



# Concept Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

Date Prepared/Updated: 07/12/2022 | Report No: ESRSC02836



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Djibouti	MIDDLE EAST AND NORTH AFRICA	P176772	
Project Name	Djibouti Affordable Housing Finance Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	8/8/2022	12/14/2022
Borrower(s)	Implementing Agency(ies)		
Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry	Agence de Réhabilitation Urbaine et du Logement Social (ARULOS).		

**Proposed Development Objective**

The project's development objective is to provide affordable 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.

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>15.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

Djibouti has an heterogeneous housing market where few households have access to bank credit that would allow them to purchase their homes, and where formal affordable housing production is mainly provided by the public sector. The project thus aims to provide financing solutions for low-income populations to acquire quality long-term

Public Disclosure



accommodations and increase the private sector contribution to the construction supply chain for affordable housing units.

The ultimate goal is to improve the affordable housing ecosystem as a whole for the benefit of the most vulnerable populations, through three targeted interventions:

- 1) Develop access to affordable housing finance for low-income households through a mortgage guarantee mechanism;
- 2) Promote subsidized housing savings products for low-income households so they could afford a mortgage down-payment or purchase construction material for access to decent housing; and
- 3) Consolidate and support SMEs and private sector actors along the construction sector value-chain to increase private sector participation in the affordable housing market.

These aspects are part of a larger effort to increase the private sector role in the demand and supply sides of the affordable housing market, which is complemented outside the scope of the project by a) Parallel support from the IFC to the Government of Djibouti on establishing a pilot Public-Private Partnership scheme, b) parallel support for land development, infrastructure and urban planning and institutional strengthening, which is being undertaken by World Bank urban development projects; and c) the strong strategic dynamic of the Government of Djibouti on affordable housing finance and development, with a view to increase private and financial actors participation to enable demand for and increase supply of quality affordable housing units.

## **D. Environmental and Social Overview**

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The project is a nation-wide program and therefore will ultimately cover all districts and cities in the country, covering rural, peri-urban and urban areas. Gradually the focus of the project will move more towards urban areas as the pressures for affordable housing accessible to low-income and poor families in cities has significantly increased.

The project is designed to improve access to housing finance to low-income and/or informal income earners, or middle-income with financial difficulties (single-parent households) and promote the supply of affordable housing in the country through financial support and technical assistance to SMEs in the sector. It is expected that the project's indirect positive contributions will spearhead increased growth on the supply side of the market. The project will take place nationwide, with most activities concentrated in the capital area.

Project activities include:

Component 1 activities will thus 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.

Component 2 activities will consist of 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 would not exceed DJF 1,000,000, with a maturity of



up to 5 years. The microloans will only finance the construction (or extension, or renovation) of homes that meet minimum environmental and sustainability construction norms.

Component 3: consolidating and supporting the construction and real estate development industry value chain. It is important for the government to continue to support its parallel efforts to develop supply, in order to minimize the risk of inflationary effects on housing prices in Djibouti. This is also why the project proposes specific activities to support the private sector participating in the construction value chain. The study on the housing value chain, conducted by ARULoS as part of the slum upgrading project, has provided preliminary data about the supply-side support that construction and real estate development companies need (barriers and obstacles, and proposed solutions that will allow for greater participation of the private sector).

Djibouti suffers from a structural deficit in the supply of decent housing affordable to low-income households and households who work in the informal sector. In a context of galloping demography and rising urbanization, the Government wishes to decrease this gap. The urbanization rate of 78% is increasing annually by 1.7%. Despite a few isolated projects carried out in recent years, housing conditions remain precarious in several urban areas due to migratory pressure on the cities, the poverty of many city dwellers and problems of access to developed land.

The increased access to mortgage and down-payment subsidized financing under components 1 and 2 would lead to increased affordability for low-income households to purchase or self-construct a home with formal land title and undertake incremental expansions or upgrades of an existing home. Houses will be built individually or in small clusters on the households (own land or government land within the already build-up areas in a district or city).

#### D. 2. Borrower's Institutional Capacity

At this stage, the Partial Fund Guarantee will be housed in the Partial Guarantee Fund for Loans in Djibouti (Fond de Garantie Partielle des Credits de Djibouti – FGPCD), created in 2016 and housed in the Ministry of Finance. The partial guarantee fund is an established institution which has benefited from World Bank support and has potential to host a new mortgage window.

The loans would then be provided by commercial banks in Djibouti. It has not been possible to assess whether the FGPCD nor the commercial banks susceptible to participate in the program have existing environmental and social policies and/or an environmental and social management system (ESMS) or are familiar with the Equator principles. While the assessment of FGPCD's system and procedures and gap-filling measures will be assessed prior to appraisal, the evaluation of the commercial banks' systems and procedures will take place at a later stage – once their participation to the program is confirmed. FGPCD will be directly responsible for implementing the mitigation measures in the ESMS. These requirements will be incorporated into each of the contractual agreements between the FGPCD and the commercial banks, to guarantees are provided

ARULoS will implement the project specifically component 3. ARULoS may be involved in the pre-screening of project beneficiaries or in the implementation of the subsidy and technical program for SMEs in the construction sector. ARULoS is currently implementing the Djibouti Integrated Slum Upgrading Project (P162901), that is being implemented under the World Bank's former safeguard policies. ARULoS has extensive experience in implementing bank-financed projects and has good understanding and capacity in environmental and social (E&S) safeguards management in accordance with Bank safeguards policies, including an environmental and social department with qualified E&S specialists. However, ARULoS does not have experience in the application of the new Environmental and Social Framework (ESF), although several of its E&S staff participated to a virtual ESF training in June 2021.



The project will have to include capacity-building activities to support commercial banks in the development and implementation of ESMS that comply with the ESF and capacity-building activities to strengthen ARULOS' capacity in managing E&S risks.

## II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

Substantial

#### Environmental Risk Rating

Substantial

The environmental risk associated with the project are rated substantial based on available information and the limited knowledge about the general institutional arrangement. The project will target low and middle income household with mortgage-backed down-payment assistance under component 1 and 2 that could present environmental risks if not adequately planned or properly managed. Through the home saving plan and microloan, the project could finance up to 1000 self construction activities that entails general risk and impact associated with civil work ( dust, noise, construction waste generation, OHS and community health and safety issue). These risks and impacts primarily related to the construction phase are likely to be short term, non-irreversible, small-scale, site-specific. Due to number of expected houses under the project, the cumulative impact assessment will be necessary. The other key environmental risk for existing affordable housing units may include health and safety issues linked to inappropriate location , poor design ( ability to withstand natural disaster), the structural safety of the mortgaged properties (e.g. use of hazardous materials, inadequate life and fire safety, weak structural integrity etc.). Houses built in poorly managed areas with limited or no basic services such as water supply and sanitation may lead to health risks and impacts for borrowers or impact property values. Houses in areas which are exposed to natural hazards and/or cause adverse impact on natural environment and/or human health (e.g. locations near pollution sites, inside a floodplain) have a potential to reduce value of the mortgage properties, thus leading to deterioration in the value of the collateral. Such risks will likely be manageable by using eligibility criteria or negative lists and avoid areas not suitable for housing (such as floodplains). Component 3 will mostly involve technical assistance and capacity building that aim to ease supply-side constraints in the construction sector. Although adverse risk and impact are not expected at this stage, these TA will be screened and carried out in accordance with the ESSs requirements.

#### Social Risk Rating

Substantial

The social risks associated with the project is substantial as potential adverse environmental and social risks or impacts will be site-specific, largely reversible, and readily addressed through mitigation measures. While the project's goal is to enhance access to housing finance for those who are traditionally excluded (lower-income and informal households), there is the risk that some eligible beneficiaries, and in particular the vulnerable and disadvantaged, may be excluded from its benefits, because of the absence of clear and transparent eligibility criteria, elite capture, and/or insufficient information and dissemination about the program's existence. The project also entails the risk of providing mortgage access for properties that present community health and safety risks to residents because of improper techniques during construction (e.g. use of hazardous materials, inadequate life and fire safety, weak structural integrity etc.) or inadequate location (e.g. flood areas, inadequate sanitation, proximity to dump site, etc...). The project also entail the potential for impacts associated with land acquisition, restriction of access or land use and involuntary resettlement. The project also finances civil works, either through its financing of SMEs in the



construction sector or through the HSP that can be used to finance self-construction subprojects, therefore the project entails generic social risks associated with civil works, such as community health and safety risks, including traffic safety, noise and disturbances, risks associated with labor conditions and the protection of the labor force, such as child or forced labor, and occupational health and safety. The project has been assessed for SEA/SH risks and rated as low. Finally, the project also entails the transversal risk of exposure and/or propagation of COVID-19 through the implementation of project activities.

## **B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

### **B.1. General Assessment**

#### **ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

##### ***Overview of the relevance of the Standard for the Project:***

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 self-construction activities will likely result in the generation of nuisances such as dust, noise and vibrations. and construction waste . During the self-construction phase, there is the risk of project-related health and safety issue to the workers and the community. Moreover, there is the risk that the construction does not meet basic structural standards and present a safety risk. The microloans will only finance the construction (or extension, or renovation) of homes that meet minimum environmental and sustainability construction norms.

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.

In order to manage the E&S risks highlighted above in component 1 and 2 , FGPCD and financial institutions providing microfinance (ARuLos) will develop and maintain an Environmental and Social Management System (ESMS) in line



with ESS9 so that E&S risk and impacts of FIs subprojects guaranteed by the FGPCD, or microloan from ARuLos can be managed appropriately. FGPCD and ARuLos 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 banks 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 requirements relating to ESSs will be incorporated as environmental and social clauses into each of the contractual agreements between an FGPCD and the subsequent FIs, to which guarantees are provided. 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 implementation of their environmental and social obligations.

The microloans from ARuLos will only finance the self-construction (or extension, or renovation) of homes that meet minimum environmental and sustainability construction norms and relevant ESSs.

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.

**Areas where “Use of Borrower Framework” is being considered:**

The Borrower Framework is not being considered.

**ESS10 Stakeholder Engagement and Information Disclosure**

Key stakeholders under the project include project affected parties (i.e. commercial banks that will participate in the project, households that will enroll in a HSP, 200 SMEs in the construction sector that will benefit from financing and technical assistance under Component 3, ARULOS and FGPCD), other interested parties (i.e. supply chain businesses in the construction sector at large, line ministries involved in the housing sector, community-based organization involved in microfinance, the TVET institutions with links to housing sector). ARULOS will prepare a Stakeholder Engagement Plan (SEP) that will include the way in which the information about the program and the eligibility criteria to access housing finance or participate in the SME program will be disseminated. The SEP will also include



the grievance mechanism to receive any concerns and feedback from the public regarding any aspects of the project, including those implemented by the banks. ARULOS will disclose all ESF instruments on its website. Moreover, FGPCD and ARULOS will disclose the following elements of ESMS on its website.

- Its environmental and social policy statement which describes specific objectives, metrics, and aspirations with regard to its environmental and social performance;
- Its procedures for screening and assessing environmental and social risks and impacts of subprojects that will benefit from the partial guarantee

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**

The project will include direct workers (i.e. staff from ARULOS or FGPCD), contracted workers (employees of firms recruited by ARULOS to conduct the technical assistance and capacity-building activities) as well as staff from commercial banks. While civil servants will abide by their contracts, additional health and safety requirements will be included in the labor management procedures to ensure all ESS 2 standards and requirements are met.

ARULOS’s ESMS will include measures relating to ESS2, to protect workers from injury, illness, or impacts associated with self-construction subproject.

FGPCD’s ESMS will outline the obligations of commercial banks on managing labor risks in terms of their own workforce and the SMEs and individuals who will benefit from the partial guarantee. The ESMS will include that commercial banks that benefit from the partial guarantee require that the contractual agreements between commercial banks and FGPCD will include the obligations of having in place and maintaining appropriate labor management policy and procedures, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms, occupational health and safety, sexual harassment and the explicit prohibition to finance = child and forced labor. These contractual agreements will also include measures relating to OHS, to protect workers from injury, illness, or impacts associated with self-construction subproject. The OHS measures will consider the World Bank Group's General Environment, Health, and Safety Guidelines (EHSGs) and will include the obligation to provide infection prevention and control precautions, adequate supplies of PPE, etc

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

This Standard is relevant given the need to manage temporary construction impact such as dust, noise, construction waste materials, sanitation, and drainage as well as the provision of supporting infrastructure such as electrical services, access to clean water supply.

In keeping with the ESS3 requirements, the ESMF will incorporate appropriate mitigation measures —as well as technically and financially feasible resource efficiency (including the use of solar energy for auto construction) and





pollution prevention measures (waste management procedures). The project activities aren't expected to become significant sources of GHG emissions.

The project TA will support companies along the housing construction value chain to access knowledge and materials to help them gain in effectiveness and efficiency. It should be carried out in accordance with the ESS3 requirements in term of design and the choice of construction methods and materials. It should take into consideration climate resilient modern designs with high energy efficiency.

#### **ESS4 Community Health and Safety**

This ESS is relevant. The project entails the risks of financing access to housing structures that present health and safety risks as per their poor construction management, the poor quality of the material used, or their locations. Community health and safety risks associated with locations include sites in poorly managed areas (i.e. with limited or no basic services such as water supply and sanitation), proximity to high tension cables, dump sites, or sites that are prone to flooding. These risks could also impact property values. The project may lead to the spread of COVID-19 or other communicable diseases. The SEA/HS risks have been assessed and rated as low. For the risks at the level of the individual households using the HSP for a self-construction project or to buy an existing housing, the risks will be managed through the FGPCD and ARULOS ESMS that will trickle down in environmental and social obligations with the commercial banks enshrined in their contractual agreement. For the risks at the level of the SMEs, the risks will be managed through ARULOS' ESMF.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

This ESS is rated as relevant at this concept stage while an exclusion list is further being discussed. The project team is currently weighing whether any activity with land acquisition, restriction of access/land use and involuntary resettlement will be excluded. ARULOS' ESMF (for SME financing) and the commercial banks' ESMS will include processes to identify whether a proposed activity to be financed entail such risk. Unless activities with such impacts are excluded, the preparation of project-specific resettlement plans will be required.

#### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This Standard is not likely to be relevant in most cases. Potential impacts on significant habitats and biodiversity are low given that project activities are in locations that have already been developed and civil works are very small scale. The project will not finance activities that involve conversion or degradation to natural habitat and affect household or community access to living natural resources or habitats providing provisioning or other ecosystem services

#### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

This is not relevant as there are no Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities in Djibouti.



**ESS8 Cultural Heritage**

This Standard is not likely to be relevant in most cases. Due to the small-scale interventions on existing sites, the likelihood of incremental impacts on cultural heritage are unlikely. Chance-find procedure will be included in the ESMS if construction contracts are used.

**ESS9 Financial Intermediaries**

FGPCD and ARULOS will be required to develop and operate an Environmental and Social Management System (ESMS). The ESMS will meet the standards of ESS9, including procedures, institutional capacity and training, management commitment, and reporting. The ESMS would include clear and transparent eligibility criteria to benefit from subsidized housing savings, screening procedures to appraise the health and safety risks of the proposed financed properties and ensure they comply with national building codes/ regulations. The ESMS will also include a List of Excluded Activities (loans not eligible based on associated environmental and social risks and impacts). FGPCD and ARULOS will have an environmental and social (E&S focal point) that will be responsible to supervise the ESMS implementation. Finally, the ESMS must 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. The ESMS will require the inclusion of environmental and social obligations with each commercial bank that benefits from the partial guarantee. The ESMS will be prepared prior to appraisal.

**C. Legal Operational Policies that Apply**

<b>OP 7.50 Projects on International Waterways</b>	No
<b>OP 7.60 Projects in Disputed Areas</b>	No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

A Common Approach is not being considered.

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**

**Actions to be completed prior to Bank Board Approval:**

- ARULOS to prepare an ESMF, SEP, LMP and ESCP.
- FGPCD to prepare an ESMS

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

Public Disclosure



- Implementation of ESF instruments mentioned above (ESMF, SEP, LMP)
- Implementation of FGPCD ESMS
- ARULOS E&S capacity building

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

31-Dec-2022

**IV. CONTACT POINTS**

**World Bank**

Contact:	Benjamin Herzberg	Title:	Senior Private Sector Specialist
----------	-------------------	--------	----------------------------------

Telephone No:	+1-202-473-6778	Email:	bherzberg@worldbank.org
---------------	-----------------	--------	-------------------------

Contact:	Sateh Chafic El-Arnaout	Title:	Lead Urban Development Specialist
----------	-------------------------	--------	-----------------------------------

Telephone No:	5369+3161 / 27-12-7423161	Email:	sarnaout@worldbank.org
---------------	---------------------------	--------	------------------------

Contact:	Marie Christine Apedo Amah	Title:	Economist
----------	----------------------------	--------	-----------

Telephone No:	+1-202-820-0157	Email:	dapedoamah@worldbank.org
---------------	-----------------	--------	--------------------------

**Borrower/Client/Recipient**

Borrower: Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry

**Implementing Agency(ies)**

Implementing Agency: Agence de Réhabilitation Urbaine et du Logement Social (ARULOS).

**V. FOR MORE INFORMATION CONTACT**

The World Bank  
 1818 H Street, NW  
 Washington, D.C. 20433  
 Telephone: (202) 473-1000  
 Web: <http://www.worldbank.org/projects>

**VI. APPROVAL**

Task Team Leader(s): Sateh Chafic El-Arnaout, Benjamin Herzberg, Marie Christine Apedo Amah

Practice Manager (ENR/Social) Lia Carol Sieghart Recommended on 09-Jun-2022 at 09:56:59 GMT-04:00

Public Disclosure



Safeguards Advisor ESSA

Aki Tsuda (SAESSA) Cleared on 12-Jul-2022 at 13:23:50 GMT-04:00