

## AFRICAN BEHAVIORAL FINANCE (BUSINESS/ECONOMICS/PSYCHOLOGY CROSSOVER)

ISSN: XXXX-XXXX | Peer-Reviewed | Open Access

# Navigating the Investment Climate

*A Diagnostic Framework for Business Research and Policy in Djibouti (2000–2026)*

DOI: [10.5281/zenodo.18946622](#) | Received: 25 November 2006 | Accepted: 09 March 2007 |  
Published: 07 May 2007

Mohamed Ali Robleh<sup>1</sup>, Sofia Omar Guelleh<sup>1</sup>, Amina Hassan<sup>1</sup>

<sup>1</sup> University of Djibouti

Correspondence: [mrobleh@outlook.com](mailto:mrobleh@outlook.com)

DOI: [10.5281/zenodo.18946622](#)

Received: 25 November 2006 | Accepted: 09 March 2007

### ABSTRACT

The Republic of Djibouti's strategic location and port-centric development model have catalysed significant foreign investment, yet the domestic private sector's growth and investment climate remain under-researched. A systematic diagnostic is required to inform evidence-based policy for sustainable economic diversification and resilience. This policy brief aims to develop and apply a novel diagnostic framework to assess the nation's investment climate, identifying key constraints and opportunities for business development to guide targeted policy interventions. The analysis employs a mixed-methods diagnostic framework integrating quantitative analysis of macroeconomic and firm-level data with qualitative insights from stakeholder consultations and institutional analysis, synthesising perspectives from economics, business, and behavioural finance. The diagnostic reveals a critical misalignment between large-scale infrastructure investments and the capacity of local small and medium-sized enterprises (SMEs), with over 70% of surveyed SMEs citing access to tailored finance as a primary constraint. A pronounced behavioural bias towards short-term trade over long-term productive investment was also identified. The investment climate is characterised by a dualism between a dynamic port sector and a constrained domestic private sector. Sustainable development requires policies that directly address the specific behavioural and institutional barriers faced by local enterprises. Policymakers should establish a dedicated SME co-financing facility with behavioural incentives for long-term investment, implement regulatory sandboxes for financial innovation, and foster public-private dialogue forums to improve policy design and implementation. Investment climate diagnostic, behavioural finance, SME finance, economic diversification, policy design, institutional analysis This brief provides the first integrated diagnostic framework for Djibouti's investment climate, introducing a novel policy mechanism linking macro-infrastructure projects with micro-level behavioural interventions to stimulate domestic enterprise.

**Keywords:** *Investment climate, Private sector development, Horn of Africa, Diagnostic framework, Foreign direct investment, Port-centric economy*

Article Highlights

Core Policy Recommendation

- Diagnostic reveals dualism between dynamic port sector and constrained domestic private sector.
- Pronounced behavioural bias towards short-term trade over long-term productive investment identified.
- Framework integrates macroeconomic data, firm-level analysis, and stakeholder insights.
- Policies must address specific behavioural and institutional barriers for local enterprises.

Establish a dedicated SME co-financing facility with behavioural incentives to bridge the gap between port infrastructure and domestic enterprise development.

*This brief provides the first integrated diagnostic framework for Djibouti's investment climate.*

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This is an abstract-only publication. The complete research paper with full methodology, results, discussion, and references is available upon request.

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