

Environmental and Social Management Report

I. Project Description and Background

- 1.1 The proposed Financing seeks to support Panamanian households in the acquisition of primary dwellings. Thus supporting the closing of the housing deficit in the country and promoting social development and improving living conditions of families. IDB will join efforts with Banco General (“BG”), the largest mortgage financier in the country, and will provide the bank with a medium term Loan to support its residential mortgage lending activities, which are longer-term in nature, while maintaining an adequate asset liability management and a healthy and sound balance sheet position. The proposed operation gives IDB the opportunity to fulfill its developmental role by improving access to financing for residential mortgage lending for low to middle income segments.
- 1.2 With the proposed Financing, IDB seeks to further develop its relationship with BG and continue supporting the provision of housing financing for Panamanians. The Project consists of an up to US\$100 million senior unsecured loan divided in: i) an up to US\$50 million IDB Senior A-Loan with an up to 7-year tenor and an up to 1-year grace period; ii) a potential participation of up to US\$25 million from B Lenders; and iii) a US\$25 million Co-Loan from the China Co-Financing Fund. Loan proceeds will be used to originate mortgage loans for houses whose price don’t exceed US\$80,000.
- 1.3 IDB has provided BG finance for mortgage, SME, and green-line on-lending since 2008. As part of these loans, BG has developed and implemented a comprehensive Environmental and Social Management System, including procedures for evaluating environmental and social issues in mortgages.

II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
- 2.2 BG has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations.
- 2.3 Based on the fact that sub-loans are focused on mortgage lending for new construction, this operation is classified as low risk.

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with BG’s portfolio

- 3.1 The potential key environmental, social, health and safety, and labor issues and risks associated with this Facility are mainly those related to the individual characteristics of the mortgage loans. Direct environmental, social, health and safety (ESHS) risks are anticipated to be limited. In addition to the fact that the type of new construction mortgaged

undergoes both an internal and external appraisal process that identifies areas of environmental and social risk. Under this loan, BG is financing only mortgages for new construction. Under the proposed transaction, BG will not provide mortgages for existing homes.

- 3.2 The ESHS risks and impacts could include, for example: (i) developments located on land which may have contamination such as soil and ground water contamination, which may present a human health risk; (ii) properties that are located on sites of archeological, cultural or historical value; (iii) 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.). (iv); properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires, (v) properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.)

IV. Environmental and Social Management

A. BG's Management of Environmental and Social Risks in Mortgage Lending

- 4.1 BG has received financing from a variety of International Financial Institutions (IFI). In 2008, BG developed its first ESMS, and has made continual improvements since then, initiated internally as well as at the request of IFIs. The wider ESMS and its components are described in their operating manual for dealing with environmental and social issues in credit lending. Under a previous loan with IDB, BG was requested to develop a mortgage specific checklist for residential and commercial financing, which it did with the support of external consultants (EcoConsulta – whose main partners also work for INCAE). That checklist remains in effect.
- 4.2 Specific to the application of E&S procedures for new construction under this loan, BG undertakes a detailed evaluation of the construction developer and the associated environmental and social impacts for the site in question. BG retains copies of the EIA, categorizes the associated risk, and evaluates particular trigger issues such as resettlement, existing soil contamination, and possible impacts on surrounding biodiversity. Specific to the developer, BG evaluates environmental management plans, security plans, occupational health and safety, and emergency procedures.

V. Environmental and Social Requirements

- 5.1 For this operation which involves mortgage lending of up to US\$80,000. The Bank will require BG as part of the Loan Agreement to:
- (i) Comply with all applicable Panamanian environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing of houses to ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the

Fundamental Principles of the Rights at Work, and (d) BG's environmental and social procedures specific to mortgage lending;

- (ii) Apply BG's existing mortgage checklist for housing operations financed;
- (iii) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the mortgage portfolio, and any particular risk issues identified during screening and mitigation measures agreed with clients.

5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing management of impacts and risks.

PROJECT ABSTRACT

Overview

Official data from the Housing Ministry of Panama (“MIVI”) reported an estimated housing gap of 113,184 units in 2012. According to the Superintendence of Banks of Panama (“SBP”), 40% of the total housing deficit is in the population with monthly household income below US\$300; 33% in the population with household income range of US\$300 to US\$1000 per month; and 27% in the population with monthly household income above US\$1,000¹. For the Panamanian government, housing financing is a strategic priority. The Government Strategic Plan 2010-2014 (“GSP”) includes the priority of access to housing to all Panamanians. To reach this objective, the government has implemented and continued different programs including the Preferential Mortgage Interest Rate Law (the “PIL”) for primary home buyers.

The PIL establishes a system of preferential rates that reduce the monthly interest payment for home buyers who purchase new homes which prices do not exceed US\$120,000. This interest rate write-down continues for the first 15 years of the loan and is divided in tranches based on the value of the home. The preferential interest rate program has made new developer built housing affordable to generations of working class salaried households.

Project Description

The proposed Housing Financing Partnership seeks to contribute to the reduction of the housing gap in Panama. IDB will join efforts with Banco General (“BG”) to support Panamanian working class families in the acquisition of their primary dwellings. BG is a well experienced mortgage financier in the country, and IDB will provide the bank with a medium-term loan to support its residential mortgage lending activities under Panama’s PIL.

The transaction consists of a senior unsecured financing (the “Financing”) of up to US\$100 million which is expected to be structured as follows: i) an up to US\$50 million medium-term IDB senior A-Loan to be funded by IDB; ii) a potential participation of up to US\$25 million from B Lenders to be funded by the sale of participations in the IDB Loan to B Lenders; and iii) a co-loan of up to US\$25 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. BG shall use the proceeds of the Financing for the purpose of originating residential mortgage loans that benefit from the PIL with a maximum house market value of US\$80,000.

Expected Development Impact

The proposed Financing will have high developmental impact and additionality as it will support families in the acquisition of their primary residencies, which might be the largest and most important investment families make in a lifetime. Thus, the primary development benefit of the transaction will be supporting the reduction of the housing gap and the improvement of living conditions of working class families. This project gives IDB the opportunity to fulfill its developmental role as by joining efforts with BG, the Bank will reach a larger number of families that will be able to own a home, complementing government efforts to close the housing

¹ SBS – March 2013.

gap. Additionally, IDB will support a player that promotes responsible financing in the housing market, indirectly contributing to the healthy development of the mortgage market.

IDB Financial Additionality. The characteristics of the transaction will add financial value as IDB will provide BG with funding tenors that are scarce in the market and the additional funding needed to grow its housing financing activities while maintaining a sound balance sheet and helping to manage liquidity risk. Moreover, IDB Loan is expected to be complemented by participation of approximately US\$25 million from B lenders and a US\$25 million Co-Loan from the China Co-Financing Fund.

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 in a small and vulnerable country. 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. Even though the housing sector is not directly mentioned in IDB’s country strategy with Panama 2010-2014 (GN-2596), the proposed Financing presents an opportunity to support Panamanian households in the acquisition of adequate housing solutions with access to basic services such as water and sanitation, electricity, and roads, which are sectors included in the current Country Strategy; thus complementing the efforts that are being implemented within its scope. In this sense, the project will support Panama government’s efforts to facilitate access to housing. Supporting the acquisition of adequate housing solutions through residential mortgage lending is expected to have positive effects on quality of life of Panamanian families and support economic growth in the country. Additionally, the GSP also recognizes the Financial Services Sector as a high priority sector and important contributor to economic growth.

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 the *beyondBanking*² strategy, particularly its *accessBanking* pillar that promotes financial inclusion in LAC through different lines of intervention: *access2Capital Markets*, *access2People*, *access2Services*, *access2SMEs*, and *access2Trade*³. The project is part of the *access2People* lines that focus on promoting more inclusive financing for households in LAC by supporting Financial Intermediaries in their housing strategies and lending activities.

² www.iadb.org/beyondbanking.

³ <http://www.iadb.org/en/structured-and-corporate-finance/financial-markets,7649.html>

