

Environmental and Social Strategy (ESS)
Banco General Housing Finance Partnership

I Overview

- 1.1. IDB will establish a Partnership with BG that aims to expand access to housing finance for families that are in the low and middle income brackets and that benefit from the Preferential Mortgage Interest Rate Law in Panama (PIL). IDB will provide a senior unsecured Loan (the “Loan”) of up to US\$100 million divided in: i) a US\$50 million A Loan with an up to 7-year tenor and an up to 1-year grace period; and ii) a total targeted US\$50 million participation of B Lenders and the China Co-Financing Fund. The overall aim is to provide mortgages under the PIL for houses which do not exceed US\$120,000¹ and thus reducing the housing finance gap in the country.
- 1.2. Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a financial intermediary project, this operation is not categorized. Based on the limited nature of the likely associated environmental and social impacts and risks, it is rated low risk (FI-3).

II Environmental and Social Risks and Impacts

- 2.1. Based upon the nature of this operation, there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental analysis is required. From a previous and similar loan with BG (PN-L1035), IDB is aware that BG relies on the regulatory framework in Panama for the assessment of environmental and social impacts and risks. For all newly constructed properties BG requires an Occupation Permit before a mortgage is granted. BG has developed an Environmental and Social Risk Management System under guidance from DEG and other multilaterals. This system will be evaluated as part of the due diligence process.
- 2.2. The ESHS risks and impacts associated with providing mortgages for new and existing houses are mainly related the construction and to the location of each individual property. The key potential project-related ESHS risks and impacts are those typically associated with the location of the property, such as:
 - Properties located on land which may have contamination such as soil and ground water contamination, which may present a human health risk;
 - Properties that are located on sites of archeological, cultural or historical value;
 - Properties located in areas where current or previous use/activities may result or have resulted in localized environmental problems (i.e. landfills or waste disposal areas, industrial facilities, highways, ports, airports and high voltage transmission lines or substations, etc.). Properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires.
 - Properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.)
 - Properties located in areas with particular social issues such as the displacement of illegal settlements occupying the property or land on which the property is located;
- 2.3. Key social considerations include potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, gender, religion, age, cultural heritage, etc.

¹ According to the PIL definition.

2.4 These risks are likely to be minimal to moderate and will be assessed during due diligence.

III Strategy for the Environmental and Social Due Diligence

3.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, the Bank will assess BG's capacity for environmental and social management, analyzing ESHS and labor impacts and risks associated with its mortgage lending business and effectiveness of BG's ESMS in managing and monitoring these potential risks. To that end, the environmental and social due-diligence will specifically include the components listed below:

- (a) An assessment of BG's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Panama.
- (b) An assessment of BG's existing ESMS, the sufficiency of the current credit appraisal, approval, and monitoring procedures (checklists, exclusion list) to manage environmental and social liabilities, risks and/or impacts of residential mortgage loans.
- (c) An assessment of potential reputational risks associated with BG's involvement in projects, companies or activities considered unacceptable to the IDB.
- (d) An evaluation, if appropriate, of BG's status and compliance with requirements of any existing IDB loan and other multilateral development facilities and programs.
- (e) An evaluation to ensure an appropriate inventory of present environmental and health and safety liabilities in BG's portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them.
- (f) An evaluation of BG's compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- (g) An assessment of the adequacy of BG's procedures to ensure that the mortgage finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, ethnicity, gender, religion, age, cultural heritage, etc.).

3.2 The results of the due diligence will be presented in an Environmental and Social Management Report, summarized in the Loan Proposal and included in the conditions of the Loan Agreement.

