

PROJECT ABSTRACT

Overview

According to the the Peruvian Ministry of Housing, Construction and Sanitation (*Ministerio de Vivienda, Construcción y Saneamiento*) (“MVCS”), adequate housing finance is necessary to help reduce the housing deficit in Peru, which stands at around 1.8 million dwellings. Despite the efforts of the financial system to expand this sector and the sustained growth of the total mortgage portfolio, there is still a severe deficiency in market penetration. Mortgage loans in Peru represent only 5.1% of GDP, lower than in other countries in the region, such as Brazil (6.8%), Mexico (9.1%), Chile (18.7%) and Panama (25.0%). Given the unsatisfied demand for adequate housing and the current low banking penetration levels, it is clear that the housing sector, and particularly mortgage financing needs to be expanded considerably. For the Peruvian government, housing financing is a strategic priority. Fondo MIVIVIENDA S.A. (“FMV”) is the main entity through which the government of Peru executes its social housing policy. It is aimed at helping low to middle income families reach home-ownership through different products, depending on their needs and income levels. FMV acts as a wholesale financial intermediary that funds the housing sector through commercial Financial Institutions (FIs).

Project Description

The proposed Sustainable Social Housing Partnership seeks to contribute to the reduction of the housing gap in Peru. IDB will join efforts with FMV to support Peruvian low and middle income families in the acquisition of their primary dwellings. In addition, it is expected that a portion of the financing will be targeted toward the funding of a green housing portfolio, which constitutes a new concept in the mortgage market in Peru. IDB will provide FMV with a medium-term loan to support its residential mortgage lending activities under Peru’s social housing policy.

The transaction consists of a senior unsecured financing (the “Financing”) of up to US\$150 million which is expected to be structured as follows: i) an up to US\$100 million medium-term IDB senior A-Loan to be funded by IDB; and ii) a co-loan of up to US\$50 million to be funded from the China Co-Financing Fund for Latin America and the Caribbean (the “China-Cofinancing Fund”), administered by IDB and subject to the same terms and conditions of the A Loan.

Expected Development Impacts and Additionality

The expected development impacts and additionality of this project are: (i) expansion of the mortgage market in the low and middle income segments by providing FMV adequate funding to increase its leverage and expand its portfolio more efficiently; (ii) promotion of green building solutions through specific eligibility criteria and/or certification tool; (iii) emissions reductions through the expansion of green housing buildings; (iv) resource mobilization through the participation of the China Co-Financing Fund for Latin America and the Caribbean; and (v) technical cooperation to support the implementation of best practices in the effort to develop the green mortgage market in Peru.

Project Contribution to IDB Objectives

Consistent with GCI-9 Strategy. This Financing is an effective channel for pursuing the priorities of the Ninth General Capital Increase of the IDB (“GCI-9”) as it contributes to the objective of reduction of poverty and inequality by increasing access to housing for low to

middle-income segments as a way to promote social inclusion and development. It is also aligned with GCI-9 objectives as it contributes to the strengthening of institutions for improved credit markets and financial services.

Consistency with IDB's Country Strategy. The proposed Partnership is consistent with IDB's Country Strategy for Peru 2012-2016, in terms of providing support to help narrow the housing gap through financial schemes to encourage greater mortgage lending.

Consistency with SCF Vision Targets. The Financing is consistent with SCF's strategy to improve the living standards for 20 million people by 2015, and SCF's beyondBanking¹ goals to promote access to finance through its access2People pillar that promotes access to housing.

¹ beyondBanking is SCF's Strategy within the Structured and Corporate Finance Department. It supports the provision of products dedicated to improve access to finance for businesses and individuals and foster a more inclusive and sustainable banking industry in LAC; for further reference, please visit: www.iadb.org/beyondbanking).