



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 25-May-2022 | Report No: PIDC33421

**BASIC INFORMATION****A. Basic Project Data**

Country Djibouti	Project ID P176772	Parent Project ID (if any)	Project Name Djibouti Affordable Housing Finance Project (P176772)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Jul 11, 2022	Estimated Board Date Oct 03, 2022	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry	Implementing Agency Agence de Réhabilitation Urbaine et du Logement Social (ARULOS).	

**Proposed Development Objective(s)**

The project's development objective is to provide long-term financing solutions for underserved populations (low, medium and informal income populations) to acquire quality accommodations and increase the private sector contribution to the construction supply chain for affordable housing units.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	14.00
<b>Total Financing</b>	14.00
<b>of which IBRD/IDA</b>	14.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	14.00
IDA Credit	14.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

1. **With a total population of less than one million and one of the smallest overall surface areas on the African continent, Djibouti is a small, low-income country, but with a strategic geographic position in the Horn of Africa.** Neighboring landlocked Ethiopia and other countries that do not have the same port infrastructure, its deep-water port allows it to be a hub for trade in the region. In addition, Djibouti's strategic location close to major maritime transportation routes, conflict areas in the Middle East, and piracy activity zones, coupled with its relative political stability, has made it an important location for foreign military bases. As a result, its economy has long relied on port services, logistics, and rents from military bases. The main sectors driving Djibouti's economic growth are transportation, logistics, telecommunications, and banking.
2. **In the two decades prior to the COVID-19 pandemic, Djibouti's economy was growing at a steady and stable rate of about 7 percent per year.** The measures taken to limit the spread of COVID-19 in 2020 have significantly dampened growth, but inflation and the budget deficit have remained at controlled levels (1.8 percent and 2 percent, respectively). Despite this robust economic growth, a big part of Djibouti's population does not benefit or contribute to it. The overall unemployment rate<sup>1</sup> was estimated by the authorities' survey of employment, the informal sector, and household consumption at 39 percent in 2015. The young population—75 percent are younger than 35— seems to suffer as their unemployment is much higher than the overall unemployment rate (76 percent).
3. **Poverty affects one out of six people and is subject to some spatial disparities.** According to the 2019 Poverty Assessment, using data from the 2017 Household Survey, 17 percent of the population lived in extreme poverty, with less than US\$1.90 per day.<sup>2</sup> The regional distribution shows extreme poverty at 10 percent in Djibouti City, 23 percent in Ali Sabieh, 28 percent in Arta, 35 percent in Obock, 51 percent in Dikhil, and 61 percent in Tadjourah.
4. **Inequality remains high, underscoring the fact that growth has not been inclusive.** Djibouti's Gini coefficient was estimated at 0.451 in 2012, decreasing to 0.416 in 2017. The country ranked 71st out of 95 countries with information available on the Gini coefficient in 2015. It is notable that, compared to Djibouti City, the rest of the country faces higher levels of inequality due to marked differences in welfare levels among the main cities and rural areas. With the COVID19

<sup>1</sup> In the national definition, an unemployed is a person of 15 to 54 years of age, who has not worked for 7 days, is available to work, and has been looking for a job during for at least 30 days

<sup>2</sup> In 2011 purchasing parity terms.



pandemic, Djibouti's extreme poverty rate is estimated to have increased to 23–30 percent in 2020 (versus 15 percent in 2019) as households felt the effects of the pandemic through job loss, price shocks, and other factors. The poverty levels affect the population's ability to access food and housing.

## Sectoral and Institutional Context

### *Housing supply and demand*

5. **Djibouti suffers from a structural deficit in the supply of affordable housing<sup>3</sup> for low and medium-income households as well as households who work in the informal sector.** In a context of fast-paced population growth and rising urbanization, housing production in Djibouti remains limited at around 3,000 units per year, of which about 2/3 is attributed to self-construction by households, and 1/3 to developers (both public and private). Private developers currently produce only high-end housing and are not involved in the affordable housing segment, in part due to the lack of incentives on the supply side. Over recent years the investment in new housing, which is critical for the urbanization, has been limited which resulted in an important housing stock deficit estimated at about 30,000 units according to ARULOS. On the demand side, Djibouti's high unemployment (47 percent in 2017) and widespread poverty (17.2 percent below the international poverty rate \$1.9 in 2017), compounded by a dependence on imported goods for basic household items have kept affordable housing at bay from most Djiboutians, especially in view of both current rental and house purchase costs.
6. **Against this backdrop, significant and deliberate efforts have been made by the Government since 2013 to provide affordable housing and increase private sector participation in the sector via its two *Agence de Réhabilitation Urbaine et du Logement Social- ARULOS (ex Fonds de l'Habitat) and Société Immobilière et d'Aménagement Foncier - SIAF (ex Société Immobilière de Djibouti - SID)*.** In particular, the government introduced the Law No. 13/AN/13/7<sup>th</sup> in 2013, which extended a number of benefits to developers of low-income housing, such as tax breaks on interior consumption tax, value-added tax and imports of construction materials, as well as a reduction of taxes on profits from social housing projects. In 2018, the government launched the Zero Slum Program (*Programme Zéro Bidonville* or PZB) —a key national priority pillar—aimed at containing the expansion of precarious and informal housing and improving access to basic urban and social services for families. ARULOS and SIAF produce social and economic housing as well as plots with legal titles. But their production has only reached 20% to 25% of the formal supply. The more ambitious projections of the two Government agencies plan for the construction of 2,964 housing units. Their major constraint remains the absence of financial solutions for marketing these housing units to the target populations, as ARULOS has had to market its production via 20-year rent-to-own agreements, even though the Agency has neither the mandate nor the expertise to manage such outstanding contracts, which also block its cash flow and thus impair its ability to finance new operations.
7. **Notwithstanding Government efforts, the affordable housing sector remains plagued by a number of constraints.** First, the limited availability of both domestically produced building materials and skilled labor have translated into higher building costs (in excess of \$500 for mid-range housing) thereby hindering the sector's competitiveness. Second, cumbersome procedures and high costs of acquiring land hinder housing developments, despite the government's efforts to increase land plots made appropriate for urban developers. In a similar vein, the costs for port and border handling as well as Customs remain high, while procedures can be lengthy, resulting in delays of construction projects. Third, the urban growth pressures in Djibouti have not grown in tandem with land management practices or urban service delivery,

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<sup>3</sup> The government agencies differentiate here between 4 categories of housing: (i) standard housing (ii) economic housing, (iii) social housing and (iv) sub-standard housing (slums).



leading to illegal and unplanned occupation of peripheral lands, with negative implications for infrastructure costs. Fourth, the regulatory framework governing the housing sector is short on transparency and clarity, hampering entrepreneurial decision-making and private sector development. Lastly, access to housing finance remains a critical bottleneck for the majority of the population. In fact, households often face obstacles in obtaining loans ranging from collateral requirements to high interest rates and insufficient saving capacities.

### ***Context on private sector role in affordable housing supply***

8. **The role of the private sector in the housing supply value chain is still underdeveloped<sup>4</sup> in Djibouti, despite the sector's significant potential for employment<sup>5</sup> and as a driving force for economic activity.** The formal production of housing is still estimated at 2/3 by self-construction by households, and 1/3 by developers (public and private). Public sector production has only reached about 25% of the formal supply, and without active participation by the private sector, housing needs (more than 3,000 units per year) will continue to exceed production. Informal production remains the main option available to most low-income households, in the form of self-construction, including on undeveloped land, thus contributing to the expansion or densification of slums.
9. **Private developers currently only produce luxury housing and are not yet involved in affordable housing, in particular because of the lack of effective incentives in this area.** There are a limited number of relatively inexperienced private developers who mainly build low-rise villas using traditional methods. Project costs range from \$455 to \$700 per square meter, primarily from mid to high-end (villas from \$80,000 to \$225,000), although private developers are looking to move down-market (under \$50,000). Villa sales have been strong, although they are slowing down at the high end. Apartment prices per square meter are similar to middle-income villas, between \$500 and \$700 per square meter, but this is not attracting buyers and sales are very low.
10. **The cost of housing production is high (over USD 500 per square meter for mid-range housing) for a multitude of reasons, including the preponderance of imported materials, but also because of the high cost of a labor force that is not readily available and has a low level of productivity. The high costs of construction materials sold locally linked to the impossibility of importing materials at more competitive prices inevitably affect construction costs and leave little room for technical maneuver to lower housing costs.** Only cement, gravel, and sand are produced locally, as the steel is imported in bulk and re-cut locally for the construction sector in Djibouti. Intermediate-type habitats are made of wood and sheet metal that are not produced locally. A very large part of the materials is traditionally imported from neighboring or more distant countries (China, Middle East, India).
11. **In addition to the high cost of inputs, companies face a lack of professional skills that has a direct impact both on the productivity and the quality of the output.** To remedy this, in its new policy emphasizing vocational training, the Djiboutian government provides for the gradual disappearance of technical high schools in favor of more specialized training centers, including the new planned center for professional building trades. There are also two private training centers associated with promoters who train young workers directly on their sites. Given the relatively small number of young people trained each year, it can be assumed that a good number of workers are in fact trained on the job within companies with technical acquisitions of various levels, particularly in terms of quality standards.

### ***Characteristics of the Mortgage Market***

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<sup>4</sup> 974 companies registered as construction companies in 2019 (22% of the private sector) according to *Panorama des entreprises de la Chambre de commerce de Djibouti Edition 2019*.

<sup>5</sup> 9521 workers registered with CNSS in the construction sector in 2019 according to the *Annuaire Statistique Edition 2020 - INSD*



12. **Home loans are of strategic interest to most commercial banks. The size of their home loan portfolio is between 8 and 40 percent.** Despite the virtual absence of an interbank market and the challenges of external refinancing, banks are particularly liquid, and all have large and stable deposits, which in most cases allow them to offer loans with long maturities (15 to 20 years) at interest rates of around 7 percent, compared with an average of 10 percent in Eritrea and Somalia and 12.5 percent in Ethiopia. However, Islamic banks have difficulties in offering housing loans with maturities exceeding 8 years mainly due to three reasons: (1) the challenge related to the compliance with the Islamic Law concerning profits, which makes it difficult to offer long maturities under the risk of too much profit, (2) the difficulty that Islamic banks have to guarantee a fixed rate over a long period without taking financial risks, and (3) difficulties to access long term financing. The people currently benefiting from housing loans are generally civil servants or private sector executives, rather young, and favoring self-construction or purchase via new real estate development programs.
13. **Despite the recent increase in activity, the mortgage market remains small and services mostly high-income households. However most financial institutions wish to significantly expand their mortgages portfolio and their customer base to meet the growing demand and supply of affordable housing.** Outstanding housing loans have increased between 2011 and 2018, reaching nearly FDJ 32 billion at the end of 2018,<sup>6</sup> or US\$170 million<sup>7</sup> compared with just under FDJ 10 billion at the end of 2011. These loans represent 25% of total outstanding bank loans, or just under 10% of bank deposits. During 2018, banks granted nearly 1,000 new housing loans<sup>8</sup> but access remains limited to households with a regular monthly income above US\$1500, so not for economic or social housing. The housing market in Djibouti being a heterogeneous market where few high-income households have access to housing finance and where formal production is essentially provided by the public sector, it therefore requires targeted interventions according to income level to support the sector to go down market. During the preliminary discussions with the banking sector, most banks have indicated their desire to develop their housing loan activities in order to reach more households with lower incomes and with informal incomes.
14. **The partial guarantee fund is an established institution which has benefited from World Bank support and has potential to host a new mortgage window.** As part of its SME financing activities (the support to entrepreneurship project), the FGPCD has granted more than 51 guarantees for a total amount of financing mobilized of nearly \$1.3 million. The initial capitalization of the fund was \$1.12 million (200,000 million Djibouti francs) to which were added \$2.81 million (500,000 million Djibouti francs). Out of these amounts, the FGPCD obtained the approval of the Central Bank to aim for a multiplier effect of 1 to 5 between the volume of capitalization and the amount of guarantees granted to commercial banks. In terms of its governance, the Fund already has a credit committee made up of five people, including external representatives. The FGPCD has also just signed a partnership agreement with the Guarantee Fund of Morocco, a fund that has been supported by the World Bank and that serves as a model of its kind in the framework of affordable housing finance projects.

#### Relationship to CPF

15. **The project is strongly integrated in the CPF priorities, which is fully aligned with the Vision 2035 and the SCAPE's strategic plan of Djibouti, with a focus on private sector solutions in key areas including affordable housing.** The goal is to enhance the country's competitiveness through a new model of growth based on private sector development, as underscored in both the SCD and the country's Vision 2035, which emphasize the need to increase the country's competitiveness, prepare the workforce for new demands, and stimulate and support the local private sector to create

<sup>6</sup> Figures will be updated

<sup>7</sup> Banque Centrale de Djibouti or BCD

<sup>8</sup> BCD survey.



jobs. The project will be implementing the CPF's operational plan to fulfill the described specific following objectives: objective 1: Reduce the cost of doing business; objective 2 : Strengthen vocational training and tertiary education systems adapted to the evolving needs of the economy; objective 3 : Stimulate entrepreneurship and support SME development; objective 6 : Strengthen the resilience of vulnerable groups.

16. **The CPF states that "the WBG will seek to support government efforts to promote private sector development in the housing sector.** [-] While IFC plans to support a pilot PPP operation to help attract prospective housing developers to invest in Djibouti, [-] the WB, in collaboration with IFC's Financial Institutions Group, will intervene upstream through a planned Affordable Housing Project in FY22 to support supply-side interventions (MENA Urban Global Practice) and demand-side actions (MENA Finance Global Practice). On the supply side, WB engagement will build on the ongoing IDA-funded slums upgrading project in social housing to develop the entire housing value chain. On the demand side, the WB will support local financial institutions to provide longer-maturity mortgage instruments. Other bilateral partners intervening in social housing are China, Saudi Arabia, Kuwait, and the Arab Funds. The WBG will focus on the affordable housing segment, which is currently not covered by any other partner."<sup>9</sup>

### C. Proposed Development Objective(s)

The project's development objective is to provide long-term financing solutions for underserved populations (low, medium and informal income populations) to acquire quality accommodations and increase the private sector contribution to the construction supply chain for affordable housing units.

#### Key Results (From PCN)

Expected results could include: 2,500 mortgages taken out with banks and partially guaranteed by the FGPCD, 1500 rent to own contracts converted into mortgages with commercial banks, and 600 self-construction projects funded. In addition, results would also include support to 200 SMEs in the construction value chain and training of 1,000 youth in construction trades. Indicators will be disaggregated by level of income and gender.

**Indicators for component 1 on mortgage guarantees will include:** Number of mortgage credits for affordable housing granted by commercial financial institution to target population, number of mortgage credit guarantees issued by the FGPCD, and number of participating commercial financial institutions signed by the FGPCD for mortgage guarantees.

**Indicators for component 2 on innovative financing of affordable housing will include:** number of rent to own contracts converted in mortgages, number of self construction loans financed, number of financial institutions participating in the self construction programme.

**Indicators for private sector participation in construction supply chain will include:** Number of affordable housing units offered by the provide sector, Number of construction-related SME supported, Number of construction sector dialogue workshops organized.

### D. Concept Description

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<sup>9</sup> World Bank Group Country Partnership Framework for the Republic Of Djibouti for the Period FY22–FY26; August 24, 2021



17. **Component 1: Expanding access to affordable housing finance underserved households through a mortgage guarantee mechanism.** The partial guarantee fund for housing loans will be hosted within the FGPCD, which will offer a new window dedicated to affordable housing loans. The name of FGPD will change in order to reflect its new housing loan guarantee tool. The composition of the FGPCD board will also change to include the Ministry in charge of Housing. Component 1 activities will consist of:
- The set-up of a partial guarantee window for affordable housing loans within the FGPCD. This will be done by capitalizing the Fund, strengthening its institutional capacities, defining the criteria for eligibility, pledging and realization of the guarantee, and signing agreements between the Government, the FGPCD and the financial institutions.
  - The provision of technical support to the FGPCD to support the implementation of the partial guarantee fund. This activity will support the integration of the mortgage guarantee window within the FGPCD.
  - The provision of technical assistance and capacity building to the banking sector to support its down-market strategy.
18. **Component 2: innovative financing of affordable housing.** Component 2 has two activities:
- The financing of subsidized loans for self-construction targeting very low-income households.** These loans would be an extension of the existing loan program of ARULoS (to low-income households whose homes were destroyed by fire) to very low-income households who undertake a self-construction project, even if their homes were not destroyed by fire. Each loan wouldn't exceed DJF 1.000.000. This financing of USD 2 million is meant as a pilot that will demonstrate the attractiveness of this business segment to microfinance institutions (MFIs) and other financial institutions, and that would inspire them to develop more sustainable housing loan programs to low-income household for the construction or the renovation of their homes. To that end, an additional line of financing will be made available, through the Central Bank of Djibouti, to MFIs and other financial institutions that wish to undertake such activities.
  - Transformation of the rent-to-own contracts of low to middle income households into guaranteed mortgage loans.** These contracts, currently managed by ARULoS and SIAF,<sup>10</sup> were created for their low to middle income clients that did not have access to housing loans. But they burden their cash flow at the expense of their real estate development activities. With the development of housing finance as a result of component 1, these clients will be given the possibility to convert their rent-to-own contracts into guaranteed housing loans. A study will determine the minimum compensation to households to incentivize them to switch from the rent-to-own contract to a guaranteed mortgage loan.
19. **Component 3: consolidating and supporting the construction and real estate development industry value chain**  
Proposed activities for Component 3 are aimed to increase such supply, with a focus on the private sector.
- Support for the building trades training center launched by the Ministry of Housing, and managed in collaboration with the Chamber of Commerce and representatives of the private sector, including:** (i) Capacity building for improved linkages and competitiveness of SMEs in the construction sector; (ii) Strengthening technical skills in small construction trades through vocational training and technical apprenticeship systems (iii) Awareness raising and training on norms and standards of the different construction trades and (iv) Grants to finance the professional integration of beneficiaries of the training center in the selected partner companies in the construction value chain

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<sup>10</sup> These contracts have a 3% interest (approximately), a very attractive interest rate for Djibouti. ARULoS manages about 2000 of rent-to-own contracts and SIAF about 500.





- b. **Support for actors in the affordable housing construction sector, including:** (i) Establishing a public-private dialogue (PPD) platform aiming at the professionalization of the actors in the sector, better coordination of actors and harmonization of business certifications and a rating system for access to public contracts; and (ii) Providing technical assistance for priority reforms which support private sector participation in affordable housing supply to foster an integrated approach to policy reforms benefiting the increased provision of affordable housing by the private sector as identified by the PPD, in support of larger reforms tackled by other projects, including but not limited to regulatory reforms of public policies related to the value chain of the sector, as well as reduction of rates and taxes related to the construction of affordable housing with the objective of increasing the tax base.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

The project’s combined environmental and social risk is assessed as substantial. Location for houses potentially financed by component 1 and 2 will be in discrete sites, geographically spread out within cities, and consist of individual land plots to small clusters of houses. Hence, there will be no cumulative social impacts within the area of influence.

Potential impacts will take place in already developed areas where houses financed by components 1 and 2 are/ or will be built. The likely environmental and social impacts that would occur during self-construction, include disturbance to the communities in the area such as noise, dusts, materials stocking, construction waste and access to the sites.

The project also entails risks associated with poor or non-transparent beneficiary selection, occupational health and safety risks associated with the structural integrity and locations of financed existing housing units or units to be built under project financing, properties, risks associated with civil works, such as poor labor conditions, child and forced labor, as well as risks associated with sexual abuse and exploitation and sexual harassment. Moreover, the project may lead to the propagation and exposure to COVID-19 or other communicable diseases as a result of project activities. Therefore, most of impacts and risks are expected to be temporary, predictable and reversible, small-scale and site-specific. The project activities are not expected to be carried out in the sensitive areas. The risks and impacts are expected to medium in magnitude and in spatial extent. There is medium to low probability of serious adverse effects to human health and /or the environment. Mitigatory measures may be designed more readily and more reliable too.

Components 1 and 2 will also not be used for supporting housing development or improvement that will involve large-scale involuntary land acquisition and resettlement that will lead to significant, or that will lead to irreversible adverse significant environmental and social impacts.

FGPCD will develop an Environmental and Social Management System (ESMS). FGPCD will have an environmental and



social (E&S focal point) that will be responsible to supervise the ESMS implementation. The ESMS of FGPCD and commercial will meet the requirements of ESS9 and include clear and transparent eligibility criteria to benefit from subsidized housing savings, screening procedures to appraise the mortgaged properties and ensure they comply with national building codes/ regulations and include a list of excluded activities. The ESMS will also incorporate a grievance mechanism that will accept and address complaints and concerns regarding relevant operations in a manner accessible and understandable for affected parties. FGPCD will also ensure that commercial bank staff are properly trained on the ESMS. FGPCD's ESMS will be prepared prior to appraisal.

ARULOS will prepare an Environmental and Social Management Framework (ESMF) specific to Component 3. The ESMF will include eligibility criteria and selection process of the 200 SMEs in the construction sector that will benefit from project financing, and procedures to conduct the environmental and social due diligence for SMEs? proposed use of the subventions, as well as a negative list. Technical assistance and capacity building components under component 3 that aim to ease the supply-side constraints along the construction sector chain value will be carried out in accordance with terms of reference that are consistent with the ESSs requirements.

Additionally, labor management procedures will be developed to ensure that direct workers (staff from FGPCD and ARULOS), contracted workers (employees of service providers or firms that will be contracted by ARULOS) and the human resource policies and practices of the commercial banks meet the ESS requirements. Finally, ARULOS will prepare a Stakeholder Engagement Plan (SEP) that will highlight how information about the project will be disseminated and grievances managed.

The FGPCD's ESMS, and ARULOS, ESMF, SEP and LMP will be adopted and disclosed prior to appraisal.

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29-May-2022