

## Djibouti



### Overview

Djibouti is a small country in the Horn of Africa with a significant proportion of its population living in extreme poverty (23 percent).<sup>1</sup> Most of the population live in urban areas (mainly Djibouti City) since less than 0.04 percent of the land is arable. As such, the country relies heavily on imports of food, exposing it to perennial food shortages. According to the World Bank, Djibouti is highly exposed to external shocks such as spikes in food and fuel prices as well as droughts and floods. With very little arable land and almost no natural resources (save for salt deposits) the economy is mainly dependent on external financing and foreign direct investments. The country is strategically positioned along a major sea trade route, where the Red Sea meets the Gulf Aden, and is Ethiopia's main import-export port. Due to its strategic position, the country generates more than 80 percent of its revenue from renting military bases and providing port services. In effect, the Djibouti economy is mainly driven by transportation and logistics services.

Djibouti has a weak manufacturing sector and limited agricultural output due to its harsh weather conditions. Consequently, the country's economy is driven by trade and services. According to the World Bank Economic Outlook 2018, lower investments coupled with weak export yields will lead to a decline in Djibouti's projected GDP growth from 7 percent in 2017 to 6.5 percent in 2018. In addition, inflation is projected to remain at 3.5 percent, due to rising oil prices as well as housing and services-driven demand.<sup>2</sup>

Although the country is starved of natural resources including arable land, it has recorded impressive growth rates in the past 16 years evidenced by an increase in average per capita GDP per annum of 3.1 percent over the period 2001-2017. Importantly, the country's economic growth has been remarkable, recording more than 6.5 percent on average per year over 2014 to 2017. According to the African Development Bank (AfDB), the country's economic growth has exceeded five percent in recent years, reaching approximately 6.8 percent in 2017 with a projected growth of 6.9 percent in 2018 and 2019. The growth is accounted for by growing investments in infrastructure such as ports intended to serve land-locked Ethiopia<sup>3</sup> and the completion of the electric railway linking Djibouti to Ethiopia.

Djibouti has a population of 865 267 with a population growth rate of 2.16 percent.<sup>4</sup> Most of the population lives in urban areas (78 percent of the total

### KEY FIGURES

Main urban centres	Djibouti
Exchange rate: 1 US\$ = [a] 16 Aug 2018	180 Djiboutian franc
PPP Exchange rate (Local currency/PPP\$) 1 Djiboutian franc =	98.10
Inflation 2016 [b]   Inflation 2017 [b]   Inflation 2018	3.0   2.70   n/a
Population 2017 [b]   Urban population size [b]	865 267   673 178
Population growth rate 2015 [b]   Urbanisation rate [b]	2.16%   1.67%
Percentage of the total population below National Poverty Line 2015 [b]	23.00%
Unemployment rate [b]	40.00%
GDP (Current US\$) 2017 [c]   GDP growth rate annual 2017 [c]	US\$1 845 million   4.09%
GDP per capita (Current US\$) 2017 [c]	US\$1 930
GNI per capita (Current US\$) [d]	US\$1 908
Gini co-efficient	27.60
HDI global ranking 2015 [e]   HD country index score 2015 [e]	172   0.473
Is there a deeds registry?	Yes
Number of residential properties that have a title deed	n/a
Lending interest rate [b]	11.60%
Mortgage interest rate   Mortgage term (years)	7%   20
Downpayment	20%
Mortgage book as a percentage of the GDP	n/a
Estimated number of mortgages	n/a
Price to Rent Ratio in City Centre [f]   Outside City Centre [f]	3.84   3.79
Gross Rental Yield in City Centre [f]   Outside City Centre [f]	26.05%   26.39%
Construction as a % of GDP	n/a
What is the cost of standard 50kg bag of cement? [g]	US\$7.00
What is the price of the cheapest, newly built house by a formal developer or contractor? (Local currency) [g]	13 734 000 Djiboutian franc
What is the price of the cheapest, newly built house by a formal developer or contractor? (US\$) [g]	US\$76 300
What is the size of this house (m <sup>2</sup> )? [g]	180 m <sup>2</sup>
What is the average rental price for this unit (US\$)?	n/a
What is the minimum stand or plot size for residential property? [g]	300m <sup>2</sup>
Ease of Doing Business Rank [d]	154
Number of procedures to register property [d]	6
Time to register property (days) [d]	39 days
Cost to register property (as % of property value) [d]	12.70%

NB: Figures are for 2018 unless stated otherwise.

- [a] Coinmill.com
- [b] Central Intelligence Agency (CIA) World Factbook
- [c] World Bank World Development Indicators
- [d] World Bank Doing Business
- [e] UNDP Human Development Reports
- [f] Numbeo
- [g] CAHF Yearbook 2017

population). This is mainly explained by the extremely hot weather, which is not conducive for farming. The official languages are French and Arabic.

The government of Djibouti has made affordable housing a major priority issue and called on local and international partners to support social housing. The country's President has set up a foundation, the Ismail Omar Guelleh (IOG) Foundation, which has attracted huge support from international players largely drawn from China and Arabia. The completion of the Djibouti Ethiopia Railway and Djibouti Free Trade Area are among the major projects undertaken by the country. The country's exchange rate has remained stable over time, the GDP has continued on an impressive growth path, and the inflation rate is among the lowest in the region. There have been some attempts to enhance infrastructure development; such an example is the Djibouti Free Trade Area, which is considered the biggest investment of its kind in Africa and is expected to lead to the entry of more expatriates in the country, pushing up the demand for housing in Djibouti. With such developments and the fact that the country enjoys a stable political environment, housing developers may find Djibouti a great place to invest.

### Access to finance

Access to finance in Djibouti is a major challenge for big and micro, small and medium enterprises. This significantly curtails the ability of individuals and businesses to secure funding or become self-employed. The country has no active capital markets or fixed income markets and, for many years, the three major credit

rating agencies in the world did not provide sovereign credit rating for the country. However, recent intervention by the World Bank will see 6 000 potential women and youth entrepreneurs funded, as part of the country's efforts aimed at promoting entrepreneurship as a driver of growth and employment creation. The country received US\$15 million in funding from the International Development Association (IDA), the World Bank's fund for the poorest countries.<sup>5</sup> The credit will fund the project aimed at equipping new entrepreneurs with a combination of training and access to finance, the consolidation and expansion of key business services enabling ease of access, and the identification of entrepreneurs and market linkages. Dr Asad Alam, World Bank Country Director for Egypt, Yemen and Djibouti, argues that the project's main objective is to harness the transformative potential of women and young entrepreneurs. In addition, the Director observes that "...Creating new economic opportunities for them will help boost innovation, promote job creation, and raise living standards for all in Djibouti".

As affordability of housing in Djibouti is a major problem owing to low disposable incomes, the IDA intervention will hopefully build financial capacity of loan beneficiaries to acquire decent housing.

Banking in Djibouti is regulated by the Central Bank of Djibouti (Banque Centrale de Djibouti), which is in charge of monetary policy. As at December 2017, Djibouti had a total of 11 banks, comprising eight conventional commercial banks and three Islamic banks. According to the World Bank, Djibouti has improved access to credit information through the adoption of legal provision for the creation of a new credit information system.<sup>6</sup> Nevertheless, the country is ranked 184 out of 190 countries on the access to credit in the country. This World Bank ranking highlights the challenges housing investors and homeowners face in getting credit. One of the biggest challenges to accessing finance has to do with high poverty levels and an unemployment rate which stands at nearly 40 percent.<sup>7</sup>

### Affordability

Djibouti's population is predominantly urban (78 percent)<sup>8</sup> and, because of high urbanisation rates, neither the private nor the public sectors are able to meet the growing housing needs. Most households which aspire to own private properties have difficulties finding affordable decent houses. Affordability for both rental and mortgages is an uphill task for the majority of Djibouti's population in view of high unemployment and poverty rates. The average after-tax salary in Djibouti is approximately DJF 272 340 (US\$1 534) and a one-bedroom house rent in the Djibouti City centre ranges from DJF 130 000 to DJF 200 000 (US\$732 to US\$1 126).<sup>9</sup> A three-bedroom apartment in the city centre ranges between DJF 200 000 and DJF 220 000 (US\$1 126 to US\$1 239) and US\$1 070 in the city suburbs. These figures suggest that over 50 percent of Djibouti residents' salaries go into house rent every month. Importantly, it costs approximately DJF 120 000 (US\$676) per square metre to buy a house near or in the Djibouti City centre.

In sum, decent housing is outside the reach of most Djibouti residents and may explain why the government has called for local and international help to intervene with social housing. Djibouti suburbs are littered with make-shift houses with no supply of basic amenities. Perhaps with the upcoming major developments, coupled with current sustained economic growth, employment rates will increase and also lead to an influx of more expatriates who can afford housing units being developed.

### Housing supply

Djibouti is faced with a huge imbalance between the supply and demand for housing, with demand exceeding supply. For instance, the country's housing deficit is estimated at 10 000 homes with new housing needs estimated at 2 500 units annually.<sup>10</sup> Cherif Quizani observes that "...The pace of building has proved largely insufficient to absorb the deficit with just 1 587 homes delivered between 2012 and 2017, of which 261 were built by the private sector". This may be a major challenge for the Djibouti government which has a lean budget of US\$699.8 million as per the 2017 estimate.<sup>11</sup> The implication of this budgetary constraint is that the government's ability to finance social housing is severely constrained. The President of Djibouti has made housing a national priority. The IOG Foundation called on international development partners and the private sector to support financing housing for the most vulnerable, the insolvent and the disabled.<sup>12</sup> The President's appeal for social housing support has received impressive local and international support. For instance, China Merchants Group has committed to

build 1 000 two-bedroom housing units as part of corporate social responsibility.<sup>13</sup> The project (dubbed Project Nassib), located 10kms from Djibouti City, was launched on 4 July 2018 and will entail the construction of two-bedroom houses equipped with all the necessary amenities.

The government intends to intensify the production of affordable housing and plots of land with infrastructure for the middle and low income groups. In 2016, the government launched a programme to build 2 500 apartments with funds from Arab donors (Saudi Fund for Development, Arab Fund for Economic and Social Development). The Société Immobilière de Djibouti (SID) was also launched in November 2016. This project covers 100 hectares representing more than 5 000 plots of various sizes. As at July 2018, 450 houses under the project Cite Nassib had been completed and 500 others were under construction. To help public developers and also encourage private real estate developers, the government planned to establish a Housing Bank in December 2016. However, as at the date of this publication, there is no evidence as to whether the bank has been set up or not. Although the National Investment Promotion Agency (NIPA) estimates that annual housing needs in the capital city are 5 000 units, this demand is yet to be met by current home developers.

### Property markets

The Republic of Djibouti, in contrast to other African countries, has a considerable advantage in terms of property development. Indeed, by law, any vacant land without an owner belongs to the state. All (or almost) non-urbanised areas belong to the state. Public Land Management is operated by the Department of Land and Property Titles Conservation of the Ministry of Budget.

The potential of the land market is huge, and the government plans to accelerate the land regularisation process for the benefit of the people who still hold the temporary occupation licence. Once the regularisation procedure is complete, the owner will get a land registration certificate (CIF) to enable them to develop the land or housing within a legal framework while following the rules of urban planning. In addition, the CIF legally opens the door to obtaining mortgage credit from local banks. According to the World Bank Doing Business 2018, Djibouti is ranked 168 out of 189 countries in the field of registering property. Indeed, the process of obtaining the final title is costly and sometimes too long for individuals.

There are three different ways to proceed with land registration: for temporary occupation certificate holders, the regularisation of land is done through the Housing Fund with the payment of an advance of DJF 20 000 (US\$113), four percent of the sale value for name change, 10 percent of the sale value for the registration and DJF 16 000 (US\$90) for stamp duty. Individuals buying land directly from the Department of Land and Property Titles Conservation of the Ministry of Budget pay four percent of the sales value for the name change, 10 percent for the registration and DJF 16 000 (US\$90) for stamp duty. Finally, the regularisation of land obtained through the sale from one person to another individual is done through a notary by paying the same ratios (four percent and 10 percent plus DJF 16 000 stamps) and by adding notarial fees ranging from DJF 100 000 to DJF 250 000 (US\$565-US\$1 413). In addition, if the purchaser is buying his first piece of land, he must pay transfer duty which corresponds to nine percent of the sale value (seven percent tax and two percent change of name). If the purchaser is not a first-time buyer, the rate increased from nine percent to 12 percent (10 percent tax and two percent change of name). Any investor or private developer can obtain an allocation of land once its real estate project is approved by the Minister Delegate for Housing.

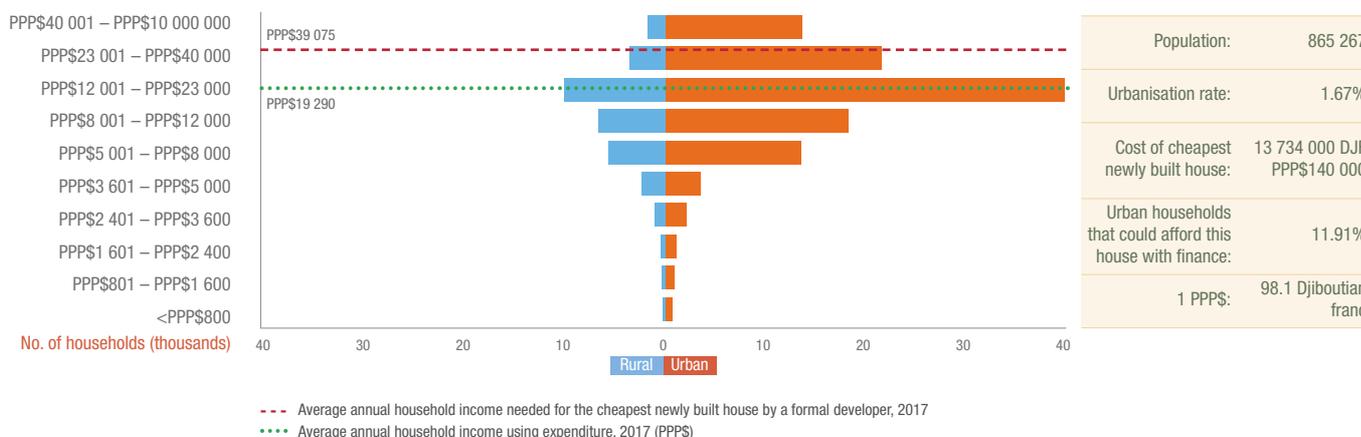
### Policy and regulation

In 2011, within the Ministry of Housing, Urban Development and Environment, a State Secretary for Housing was set up to promote the housing sector and find lasting solutions for the deficit in housing. Given its importance within the institutional platform, the department was renamed in 2016 as the Delegate Ministry for Housing.

From 2011, the department has developed and implemented a necessary regulatory and policy framework to develop this sector. In addition to several strategic studies undertaken to promote the housing sector, the Delegate Ministry for Housing has implemented a series of legislative and regulatory texts to encourage potential investors and private developers to invest in the real estate

## DJIBOUTI

## Annual income profile for rural and urban households based on consumption (PPP\$)



Source <https://www.cgidd.com/>

sector. The public operators have seen a redefinition of their roles to adapt their status (real estate development, land management, financial institution), to improve their response and management capacity, and to refocus their activities on clear and well-defined missions.

A National Housing Strategy is yet to be finalised with the assistance of the World Bank, which will entail a major investment programme to develop the real estate sector in Djibouti through the implementation of four key areas: 1) increasing the supply of affordable plots of land for the majority of households; 2) developing the production of affordable housing units; 3) stimulating the housing rehabilitation programme in precarious existing neighbourhoods; and 4) developing further banking mechanisms and microfinance systems for low income groups. The investment amount required for the realisation of the housing sector's development strategy is estimated at more than DJF 52 billion (US\$294 million).

In 2015, the government launched a new project targeting low income people called the Self Construction Program. This project entailed providing lower income households with a plot of land of 90m<sup>2</sup> and raw materials to build their homes. The assistance was to be brought by the Housing Funds Operator and repayment was not supposed to exceed DJF 5 000 (US\$28) over 20 to 25 years. However, this initiative is yet to bear fruit.

Djibouti has undertaken both policy and regulatory reforms that have been commended by the World Bank. For instance, according to the World Bank Ease of Doing Business (2018), the National Laboratory of Djibouti has significantly reduced the cost of concrete inspections and recorded five reforms, the highest number among all fragile states. In addition, the report documents that the country "... reduced the fees associated with starting a business and construction inspections, implemented decennial liability for all professionals involved in construction projects, increased the transparency of its land administration system and established a new credit information system." As a result of these major reforms, the World Bank has listed Djibouti among the economies that showed the most notable improvement in Doing Business in 2018.

Djibouti has made major improvements to protect minority investors in 2016/17 by passing a new law, No. 191/AN/1777, which modifies the Code of Commerce and takes huge steps in mitigating the risk of prejudicial conflicts of interest in companies. Company directors are now required to give a detailed explanation to the board of directors of any conflict of interest they may have on a proposed transaction. If they decide to proceed with the transaction, the terms of the transaction and the extent of the conflict of interest must be included in the annual report. This may have major implications for companies investing in the housing sector of Djibouti. However, such disclosures are helpful, especially for foreigners dealing with locals with investments in property.

### Opportunities

Djibouti presents a great opportunity for developers of low cost housing, especially foreign investors who have sufficient capital to develop such houses. Considering that average rental and mortgage monthly repayment rates take up more than 50 percent of average salaries, new and existing developers will need to provide better terms. Perhaps such developers may consider partnering with the few commercial and Islamic banks such as Salaam Bank to finance mortgages under Islamic banking terms.

There is growing demand for decent, relatively low cost housing by the sizeable number of people in the expatriate community. This is further supported by the fact that rent constitutes the single largest household expenditure per month in the country, as discussed under the property markets section. In addition to the housing demand by the expatriate community, NIPA has noted the rising local demand for housing as more than 500 000 people live in Djibouti City and its suburbs. NIPA estimates that annual housing needs in the capital city are 5 000 units.

Importantly, the country's economic growth has remained one of the highest in the region (above 6.5 percent for over five years) with very low inflation rates. The country has a stable political climate and enhanced security. The government has significantly reduced the cost of concrete inspections and the cost of starting a new housing business. With a stable currency pegged to the US dollar and no restrictions on repatriation of profits from the country, housing investors are presented with sizable opportunities in Djibouti.

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