PUBLIC
SIMULTANEOUS DISTRIBUTION

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

FINANCING PROGRAM FOR SUSTAINABLE, INCLUSIVE, LOW-INCOME HOUSING (ES-L1165)

FOURTH INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) TO FACILITATE ACCESS TO BUSINESS AND HOUSING LOANS (ES-O0009)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Leticia Riquelme, Project Team Leader (IFD/CMF); Nathan Nadramija, Alternate Project Team Leader (IFD/CMF); María Paloma Silva, Alternate Project Team Leader (CSD/HUD); Diego Herrera, Karina Azar, Sandra Avalos, Daniel Fonseca, Jaime Sarmiento, Aurea Fuentes, and Cecilia Bernedo (IFD/CMF); Karla María Meléndez (CSD/CCS); Nidia Hidalgo (SCL/GDI); Esteban de Dobrzynski (LEG/SGO); Carlos Carpizo Riva Palacio (VPC/FMP), Sofia del Castillo, Jorge Guerrero, and Juan José Cervantes (CSD/HUD); Juan Parodi and Juan Fonseca (INO/SMC); and Jan Eskildsen (INO/FLI).

CONTENTS

Annexes	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

Links

Required

1. Monitoring and evaluation plan
2. Environmental and social review summary

Optional

1. Program economic analysis
2. Programmatic approach of the CCLIP
3. Market share of the Low-income Housing Fund
4. Relevant portfolio balances, 2021-2023
5. Housing deficit in El Salvador
6. Sector supply and demand analysis
7. Climate change and sustainability annex
8. Green home features of the new housing units
9. Low-income Housing Fund credit program requirements and conditions
10. CCLIP liaison agency
11. Natural disaster risk analysis for new and existing homes
12. Program Operating Regulations
13. Bibliography
14. Vertical logic - causal chain of development challenges and IDB intervention
15. Coordination between housing agencies in El Salvador
16. The Bank’s experience in the housing sector

ABBREVIATIONS

BANDESAL	Banco de Desarrollo de la República de El Salvador (Development Bank of the Republic of El Salvador)
CABEI	Central American Bank for Economic Integration
CCLIP	Conditional Credit Line for Investment Projects
EDGE	Excellence in Design for Greater Efficiencies (certification)
EHPM	Encuesta de Hogares de Propósitos Múltiples (Multipurpose Household Survey)
ESMS	Environmental and social management system
FONAVIPO	Fondo Nacional para la Vivienda Popular (National Popular Housing Fund)
FSV	Fondo Social para la Vivienda (Low-income Housing Fund)
GDP	Gross domestic product
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	Multilateral development banks
MIVI	Ministry of Housing
MSMEs	Micro-, small, and medium-sized enterprises
SCI	Department of Trade and Investment
SMMV	Salarios mínimos mensuales vigentes (current monthly minimum wage)
SOFR	Secured Overnight Financing Rate

PROGRAM SUMMARY
EL SALVADOR
FINANCING PROGRAM FOR SUSTAINABLE, INCLUSIVE, LOW-INCOME HOUSING
(ES-L1165)
FOURTH INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) TO FACILITATE ACCESS TO BUSINESS AND HOUSING LOANS
(ES-O0009)

Financial Terms and Conditions				
Borrower and executing agency			**Flexible Financing Facility**[b]	
Low-income Housing Fund (FSV)			**Amortization period:**	25 years
Guarantor:			**Disbursement period:**	5 years
Republic of El Salvador			**Grace period:**	5.5 years[c]
Source	**Amount (US$)**	**Percentage**	**Interest rate:**	SOFR-based
			Credit fee:	[d]
IDB (Ordinary Capital):[a]	50,000,000	100	**Inspection and supervision fee:**	[d]
Total:	50,000,000	100	**Weighted average life:**	15.25 years
			Approval currency:	U.S. dollar

Program at a Glance
Program objective/description: The program's general objective is to help narrow the housing deficit by providing mortgage loans for the purchase of low-income housing. Its specific development objectives are to: (i) expand access to mortgage credit for home purchases by underserved population groups; and (ii) foster the adoption of sustainable housing.
Special contractual clauses precedent to first disbursement of the loan: The first disbursement of the loan proceeds will be subject to the borrower's approval of the program Operating Regulations and their entry into effect, to the Bank's satisfaction, in accordance with the terms previously approved by the Bank (paragraph 3.6). For socioenvironmental contractual clauses, see Annex B of the environmental and social review summary.
Exceptions to Bank policies: The Republic of El Salvador will be the guarantor of the borrower's financial obligations under the loan, including fees and interest payments and local counterpart funding. A partial waiver is requested of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), with respect to execution obligations under the program. This exception is justified on the basis of Article 11 of the Basic Law on Public Financial Administration (Decree 516/1995), which stipulates that obligations relating to loan execution fall outside the legal mandate of the authorities of the Republic of El Salvador (paragraph 3.7).

Strategic Alignment							
Objectives:[e]	O1 ☒			O2 ☒		O3 ☐	
Operational Focus Areas:[e]	OF1 ☐	OF2-G ☒ OF2-D ☒	OF3 ☒	OF4 ☐	OF5 ☐	OF6 ☒	OF7 ☐

[a] Pursuant to Document AB-2990, the disbursement of Bank loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, all of which will be counted from the approval date of the loan by the Bank's Board of Executive Directors (paragraph 2.2).

[b] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[c] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

[d] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[e] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[f] OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); and OF7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 **Background of the Conditional Credit Line for Investment Projects (CCLIP) (optional link 2).** This program is the fourth and final individual operation under the CCLIP to Facilitate Access to Business and Housing Loans (ES-O0009). The CCLIP's objective is to promote productive activities and social welfare in El Salvador by providing access to credit in the business and housing sectors. It will be implemented according to Multisector Modality II, pursuant to the criteria specified in the Proposed Amendments to the CCLIP (GN-2246-13). The liaison agency will be El Salvador's Department of Trade and Investment (optional link 10). This US$400 million credit line was approved in July 2020, together with its first operation, First Program of Access to Lending for the Recovery of Micro, Small, and Medium-sized Enterprises (MSMEs) (5083/OC-ES for US$200 million). The latter was successfully implemented by the Banco de Desarrollo de El Salvador (BANDESAL), supporting business recovery during and after the COVID-19 crisis. The second operation, the Low-income Housing Finance Program (5352/OC-ES), was approved in September 2021 for US$50 million and is being executed by the Low-income Housing Fund (FSV). Disbursement of the final US$25 million is expected this year, subject to effective fulfillment of the financing criteria (specifically, targets for lending to women and disaster risk mitigation analyses) (optional link 11). The third operation was the Access to Credit Program for Micro, Small, and Medium-sized Enterprises (5733/OC-ES), which was approved in January 2023 for US$100 million. The latter is being executed by BANDESAL to a satisfactory standard, with 30% of the loan proceeds disbursed to date and a final disbursement date in 2027.

1.2 **Macroeconomic context.** El Salvador is an upper-middle income country with modest rates of growth. The economy is dominated by the tertiary sector, which accounts for 60.2% of value added, and is largely dependent on international remittances (which account for approximately 25% of GDP).[1] Economic growth averaged 2.4% between 2010 and 2022.[2] In 2020, the COVID-19 pandemic severely impacted the Salvadoran economy, leading to a 7.9% contraction in GDP. However, economic activity quickly recovered in 2021, with GDP growth of 11.9%. Despite the recent improvement in economic growth (3.5% in 2023),[3] the country remains below the regional average of the Central American countries, the Dominican Republic, and Panama, which was 4.2% that same year.[4] For 2024, the International Monetary Fund (IMF) projects growth of 3%,[5] while local authorities estimate a range of between 3.0% and 3.5%. In addition, inflation in 2024 is expected to close the year at 2%, according to the IMF.

1.3 **Housing issues in Latin America and the Caribbean.** It is estimated that 45% of households in Latin America and the Caribbean lack access to decent housing

---

1 Optional link 13 (1).

2 Ibid.

3 Ibid.

4 Optional link 13 (2).

5 Ibid.

(IDB, 2022). This deficit stems from a combination of factors, and closing it will require investment of around 7.8% of GDP each year, in addition to implementing a set of policies to address the deficit, including subsidies for low-income population groups, self-build programs, low-income mortgage loans, rental accommodation, effective regulation of land use, and titling programs (IDB, 2012).

1.4 **Housing sector in El Salvador.** The housing sector is of strategic significance due to its high social impact and potentially large contribution to economic recovery. Access to decent housing supports the attainment of 14 of the 17 Sustainable Development Goals. It is also estimated that the sector can contribute as much as 16% of GDP in emerging economies and create up to six jobs (directly and indirectly) for each housing unit built (Mexican National Housing Council (CONAVI), 2021). The Ministry of Housing (MIVI) is the main government organization responsible for formulating and executing housing policies and programs in El Salvador, designing national housing plans, managing financial resources for low-income housing programs, and establishing construction standards. Its goal is to reduce the housing deficit to a minimum, and to this end it coordinates with the Property Legalization Institute, which is responsible for regularizing land ownership and issuing property titles to squatter families. To complement its functions, the MIVI coordinates the FSV (paragraph 1.21) and the National Popular Housing Fund (FONAVIPO), which are public entities providing financing and contributions for the low-income housing segment. FONAVIPO provides contributions and loans to low-income families for home improvements, while the FSV focuses on mortgages. Meanwhile, BANDESAL and Banco Hipotecario are attached to the Ministry of Finance and provide construction loans for housing development projects and mortgages for micro- and small enterprises, respectively.

1.5 **Housing deficit.** According to the 2023 Multipurpose Household Survey (EHPM), El Salvador has a population of just over 6 million,[6] with the number of households totaling 2,019,583. Analysis of the housing stock shows that 28% of households exhibit overcrowding (i.e., homes with more than three people per bedroom), while 50.7% suffer from qualitative deficits (i.e., physical and structural inadequacies), primarily with respect to basic services, water supply, and flooring. The lack of adequate housing—ideally both climate-resilient and of a sustainable nature to mitigate emissions—forces many families to live in small, shared spaces; this not only undermines the quality of life, health, and well-being of their members, but also exposes them to shocks and reduces their income-earning potential. The quantitative deficit[7] in urban areas stands at 333,468 housing units. Within this, 57% is concentrated among people earning less than the current monthly minimum wage (SMMV), who will require subsidy-based housing solutions in order to buy a house. A further 41% earn between 2 and 4 SMMVs. These individuals can secure financing for homes costing less than US$40,000, but require appropriate interest rates and flexible payment periods to avoid pressure on their payment capacity.[8]

---

6 Of these, 75% live in urban areas.

7 Overcrowded homes, rooms in houses or tenements, or makeshift dwellings.

8 Optional link 5.

Based on these figures, it is estimated that approximately US$4 billion will be required to serve this segment, equivalent to around 12% of national GDP.

1.6 With respect to demand, the reasons for the housing deficit are similar to those elsewhere in Latin America and the Caribbean:[9] (i) rapid urban population growth and high population densities, which have also led to increased house prices. Three quarters of the population live in urban areas, while the country also has the highest population density in Central America;[10] (ii) limited purchasing power, with 70% of individuals having incomes of less than 1 SMMV (79% in the case of women). Average monthly household income is US$700, a level that makes it difficult to secure quality housing; (iii) informality and fluctuating incomes, with 65% of the population working in the informal sector, thus limiting access to formal credit; (iv) a lack of programs serving the population earning less than 1 SMMV; and (v) low access to mortgage credit (5.4% of GDP). Supply-side issues are as follows: (i) nonexistent supply of sustainable low-income housing; (ii) minimal supply of adequate low-income housing (only 18% of housing has been made available to families with incomes below US$1,500);[11] and (iii) an absence of enabling factors such as spatial or urban planning and site development for low-income housing (IDB, 2022).

1.7 These problems have led to the proliferation of informal settlements with precarious living conditions and a lack of adequate basic services. This has a negative impact on the health and well-being of residents. The scarcity of suitable and accessible housing also acts as a constraint on economic and social development, as families' capacity to improve their economic and educational situation is limited by their lack of access to safe, stable housing. Alongside high construction costs for low-income housing, the lack of urban planning and the housing development market's focus on medium-high income segments have also lead to a minimal supply of low-income housing and inefficiency in the use of land and resources, thus aggravating inequality and socioeconomic segregation. These difficulties combine to hinder progress toward sustainable and equitable development, affecting both the general welfare of the population and economic growth in the country.

1.8 **Weak financial sector contribution to minimizing the housing deficit.** According to data from the World Bank's most recent Global Findex report,[12] total access to mortgage credit in El Salvador is 5.4%, below the average of 7% for the region as a whole. Moreover, in analyzing the lowest income segments, only 2.4% of the poorest 40% of the population receives mortgage loans, which is relatively low compared with the medium- and low-income country group (3.6%).

1.9 According to data from the Financial System Superintendency, only 30% of mortgage loans have been issued to low- and medium-income individuals, even though they account for more than 90% of the population.[13] A report by the

---

[9] Multipurpose Household Survey (EHPM) 2023.

[10] Optional link 13 (25).

[11] Optional link 13 (23).

[12] Optional link 13 (5).

[13] Optional link 13 (6).

Central Bank (Banco Central de Reserva, 2023) shows that financial institutions target their mortgage products to high-income segments due to their lower perceived risk and higher payment capacity.[14] Lower-income groups generally lack credit histories and collateral, and this limits their access to mortgage loans. The situation is intensified in the case of subsegments such as women, individuals employed in the informal sector (who earn 25% less on average), recipients of remittances, and people with disabilities, thus increasing inequality in housing access. Commercial banks are also reluctant to provide long-term credit due to limited access to capital markets (private debt is equivalent to 3% of GDP), high transaction costs due to balance sheet mismatches (current account deposits stand at 57% of GDP (World Bank, 2024)), and issues surrounding the efficiency of property rights and legal certainty (IMF, 2014).

1.10 The FSV is a key actor in El Salvador's mortgage sector, particularly at the medium- and low-income levels. In 2023, it issued more than 8,000 loans totaling US$183 million, making it the main intermediary for low-income mortgages. Most FSV loans are focused on individuals earning up to 2.5 SMMVs, and women account for approximately 52% of its total loan portfolio for segments earning up to 4 SMMVs. The FSV accounts for 63% of the total number of mortgage loans issued by the financial sector. In terms of portfolio value, however, it accounts for only 33% (US$1.421 billion), as the average FSV loan is US$22,034 (versus US$74,826 in the case of commercial banks), reflecting the FSV's focus on households earning up to 4 SMMVs.[15] With regard to the type of housing, portfolio balances also show that 67% of loans are for existing homes, with new units accounting for the rest. Purchases worth up to US$20,000 account for 42% of loans, while 57% are for homes priced between US$20,000 and US$40,000. Portfolio balances at the end of 2023 showed that 75% of loans were to households with incomes of up to 2.5 SMMVs, while 25% were to households earning between 2.5 and 4 SMMVs (paragraph 1.21).

1.11 **Impact of climate change on the housing sector.** In El Salvador, areas classified as risk zones cover 88.7% of the national territory, accounting for 95.4% of the population. This makes the country one of the most vulnerable in the world according to the National Risk and Vulnerability Status Report.[16] Climate scenarios indicate that temperatures may rise by up to 1.5°C by 2041. Rainfall is expected to increase in intensity, leading to more frequent flooding and landslides that will have a particularly large impact on the population with poor-quality housing, as well as on densely populated urban settlements. Other population groups will be affected by water stress, making access to resilient, well-located housing a pressing need.

1.12 The housing sector also contributes to climate change through the production of greenhouse gases. According to the country's Biennial Update Report on Climate Change 2018, the sector generates approximately 2.7% of greenhouse gas emissions; however, this figure has risen fivefold over the last 40 years, with 30%

---

[14] Optional link 13 (7).

[15] Optional links 3 and 4.

[16] Precipitation, tropical storms, hurricanes, and droughts that lead to recurrent flooding, landslides, water pollution, water stress, and damage to housing, infrastructure, and food production, among other things.

of the increase resulting from electricity usage. The location of housing also affects transportation habits and the demand for infrastructure, with a direct impact on greenhouse gas emissions.[17] The report "Creating Markets for Climate Business" shows how targeted, strategic financing has led to a significant increase in the adoption of sustainable technologies and practices in different sectors. In El Salvador, however, there is still no targeted source of credit for sustainable low-income housing on either the supply or demand sides, underlining the need for institutional strengthening in the housing ecosystem in order to raise awareness and promote sustainable practices.

1.13 As part of the Paris Agreement, El Salvador submitted its updated Nationally Determined Contribution in 2021. Its mitigation targets include annual reductions in the country's greenhouse gas emissions, while adaptation targets include developing adaptable and resilient cities. The National Climate Change Plan (2022-2026) also includes a component to integrate sustainability into spatial planning.

1.14 **Gender and the mortgage market.** Women face a series of gaps that limit their employability, wages, and access to collateral as compared with men.[18] According to World Bank data,[19] only 29% of women in El Salvador have a bank account, versus 45% of men. In addition, 60.87% of households report having a male head of household, whereas 39.13% have women heads of household. One of the main reasons for low levels of credit access among women is access to collateral (women are less likely to have assets registered in their name), as well as high financing costs, which are reflected in more limited access to financing. Ensuring that women have access to credit and property ownership is linked to the following outcomes: (i) more productive environments (Morrison et al.); (ii) greater savings capacity and a lower likelihood of economic shocks (Seguino et al.); (iii) improved security and stability;[20] (iv) positive externalities in women's negotiation capacities (IDB, 2021); and (v) a greater likelihood that women will set up businesses (World Bank, 2008). At the same time, increased lending to women is linked to higher growth among financial intermediaries and an improvement in their risk profiles, as women have a better repayment performance (International Finance Corporation (IFC), 2014).

1.15 The Central Bank created a roadmap to guide the implementation by financial institutions of policies to foster financial inclusion for women. In the case of the FSV, an analysis of the Fund's portfolio found that around 52% of its loans were to women.[21] It designed the "Casa Mujer" program to support women homebuyers, including those traditionally excluded due to cultural biases (e.g., single, widowed, or divorced women). To expand the mainstreaming of gender in the rest of the FSV's programs, the IDB approved a technical assistance operation to review the

---

17 Optional link 13 (4).

18 Optional link 13 (8).

19 Optional link 13 (9).

20 Optional link 13 (10).

21 Final report of the consultancy financed under client support operation ATN/OC-18918-RG, approved in 2021 for US$350,000.

inclusion of gender in its products,[22] improving the potential for more women to receive financing.

1.16 **Situation for persons with disabilities.** According to the United Nations Population Fund,[23] the overall prevalence of disability in El Salvador is 20.4%, with severe disability affecting 7.6% of the population. Disability affects women (22.2%) to a greater extent than men (18.2%), and according to the 2015 National Survey of Persons with Disability, mobility difficulties within the home are more prevalent among women (26.9%) than among men (21.7%). Although there are no figures for the number of people with disabilities who access financial services, the FSV has borrower-declared data from which information can be obtained.[24] During the 2021-2023 period, the average annual number of loans issued by the FSV to people with disabilities was 15, divided proportionately between men and women. To further strengthen its treatment of issues relating to persons with disabilities, in December 2022 the FSV signed an interagency agreement with the National Council for the Inclusion of Persons with Disability (CONAIPD).[25] The FSV's activities include providing homes with accessibility features, making the FSV compliant with regulations governing universal accessibility design for people with disabilities.[26]

1.17 **Situation for the diaspora and recipients of remittances.**[27] Use of the financial system by the recipients of remittances is either limited or nonexistent, as these transactions do not involve any financial products or services other than remittance distribution services. Remittances totaling US$8,329,100,000 were received in El Salvador in 2023,[28] equivalent to 24.49% of GDP. Families that receive remittances primarily use them for consumption. It is estimated that 32.6% of remittances received by Salvadoran families have been used to pay for real estate in the country, either for the emigrant themselves or their families; a mortgage product for this segment would therefore help to improve financial stability.[29]

1.18 **Market failures.** Based on the foregoing discussion, two main causes of the problems in access to low-income (particularly sustainable) housing can be identified. The first is of a structural nature and relates to the limited supply of low-income housing (paragraph 1.6).[30] There is a high concentration of housing developers in the sector that are focused mainly on housing for high-income families.[31] There are few incentives for these developers to build low-income

---

22 Ibid.

23 Optional link 13 (11).

24 Ibid, footnote 19.

25 Optional link 13 (12).

26 Optional link 13 (13).

27 Optional link 13 (14).

28 Optional link 13 (15).

29 Optional link 13 (16).

30 This issue will not be addressed in the operation, but an indirect impact is expected as increased demand will boost the supply of sustainable, low-income housing. The possibility of addressing this problem through the MIVI and BANDESAL is being discussed as part of the dialogue with the country, while IDB Invest is examining financing for housing developers that focus on low-income segments.

31 Optional link 13 (23).

housing, due, *inter alia*, to constant increases in land values (which lead to low margins) and limited access to financing for such projects.[32] Sustainable, low-income housing is also scarce due to a lack of national construction standards for the subsector, while costs are approximately 7% higher,[33] an expense that is difficult for this social segment to absorb directly. These weaknesses mean that emissions in the country's housing sector may continue to increase (paragraph 1.11). Lastly, supply is limited by deficiencies in enabling factors such as spatial/urban planning and the process of preparing specific sites for construction. The second cause is access to long-term mortgage financing. Given the relationship between housing prices and household income, home buyers generally rely on long-term mortgage financing, which is affected by weaknesses on both the supply and demand sides (optional link 6). With respect to demand, there are information asymmetries in relation to the population earning between 1 and 4 SMMVs (paragraph 1.5), and these hinder the effective assessment of the risk profiles of potential clients. This, in turn, limits access to credit, particularly for women (paragraph 1.14) and vulnerable groups such as informal sector workers (paragraph 1.6), recipients of remittances (paragraph 1.17), and people with disabilities (paragraph 1.16). Although these segments have relatively stable incomes that would enable them to allocate between 30% and 35% of their monthly incomes to mortgage payments, they usually lack solid credit histories and significant assets that can be used as collateral. As regards the supply of finance, financial institutions face barriers to providing long-term credit because deposits from the public are their main source of funding.[34] The lack of capital market depth[35] generates high transaction costs and greater market risk due to mismatches in financial institutions' balance sheets. These limitations curtail the supply of long-term financing, as well as the availability of proper credit scoring tools and a more diverse range of financial products (paragraph 1.9). The last issue is support for families with earnings below 1 SMMV, which is of greater complexity due to its multidimensional nature. In this area, policies could focus on financial products for self-build construction and improvement projects, as well upfront subsidies for purchases of decent housing and site preparation (including utilities and titling), among other things.[36]

1.19 **Program rationale and intervention strategy.** Interventions involving public development banks are justified where they address market failures or achieve high social returns that support a country's public policy priorities. Dedicated credit lines with public development banks have also been found to promote public policies that foster sustainable economic growth (Oxford 2018).This program addresses a series of barriers to financing for low-income housing in El Salvador, including mortgage financing for sustainable housing units. By expanding the

---

[32] Ibid.

[33] Optional link 13 (4).

[34] Deposits with commercial banks stand at 75% of GDP (IMF, 2022).

[35] Optional link 13 (24)

[36] Although this issue is not included in the program, dialogue is ongoing with the MIVI concerning the design of relevant policies.

supply of financing for low-income housing (up to US$40,000),[37] the proposed intervention will enable households earning up to 4 SMMVs to buy homes, with emphasis on women and vulnerable populations and a pilot program to finance sustainable home purchases. It will also boost the supply of new housing and encourage real estate developers to adopt sustainable housing standards. Access to housing enables low- and middle-income households to save, build their assets, and withstand crises. Owning their own home mitigates the vulnerability of households who are either living in poverty or are at risk of falling back into poverty.[38] Homeownership opens up opportunities such as access to credit on better terms due to the availability of collateral. This is particularly the case for women, who face greater financial constraints, and for those employed in the informal sector.[39] Access to housing also favors household stability, which can help to improve opportunities for finding and maintaining employment. These factors are also crucial for the economic empowerment of women and vulnerable populations. Lastly, construction is one of the four sectors that generate most employment in El Salvador, accounting for 6.8% of employment. Together with the real estate sector, it generates 12.5% of GDP. At the same time, the availability of resilient housing avoids losses due to climate events (Economic Commission for Latin America and the Caribbean, 2012), while sustainable homes can generate water and energy savings of 20%, in addition to attracting market prices that are up to 7% higher.[40] This intervention will help to drive demand for low-income housing by expanding access to mortgage loans. Indirectly, it seeks to add momentum to the market for low-income housing developers by supporting effective demand in this segment, particularly for sustainable low-income housing that will help to mitigate climate change.

1.20 This program is proposed as a response to these factors, and it will provide subloans through the FSV to eligible beneficiaries for the purchase of low-income and sustainable low-income housing. It will focus on financing purchases of new and existing homes by women and vulnerable population groups,[41] with the aim of eliminating the housing deficit and promoting purchases of homes that meet FSV resilience requirements for natural disaster risks and climate threats (optional link 11). It will also finance a pilot program to promote financing for buyers of sustainable, low-income housing (optional link 8). The loans will be made available at competitive interest rates that will enable the final beneficiaries to purchase homes on financial terms that reflect their risk profiles and earnings (optional link 9).

1.21 **Low-income Housing Fund.** The FSV is an autonomous institution that was created to address the housing deficit, and it is the country's largest provider of low-income mortgages. As of December 2023, it had total assets of US$1.058 billion, with annual growth of 4.4% driven by expansion of the net loan

---

[37] Definition of low-income housing as per FSV regulations. To pay a mortgage of this amount while keeping payments under 30% of monthly income, an income of up to 4 SMMVs is required.

[38] Optional link 13 (19).

[39] Optional link 13 (20).

[40] Optional link 13 (22).

[41] This proposal will focus on people with disabilities, migrants, and those employed in the informal sector.

portfolio. Total liabilities have remained relatively stable and stand at US$410 million, with financial creditors and bond issues accounting for the largest shares. The FSV's largest source of financing is its capital, which grew 8.6% in the last year, partly as a result of increased reserves. The entity is liquid, with available resources covering up to four months of liabilities in accordance with internal policies, and it is also profitable (returns on assets and equity of around 7% and 4%, respectively) and solvent, with capital in excess of risk-weighted assets. Credit risk management by the FSV has helped to reduce the rate of arrears, which fell from 4.21% in 2019 to 2.37% in 2023. Past-due portfolio coverage stands at a multiple of 5.1, and refinancings, restructurings, and past-due loans are all fully covered. Even during the stages prior to loan approval, the FSV's internal regulations require housing units to meet minimum criteria in terms of location, improvements, and construction methods. Loans are only approved where the homes concerned do not exhibit or represent any risk of qualitative deficiencies (Mortgage Guarantee Instructions) and are not located in risk zones.[42] The current US$50 million operation (5352/OC-ES, 2021, which is already 50% disbursed, and is expected to be fully disbursed by the end of this year) has financed 1,529 housing units, with 41.5% of loans going to women. Although the incomes of these women were 16% lower on average than male borrowers (US$653), they received slightly higher loan amounts (US$16,620.39 versus US$16,159.95) with better terms attached, under specific programs such as "Casa Mujer." The latter is notable for its effective financial inclusion and excellent repayment performance, which represents a challenge to traditional credit risk models.

1.22 **Estimated demand analysis.** The demand for FSV credit was analyzed using past portfolio figures and projections for the next five years, pointing to demand for 30,000 low-income housing loans over the next five years (2025-2029), equivalent to approximately US$700 million. This overall credit amount includes purchases of existing homes (61%) and new ones (36%) (optional link 6), and it compares to a total existing FSV lending rate of US$175 million per year. Financing under this operation will cover 7% of total demand over the next five years (optional link 6).

1.23 **The Bank's experience in the sector, country, and region (optional link 16).** The IDB has actively spearheaded the design and implementation of sector operations and projects that use development banks as a conduit, both in El Salvador and in various other Latin American and the Caribbean countries. The Low-Income Housing Finance Program (5352/OC-ES) was approved in 2021 and finances low-income housing through the FSV, as well as a methodology for mitigating the physical risks associated with climate change (optional link 11). The data indicate that this methodology has been implemented in 100% of executed activities and that the program has also been effective in fostering home ownership for women. Specific analysis of the Casa Mujer program shows its effectiveness in terms of financial inclusion. The women served have incomes that are 29.46% lower on average, yet the program achieves superior results due to tailored benefits. The women receive interest rates that are 21.01% lower and loan repayment periods that are 5.22% longer, and they have an excellent repayment performance (53.33% fewer days of arrears).

---

42 Optional link 11.

1.24 Operation 2760/OC-ME (2012, US$200 million) was completed in 2016. Its aim was to support underserved population groups in Mexico, such as workers unaffiliated with social security, while also strengthening lending for home improvement and self-build projects. Execution of the program was satisfactory (project completion report 2760-OC-ME) and supported more than 37,000 housing actions. The "Casa Para Todos" Sector Program (CCLIP EC-O0004) was approved in 2019 for US$200 million, aimed at addressing the housing deficit for the lowest quintiles of the Ecuadorian population by providing full or partial subsidies. Also in 2019, the Bank provided a guarantee for a social bond issue by Ecuador (4699/OC-EC, 2018, US$300 million),[43] enabling the country's financial entities to provide mortgage loans at favorable interest rates for low-income housing. In November 2023, Housing Solutions for the Poor and Vulnerable Population (operation 5821/OC-EC) was approved for US$106.1 million, together with a US$1.6 million investment grant for migrant services. This operation also focuses on low-income population segments and addresses both quantitative and qualitative deficits.[44]

1.25 **Lessons learned.** In addition to the dialogue with development banks and housing ministries in the region, the different interventions have helped to identify the importance of financial innovation for facilitating access among currently underserved population segments. There is also a need to offer dedicated credit lines that promote resilient, low-carbon housing on well-located sites connected to public utilities. According to the report A Meta-Impact Evaluation of Social Housing Programs: The Chilean Case, prepared by the Office of Evaluation and Oversight, the impact of operations (such as this one) to promote mortgages for low-income housing is to narrow the housing deficit and improve the characteristics of housing.

1.26 The following lessons learned from the previous program with the FSV (5352/OC-ES) were extracted and applied to the present operation: (i) an analysis of the demand was carried out on mortgage loans by women heads of household, which yielded the suggestion of expanding eligibility to serve more women in this program; (ii) the previous program demonstrated that, with the appropriate terms and conditions, low-income populations can be reliable clients; consequently, the present operation will seek to finance other underserved population segments (paragraph 1.38); (iii) a methodology was developed in the previous program to mitigate disaster risks; in this operation, at least 20% of the financed housing units will be certified as sustainable, and the program will also promote the certification of developers (optional link 11); and (iv) most of the loans in the previous operation were used to finance existing housing, in part due to the scarcity of new social housing. Therefore, this operation will promote greater coordination between the FSV and developers for the development of new low-income housing.

1.27 Accordingly, lessons learned and good practices have been included in the design of this program such as: (i) the importance of the availability of long-term resources for strengthening the mortgage credit market (paragraph 1.9); (ii) the importance of housing sector policies that take into account lending based on studies of the

[43] The guarantee is currently in place and will remain in effect until 2035. To date, however, no operation has been executed against the guarantee.

[44] Awaiting signature.

housing value chain (paragraph 1.30) and promote private sector participation on both the supply and the demand sides (paragraph 1.28); (iii) the importance of public sector mortgage lending entities for supporting and mainstreaming credit access for both women (paragraph 1.40) and vulnerable population segments who lack access to credit from the traditional financial system; (iv) the anti-cyclical role of public financial mechanisms; and (v) the importance of dedicated credit lines for promoting and financing sustainable housing (paragraph 1.19).

1.28 **Complementarity with other IDB Group operations in the country (optional link 15).** Limited access to credit remains a significant barrier to growth and development in El Salvador. Factors such as informality, lack of collateral and information asymmetry hinder private financing, particularly for MSMEs and the social housing sector, which has led public development banks to play a key role in mitigating these market failures. In this context, the Bank has supported BANDESAL and the FSV over the last decade in the gradual development of innovative financial instruments such as guarantee funds, social mortgages, and green financing lines (paragraphs 1.23, 1.24, 1.32, and 3.2), to close financing gaps in the MSME and social housing segments. This operation is part of a package of three new interventions—ES-L1162, ES-L1163, and ES-L1165—that are designed and will be executed independently, but related to each other, thus maintaining this strategic approach by continuing to support BANDESAL and the FSV in developing new financing instruments. This shared approach facilitates a coordinated response to the needs of El Salvador's financial sector, with public development banks as the central axis, maximizing the programmatic impact and, at the same time, making it possible to address sector specificities in each of the interventions, considering that the three interventions: (i) serve different sectors and types of beneficiaries, with different maturity periods in terms of the demand and conditions to meet it; and (ii) have different execution mechanisms (paragraphs 3.2, 3.3, and 3.4) as well as different strategic partners (paragraph 3.1).

1.29 **The Bank's value added and additionality.** This operation, which is part of a CCLIP (optional link 2), reflects the long-term relationship between the IDB and the FSV, building on previous work and encouraging innovation on the part of the FSV. It will enable the institution to develop programs to address new housing needs, such as the design of financial products for purchases of sustainable housing. It will also encourage the FSV to implement strategies that prioritize services to ensure access to decent housing solutions for women and vulnerable populations such as recipients of remittances, persons with disabilities (pilot initiative), and informal workers.

1.30 In previous operations with the FSV, the IDB has demonstrated its ability to strengthen programs for specific sectors, such as credit for women and the implementation of methodologies to mitigate natural disaster risks. The IDB's additionality can be seen in the ongoing dialogue and continuous support provided through technical cooperation operations to strengthen the FSV's capabilities; these have enabled the Fund to continue to improve the efficiency of its services to the mortgage sector. The FSV's capacities with regard to diversity and inclusion will be strengthened over this period through a technical cooperation operation that is currently being prepared to improve services for the segment of persons with disabilities.[45] Resources are also being used under technical cooperation operation ATN/OC-20068-RG to finance a study of the housing value chain in El Salvador, and this will deepen understanding of how the housing sector works in order to identify activities that add value, as well as opportunities for public-private projects. Lastly, support is being provided under technical cooperation agreement ATN/OC-19731-ES for the development of a social and environmental certification system for housing. This will facilitate the creation of sustainability features and criteria that will be a key part of housing policy, together with a territorial and urban information system that will be used to train the FSV and housing developers in sustainability issues.

1.31 **Coordination with other multilateral and donor agencies.** The program will complement US$100 million of assistance that is being provided to the FSV by the Central American Bank for Economic Integration (CABEI).[46] The objective of the CABEI's Financial Intermediation Program for Social Housing is to help low-income households purchase, build, and improve their homes.[47] The CABEI loan seeks to finance home improvement loans, thus complementing the IDB program's focus on addressing the quantitative deficit by expanding long-term credit.

1.32 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy, Transforming for Greater Impact and Scale (GN-3159-12) and is aligned with the following objectives: (i) reducing poverty and inequality by providing credit for low-income households to purchase housing; and (ii) addressing climate change, as according to the multilateral development banks' joint methodology for estimating climate financing, 20% of the funds under the operation will be invested in climate change mitigation through purchases of housing that meet the equivalent of "Excellence in Design for Greater Efficiencies" (EDGE) Level 1 certification in energy and water efficiency and embodied carbon in materials). The program is also aligned with the following operational focus areas: (i) gender equality; (ii) inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; and (iv) sustainable, resilient, and inclusive infrastructure.

1.33 The program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) due to its component in support of access to financial services for the majority. It is also consistent with the Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable and Renewable Energy (GN-2609-1), as it finances sustainable housing that has been assessed in order to mitigate natural disaster risks. The program is aligned with the Urban Development and Housing Sector Framework Document (GN-2732-11), as it helps to address the challenge of structural social exclusion. It is also consistent with the IDB Group Country Strategy with El Salvador 2021-2024 (GN-3046-1) in relation to its strategic objective of increasing financing for access to housing in vulnerable segments. Lastly, the program is included in the Update to Annex III of the 2024 Operational Program (GN-3207-3).

---

[45] ATN/OC-21066-RG (client support, US$310,568).

[46] US$50 million had been disbursed as of July 2024.

[47] Optional link 13 (17).

1.34 **Gender equality and inclusion of diverse groups.** The program is consistent with the Gender and Diversity Sector Framework Document (GN-2800-13) as it establishes a specific target for lending to women and scales up this activity relative to previous programs. With respect to diversity, a pilot initiative will be implemented with a credit allocation for persons with disabilities, and the FSV's institutional capacities will also be strengthened to guide work aimed at improving the inclusion of persons with disabilities in the mortgage market.[48]

1.35 **Paris Agreement Alignment.** This operation has been reviewed using the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations and the IDB Group Paris Alignment Implementation Approach (PAIA) (GN-3142-1), yielding the following conclusions: (i) it is aligned with the Paris Agreement adaptation target, and (ii) based on specific analysis, it is aligned with the Paris Agreement mitigation target. Alignment is based on consideration of the following elements: (i) at least 20% of the loan proceeds will be used for mortgages to purchase homes with sustainability strategies equivalent to Level 1 EDGE certification; and (ii) through an institutional strengthening plan, support will be provided to develop a social and environmental certification arrangement with sustainability features and criteria that will form an essential part of housing policy. Training in sustainability issues will also be provided for developers and FSV staff.

B. Objectives, components, and cost

1.36 **Objectives.** The program's general objective is to help narrow the housing deficit by providing mortgage loans for the purchase of low-income housing. Its specific development objectives are to: (i) expand access to mortgage credit for home purchases by underserved population groups; and (ii) foster the adoption of sustainable housing.

1.37 **Sole component. Access to low-income mortgage credit to narrow the quantitative housing deficit for underserved population segments (US$50 million).** The program is structured into a sole component for US$50 million. These resources will be disbursed to the FSV, which will in turn provide subloans to households for the purchase of low-income housing. Use of the loan proceeds will be subject to the following conditions: (i) a minimum of 50% of the resources will be allocated to loans for women (paragraph 1.40); (ii) 30% will be allocated to vulnerable population groups;[49] and (iii) at least 20% will be used for housing that meet sustainability criteria, as established in the program Operating Regulations.[50] The operation will allocate US$800,000 on a pilot basis to finance housing for persons with disabilities, supporting an initial exploration of

[48] These institutional activities will be supported by resources from technical cooperation operation ATN/OC-21066-RG.

[49] The following segments will be monitored in order to gather information that will help identify improvements in the FSV's current programs: recipients of remittances, informal workers, and individuals with incomes below 2 SMMVs.

[50] Housing units that yield resource savings equivalent to Level 1 of the IFC's EDGE standard.

the needs of this market.[51] All of the subloans will be analyzed using the natural disaster risk methodology (optional link 11).

1.38 **Eligible beneficiaries.** Beneficiaries will be eligible for a home loan if they meet the following criteria: maximum income of 4 SMMVs, maximum house price of US$40,000, and adult applicants with demonstrated payment capacity, consistent with the FSV's own processes and methodologies. The program will seek to finance the following underserved sectors: (i) women;[52] and (ii) vulnerable individuals, including persons with disabilities,[53] informal workers,[54] and families who receive remittances.[55] The program will provide mortgages with repayment periods of up to 30 years for first-time homebuyers, as stipulated in the program Operating Regulations.

1.39 **Financing amount and limit.** The program is expected to benefit a total of 6,000 people.[56] Subloans will be subject to a maximum amount of US$40,000, as established in the program Operating Regulations.

1.40 **Gender and diversity considerations.** The available data (paragraph 1.14) supports a lending target of 50% in the number of loans to women. This raises the scale of such lending compared to previous operations and will support a reduction in the gender gap. The IDB has assisted the FSV in introducing a comprehensive gender perspective into all its products (paragraph 1.15), helping to ensure that they are suitable for women. With respect to diversity, the Bank will for the first time work with the FSV on a pilot financing initiative for persons with disabilities. The minimum financing allocation will be US$800,000, taking into account the available data on past lending to this segment (paragraph 1.16). To support the FSV in drawing lessons from this initiative, technical assistance will be prepared to strengthen the FSV's institutional capacities and guide work to improve the inclusion of persons with disabilities in the mortgage market.[57]

C. Key results indicators

1.41 The following indicators will be used to measure the general development objective: (i) the quantitative housing deficit in El Salvador, and (ii) the percentage

---

[51] In addition to the pilot financing initiative for persons with disabilities, resources will be provided under technical cooperation operation ATN/OC-21066-RG to help strengthen the FSV's institutional capacities in order to better understand the financing environment for persons with disabilities.

[52] Any woman mortgage beneficiary, regardless of marital status, consistent with the findings of the consultancy financed under technical cooperation operation ATN/OC-18918-RG.

[53] Any physical or cognitive disability, as certified by a sworn statement, medical or legal affidavit, or other official document.

[54] Individuals with no contributions to the pension savings system in the last six months or who belong to the variable income sector and have verifiable earnings.

[55] Individuals who can demonstrate that they receive funds from abroad, consistent with the FSV's "Vivienda Cercana" program (optional link 9).

[56] Based on 2,000 beneficiary households with an average of three people per home (total number of homes/total population).

[57] These activities will be supported by resources from technical cooperation operation ATN/OC-21066-RG. They will include a diagnostic assessment of the situation for persons with disabilities in El Salvador, identification of the gaps that they face in the financial system, and recommendations for the more effective implementation of programs under consideration for this group.

of those developers building homes financed by FSV mortgages that are certified. The indicators used to measure the specific development objectives will be as follows: (i) the relevant portfolio of FSV mortgages for beneficiaries targeted under the program; (ii) the percentage of program resources used to finance housing for women; (iii) the relevant portfolio of FSV mortgages channeled to vulnerable individuals; and (iv) the relevant portfolio of FSV mortgages used to finance purchases of sustainable homes that yield savings equivalent to the EDGE standard.

1.42 **Economic analysis.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits comprise: (i) the value to the families, estimated as the value of imputed rent net of mortgage payments for the new homes, including a residual amount at the end of the period to reflect the housing asset; (ii) value added from the development and sale of new housing units; (iii) value added from real estate brokerage for existing homes; and (iv) gains from higher imputed rents from both new and existing homes relative to the situation without the program. After deducting program costs and applying a 12% discount rate to flows, net social benefits are estimated at US$2.24 million in present value terms, with an internal rate of return of 13.3%. In addition, the sensitivity analysis shows that the program is robust to variations in the key parameters (economic analysis).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 Program financing comprises a US$50 million investment loan according to the global credit modality, drawn from the IDB's Ordinary Capital resources. The loan disbursement period will be five years.

Table 1. Program costs (US$ millions)

Component	IDB Ordinary Capital
Sole component. Access to low-income mortgage credit to reduce the quantitative housing deficit of underserved populations	50
Total	**50**

Note: The executing agency will cover the operation's administration, monitoring, evaluation, and audit costs.

Table 2. Disbursement projections (US$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB (annual ceiling)	7.5	7.5	10.0	12.5	12.5	50
Percentage	15	15	20	25	25	100

2.2 **Restrictions on the pace of disbursement.** Pursuant to document AB-2990, the disbursement of Bank loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, all of which will be counted from the date of approval of the loan by the Bank's Board of Executive Directors. These limits may not apply if the requirements established in the Bank's policy in this regard have been fulfilled, provided that the borrower has been notified in writing.

B. Environmental and social risks

2.3 In accordance with the Environmental and Social Policy Framework (GN-2965-23), this operation falls into the category of financial intermediation and is classified as having a moderate level of environmental and social risk. The program's disaster and climate change risk classification is low. Based on the findings of the environmental and social due diligence process, it was concluded that the majority of subprojects to be financed under the program are subject to low socioenvironmental risk. The potential environmental and social impacts of the program will be managed using the program's environmental and social management system (ESMS), which will be based on compliance with the IDB's list of exclusions, local laws, and additional exclusion and eligibility criteria. The FSV's environmental and social management system will also be used. These environmental and social requirements will constitute the ESMS for the program and will be included in the program Operating Regulations (paragraph 3.6 and required link 2).

C. Fiduciary risks

2.4 Based on the previous operations executed with the FSV, the fund's experience with other international organizations, and the results of the institutional capacity assessment, the fiduciary risk is considered to be low, primarily due to the FSV's highly developed fiduciary systems (see Annex III) (paragraph 3.2).

D. Other key issues and risks

2.5 **Economic and financial risks.** The following medium-high risks have been identified: (i) the competitiveness of loans under the program could be compromised due to the uncertainty created by economic cycles, affecting the financial terms of the mortgages. This risk will be mitigated through the use of the IDB's Flexible Financing Facility, which allows the borrower to set interest rates and repayment periods; and (ii) a potentially insufficient supply of low-income housing in the market or an increase in low-income home values that exceeds the program limit. To mitigate the latter risk, there is ongoing dialogue with the MIVI, the FSV, and through the program specifically, concerning the possibility of issuing prequalification letters to incentivize financing for housing developers (paragraph 1.28).

2.6 **Sustainability.** This program represents a continuation of the IDB's strategic commitment to its long-term relationship with the FSV, using both financial and nonfinancial support to promote sustainable urban development. The funds received from subloan repayments will be used to issue additional loans for the same type of activities, allowing the FSV to finance further housing solutions where applicable. In addition, the supply of sustainable low-income credit lines will be strengthened through the use of a green certification seal program and assistance aimed at better meeting the needs of persons with disabilities (paragraph 1.30).

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The FSV will be the borrower and executing agency for this operation. The FSV will use its administrative, financial, and accounting resources and systems to administer and maintain records for the loans issued using program resources, consistent with Bank policies and the financial rules applicable to the entity. Furthermore, the borrower's financial obligations under this operation will be backed by the sovereign guarantee of the Republic of El Salvador.

3.2 **Execution and administration.** The Bank will disburse the resources to the FSV, which will fulfill program objectives by providing subloans to eligible beneficiaries, consistent with the provisions of the program Operating Regulations. The FSV will use its existing organizational, administrative, and financial structures to execute the program, and its finance department will be responsible for managing the program and coordinating with the IDB. The FSV will apply its capacity with the highest standards of transparency during the processes of identifying final beneficiaries, approving loans, auditing the program, and reporting to the Bank (paragraph 1.30). The FSV is well-prepared to execute the program for the following reasons: (i) its execution of the second operation under the CCLIP has been positive; (ii) the simplified institutional capacity assessment carried out in 2024 showed that the FSV has sufficient financial and fiduciary capacity to serve as executing agency; (iii) it is the largest low-income mortgage lender in the country (almost 90% of this segment and 66% of the total mortgage portfolio in the country); and (iv) in terms of the areas for improvement identified in the institutional capacity assessment, the FSV's project management capabilities will continue to be strengthened, together with the quality of its technical capacity in relation to sustainability (through certification of key staff members in the IDB's sustainable housing program).

3.3 **Strategic coordination arrangements.** El Salvador's Department of Trade and Investment (SCI) is the liaison agency for CCLIP ES-O0009, to which this operation belongs (paragraph 1.1). Accordingly, the FSV will meet with the SCI at least twice per year to discuss progress in program execution and ensure that the strategic objectives are met. Where necessary, the two entities may also jointly propose operational adjustments to improve program performance. The FSV will share with the SCI the regular reports and documents indicated in the program Operating Regulations so that the necessary information is provided regarding the status of the program. The FSV and SCI may agree to any other type of additional arrangement considered necessary, and these should be added in writing to the program Operating Regulations.

3.4 Coordination will also take place with the MIVI, as the lead agency for the country's housing sector. Among other things, this will seek to examine the role of the program within policy for the sector, as well as in strategic decision-making that may guide or influence low-income housing policy in the country at the national or territorial levels. To this end, the FSV will meet with the MIVI at least twice per year. The FSV's finance department will be responsible for interactions with the SCI and the MIVI.

3.5 **Program Operating Regulations.** The program Operating Regulations will include: (i) full details of responsibility for program coordination and administration; (ii) general characteristics of beneficiaries; (iii) specific characteristics of subloans eligible for financing; (iv) characteristics of sustainable housing units; (v) issues relating to credit scoring; (vi) social and environmental requirements, as well as a list of exclusions; and (vii) corporate governance and integrity reporting requirements. Any modifications of the program Operating Regulations will require the Bank's no objection.

3.6 **Special contractual conditions precedent to the first disbursement of the loan proceeds. The first disbursement of the loan proceeds will be subject to the borrower's approval of the program Operating Regulations and their entry into effect, to the Bank's satisfaction, in accordance with the terms previously approved by the Bank.** This condition is essential as the program Operating Regulations will establish the guidelines, procedures, and coordination arrangements that will guide execution.

3.7 **Exceptions to Bank policies.** The Republic of El Salvador will be the guarantor of the borrower's financial obligations under the loan, including fees and interest payments and local counterpart funding. A partial waiver is requested of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303) with respect to execution obligations under the program. This exception is justified on the basis of Article 11 of the Basic Law on Public Financial Administration (Decree 516/1995), which stipulates that obligations relating to loan execution lie beyond the legal mandate of the authorities of the Republic of El Salvador. The FSV, which is both borrower and executing agency for the program, has the necessary organizational, regulatory, financial, technological, and human resources capacity to execute the operation. This exception is consistent with those approved for the other operations under CCLIP ES-O0009.

3.8 **Disbursements and advances of funds.** Loan disbursements will be deposited to a special FSV account that will then be used to disburse funds for the subloans and receive debt repayments. The Bank may disburse program resources according to any of the modalities provided for in the Financial Management Guidelines for IDB-financed Projects (GN-2811-1), as described in Annex III. Disbursement requests will be accompanied by the information stipulated in the program Operating Regulations, and verification will be on an ex post basis, subject to a review of the subloans issued.

3.9 Funds resulting from repayments of the subloans financed with resources under this program may only be used to provide new subloans in accordance with the provisions of the loan contract and the program Operating Regulations.

3.10 **Audited financial statements.** The FSV will deliver audited annual financial statements for the program under the terms of reference agreed on with the Bank. Financial statements will be submitted within 120 calendar days after the close of the fiscal year. The final financial statements for the program will be delivered within 120 days after the date of the final disbursement.

3.11 The program audit function will be performed by a Bank-eligible external audit firm under the procedures established in the current audit guidelines. The external audit of the program will be financed by the FSV using its own resources. Accordingly, the institution must ensure that funding for the audit services is available each year until such time as the program is completed.

3.12 **Procurement.** As a demand-driven program with a sole component for financing subloans, no procurement of goods, works, or consulting or nonconsulting services will be required as part of execution. No program execution plan or procurement plan is therefore included in this proposal.

B. Summary of arrangements for monitoring results

3.13 **Monitoring.** Program execution will be monitored via semiannual progress reports submitted within 60 days after the end of each six-month period. The reports will be based on the reporting commitments included in the results matrix (Annex II) and the financial progress reports indicated in the General Conditions of the loan contract. Semiannual progress reports will include updated information based on monitoring of the program, as well as the resources that will be allocated for this purpose, consistent with the provisions of the monitoring and evaluation plan. The FSV will be responsible for gathering and verifying the information.

3.14 **Impact evaluation.** An evaluation of program outcomes will be performed using an ex post cost-benefit analysis of the outflows and inflows associated with the intervention (monitoring and evaluation plan), with a corresponding analysis of growth in the relevant portfolio for the intervention. Preparation of the evaluation will begin six months before the anticipated completion date of the operation, and it will be submitted no later than 12 months thereafter (or in accordance with Bank policies at that time). The administrative budget for the operation includes the funds required to perform the program evaluation.

IV. ELIGIBILITY CRITERIA

4.1 **General eligibility criteria.** This fourth program under CCLIP ES-O0009 will be implemented according to Multisector Modality II, and it is compliant with the eligibility criteria set forth in policy document GN-2246-13 and its operational guidelines (GN-2246-15) for the following reasons:

a. The multisector objective of the CCLIP—to promote productive activities and social welfare in El Salvador by providing access to credit in the business and housing sectors—continues to be included in the priorities set out in the IDB Group Country Strategy with El Salvador 2021-2024 (GN-3046-1). The program contributes to the priority area of reducing social vulnerability by expanding access to mortgage finance for underserved population segments, while also addressing the crosscutting themes of climate change adaptation and mitigation and women's empowerment.

b. Previous operations under this CCLIP are achieving planned benchmarks, reflecting adequate progress in execution vis-à-vis their specific objectives (optional link 2). This operation has been designed to build on the achievements of these previous operations (paragraph 1.1).

c. An institutional capacity assessment of the FSV was conducted in 2024; it yielded high scores in terms of program financial management and resource administration activities, low levels of fiduciary risk, and satisfactory attainment of development objectives.

d. This proposal includes specific actions to improve FSV capacities, consistent with the recommendations of the institutional capacity assessment (paragraph 3.2).

e. The SCI was designated by the Government of El Salvador as the liaison agency for the CCLIP (optional link 10). Under Chapter X of Decree 1 of 2 June 2019, it is authorized to carry out coordination and monitoring activities for the programs financed by the CCLIP.[58] The SCI will monitor the flow of operations in each sector and will formulate proposals for adjustments, where necessary, to achieve the objective of the CCLIP (paragraph 3.3).

4.2 **Eligibility criteria specific to the fourth operation under the CCLIP.** This fourth individual operation under the CCLIP to Facilitate Access to Business and Housing Loans (ES-O0009) will be implemented according to Multisector Modality II, and it is compliant with the eligibility criteria set forth in policy document GN-2246-13 and its operational guidelines (GN-2246-15) for the following reasons:

a. An institutional capacity assessment was carried out of the FSV, which found that the entity has both high execution capabilities and potential areas for improvement (paragraph 3.2). No potential risks of a fiduciary nature were identified (paragraph 2.4).

b. The first program under the CCLIP (5083/OC-ES) was executed by BANDESAL to support micro, small, and medium-sized enterprises (MSMEs), and its final disbursement occurred in 2023. The operation was rated as satisfactory for its entire duration and the project completion report is expected to be completed this year.

c. The second operation (5352/OC-ES), executed by the FSV, has been rated as satisfactory in all evaluations, with satisfactory execution and a high probability of achieving its development objectives.

d. The third operation (5733/OC-ES), executed by BANDESAL, has benefited 829 MSMEs. As of year-end 2023, it was rated as satisfactory with a high probability of achieving its development objectives.

e. As indicated above (paragraph 3.2), the FSV is sufficiently prepared to execute the fourth program under CCLIP ES-O0009.

f. The objective of this operation helps to achieve the CCLIP's multisector objectives as it promotes social well-being through access to credit in the housing sector (paragraph 1.1). This type of support to the housing sector is envisioned under the CCLIP (paragraph 1.1).

[58] Published in Official Gazette 101, Vol. 423.

Development Effectiveness Matrix		
Summary	ES-L1165	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	-Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3046-1	Increase financing for access to housing in vulnerable segments
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	8.1	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	1.6	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	7.5	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.3	
5.1 Monitoring Mechanisms	4.0	
5.2 Evaluation Plan	4.3	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Environmental & social risk classification	FI	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB’s involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/OC-18918-RG, ATN/OC-19731-ES, ATN/MC-16262-RG

The Social, Inclusive, and Sustainable Housing Financing Program (ES-L1165) is the fourth operation under the CCLIP for Access to Business and Housing Credit, and its general development objective is to contribute to the reduction of the housing deficit by providing mortgage loans for the acquisition of social interest housing. The Program aims to contribute to this objective through the specific development objectives of (i) increasing access to mortgage loans for the acquisition of housing serving underserved populations; and (ii) promoting the adoption of sustainable housing. The diagnosis of the operation presents the quantitative housing deficit as a general problem, particularly pronounced in lower-income segments. The diagnosis identifies the causes of this problem as rapid urban population growth, informality, limited purchasing power, and the lack of mortgage schemes to serve low-income populations, as well as the scarce supply of adequate social housing. In light of this, the program offers loans for the acquisition of social and sustainable housing for households with incomes of up to 4 minimum wages, seeking to finance other underserved sectors, such as women, informal workers, recipients of remittances, and people in vulnerable situations, including people with disabilities.

The outcome indicators associated with the specific objective are SMART and would allow the scope of the objective to be measured. The economic analysis quantifies benefits through the rental value imputed to new housing, the added value of the investment in new housing, and the added value of the intermediation of used housing, yielding an IRR of 13.3%.

The monitoring and evaluation plan proposes three evaluation strategies: (i) a reflective evaluation that shows the scope of the results associated with the specific objective; (ii) a qualitative analysis that discusses the lessons learned during the execution of the program; and (iii) an ex post cost-benefit analysis. These evaluation strategies do not allow for empirical attribution of the results.

RESULTS MATRIX

PROGRAM OBJECTIVE:	The specific development objectives of this operation are to: (i) expand access to mortgage credit for home purchases by underserved population groups; and (ii) foster the adoption of sustainable housing. Achievement of these objectives will support the operation's general development objective of helping to narrow the housing deficit by providing mortgage loans for the purchase of low-income housing.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
GENERAL DEVELOPMENT OBJECTIVE. Help narrow the housing deficit by providing mortgage loans for the purchase of low-income housing							
Quantitative housing deficit in El Salvador	Number	136,873	2023	2029	134,873	Low-Income Housing Fund (FSV), with data from the Multipurpose Household Surveys (EHPMs)	Baseline calculated by the FSV based on the 2023 EHPM. Reflects the urban deficit for groups earning 2 to 4 times the current monthly minimum wage (SMMV) (136,873 housing units) (optional link 5). The program is expected to help reduce the quantitative housing deficit in urban areas by 1.8%. The indicator will be calculated based on information from the available EHPMs and the Population and Housing Census (excluding returning migrants).
Percentage of those developers building homes financed by FSV mortgages who are certified	Percentage	0	2023	2029	80	FSV report, with IDB data	By stimulating demand, the program is expected to foster sustainable housing development. Developers that build housing financed by FSV mortgages will be included once they have been certified through the IDB's training program. Calculated as a percentage of all developers building homes financed by FSV mortgages.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	End of program (2029)	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 1. Expand access to mortgage credit for home purchases by underserved population groups						
Relevant portfolio of FSV mortgages for beneficiaries targeted under the program	US$ millions	737.0	2023	787.0	FSV data	Measures the eligible FSV portfolio balance according to program criteria. This will constitute the relevant portfolio for the program. The target is calculated as the baseline plus the additional portfolio injection created by the program, as of 2029.
Percentage of program resources used to finance housing for women	Percentage	0	2023	50	FSV data	Pro-gender indicator. Measures the amount of resources used to provide financing to women as a percentage of total program resources. The baseline is 0, as this is a new program and no loans have yet been issued. The target reflects the projection for the end of the program.
Relevant portfolio of FSV mortgages provided to vulnerable individuals	US$ millions	220.0	2023	235.0	FSV data	Measures the balance of the FSV portfolio used to finance mortgages for vulnerable individuals. This segment includes: (i) persons with disabilities; (ii) people working in the informal sector; (iii) families who receive remittances; (iv) people with incomes of less than two SSMVs wages; and (v) older adults (defined as those over age 60). The target is calculated as the baseline plus the additional portfolio injection from the IDB, as of 2029.
SPECIFIC DEVELOPMENT OBJECTIVE 2. Foster the adoption of sustainable housing						
Relevant portfolio of FSV home loans used to finance mortgages for sustainable housing (i.e., those yielding resource savings equivalent to Level 1 EDGE certification)	US$ millions	0	2023	10.0	FSV data	Measures the balance of the FSV portfolio used to finance sustainable housing projects. The baseline is 0 as the FSV has never had a program to finance sustainable projects. Sustainable homes are those that meet the sustainability characteristics established in this program and during the program launch workshop. In general, these characteristics will reflect energy efficiency, housing design, and efficient water use. The International Finance Corporation's EDGE tool will be used to verify that the homes yield at least 20% savings in energy and water use and embodied energy in materials. This will be equivalent to Level 1 of the EDGE standard. The target is calculated as the baseline plus the additional portfolio injection from the IDB, as of 2029.

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
Sole component. Access to low-income mortgage credit to narrow the quantitative housing deficit for underserved population segments (US$50 million)											
Number of mortgages issued by the program	Number of housing units	0	2023	300	300	400	500	500	2,000	FSV data	Number of housing units purchased using program financing. This indicator represents the physical target for the component. The target reflects the projection for the end of the program.
Program resources used to finance mortgages	US$ millions	0	2023	7.5	7.5	10	12.5	12.5	50	FSV data	Value of mortgages issued by the program. This indicator represents the financial target for the component. The target reflects the projection for the end of the program.
Breakdown of program resources to be used for key target groups											
Resources used to finance women	US$ millions	0	2023	3.5	3.5	5.0	6.5	6.5	25.0	FSV data	Annual allocation of funds for home lending to women. The value at the end of the project represents the total sum over the execution period.
Resources used to finance sustainable homes	US$ millions	0	2023	1.0	1.0	2.0	3.0	3.0	10.0	FSV data	Annual allocation of funds for financing sustainable mortgages that meet the requirements of this program. The final requirements will be determined in the program launch workshop. The value at the end of the program represents the total sum over the execution period.
Resources used to finance homes for persons with disabilities	US$ millions	0	2023	0.16	0.16	0.16	0.16	0.16	0.80	FSV data	Annual allocation of funds used to finance homes for persons with disabilities. The value at the end of the program represents the total sum over the execution period.

Country: El Salvador **Division:** IFD/CMF **Operation No.:** ES-L1165 **Year:** 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Low-Income Housing Fund (FSV)

Operation name: Financing Program for Sustainable, Inclusive, Low-income Housing

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation[1]

♦ Budget	○ Reports	○ Information systems	○ National competitive bidding (NCB)
♦ Treasury	♦ Internal audit	○ Shopping	○ Other
♦ Accounting	♦ External control	○ Individual consultants	

2. Fiduciary execution mechanism

♦	Special features of fiduciary execution	The FSV will be the borrower and executing agency for this operation. The FSV will use its administrative, financial, and accounting resources and systems to administer and maintain records for the loans administered using program resources, consistent with the financial rules applicable to the entity and the Financial Guidelines for IDB-Financed Projects (OP-273-12). The FSV will use the loan proceeds to provide subloans to eligible beneficiaries, consistent with the program Operating Regulations. No procurement by the executing agency is anticipated.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The institutional capacity assessment concluded that the FSV has a high level of institutional capacity. The executing agency is currently implementing the Low-income Housing Finance Program (5352/OC-EC), with satisfactory results. Its performance in relation to financial execution and the management of fiduciary processes under the program has also been sound. In addition, the FSV has already executed the following Bank-financed operations: 1379/OC-EC (2001) and 2373/OC-EC (2010).

[1] Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of validation by the Bank.

4. **Policies and guidelines applicable to the operation:** Document GN-2349-15, paragraph 3.13 (Procurement in Loans to Financial Intermediaries) will apply. This stipulates that in loans of this type, procurement by beneficiaries will be subject to current private sector or commercial practices. As a demand-driven program with a sole component to finance subloans, implementation will not involve the procurement of any goods, works, nonconsulting services, or consulting services. No procurement plan is therefore included in this proposal. With regard to financial management, the Financial Management Guidelines for IDB-financed Projects (OP-273-12), the Audited Financial Reports and External Audit Management Handbook, and the Disbursement Handbook will apply.

5. **Exceptions to policies and guidelines:** None.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Exchange rate: For the purposes of the activities stipulated in Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the one indicated in subparagraph (b)(ii) of said article. Accordingly, the agreed exchange rate will be that prevailing on the effective date on which the borrower, executing agency, or any other natural or legal person to whom the authority to incur expenses has been delegated, makes the respective payments to a contractor, supplier, or beneficiary.
Type of audit: For the duration of program execution, audited financial statements will be submitted each year within 120 days of the end of each fiscal year. The external audit of the program will be performed by an outside firm acceptable to the Bank. The final audited program financial statements will be submitted to the Bank no later than 120 days after the date of the final disbursement.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

♦	Projects with financial intermediaries	This loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue subloans or resources via other onlending modalities; accordingly, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the executing agency, its financial intermediaries, and its subborrowers. Alternatively, if under the circumstances it is not possible or practical to include these clauses in the aforementioned contracts, the project team may examine other means of adopting acceptable controls and duly binding the relevant third parties to the Sanctions Procedures. These mechanisms will be designed in coordination with the Office of Institutional Integrity and will be supported by the Legal Department and set forth in the program Operating Regulations.

IV. Financial Management Agreements and Requirements

♦	Programming and budget	The FSV budget is approved by its board of governors and subsequently ratified by an executive decree issued through the Ministries of Finance and Housing. FSV internal Code 480, Budget Procedures, regulates and establishes guidelines for the formulation, approval, and management of the budget. For the purposes of the budget, the Law on the Fondo Social para la Vivienda takes precedence over the Basic Budget Law.
♦	Treasury and disbursement management	This area is governed by internal FSV Code 475, Treasury Management and Custody Procedures. The FSV will use the loan module of its ABANKS IT system to process and manage disbursements to the final beneficiaries of the subloans issued under the program. The FSV will maintain a special account for the exclusive use of loan proceeds, from which disbursements to beneficiaries will be made. The IDB will disburse the program resources according to the reimbursements and/or advance of funds modalities, consistent with document OP-273-12. All disbursement requests must include the information listed in the program Operating Regulations. Where a request is submitted for an advance of funds, the amount of each advance will be determined based on program liquidity needs over a period of up to 180 days. For each advance of funds request (with the exception of the first), the executing unit must substantiate the use of at least 80% of previously advanced funds that have not yet been accounted for.
♦	Accounting, information systems, and reporting	Accounting in the FSV is governed by Code 410, Accounting Procedures and Operations, which establishes the procedures and guidelines for accounting at the institution, pursuant to the Basic Law on Public Financial Administration, the technical manual for the integrated financial management system (SAFI), and the administrative handbook for institutional goods. The accounting module of the ABANKS system is used for initial accounting entries, which are subsequently transferred to the government accounting system (SICGE).
♦	Internal control and internal audit	The internal audit for the program is performed by the FSV's internal audit unit, which reports to the institution's Presidency and Executive Management. The FSV applies the internal audit technical standards for financial system participants, as well as the internal audit standards for the governmental sector (NAIG) issued by the State Audit Office (CCR) based on the global standard of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

♦	External control and financial reports	External control for the program will be performed by an independent external audit firm acceptable to the Bank. The external audit firm may be the same one that audits the entity's financial accounts, provided it is eligible for Bank-financed projects. The terms of reference will require the Bank's prior no objection. In the event of a competitive process, the stipulations of the IDB's Audited Financial Reports and External Audit Management Handbook will be followed.
♦	Financial supervision of the operation	The program requires ex post financial supervision of disbursements, the inputs for which will be drawn primarily from the audited financial statements. To supplement these, the Bank will make at least one financial supervision visit to the executing agency each year.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

El Salvador. Loan ____/OC-__ to Fondo Social para la Vivienda (FSV).
Financing Program for Sustainable, Inclusive, Low-income Housing
Fourth Individual Operation under the Conditional Credit Line
for Investment Projects (CCLIP) to Facilitate Access
to Business and Housing Loans (ES-O0009)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Fondo Social para la Vivienda (FSV), as borrower, and with the Republic of El Salvador, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of Financing Program for Sustainable, Inclusive, Low-income Housing, which constitutes the fourth individual operation under the Conditional Credit Line for Investment Projects (CCLIP) ES-O0009, approved by Resolution DE-87/20 on July 29, 2020. Such financing will be for the amount of up to US$50,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2024)

LEG/SGO/CID/EZIDB0000366-275433124-9462
ES-L1165