

## **Environmental and Social Management Report**

### **Vision Banco Habitat for Humanity's Improved Housing Program for Low-Income Families in Urban Paraguay (PR-L1057)**

#### **I. Project Description**

1. The proposed Project is a partial credit guarantee of up to US\$3 million from the OMJ facility to Vision Banco S.A.E.C.A. ("Vision Banco"), a leading commercial bank in Paraguay specialized in microfinance, enabling it to borrow from a local bank and leverage the financial resources, in local currency, for a new housing credit line. Vision Banco will extend the resources to urban clients who will undertake home improvements or expansion in the framework of a pilot partnership with Habitat for Humanity ("Habitat"). Vision Banco and Habitat have come together to develop the first specialized financial product to serve the needs of urban populations that currently do not have access to formal credit for housing construction, improvements or expansion in Paraguay. The total cost of the initiative is US\$ 6 million.
2. Vision Banco was established in 1992 as a non-bank financial institution with the purpose of offering financial services to salaried workers in Paraguay. Vision Banco has grown to become the country's largest micro finance organization. Vision Banco has identified Corporate Social Responsibility (CSR) as a core aspect of its institution and has incorporated the concept of CSR into all its operations. According to Vision Banco, CSR goes beyond compliance and means taking responsibility for all impacts related to its activities. Vision Banco is convinced of the added value of CSR and sees it as a tool to create value for all stakeholders involved. Based in this belief, Vision Banco has developed a CSR approach towards each of its stakeholders: clients, employees, suppliers, shareholders, society at large and the environment. The results of its CSR program are published annually in a CSR Report.
3. Habitat for Humanity International, Inc. is a not-for-profit organization with headquarters in Georgia U.S.A. that aims to transform the housing conditions of families by mobilizing resources and promoting national and international partnership. Habitat for Humanity Paraguay was officially established in 1998 and is working to make a positive impact on the availability of adequate, affordable housing in Paraguay. Habitat aims to build durable, healthy and sustainable houses at the lowest possible cost by paying specific attention to sustainable building, energy efficiency, safe and healthy housing and capacity building among the projects' beneficiaries.
4. Under this scheme, Vision Banco will conduct the initial screening and selection of beneficiaries based on pre-defined eligibility criteria. Subsequently, Vision Banco will evaluate the debt repayment capacity of these pre-selected beneficiaries. In case of a credit approval, Vision Banco will inform Habitat which will assign an architect to design the proposed construction and to discuss the costs involved with the beneficiary. In parallel,

Habitat will provide the first of two financial literacy workshops to the beneficiaries. As soon as the technical proposal is in order and the beneficiary has participated in the first workshop, Vision Banco will sign the loan contract with the beneficiary and authorize the disbursement of resources to Habitat, which will be in charge of starting the construction work within 30 days. Loans are estimated to be of up to G\$ 34 million (nearly US\$ 7,150) with a tenor up to 5 years against an interest rate of 16%.

To be eligible, clients must: (i) have been working a minimum of three years at their current job; (ii) be part of a family with at least one family member depending on the client's income; (iii) own real estate; (iv) have a monthly family income of no more than 4 minimum wages; and (v) be in need of the house.

## **II. Project Status and Compliance**

6. Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a financial intermediary project, this operation was not categorized.
7. The Environmental and Social Strategy (ESS) of the Project was presented to and approved by the Environmental and Social Review (ESR) Committee on June 23<sup>rd</sup> 2010.

## **III. Environmental and Social Impacts and Risks**

### *Positive direct impacts*

8. The loans to beneficiaries are expected to have a positive impact on the living conditions of individual borrowers and their families by improving the quality of housing.
9. As Vision Banco and Habitat intend to promote 'sustainable housing' best practices reducing the use of construction materials as well as long-term maintenance and energy costs for the beneficiaries, the Project could have a catalyzing effect on its peers in the sector and on market demand.

### *Potential negative direct impacts*

10. Depending on the magnitude of construction works, home improvement activities will generate some minor negative environmental impacts, particularly from waste disposal, dust, and general nuisances from construction activities. There are some health and safety risks associated with constructions works as well risks of structural defects if improvements are not designed adequately or materials are not from a certain quality. However, these impacts are expected to be minimal and small in scale given the low amount of each individual loan provided by Vision Banco (up to USD\$7,150). Most impacts and risks will be mitigated through technical assistance from Habitat in the construction phase. Technical specialists from Habitat will monitor progress and on-site conditions (health and safety, construction conditions) of all construction projects through site visits and advise beneficiaries on construction best practices. Habitat also provides different brochures to inform beneficiaries on health and safety issues in the construction phase.

11. There is minor social risk involved in this project but could potentially relate to child labor and discriminatory practices in the selection of potential beneficiaries. These risks will be mitigated respectively by an Exclusion List that Vision Banco applies to its operations and fair eligibility criteria for the operation.

#### Indirect, reputational Risks

12. As of December 2009, Vision Banco's assets reached US\$307.5 million and its loan portfolio had a value of US\$223.4 million, from which 75% corresponds to microcredit and medium and small enterprises loans, 22% consumer loans, 2% housing, and 1% other loans. Vision Banco's average loan size is US\$3,500, and its arrears rate is under 3%. Based on this overview, no indirect risk is expected from other financing activities.
13. Vision Banco has 54 offices spread out over Paraguay and a total workforce of 607 of which 45% is female. To the IDB's knowledge, Vision Banco has no environmental, social, health and safety (ESHS) or liabilities related to its facilities, working practices or operations, in the present or in the past 5 years.

#### **IV. Environmental and Social Management**

14. As part of its CSR program, Vision Banco has included components of environmental risk management in its credit procedure. Firstly, it applies an Exclusion List defining those activities that are prohibited under national law and those that are not in compliance with IFC's Environmental and Social Policies. This list mentions the same excluded activities as the IDB List of Excluded Activities for NSG operations. Secondly, Vision Banco organizes workshops on environmental issues for its clients in order to raise awareness and build capacity. Vision Banco is currently also working on a categorization model for environmental and social risk that will be implemented soon.
15. Habitat is an experienced organization with a strong track record in housing projects and it addresses the environmental and social impacts of its projects at different stages. When purchasing construction materials, Habitat ensures that these are considered to be of first class quality based on standards of the Instituto Nacional de Tecnología y Normalización of Paraguay in terms of sustainability and environmental quality. During the construction phase of a project, Habitat applies the standards of the national standards of the Reglamento General de la Construcción stipulating proper construction conditions like adequate ventilation and lighting, correct storing of materials and safe use of machinery. Furthermore, when monitoring a construction project, Habitat's Technical Professionals instruct beneficiaries on construction best practices.

#### **V. Environmental and Social Requirements**

16. The Bank requires that Vision Banco complies with all applicable Paraguayan environmental, social, health and safety and labor regulatory requirements.
17. The Bank requires that Vision Banco applies the IDB List of Excluded Activities for NSG operations to its screening criteria. As Vision Banco's own Exclusion List of prohibited

activities covers the same provisions and standards as the Bank's List, Vision Banco can use its own Exclusion List.

18. The Bank requires Vision Banco to ensure that its clients sign off on their compliance with the environmental and social standards of Habitat during the construction phase.
19. Vision Banco will assign a person within the organization who will carry responsibility for (i) integrating IDB's List of Excluded Activities in Vision Banco's screening criteria; (ii) defining and incorporating an environmental and social compliance clause in the loan contracts for clients to sign; and (iii) yearly reporting to the IDB on the environmental and social risk profile of its loan portfolio.
20. The assigned person is required to attend an Environmental & Social Risk Management Course organized by the IDB or any other relevant training course that is recognized by the IDB.
21. During the life of the PCG, Vision Banco will prepare and submit an annual Environmental and Social Compliance Report in form and content acceptable to the Bank. Vision Banco's Informe Social y Ambiental will serve as the basis for this reporting effort in order to avoid double work. If additional information is required, the IDB will ask Vision Banco to provide this.