and assess how the incubator is performing, even an Audit Committee (see section 2.5)** aimed at monitoring how the incubator is being managed independently so we can show the authorities and lenders their funds are being used rationally and revise the incubator's strategy and activities frequently if necessary. Gathering data and producing reports on the incubation programme's success will be necessary to keep attracting committed and capable beneficiaries and be supported financially by the stakeholders particularly government organisations and lenders. The incubator team must also be motivated (particularly by paying them competitive salaries), professional, be given major technical support for five years and attend refresher courses and seminars frequently to share best practices, e.g. through belonging to professional incubator associations.

**And, finally, we recommend that the incubator ask its beneficiaries to pay subsidised rents** (below market price per m<sup>2</sup>), but which increase progressively as they remain there. Phase 2 (incubation) beneficiaries, for example, could pay a flat-rate EUR 30 per month to rent a 20 m<sup>2</sup> office (for which they would be entitled to all the incubator's services free of charge, while phase 3 (post-incubation) beneficiaries would pay rents which were higher but still less than the average property prices in Djibouti (e.g. EUR 250 per month for 100 m<sup>2</sup>), as their businesses would be making money. This rent system has many positive spinoffs: it ensures beneficiaries are motivated and involved in the incubation process and their businesses give the market what it wants. These rents would be a not insignificant source of income, covering some of the incubator's operating costs. We also suggest that the incubator could be open to post-earning businesses which were not involved in the incubation process but wish to access its services and are looking for funding, against paying commercial rents.

<sup>45</sup> <http://www.eib.org/infocentre/press/releases/all/2016/2016-299-launch-of-boost-africa-initiative-a-new-integrated-approach-to-boost-young-innovative-entrepreneurs-across-africa.htm>

<sup>46</sup> <https://www.giz.de/en/worldwide/45600.html>

## 4 COMPLEMENTARITY, SYNERGY AND COORDINATING DONORS

### 4.1 World Bank

The initiative to create an SME incubator is in line with the World Bank's Country Strategic Partnership (CPS) in Djibouti. This is based on two pillars: reducing vulnerability and boosting the business climate. More specifically, the second pillar aims to consolidate the advances made in infrastructure, services, developing the private sector and governance, with the accent on boosting programmes aimed at creating jobs, accessing energy and telecommunications and supporting the government's efforts to reduce poverty and stimulate inclusive growth<sup>47</sup>.

### 4.2 African Development Bank (ADB)

The project to create an SME simulator will have synergies with the Project to support creating socio-economic infrastructures and promote business activities in the regions (PARISER), funded by the ABD, which aims to support regional development and help strengthen the capacities of beneficiaries to facilitate access to jobs and develop income-generating activities. Creating an SME incubator will run in parallel with PARISER via component 2, particularly technical assistance and processing and marketing to distribute agricultural products across regional markets<sup>48</sup>. More generally speaking, the incubator project is in line with the ADB's strategy in strengthening the private sector (pillar 2), putting the accent on strengthening the institutions responsible for the public sector: *"The public institutions in charge of the private sector such as the CCD, the ANPI, the Minister for SMEs and Crafts, the Minister for Solidarity, will be supported with a view to making their actions in promoting the private sector more effective and combating poverty and unemployment<sup>49</sup>"*.

### 4.3 Inter-governmental development authority (IGAD)

The SME incubator project in Djibouti will also support the IGAD's strategy, more specifically pillar 1 (Agriculture, Natural Resources and the Environment) through improving food security in Djibouti through developing agriculture, fisheries and stock breeding through increasing production and agribusiness and fisheries products<sup>50</sup> (the incubator's agribusiness cluster). The incubator's renewable energy cluster for its part supports IGAD's aim to promote using renewable energy resources. The SME incubator project's activities will also support pillar 2 of IGAD's regional strategy aimed at improving and promoting business, investment and industry in the region.

### 4.4 European Union

As we have seen, the SME incubator project seeks to create synergies between the transport/logistics/port cluster and the European Union's TRANSFORM project. More particularly, it offers synergies with its component 2, as the TRANSFORM project proposes to help professionalise all the players involved in the transport/logistics/port sector: professionals and their representatives, current and upcoming staff (young people) and the authorities. As we saw in section 1.2.3, the EU is also providing permanent projects to increase agricultural productivity, the sustainable economic development of the regions in the interior of the country, combating malnutrition and withstanding the impact of climate change<sup>51</sup>, creating synergies with the incubator's agribusiness and renewable energy clusters.

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<sup>47</sup> World Bank, Country Partnership Strategy for the Republic of Djibouti, 2014-2017, 2014, p27

<sup>48</sup> African Development Bank Group, PARISER, Summary of environmental and social plan, p. 3

<sup>49</sup> African Development Bank Group, Country Strategy Document 2016-2020, 2016, p. 15

<sup>50</sup> IGAD, IGAD's Regional Strategy, Volume 1, 2016, p39

<sup>51</sup> European Union – Republic of Djibouti, Indicative National Programme 2014-2020, pp. 6-14

## 5 INDICATIVE BUDGET

### 5.1 Costs involved in purchasing resources and working capital requirements in year one

The tables below show the costs involved in purchasing resources and the operating budget required to set up and operate an SME incubator which could house 25 project developers and 10 post-incubation businesses (35 beneficiaries in all). As the Governments of Djibouti and India have generously provided the land and building free of charge, their costs will be ignored.

**Table 3 SME Incubator budget in year one (in EUR)**

Items	Quantity	Unit cost	Total cost
<b>A. Expenses</b>			
A.1. Costs incurred in building and fitting out the incubator			
A.1.1 Building construction costs – <b>covered by the Government of Djibouti and the Indian Government</b>			
A.1.2. Costs incurred in purchasing resources			
Purchasing office furniture and supplies and IT hardware*			88,500
Buying a vehicle	1	35,000	35,000
Unforeseeables (15 %)			18,525
<b>Total</b>			<b>142,025</b>
A.2. Incubator's working capital requirements			
A.2.1. Operating costs			
Electricity, water, Internet etc.	Lump sum (per annum)		18,000
Vehicle fuel, tax, insurance etc.	Lump sum (per annum)		7,200
Unforeseeables (15 %)			3,780
<b>Total</b>			<b>28,980</b>
A.2.2. Staff*			
Director-general's salary (per month)	13	3000	39,000
Financial director's salary (per month)	13	2300	29,900
Cluster coordinators' salaries (per month)	39	2000	78,000
Secretary (per month)	13	700	9,100
Unforeseeables (15 %)			23,400
<b>Total</b>			<b>179,400</b>
A.2.3. Technical support			
Pay and hosting costs (per month)	6	40,000	240,000
Unforeseeables (15 %)			36,000
<b>Total</b>			<b>276,000</b>
A.2.4. Training costs			
Training (number of days a year) **	60	600	36,000
Unforeseeables (15 %)			5,400
<b>Total</b>			<b>41,400</b>
<b>B. Income</b>			
B.1. Beneficiaries' contributions (p.a.)	25	360	9,000
B.2. Post-incubation contributions (p.a.)	0	6000	0
<b>C. Funding requirements in year one</b>			
A.1. Costs incurred in purchasing resources			142,025
A.2. Budgeted working funds			525,780
Costs incurred in setting up and operating incubator in year one			<b>667,805</b>
B.1. Income from beneficiaries' contributions			9,000

**Funding requirements**
**658.805**

The SME incubator's funding requirements can be divided into two categories: on the one hand, there are the funding requirements linked to construction (zero) and fitting out (office equipment and IT) the structure and, on the other hand, the working capital requirements. Most of the funding requirements (EUR 658,805) in year one are technical support costs (42%) required to start the incubator working and bring staff up to speed, especially the director-general, the administrative and financial director and cluster coordinators. As far as the costs of office furniture and supplies are concerned, the premises will be equipped with IT and telecommunications equipment and office supplies. The budget for office supplies and other resources\* is calculated as follows, and needs to be completed by an estimate by a local office equipment company:

**Table 4 Budget for office supplies and other resources**

Equipment	Quantity	Price (EUR)	Total (EUR)
Computers	40	500	20,000
Network and server	1	8,000	8,000
Telephones and switchboard	40	100	4,000
Video projectors	3	500	1,500
Office supplies	40	800	32,000
Conference room fittings	2	10,000	20,000
Photocopier	2	1,500	3,000
<b>Total</b>			<b>88,500</b>

**Table 5 Training plan**

Training	No. of modules	No. of days per module	Total no. of days
Business Model	3	5	15
TIC	2	5	10
Business Plan	2	5	10
Business accounts	2	5	10
Business strategy	1	5	5
Accessing finance	2	5	10
<b>Total</b>	<b>12</b>		<b>60</b>

## 5.2 Costs incurred in purchasing equipment and working capital requirements in years two to five

Table 6 Incubator budget, years two to five (EUR)

Items	Quantity	Unit cost	Total cost
<b>A. Costs</b>			
<b>A.1. Costs incurred in purchasing production equipment*</b>			
Purchasing production equipment*			<b>100,000</b>
<b>A.2. Incubator's working capital requirements</b>			
<b>A.2.1. Operating costs</b>			
Electricity, water, Internet, etc.	Lump sum (per annum)		18,000
Vehicle fuel, tax, insurance etc.	Lump sum (per annum)		7,200
Unforeseeables (15 %)			3,780
<b>Total</b>			<b>28,980</b>
<b>A.2.2. Staff pay</b>			
Director-general's salary (per month)	13	3000	39,000
Financial director's salary (per month)	13	2300	29,900
Cluster coordinators' salaries (per month)	39	2000	78,000
Secretary's salary (per month)	13	700	9,100
Unforeseeables (15 %)			23,400
<b>Total</b>			<b>179,400</b>
<b>A.2.3. Technical support**</b>			
Pay and hosting costs (per month)	6	32,000	192,000
Unforeseeables (15 %)			28,800
<b>Total</b>			<b>220,000</b>
<b>A.2.3. Training costs</b>			
Training (number of days per year)	60	600	36,000
Unforeseeables (15 %)			5,400
<b>Total</b>			<b>41,400</b>
<b>B. Income</b>			
B.1. Beneficiaries' contributions (p.a.)	25	360	9,000
B.2. Post-beneficiaries' contributions (p.a.)	10	3000	30,000
<b>Total</b>			<b>39,000</b>
<b>C. Funding requirements from year two</b>			
A.1 Production equipment purchasing costs			100,000
A.2 Incubator's working capital requirements			469,780
B. Income from beneficiaries' contributions			39,000
<b>Funding requirements</b>			<b>530,780</b>

\* Production equipment purchasing costs: from year two onwards, the incubator will be able to provide its beneficiaries with shared production equipment such as a construction workshop, solar panel assembly facilities, agricultural food processing units etc. A budget of EUR 100,000 per annum has been allocated for this.

\*\* As for technical assistance, it will be slightly less intensive than in year one, so we have reduced the technical support budget by 20% from year two to year five.

From years two to five, the incubator will need around EUR 530,000 to run a year. We propose the project be planned and funded for five years, see section 5.2 below.

The budget provided for operating the SME incubator for the first five years is shown in the table below.

**Table 7 Five-year budget forecast**

Year	Acquiring equipment	Working capital required	Income (EUR)
Year 1	142,025	525,780	9,000
Year 2	100,000	469,780	39,900
Year 3	100,000	469,780	39,900
Year 4	100,000	469,780	39,900
Year 5	100,000	469,780	39,900
<b>Total</b>	<b>542,025</b>	<b>2,404,900</b>	<b>168,600</b>

**Total approximate project funding requirements over five years:** EUR 2,778,325

If we include the option to set up a funding facility of EUR 150,000 a year to offer seed loans or seed grants, we should add EUR 750,000 to the budget for a five-year project, taking the total budget to EUR 3,528,325.

## 6 IMPLEMENTATION

### 6.1 Delegation agreement

To implement this project, we propose that the European Union and GIZ sign a delegation agreement.

### 6.2 Indicative implementation period

We propose the project be planned and funded for five years, to ensure that the incubator has already produced enough results (number of businesses created, number of jobs, businesses surviving), that the team is competent and autonomous thanks to the technical support provided, that it is managed effectively and, in recognising its effectiveness, the incubator gradually attracts more project developers and entrepreneurs, which will increase its income through rents from beneficiaries and post-beneficiaries. If this project succeeds, the Government of Djibouti can then assume funding it completely.

### 6.3 Implementation approach

We propose the incubator project be implemented by being managed indirectly by GIZ. This implementation approach is justified, as this technical partner has a wealth of experience in incubating and developing the private sector in Africa, particularly in strengthening capacity, renewable energy and agriculture. GIZ also has the management and organisational resources required to implement project activities. The services GIZ offers are as follows: consultancy services by national and international experts; short-term consultancy national and/or international experts or by consultancy companies on specific projects; financial contributions by way of local subsidies, financial agreements or grants; supplying equipment (including vehicles), software; training and reinforcing resources. GIZ has more than 17,319 staff worldwide, around 70% of whom are nationals of the partner countries concerned, plus around 730 fixed-term consultants in development, 485 in-house experts and 506 short-term experts.

As far as specific experience in renewable energy is concerned, the SELCO Incubation Centre which GIZ manages aims to incubate businesses involved in bringing electricity to rural areas. This is based

in Bangalore in India and offers the following services: identifying and selecting promising entrepreneurs; 15-45-day training modules aimed at boosting commercial and operational skills; coaching/mentoring and business development services; producing individual business plans; business development services and funding access services. On the agribusiness side, the agribusiness project GIZ manages for small producers supports public and private popularisation services in terms of managerial training for 350,000 small traders in the Ivory Coast, Ghana, Togo, Nigeria and the Cameroun. While training at the Farmer Business School (FBS), they learn more about planning cocoa production and improving agro-food processing and improving production methods to increase yields and earnings through targeted investments. This project also includes facilitating access to funding and technical advice and training, market information and financial services.

We therefore propose that GIZ be put in charge of:

- Recruiting the incubator's staff
- Supervising the incubator's operations
- Financial management
- Technical support

## 7 CONCLUSIONS

Thanks to the economic development potential which Djibouti offers and GIZ's expertise in strengthening the private sector, the SME incubator can support many projects and should achieve a success rate of around 80% when it comes to creating new businesses. Its support facilities, training and facilitating access to finance will make it possible to turn projects into high-performance businesses. This local economic development incubator will make it possible to create 20 innovative businesses a year, creating a hundred jobs a year in Djibouti and contributing to the economic growth of the region.

It is important to note that this pilot incubator is entirely in line with the Government's general strategies and aims as defined, particularly with SCAPE which proposes setting up technical support structures and support services for businesses. The incubator model proposed, a non-profit-making public-private partnership, was also the model MEFI used in the Centre of Excellence and Leadership project in line with the aims of the HCNDPP aimed at public-private cooperation.

The services the incubator proposes are also in line with the Government of Djibouti's priorities and complementarities and synergies have been proposed with other lenders: the transport/logistics/port cluster will capitalise on the EU's TRANSFORM project managed by the ADF and the renewable energy cluster with GIZ. The SME incubator will complement the programmes to boost agricultural production, stock breeding and fisheries implemented by the EU, the African Development Bank and IGAD via its agribusiness cluster.

We have also presented the risks inherent in the project in its context, i.e. access to funds, the incubator's economic sustainability and attracting beneficiaries. Our recommendations to deal with these issues include channels for identifying beneficiaries and producing a feasibility study to discover if there is a critical mass of project developers.

One of the major challenges the incubator project faces if it is to succeed is access to finance. On this subject, our recommendations include operationalising the FGPCD and involving the FDDED, setting up lines of credit or guarantees by international financial institutions like the EIB or the Boost Africa investment programme and also GIZ establishing a funding facility by way of seed grants or loans for the five most promising projects at the end of each incubation year.

And, finally, we have estimated the project's funding requirements at around EUR 2.7 m over a five-year period or EUR 3.5 m if the option to set up a funding facility is selected. We believe that, if the incubator is managed correctly and a monitoring and evaluation mechanism is put in place, and provided synergies are found with all the parties concerned, this project could show the Government

of Djibouti that it is an effective value for money tool in pursuing its aims of reducing unemployment and supporting the private sector. It could then finance it itself over the term of the EU project.



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## APPENDICES

### Appendix 1 Terms of reference

#### Terms of Reference

#### Mission of the EC TPSDE Facility to Djibouti: Recommendations for implementation of an SME incubator centre July/August 2017

##### 1. Background

Contribution to formulate a project from NIP concerning private sector support amounting to € 3.5 m. This project will be managed by GIZ via a delegation agreement.

GIZ has allocated € 4 m for professional training in Djibouti, mainly in the renewable energy sector.

##### 2. Objectives and expected outputs of the EC TPSDE Facility mission

###### Objectives of the assignment:

- Analysis and recommendations for implementation of an incubator centre for small companies.
- Possibility that the centre could also performs professional training for staff of current companies (paying fees)

###### Expected outputs:

- Report with a substantial contribution for formulation of a project document taking into account the Djibouti economic context as well as the EU policy in this field. Including:
  - Advise on objectives, results and activities of the incubator centre.
  - Budgetary annex
  - Advise on how to build synergies with GIZ project

##### 3. Activities

- Preliminary discussion with HoD to confirm scope and content of the report and agree on deadline for the report.
- The scope and agreed deadline will be also communicated to the TPSD Facility and DEVCO C4.
- Discussion with EU Delegation, Authorities (Minister of Finance, Trust Fund authorities, Minister of Budget, Chamber of Commerce), other donors (WB, GIZ), and private banks managers about the feasibility of this project as well as different synergies with other private sector related ones.
- Study of the funding conditions for starting projects and companies (private banks, guarantee fund, etc)
- Debriefing assignment with Delegation and Authorities about conclusions and recommendations.
- Final assignment report

##### 4. Location, dates and duration

- **Location:** Djibouti capital. No trips inside the country are foreseen.
- **Level of effort:** 10 man-days
- **Dates:** 30<sup>th</sup> July 2017 – 4<sup>th</sup> August (Djibouti) and deliver the final report by 31 August.
- **Duration:** 5 man-days (consecutive in same week) in the field and another 5 man-days to deliver the final report

Travel costs and per diems will be paid according to EuropeAid rules.

##### 5. Focal points within the TPSDE Facility and the EUD/Service

Khola Mohamed Ali (project manager)  
Jose Puig (Head of Cooperation)

## 6. Tentative agenda

This agenda will be fine-tuned on the days before the assignment and updated during the assignment itself in coordination with Djibouti EUD:

<b>Sunday 30 July 2017</b>		
<b>10.30</b>	<i>Arrive in Djibouti and be taken to hotel</i>	<i>Hotel</i>
<b>15.00</b>	<i>Meet with Head of Cooperation and project manager</i>	<i>Delegation</i>
<b>Monday 31 July</b>		
<b>09.00</b>	<i>Meeting with Ministry of Finance, SG, DFE and Guarantee Fund executives</i>	<i>Ministry of Finance</i>
<b>11.00</b>	<i>Chamber of Commerce meeting</i>	<i>Chamber of Commerce</i>
<b>15.00</b>	<i>Meeting with representative of GIZ</i>	<i>EU delegation</i>
<b>Tuesday 1 August</b>		
<b>09.00</b>	<i>Meeting with Minister for the Budget</i>	<i>One-stop shop</i>
<b>11.00</b>	<i>Meeting with Central Bank Governor</i>	<i>Central Bank</i>
<b>12.00</b>	<i>Meeting with local bankers</i>	<i>BCIMR</i>
<b>15.00</b>	<i>Meeting with Representative of World Bank</i>	<i>World Bank</i>
<b>Wednesday 2 August</b>		
<b>09.00</b>	<i>Visit one-stop shop</i>	<i>One-stop shop</i>
<b>11.00</b>	<i>Visit work building business incubation centre</i>	<i>On site</i>
<b>15.00</b>	<i>Young Entrepreneurs' Association of Djibouti</i>	<i>On site</i>