

PROJECT ABSTRACT
PERU
FONDO MIVIVIENDA S.A. SUSTAINABLE SOCIAL HOUSING PARTNERSHIP
(PE-L1161)

Overview

According to the Peruvian *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.¹ Low income families are more likely affected by the housing gap: 26% of heads of household² living in poor housing conditions are unemployed or not part of the workforce and 46.6% of them have only received primary education or have not finished basic schooling.³ Despite the efforts of the financial system to expand the mortgage sector and the sustained growth of the total mortgage portfolio, there is still a severe deficiency in market penetration. In addition, most of the housing expansion projects are not targeted to working-class Peruvians. 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, addressing the housing gap 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 families⁴ reach home-ownership through different products, depending on their needs and income levels.

Project Description

The objective of the proposed Sustainable Social Housing Finance Partnership (the “Partnership”) is to expand housing finance for low and middle-income families in Peru through an alliance with FMV. The Partnership will provide adequate funding for FMV to expand access to mortgage finance and banking penetration for the underserved population in Peru, and will contribute to the reduction of the housing deficit in the country. This partnership will also serve as a breakthrough in the green mortgage segment⁵ in Peru, which constitutes a new concept in the local mortgage market.

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\$120 million medium-term Inter-American Development Bank (“IDB”) senior A-Loan to be funded by IDB; and ii) as part of IDB’s mobilization efforts, the loan will be complemented with a co-loan of up to US\$30 million to be funded by the China Co-Financing Fund for Latin America and the Caribbean (the “China Co-Financing Fund”), administered by IDB (the “Co-Loan” and together with the A-Loan, the “Loan”). The Co-Loan will be subject to the same terms and conditions of the A-Loan.

¹ Perú: *Mapa del Déficit Habitacional a Nivel Distrital*; Instituto Nacional de Estadística e Informática (“INEI”). December 2009.

² Heads of household are the main leaders of their households and decision makers when purchasing a new property or when starting any kind of improvement in the housing.

³ Ibid, p. 395.

⁴ Refer to Section 1.16 *Beneficiaries* for the definition of income levels.

⁵ Green buildings are buildings which exhibit superior efficiency in energy, water and building material use.

Expected Development Impact

The proposed Partnership is expected to have considerable developmental benefits, such as: (i) expansion of FMV's mortgage portfolio in the low and middle income segments from US\$1.6 billion in 2013 to US\$7.0 billion in 2020 in Peru, thereby supporting to reduce the existing housing gap⁶; (ii) at least 20% of the Loan proceeds will be channeled to green mortgages thereby promoting the creation of green building solutions; and (iii) emissions reductions through the expansion of green buildings.

IDB's Additionality

IDB's financial additionality stems from (i) offering FMV adequate medium term funding enabling FMV to diversify its financing sources; and (ii) IDB's resource mobilization through the participation of the China Co-Financing Fund increasing funds available for FMV to continue growing its social housing portfolio.

IDB's non-financial additionality will result from providing FMV with specific tools to establish a green mortgage market in Peru, in particular through a Technical Cooperation ("TC"). The team has taken advantage of the recent experiences in other countries in the region in sustainable housing solutions, most notably through the IDB ECOCASA Project in Mexico.

Project Contribution to IDB Objectives

The Project is aligned with the strategic priorities of the IDB as follows:

- a) It serves the purposes 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.
- b) It 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.
- c) The Financing is consistent with Structured and Corporate Finance Department's ("SCF") strategy to improve the living standards for 20 million people by 2015, and SCF's beyondBanking⁷ goals to promote access to finance through its access2People pillar that promotes access to housing.

⁶ This portfolio expansion will be supported through various funding alternatives, which include this Loan, as well as FMV's own resources, loans from other financial institutions and capital markets.

⁷ beyondBanking is SCF's Strategy to support 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).