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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

PROGRAM TO PROMOTE SOCIAL HOUSING IN PERU

(PE-L1293)

LOAN PROPOSAL

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CONTENTS

Required links	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

Required links	
1	Multiyear execution plan
2	Monitoring and evaluation plan
3	Environmental and social review summary

Optional links	
1	Analysis of project cost and economic viability
2	Sustainability and climate change
3	Program Operating Regulations
4	Theory of change
5	Study on demand and housing programs
6	Bibliography
7	Technical cooperation: Support for the Program to Promote Social Housing in Peru (PE-T1593; ATN/CV-21221-PE; ATN/OC-21222-PE)
8	Environmental safeguards policy filter

ABBREVIATIONS	
ABC	Ahorro-Bono-Crédito (Savings-Subsidy-Credit)
APEIM	Asociación Peruana de Empresas de Inteligencia de Mercado (Peruvian Association of Market Intelligence Companies)
BBP	Bono del Buen Pagador (Good payer subsidy)
BFH	Bono Familiar Habitacional (Family housing subsidy)
ENAHO	Encuesta Nacional de Hogares (National Household Survey)
ESRS	Environmental and Social Review Summary
FMV	Fondo MiVivienda
FONAFE	Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (National Fund for Financing State Business Activity)
ICAP	Institutional Capacity Assessment Platform
IFI	Intermediary financial institution
LLMIH	Low- and lower-middle-income household
MEF	Ministry of Economy and Finance
MVCS	Ministry of Housing, Construction, and Sanitation
NCMV	Nuevo Crédito Mi Vivienda
OC	Ordinary Capital
SBS	Superintendency of Banking, Insurance, and Pension Fund Managers
SPT	Specialized program team

PROJECT SUMMARY

PERU
PROGRAM TO PROMOTE SOCIAL HOUSING IN PERU
(PE-L1293)

Financial Terms and Conditions

Borrower:			**Flexible Financing Facility**[a]	
Republic of Peru			**Amortization period:**	11.5 years
			Disbursement period:	5 years
Executing agency:			**Grace period:**	7.5 years[b]
Fondo MiVivienda (FMV)			**Interest rate:**	SOFR-based
			Credit fee:	[c]
Source	**Amount (US$)**	**%**	**Weighted average life:**	10 years
IDB (OC):	300,000,000	100		
Total:	300,000,000	100	**Approval currency:**	U.S. dollars

Project at a Glance

Project objective/description: The general development objective is to help expand access to adequate housing solutions for low- and lower-middle-income households (LLMIHs) in Peru. The specific objective is to broaden access to financing for adequate housing solutions for LLMIHs.

Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower, through the Ministry of Economy and Finance (MEF), and the executing agency have entered into an agreement, and this is in force, for the transfer of proceeds from the loan and the obligations of the parties with respect to execution of the program; and (ii) the executing agency has approved the Program Operating Regulations, and these are in force, in accordance with the terms and conditions previously agreed on with the Bank, which include clauses relating to socioenvironmental issues based on the environmental and social review summary (ESRS) (paragraph 3.5).

Exceptions to Bank policies: None

Strategic Alignment

Objectives:[d]	O1 ☒		O2 ☒			O3 ☒	
Areas of operational focus:[e]	OF1 ☒	OF2-G ☒ OF2-D ☒	OF3 ☐	OF4 ☒	OF5 ☒	OF6 ☒	OF7 ☐

(a) Under the terms of the Flexible Financing Facility (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.

(b) 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 or the last payment date as documented in the loan contract.

(c) 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.

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

(e) 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 addressed, and rationale

1.1 **Background.** Over the past 20 years, Peru has experienced significant economic growth, tripling its gross domestic product (GDP) per capita.[1][1, 2] This growth has been accompanied by a sustained urbanization process, and 79% of the country's 10 million households now live in urban areas.[3] Despite economic progress, deep economic and social inequalities persist due to institutional and market failures, which are reflected in disparate income levels and inadequate housing conditions among urban households.[4] For example, 75% of the economically active population engages in informal employment,[5] and the majority of urban households earn lower-middle (35.5%)[4] or low (34.8%) incomes.[5]

1.2 With household growth outpacing population growth, the country is undergoing a demographic transition, which is increasing the demand for adequate housing. At present, 220,000 new urban households are being formed each year, exceeding the annual intercensal average (2007-2017), which was 149,821 households.[6] In addition, the country has received more than 1.5 million Venezuelan migrants.[7] This contributed to the fact that around 3 million households in urban areas suffer from a housing deficit due to limited access to adequate housing solutions.[9][6] This deficit exists in 37.4% of households and breaks down into 5.7% with a quantitative deficit[7] (448,000 households) and 31.7% with a qualitative deficit[8] (2.5 million households).[10][9]

1.3 High levels of informality, combined with other factors described below, mean that most homes built in Peru are self-builds with scant technical assistance and deficient permitting. Out of a total stock of 6,600,000 urban homes, 71% are self-built, of which only 3% comply with an acceptable quality building process and have all the necessary permits.[11] In regional terms, there is a substantial gap in the proportion of permitted housing[10] in Peru (1.5 per 1,000 inhabitants) with

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1 See complete list of bibliographic references identified by the number in square brackets [#].

2 Driven by the country’s mining sector and sound macroeconomic policies, GDP per capita grew from US$2,126.14 in 2003 to US$7,789.87 in 2023.

3 Although this growth began in Lima in the 1940s,[2] in the last 20 years Peru's cities have expanded by almost 50%, at a rate of more than 3,400 hectares per year.[3]

4 Lower-middle-income households are households earning between two and four times the minimum wage, which is equivalent to US$270.

5 Low-income households are households earning less than two times the minimum wage.

6 Adequate housing solutions are solutions that are affordable, accessible, efficient, safe, resilient, well-connected, and well-located.[8]

7 Households with multiple people living together or living in homes with irreparable deficiencies.

8 Households in homes with any of the following deficiencies: lack of one or more public services, overcrowding (more than three people per room), or poor quality of materials.

9 Clarification: These values are not comparable with the INEI official definition of housing deficit, because they take into account additional housing deficiencies.

10 Permitting is the process that local governments follow to authorize home construction or remodeling, ensuring that homes comply with urban development and building parameters and other applicable regulations.

respect to Colombia (4.2) and Chile (7.5).[12] Self-builds run into cost overruns and inefficiencies that entail up to twice the cost, which falls mainly (83%) on households.[11]

1.4 The housing deficit is also concentrated in the group of low- and lower-middle-income households (LLMIHs)[12] and decreases as incomes rise. In total, 83.47% of households in housing deficit are LLMIHs,[15] with 378,542 LLMIHs in quantitative deficit and 2,081,612 in qualitative deficit. Of the latter, 31.41% have precarious materials in flooring, walls, or roofing, 31.22% are overcrowded, and the remaining 37.37% lack one or more basic services.[16]

1.5 **Social housing policies.** Since 2002, the Peruvian government has implemented a market-based system called Ahorro-Bono-Crédito (Savings-Subsidy-Credit) (ABC). This system is based on three pillars: (i) a direct demand-side subsidy given by the government; (ii) prior savings by families; and (iii) a mortgage to close the transaction, extended by intermediary financial institutions (IFIs). This system is implemented through two main programs, with different types of interventions: (i) Nuevo Crédito Mi Vivienda (NCMV),[13] which grants the Bono del Buen Pagador (Good Payer Subsidy) (BBP); and (ii) Techo Propio,[14] which grants the Bono Familiar Habitacional (Family Housing Subsidy) (BFH). In 2024, the government created the Integrator BBP, which provides an additional subsidy of US$895 to the low-income[15] or vulnerable (older adults, persons with disabilities, or returned migrants) population. While housing programs have a significant impact, they can be optimized, scaled up, and better targeted to LLMIHs. Despite the programs' incentives, the lack of access to mortgage loans hinders the use of subsidies by LLMIHs, which continue to engage in self-builds.

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[11] The main cost overruns arise as a result of building inefficiencies (lack of economies of scale), overpriced basic services, and expenses due to related health problems.[13]

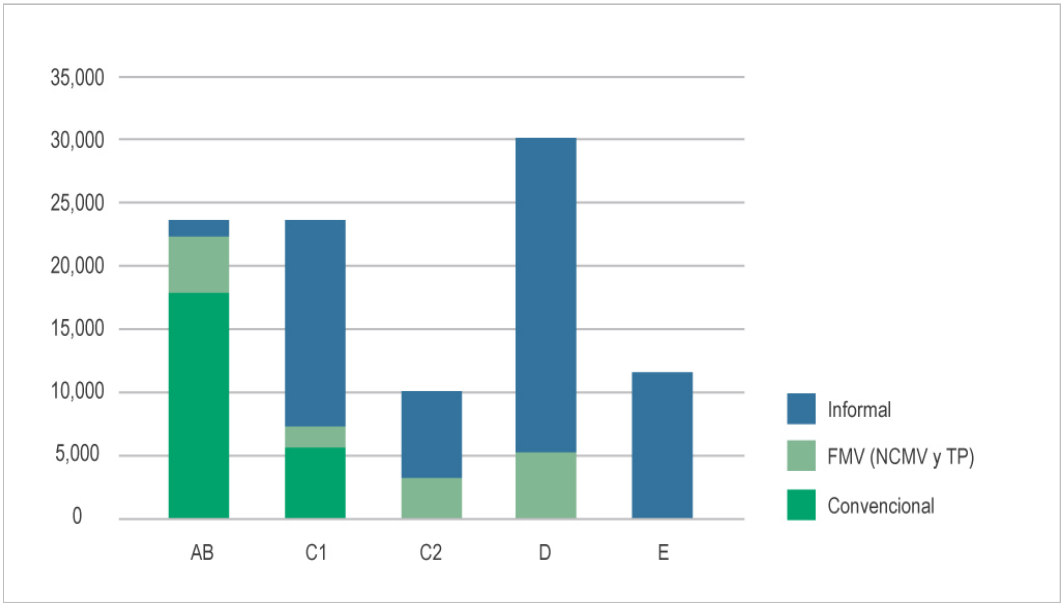
[12] In all, 44.35% (2,460,154) of LLMIHs have a housing deficit.[14]

[13] The NCMV program provides a mortgage loan through an IFI to buy, build, or improve, together with the BBP subsidy that complements the down payment. Between 2013 and 2023, the NCMV financed 58.8% of social housing and 20.8% of formal housing.

[14] The Techo Propio program provides the BFH subsidy to LLMIHs to buy, build, or improve homes and offers complementary financing through IFIs. Between 2013 and 2023, Techo Propio financed 73,087, 41.2% of social housing and 14.6% of formal housing.

[15] Maximum income of US$1,098.

Figure 1. Distribution of housing production by socioeconomic level[16] and type of production in 11 major cities



Source: Espinoza and Fort, 2021.

1.6 **Fondo MiVivienda (FMV).** This fund is a public financial institution that promotes access to housing, especially for the low-income population, under the Ministry of Housing, Construction, and Sanitation (MVCS). It administers housing subsidies and operates as a second-tier bank, providing loans to IFIs to finance home purchases, construction, and improvements. Until 2023, the FMV financed 16.9% of the country's total mortgage portfolio and annually administers more than US$300,000,000 in subsidies.[17] The remaining 83.1% of mortgages are financed by private banks (commercial banks, municipal savings banks, and rural savings banks) using own resources. The FMV also provides the Credit Risk Coverage service, which provides insurance for the IFI-extended mortgage subloans to improve the prospects of recovery in the event of default and stimulate a larger supply of home loans.

1.7 **New regulatory framework**. In 2021, the Peruvian government approved the National Housing and Urban Development Policy for 2030 and enacted the Sustainable Urban Development Law to improve the population's housing conditions, with an emphasis on vulnerable and low-income sectors. In 2023, the Social Interest Housing Regulations were approved, and two other regulations of the Sustainable Urban Development Law are being drafted: (i) public land operator and (ii) land management instruments, which will help increase the supply of available urban land.

1.8 **Problem addressed**. LLMIHs face difficulties in accessing adequate housing solutions, which pushes them toward self-builds without assistance on plots

[16] The *y*-axis represents the number of homes and the *x*-axis represents socioeconomic groups, with AB being the highest level and E the lowest. The socioeconomic levels correspond to the taxonomy prepared by the Peruvian Association of Market Intelligence Companies (APEIM), with data from the National Household Survey (ENAHO).

acquired in the informal market. This problem is associated with market failures (asymmetric information; insufficient supply of financing for households with the ability to pay; low production of affordable formal housing; scarcity of well-located land; climate change externalities due to increasing vulnerability to disasters; and inefficient use of energy and water) and institutional failures (inefficiencies in housing programs and limited interagency coordination) that require a public policy response. Consequently, two main determinants for this problem have been identified.

1.9 **Determinant 1. Limited supply of financing for LLMIHs to access adequate housing solutions.** The private mortgage market is insufficient, with less than 3% of households having mortgages.[18] Although the sector is expanding, it still has great growth potential when compared with neighboring economies such as Chile and Colombia, both in terms of mortgage debt relative to GDP[17] and the number of outstanding mortgage loans per 1,000 inhabitants.[21][18] In addition, there are failures in the functioning of the mortgage market (such as asymmetric information), which make it regressive, as it mainly serves middle- and high-income households: those with incomes over eight times the minimum wage (7% of all households) represent 30% of households with mortgage loans. In contrast, households with incomes below two times the minimum wage (35% of the total) only account for 9% of households with mortgage loans.[22]

1.10 The limited supply of existing mortgage loans does not reach LLMIHs, even if they have sufficient purchasing power to access social housing through the ABC system.[23][19] Most of these households lack formal incomes and make low use of bank services, which hinders their eligibility to receive loans from the financial system under current conditions. In addition, limited financial education in these segments of the population translates into strong distrust of the formal financial system, mainly due to the lack of knowledge about terms and conditions and the scoring processes.[26]

1.11 At present, there is also a limited supply of financial products[20] that effectively foster improvement processes or incremental building, despite the substantial growth potential of this financing market.[21] Accordingly, households resort to their savings and/or personal loans (which can have interest rates of up to 80%) to improve their homes.[28] Also, from acquisition to completion of the home the self-build process currently takes 16 years, so access to credit for improvement

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17 Mortgage debt relative to GDP is 28.5% for Chile, 8.2% for Colombia, and only 6.7% for Peru.[19]

18 The number of mortgage loans per 1,000 inhabitants is 79 for Chile, 28.3 for Colombia, and only 8.41 for Peru.[20]

19 For example, the cost that they pay for land without any infrastructure or services is often higher than the standard 10% down payment in housing programs.[24] On average, families that engage in self-building invest US$405 per month and about US$50,000 in total over about 16 years starting from acquisition/illegal occupation of the land to completion of the home.[25]

20 Existing home improvement products include: (i) the Techo Propio program for home improvement; (ii) the NCMV for improving an existing home; (iii) consumer loans offered by several municipal savings banks; and (iv) lines of credit used for home improvement provided by private banks (Mi Banco, BBVA, BANBIF, and Pichincha).

21 Currently, 2.9 million urban homes are in the self-build process.[27]

could accelerate this process and lead to a decent solution in a more reasonable period of time.[29]

1.12 At the same time, under the ABC approach the FMV's housing programs lack adequate targeting to serve LLMIHs on a large scale, thereby reproducing the bias toward higher-income households.[30] As it stands, while households with incomes of less than four times the minimum wage represent 70.3% of all urban households,[31] loans to this population originated by the FMV through IFIs account for only 23.4% of its outstanding portfolio (US$645,475,744).[32],[22] despite the fact that they have a lower arrears rate than average.[23] In this connection, there are opportunities to optimize the programs' parameters by defining the value of subsidies as an inverse function of household income levels, unifying programs by market segments, and reducing the number of housing ranges that can be financed. Added to this are the information barriers associated with the dissemination of existing programs.[24]

1.13 **Determinant 2. Low production of affordable formal housing targeting LLMIHs.** The supply of new housing in Peru is insufficient to meet the demand arising from the annual formation of new households. Between 2007 and 2017, an average of 129,877 formal and informal homes were built per year, yet 149,821 households were formed.[34] An estimated 260,000 homes would need to be produced per year: 220,000 for new households and 40,000 to fill the shortfall in stock in 10 years.[35] In total, 75% (190,000 homes) of this demand relates to LLMIHs.[36] However, the market produces only 45,000 formal units per year,[37][25] which are mostly accessed by the high-income population.[26] This contributes to a growing quantitative deficit and fosters informality. In addition, the scarcity and high cost of urban land and weak regulation limit social housing production.[39] [40]

1.14 **Gender and diversity gaps.** In terms of gender distribution in access to credit for home purchases, only 11.1% of the LLMIHs that took out mortgages have a female head of household, whereas 88.9% of households with the same level of income have a male head of household.[41] However, FMV has gender-disaggregated data indicating that mortgage lending in its programs remained equitably split between female- and male-headed households between 2017 and 2024, averaging 49%. As for diversity, 22.8% of the total number of heads of household who took out mortgage loans self-identified as Quechua, 5.3% as Afro-descendant, 1.8% as Aymara, and 1.8% as Indigenous Amazonian.[42] In this regard, the FMV does not have records of loans to households belonging to these populations—since this breakdown is not included in the IFI loan application

22 Relevant portfolio as at June 2024.

23 The arrears rate for all loan transactions under the NCMV program is 4.63%, and the rate among the LLMIH segment is 4.30%, slightly lower than the program average but higher than the general arrears rate for all mortgages in the country's financial system (2.88%), making this population a low-risk segment for mortgage lending.

24 Overall, 27% of municipios are unaware of the Techo Propio program's structure and offerings, and only 18% state that they are aware of projects run under this program in their community. This reveals the lack of coordination between the MVCS and local governments to promote and use housing subsidies.[33]

25 Out of a total of 130,000 new homes per year.

26 In the Lima metropolitan region, which is home to 29.9% of the total population, home construction for LLMIHs (2019-2023) fell from 2,303 to 562 units per year, and its share also fell from 7.8% to 3.5% with respect to total supply.[38]

form—or communication strategies targeting Indigenous peoples, Afro-descendants, or persons with disabilities. However, the Integrator BBP does benefit persons with disabilities, although only some IFIs implement and promote it on their platforms.

1.15 **Climate change gaps.** Household energy use accounts for approximately 30% of total energy sector emissions—the second largest share. In 2019, the residential and commercial sector accounted for about 6% to 8% of energy sector emissions (6,569 tons of CO_2 equivalent).[43] In recent years, Peru has seen a moderate increase in emissions from the residential sector due to urban growth and increased energy demand, although these figures are being mitigated in part by the adoption of more efficient and cleaner technologies.[44]

1.16 In terms of vulnerability to the effects of climate change, in the absence of effective mechanisms for formal housing production, most of the homes produced informally are located in high-risk areas; this trend will increase in the future in the event of extreme weather events.[45] For example, between 2017 and 2021, 64% of urban expansion in Lima and Callao took place in areas exposed to one or more hazards, such as high slopes, landslides, or mudflows.[46] Nationally, between 2003 and 2023, 145,592 homes (formal and informal) were destroyed and 1,864,635 damaged by climate-related events[47]—a trend that is expected to continue to increase unless housing units are located outside these areas.

1.17 **Program strategy.** Given the institutional and market failures that affect the housing sector in Peru and a difficulty in accessing finance that limits LLMIH access to adequate housing (Determinant 1),[27] this operation will seek to expand the supply of home loans (relevant portfolio), improving the targeting of this population through defined eligibility criteria. To address the housing deficit problem (paragraphs 1.1 to 1.5), the strategy looks to promote the development of more inclusive financing markets and encourage greater participation by the private sector and the FMV to discourage informal occupancy and provide preventive and mitigating measures aimed at LLMIHs. The operation resources will exclusively target LLMIHs through eligible IFIs, diversifying solutions for: (i) the purchase of adequate housing, built and sold by the private sector under market conditions; and (ii) home improvements with technical assistance through a new loan product to be developed by the FMV.[28]

1.18 In addition to the project, a nonreimbursable technical cooperation (ATN/CV-21221-PE; ATN/OC-21222-PE) was prepared to support the FMV's institutional strengthening and enhance the impact and scale of housing products and programs for LLMIHs. In particular, it will support updates to regulations and policies to reduce existing barriers, the strengthening of climate change

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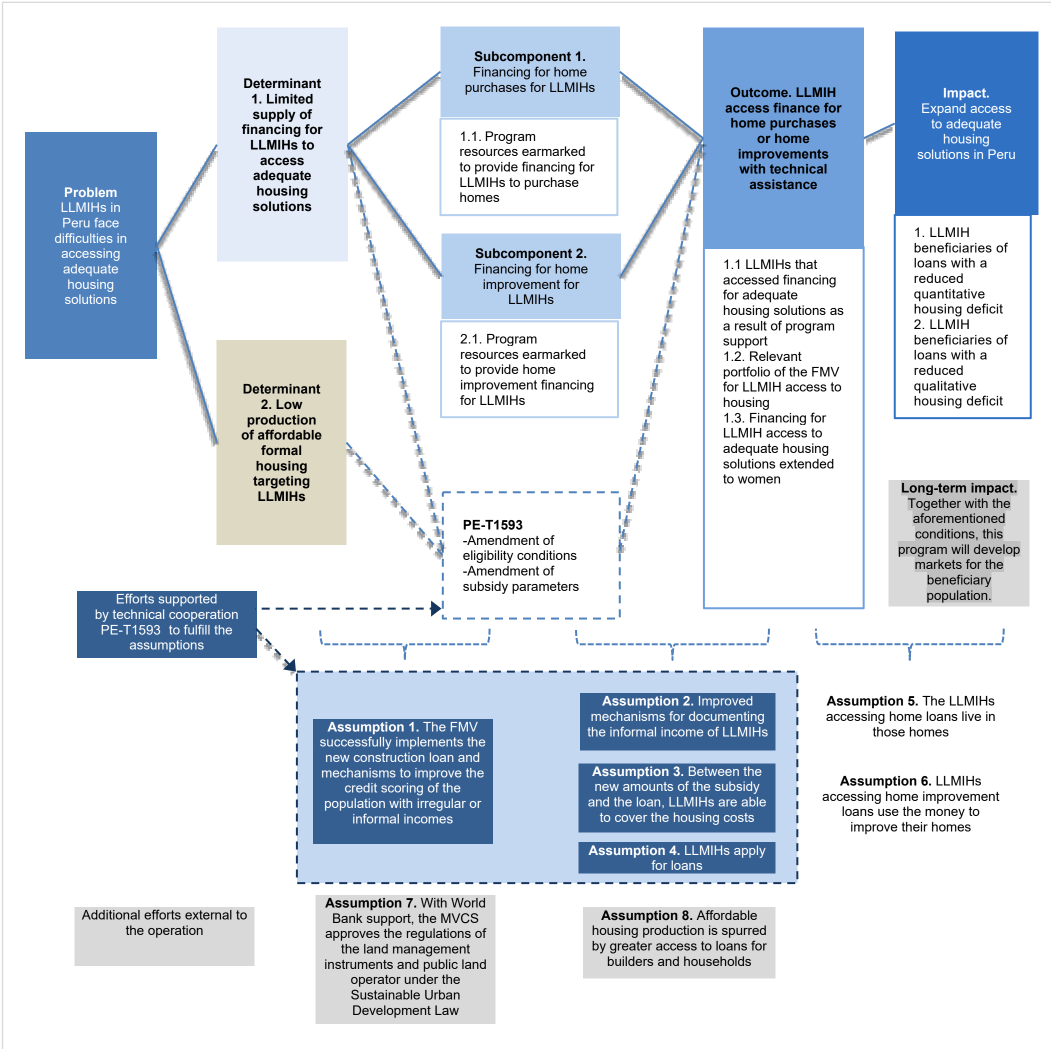
[27] Resources from this operation will not be used to address Determinant 2. This determinant will be addressed through: (i) technical support from technical cooperation PE-T1593 (ATN/CV-21221-PE; ATN/OC-21222-PE), including activities such as support for the implementation of a construction loan; and (ii) additional efforts external to the operation, such as the approval of the land management and public land operator regulations under the Sustainable Urban Development Law, by the MVCS.

[28] This operation will help lay the groundwork to create a guarantee fund to back mortgage loans for low-income households, a measure currently under study by the Ministry of Economy and Finance (MEF).

considerations, and actions targeting female-headed households, Indigenous peoples, Afro-descendants, and persons with disabilities (see paragraph 1.24).

Figure 2: Theory of change



1.19 Underdeveloped mortgage markets stand as a barrier to improving living conditions, especially for the low-income population.[48] Therefore, the benefits of expanding the availability of financing for adequate housing solutions are directly related to the benefits generated by access to adequate housing. Making changes in housing infrastructure has major effects on vulnerable families' quality of life in areas such as physical health [49], mental health,[50] cognitive development in children,[51] satisfaction with quality of life,[52] household functionality,[53] and school absenteeism,[54] among others.

1.20 **Bank experience.** The Bank has supported the housing sector in Peru since the 1960s (PE0067). The most recent operation in this sector was the Housing Sector Support Program (1461/OC-PE), which was approved in 2003 and introduced the BFH granted by the Techo Propio program; this intervention is expected to enhance its efficiency and progressiveness. In the last five years, the Bank supported the MVCS and the FMV with knowledge transfer and technical assistance (ATN/CV19177PE; ATN/OC18604PE; ATN/FM-16452-PE; and ATN/CV-20648-PE). IDB Invest is providing financing to three Peruvian developers to build social housing, one of them through a subsidy (Viva 13466-01; Los Portales 12468-01; Los Portales II 13823-01; and Menorca 12531-01).

1.21 In addition, the Bank has experience in several countries in financing new housing through second-tier banks (3853/OC-PR; 5352/OC-ES; 5910/OC-EC) and in improving housing in Paraguay (3538/OC-PR; 4700/OC-PR), Uruguay (1186/OC-UR), Argentina (AR-O0005), and Brazil (5765/OC-BR; 5732/OC-BR; 3630/OC-BR; 2482/OC-BR). The Bank has vast experience in structuring financing programs to reach a larger number of beneficiaries with more flexible and accessible terms of credit, such as in the experiences in Argentina (AR-X1004; 4804/OC-AR) and Brazil (5765/OC-BR; 5732/OC-BR; 3630/OC-BR; 2482/OC-BR). In addition, the Bank's participation can guide the development of new lines of credit, innovative financing models, or even public-private partnerships that multiply this program's reach, as in Brazil's experiences (5765/OC-BR; 5732/OC-BR; 3630/OC-BR; 2482/OC-BR). In programs such as EC-U0001 and ES-O0009, the integration of knowledge between the Connectivity, Markets, and Finance Division and the Housing and Urban Development Division made it possible to make agile adjustments in the Program Operating Regulations, resulting in their satisfactory performance. These experiences in housing finance and productive finance projects validate the program's strategy, demonstrating the Bank's complementarity of knowledge and experience in the housing and capital markets sectors and extending the reach toward low-income families.

1.22 **Lessons learned.** The program design incorporates lessons learned from the monitoring and evaluation of Bank operations in the sector, including: (i) previous operations with second-tier banks demonstrate that they are effective in addressing market failures and promoting market development when they adopt comprehensive approaches; accordingly, it was decided to structure this global credit program with the FMV by considering the various financing instruments and subsidies, incentives, and relevant actors; (ii) in Ecuador (4788/OC-EC), for example, lessons were learned about the importance of serving the population without access to credit, diversifying housing solutions, and working with new financial agents, which contributed to the design of this program as one targeted to low-income households with the ability to save and pay; and (iii) based on the Housing Sector Support Program (1461/OC-PE), the need was identified to develop appropriate mechanisms for this population segment that include microcredit for improvement with assistance from technical entities, and not only for home purchases, which is why a pilot program for home improvement is included in the program.

1.23 **Nonfinancial additionality.** Although the dimension of access to finance is the most significant, there are other institutional and legal barriers that have an impact on the problem. The value added of the Bank's involvement in financing this program can be seen both in the activities prior to design of the operation and in the activities to be performed during execution, which will ensure the program's sustainability. The Bank has previously provided support through technical cooperation ATN/CV-19177-PE; ATN/OC-18604-PE, which supported the preparation and approval of the National Housing and Urban Planning Policy, the Sustainable Urban Development Law, and a proposal to implement the public land operator. The project also enabled the preparation of an in-depth analysis of the housing value chain, which identifies the main causes of the housing deficit and puts forward a set of strategies, policies, and regulatory adjustments to boost access to adequate housing solutions for the most vulnerable households, including the reform of the subsidy system, incentives for greater placement of mortgage loans with LLMIHs, and new products for home improvement, among others. In addition, through technical cooperations ATN/FM-16452-PE and ATN/CV-20648-PE, the IDB supported the government in designing transit-oriented development projects that will generate urban land for housing for different socioeconomic levels, located in areas close to mass public transport stations.

1.24 During the execution phase, in addition to the program's financing resources, technical assistance (ATN/CV-21221-PE; ATN/OC-21222-PE) will be provided to the MVCS and the FMV to strengthen their capacities and reduce the main barriers that limit LLMIH access to financing for adequate housing solutions. The nonfinancial additionality will be reflected mainly in the following activities to improve and diversify existing housing products and programs and optimize their implementation: (i) review of the current FMV-administered housing subsidy system to improve its targeting and progressivity, as well as the efficiency of public spending; (ii) structuring of new models and tools that encourage IFIs to expand their participation in housing finance extended to the population with irregular or informal incomes, such as alternative credit scoring systems for households without formal income and lending models with fiduciary guarantees to back unpaid or delayed loan installments, while also including diverse populations; (iii) development and piloting of a new financing product for home improvements; (iv) creation of a sustainability baseline for social housing; (v) dissemination actions for FMV programs through communication pieces targeting female heads of household and diverse populations, such as Indigenous people, Afro-descendants, persons with disabilities, and the migrant population; (vi) training activities with IFIs to improve their ability to serve LLMIHs, including the implementation on their platforms of the Integrator BBP for persons with disabilities; and (vii) the preparation of a study on the challenges and gaps in access to financing for adequate housing solutions for the diverse population (Indigenous people, Afro-descendants, and persons with disabilities) and migrant population and the design of service delivery strategies to be implemented. These activities will not only help correct existing market failures by expanding credit for home purchases and improvement, but will also have a broader impact on the improved design and execution of public policies in the sector. In the long run, all these efforts are expected to contribute to the development of credit markets for LLMIHs.

1.25 Parallel to IDB assistance, the World Bank is providing complementary support. While the IDB will be focusing primarily on strengthening access to finance for low- and lower-middle-income sectors, the World Bank is supporting: (i) actions to reduce the risk of this loan portfolio through MEF-provided technical assistance in housing finance, which includes the creation of a guarantee fund for mortgages; and (ii) actions to boost the production and efficient use of urban land through technical assistance provided to the MVCS in preparing the Sustainable Urban Development Law regulations relating to land management.

B. Objectives, components, and cost

1.26 **Objective.** The general development objective is to help expand access to adequate housing solutions for low- and lower-middle-income households (LLMIHs) in Peru. The specific objective is to broaden access to financing for adequate housing solutions for LLMIHs.

1.27 **Sole component. Financing support for adequate housing solutions (US$300,000,000).** Program resources will be used for the FMV to provide financing for adequate housing solutions[29] through its portfolio of lending products for home purchases and improvements in urban areas,[30] exclusively targeting households with incomes up to four times the minimum wage, following a resilient and inclusive approach. Program resources will be channeled through sub-loans through eligible IFIs, using existing lending products and associated subsidies.[31,32] The outputs resulting from the financing granted under this component will benefit from the technical support delivered through technical cooperation PE-T1593 (optional link 7), for operational support, which will generate mechanisms and incentives to expand the placement of mortgage loans with LLMIHs.[33]

1.28 **Subcomponent 1. Financing for home purchases (US$260,000,000).** This will help reduce the quantitative deficit by providing financing for mortgage loans through IFIs to final beneficiaries for the purchase of new or used homes located

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29 The average expected loan for new homes is estimated at US$29,000 and for home improvements at approximately US$5,000. To reach these amounts, the loan is complemented by a subsidy and household savings. The average value of the homes purchased using program funds is US$42,582. Accordingly, subloans for home purchases (70% of the value of the home on average) must be complemented with a subsidy (11%) and household savings (19%). The estimated average value of the subsidy for Subcomponent 1 is US$5,025. For Subcomponent 2, the subsidy will be US$3,283 (see optional link 1). Following an analysis of the items for potential improvement (walls, flooring, roofing, structural reinforcement, and expansion), it is estimated that US$9,000—resulting from the loan, plus the subsidy and savings—will cover the improvement costs. The maximum loan amounts will be US$50,000 for home purchases and US$20,000 for home improvements.

30 At present, the FMV has the following portfolio of mortgage products active: NCMV and complementary Techo Propio financing.

31 IFIs supervised by the Superintendency of Banking, Insurance, and Pension Fund Managers (SBS) that meet the eligibility criteria stipulated in the Program Operating Regulations may participate in the program. Program funds will be earmarked for LLMIH lending and complemented by a direct subsidy from the State, depending on the program that they access. For the Techo Propio program, beneficiaries will receive the BFH, and for the NCMV program, they will receive the BBP plus the Integrator BBP. The amounts of BBP and BPH subsidies are regulated by the MVCS and are updated annually by Supreme Decree, considering factors such as changes in the consumer price index (CPI) and the average increase in the basic daily wage paid to construction workers. In 2024, the BBP subsidy provided between US$2,000 and US$7,079 to purchase homes costing between US$17,737 and US$93,447. The BFH subsidy provided between US$11,791 and US$13,146 to purchase homes costing between US$14,474 and US$34,342. In both cases, the applicable subsidy is determined in inverse relation to the cost of the home to be purchased (see optional link 5).

32 A guarantee may be established on the parent property for the construction of housing projects in the case of future benefits.

33 The technical support delivered through technical cooperation PE-T1593 (ATN/CV-21221-PE; ATN/OC-21222-PE) will address issues identified in the determinants of the problem such as lack of formal income, lack of information, and distrust of LLMIHs in the financial system, among others.

outside nonmitigable risk zones. At least 45% of the subcomponent's resources will be earmarked for subloans to purchase green homes. Green homes will meet sustainability criteria equivalent to at least EDGE Level 1.[34] In addition, 50% of the beneficiary households will be headed by women.

1.29 **Subcomponent 2. Financing for home improvements (US$40,000,000)**. This will help reduce the qualitative deficit by financing home improvement loans and the pilot of a new financial product for home improvement with technical assistance outside nonmitigable risk zones. The Program Operating Regulations will describe the eligibility conditions for each type of intervention such that sustainability is guaranteed.

1.30 **Outcome indicators.** The operation's outcome indicators are as follows: (i) number of LLMIHs that accessed financing for adequate housing solutions; (ii) financing for LLMIH access to adequate housing solutions extended to women; and (iii) relevant portfolio of the FMV for LLMIH access to adequate housing solutions.

1.31 **Beneficiaries.** The operation looks to directly serve 16,979 urban LLMIHs, with beneficiaries gaining access to loans to purchase new or used homes (8,979 loans) or make home improvements (8,000 loans). In addition, 50% of the beneficiary households will be headed by women. The operation is expected to serve a total of 55,352 people,[35] who will have better housing conditions. Due to the revolving effect, the operation is expected to serve an additional estimated 43,042 home improvement loans and 14,589 new home loans.[36]

1.32 **Eligibility of final beneficiaries.** The program will exclusively benefit urban households with monthly incomes below four times the minimum wage. With respect to Subcomponent 1, the program will establish as eligibility criteria that neither the applicant nor his or her spouse or legally recognized partner can be the owner or co-owner of another home in the country. For Subcomponent 2, beneficiaries may not be owners or co-owners of another home in the country, other than the home to which the financing will be applied. Details on eligibility and prioritization criteria will be defined in the Program Operating Regulations.

1.33 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy 2023-2030: Transforming for Scale and Impact (CA-631) and aligns with its three objectives: (i) reducing poverty and inequality by providing equitable access to social housing; (ii) addressing climate change by financing the purchase of green housing; and (iii) bolstering sustainable regional growth by encouraging private sector participation in social housing finance. The program is also aligned with the following areas of operational focus: (i) biodiversity, natural capital, and

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34 EDGE is a green building certification system focused on making buildings more efficient. Level 1 means that a building has achieved savings of at least 20% in energy, water, and embodied energy in materials.

35 In 2022, average household size is estimated at 3.26 people.

36 The program will finance long-term housing loans that the FMV will continue to place in the same population. Amortization of the original principal, along with a portion of the interest, will help finance new loan transactions. From the start of the program across an operational horizon of 20 years, over 57,000 additional households are expected to benefit from the mortgage or home improvement loans, tripling the impact of the Bank's resources (see optional link 1, paragraph 4.1).

climate action; (ii) gender equality and inclusion of diverse population groups; (iii) social protection and human capital development; (iv) productive development and innovation through the private sector; and (v) sustainable, resilient, and inclusive infrastructure, by promoting formal housing that incorporates sustainability considerations. The program aligns with the Housing and Urban Development Division's strategic vision for the housing sector and is consistent with the Housing and Urban Development Sector Framework Document (GN-2732-11) by financing access to formal housing. The program is also consistent with the IDB Group Country Strategy with Peru 2022-2026 (GN-3110-1) through its strategic objective to improve the coverage and quality of basic services. The program is aligned with the government's priorities as set out in the General Government Policy 2021-2026 and the 2030 National Housing and Urban Development Policy. Specifically, the program contributes to priority objective 3 of the National Housing and Urban Development Policy by "expanding access to adequate housing, prioritizing the population in a situation of poverty or social vulnerability," within the framework of service 17 "promotion of affordable mortgage loans" and service 23 "improvement of urban and rural housing, prioritizing the population in a situation of poverty or social vulnerability." Lastly, the operation is consistent with the Gender and Diversity Sector Framework Document (GN-2800-13) in its dimension 5 (improving economic opportunities and expanding women's access to housing services, credit, and titles) and is aligned with the IDB Group's Gender and Diversity Action Plan 2022-2025 (GN-3116-1).

1.34 **Paris alignment.** This operation has been analyzed using the Joint Multilateral Development Bank Assessment Framework for Paris Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1). It has been found to be: (i) aligned with the adaptation target of the Paris Agreement based on a simplified analysis; and (ii) aligned with the mitigation target of the Paris Agreement based on a specific analysis. Alignment was based on consideration of the following elements: (i) under the Program Operating Regulations, at least 45% of Subcomponent 1 will be earmarked for mortgages to purchase homes that meet sustainability criteria at least equivalent to EDGE Level 1; (ii) under the Program Operating Regulations, the energy efficiency of the gas appliances to be financed under the operation will be guaranteed; (iii) all housing solutions to be financed are located outside nonmitigable risk zones; and (iv) through the technical cooperation (ATN/CV-21221-PE; ATN/OC-21222-PE), the FMV will be supported in developing a sustainability baseline for social housing that will be an integral part of the housing policy.

1.35 **Climate finance**. An estimated 39.36% of the operation's total amount counts as climate financing according to the joint methodology of the multilateral development banks for tracking climate finance since it finances access to housing that achieves at least 20% savings in energy, water, and embodied energy in the materials used.[37]

1.36 **Prioritized gender and diversity alignment activities.** One outcome indicator is defined as 50% of financing going to women, which will enable the FMV to continue closing the gap in access to credit for female-headed LLMIHs. In addition, through

[37] Equivalent to an available national or international green building certification, even if the certification process is not carried out.

project (ATN/CV-21221-PE; ATN/OC-21222-PE, a study on the challenges and gaps in access to financing for adequate housing solutions for the diverse populations and a population-adapted communication strategy (women, Indigenous peoples, Afro-descendants, and persons with disabilities) will be prepared, and the Integrator BBP will be implemented for persons with disabilities on the IFI platforms.

1.37 **Synergies with the IDB Group.** This operation seeks to maximize synergies within the IDB Group and correct market failures from the public sector by expanding demand for adequate housing solutions. With IDB Invest's Corporate Division, there are collaboration opportunities linked to the three clients that have already been financed and that rank among the leading real estate developers in the country, as well as with the new prospects that mainly target population segments prioritized by this operation. In effect, expanding financing to LLMIHs through this operation will help promote a greater supply of social housing aligned with environmental sustainability criteria. In addition, new synergies such as rent-to-own models will be sought, which would be innovative in Peru. Coordination is under way with the Financial Institutions Division to mobilize more resources and maximize the impact of this operation on two fronts: (i) direct complementary financing from IDB Invest to the FMV to expand access to credit for affordable housing for middle-income segments of the population; and (ii) coordination with the IFIs that currently have projects with IDB Invest in the structuring phase and that could potentially be beneficiaries of this operation through the FMV, in order to make complementary use of funds, without overlapping with the IDB Group resources. Collaboration with IDB Lab will develop alternative credit scoring systems for segments that do not have access to bank services.

C. Viability analysis

1.38 **Technical viability**. Based on an analysis performed using the Institutional Capacity Assessment Platform (ICAP), the program is considered viable in view of the FMV's capacity and experience in implementing housing finance lines of credit. The FMV has demonstrated satisfactory performance in the execution of projects with international cooperation funds in the last three years. The personnel in all responsible technical and financial departments have sufficient capacity, experience, and time to manage new operations.

1.39 **Socioeconomic viability.** In order to determine whether the program will produce economic returns, the project's cost and economic viability was analyzed using the cost-benefit analysis, which monetizes all the income generated and expenses incurred in executing the program, while determining whether the benefits of carrying out the credit program are greater than its costs. The intervention is assumed to start in 2025; to take into account the program's long-term effects, benefits are estimated for a 20-year period using a 12% discount rate. The results suggest that the program's net return for the period amounts to US$79.4 million. The program's benefit-cost ratio is estimated at US$1.2 per US$1 invested, with an internal rate of return of 14.5%. In addition, several sensitivity analyses were performed, which demonstrate that the program will continue to be socially and economically viable, even when more conservative and demanding values are assumed for various parameters of the analysis.

1.40 **Socioenvironmental viability.** In accordance with the Bank's Environmental and Social Policy Framework and based on the assessments made during the due diligence process, this operation is classified under the “FI” (Financial Intermediary) category, where the executing agency acts as an intermediary in the distribution of funds and, therefore, assumes delegated responsibility for assessing and managing the environmental and social risks and impacts of eligible activities.

1.41 The Bank's due diligence review sought to determine the operation's socioenvironmental viability and focused on evaluating the executing agency's environmental and social policies and procedures and its commitment to, capacity to, and track record in applying them, as well as identifying the measures needed to strengthen its environmental and social risk and impact management system. The socioenvironmental viability is presented in the Environmental and Social Review Summary (ESRS), which will be included in the Program Operating Regulations and will define the program’s environmental and social requirements. No adverse social or environmental effects are expected as a result of the eligible activities.

1.42 As part of the operation preparation process, the executing agency will develop and implement an environmental and social management system in line with the level of environmental and social risks of the portfolio and eligible activities. This system will incorporate the relevant principles of Environmental and Social Performance Standards 1 (Assessment and Management of Environmental and Social Risks and Impacts), 2 (Labor and Working Conditions), and 10 (Stakeholder Engagement and Information Disclosure).

1.43 **Institutional and financial viability.** The ICAP analysis found no significant institutional weaknesses. However, a series of recommendations were identified, as follows: (i) a specialized program team (SPT) should be created under the Finance Division, which will be responsible for the program's execution, management, and overall coordination and will act as a direct point of contact with the Bank. It will also be responsible for the financial and accounting management of the operation; (ii) the executing agency should be trained on the Bank's fiduciary, monitoring, and evaluation policies; and (iii) the program Operating Regulations should be approved to define the institutional coordination mechanisms, the execution strategy for each line of credit, and the roles and responsibilities of the FMV's various functional areas, including the SPT.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Financing structure and modality.** Given its nature as a form of financial intermediation, this loan has been structured as a global credit program for US$300 million from the IDB’s Ordinary Capital. This instrument is the most appropriate to expand access to housing finance to LLMIHs with the ability to pay, through IFIs. Complemented by the Bank's technical assistance, this program has the potential to strengthen the FMV's ability to provide financing to this segment and to expand and develop housing finance markets in Peru.

Table 1. Estimated costs of the program (US$)[38]

Components	IDB	Total	%
Sole component. Financing support for adequate housing solutions	300,000,000	300,000,000	100
Subcomponent 1. Financing for home purchases	260,000,000	260,000,000	86.67
Subcomponent 2. Financing for home improvement	40,000,000	40,000,000	13.33
Total	**300,000,000**	**300,000,000**	**100**

* The costs per subcomponent or main activity are indicative (see details in required link 1).

2.2 **Disbursement schedule.** Based on expected demand and prior experience with this type of instrument, the execution and disbursement period will run for five years as from the effective date of the loan contract to be entered into by the Bank and the Republic of Peru.

Table 2. Disbursement schedule (US$)[39]

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sole component	57,085,597	62,708,903	68,282,209	61,654,056	50,269,235	300,000,000
Subcomponent 1	57,085,597	59,358,903	61,632,209	49,154,056	32,769,235	260,000,000
Subcomponent 2	0	3,350,000	6,650,000	12,500,000	17,500,000	40,000,000
Total	**57,085,597**	**62,708,903**	**68,282,209**	**61,654,056**	**50,269,235**	**300,000,000**
Percentage	19.03%	20.90%	22.76%	20.55%	16.76%	100.00%

B. Environmental and social risks

2.3 In accordance with the Bank's Environmental and Social Policy Framework (GN-2965-23), this operation is classified as financial intermediation with a moderate environmental and social risk rating. The financial intermediaries will transfer funds through subloans based on the program components to finance home purchases or home improvement projects equivalent to the Bank's category "C," and projects classified as category "A" or "B" under the Bank's classification system will be excluded. These eligibility criteria are presented in the Program Operating Regulations.

2.4 The operation's disaster and climate change risks are also considered low. The program supports mortgage loans for LLMIHs, which will finance home purchases or improvements. In addition, the program will not finance subprojects classified

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38 The distribution of percentages is the result of an estimate of the use of resources of each subcomponent. Execution details will be included in the Program Operating Regulations.

39 Program execution may begin once eligibility has been reached and is not contingent on changes in the schedule of subsidies. The expectation is that 19% will be executed in the first year, not counting the impact of technical assistance, which is already reflected in the disbursement schedule. The subcomponent 2 reform will help scale up execution beginning in the second year.

as category "A" or "B" under the Bank's classification system. These eligibility criteria are presented in the Program Operating Regulations.

C. Fiduciary risks

2.5 The fiduciary risk is considered to be low. However, certain actions were identified as a result of the ICAP analysis, relating to the following: (i) the creation of internal coordination mechanisms between the Finance Division and other bodies involved in program management, as well as the interaction with the MEF for disbursement requirements, for which an SPT will be created within the FMV structure and the respective governance and coordination arrangement will be described in the Program Operating Regulations; and (ii) the training of FMV personnel on the Bank's monitoring and fiduciary policies and tools in order to comply with the disclosure requirements throughout program execution.

D. Other key issues and risks

2.6 This operation's economic and financial risk is medium-high since, if exchange rate conditions become unfavorable in the short term and volatility persists, then an imbalance in the program accounts could occur, since the Bank's loans are denominated in U.S. dollars. Loans to the end borrowers will be disbursed in local currency. Since it is regulated by the Superintendency of Banking, Insurance, and Pension Fund Managers (SBS), the FMV must meet coverage ratios that mitigate this risk. The FMV may request a currency conversion of the Bank so that disbursements are denominated in local currency.[40] In addition, the IDB will ensure that the FMV is apprised of strategies to hedge this risk in coordination with other financial institutions willing to hold U.S. dollar positions locally.

2.7 Another risk is a potential reduction in the allocation of financial resources for affordable housing subsidies, which would directly affect lending by the IFIs and would require the goals and activities planned at the start of project execution to be rescheduled. In order to mitigate this risk, the FMV would conduct planning and monitoring of affordable housing disbursements and establish a mechanism for coordination with the MCVS and the MEF for the analysis of subsidy requirements and their connection with the program's expected results and disbursements.

2.8 **Sustainability of the operation.** The execution of the credit operation supported by technical cooperation (ATN/CV-21221-PE; ATN/OC-21222-PE) and the Peruvian government's other complementary initiatives will together contribute to promoting the development of housing finance markets that better serve LLMIHs. Addressing market failures, broadening targeted financing, and strengthening housing policies are expected to lead to a crowding-in effect that will expand the private sector's participation and enhance its capacity to serve low-income households. The operation will expand the demand for and supply of credit to low-income households to buy homes built and sold by the private sector under market conditions. The operation will also support the creation of a new lending product for the FMV that will expand the financing market for households facing a

[40] In the framework of the Financing Program for Women Entrepreneurs in Peru (5596/OC-PE), disbursements denominated in local currency have already been considered, which diversifies the country's disbursement options.

qualitative deficit to make nonstructural or structural improvements to their homes. Also notable is the counterpart's commitment to continue improving the regulatory framework, such as the Sustainable Urban Development Law land management regulations, which will in the medium term strengthen the program's sustainability. Creating conditions for greater private sector participation once market failures have been corrected and LLMIH access to credit expanded will have a systemic impact on Peru’s housing market.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Republic of Peru, and the executing agency will be Fondo MiVivienda (FMV). The FMV is part of the local financial system and, therefore, is authorized to engage in financial intermediation activities permitted by law. It operates as a second-tier bank and is governed by Law 28579. Since its creation in 1998, its core business has been the promotion and financing of housing throughout the country, channeling funds to lenders through IFIs. The FMV is owned by the National Fund for Financing State Business Activity (FONAFE) and is supervised by the Superintendency of Banking, Insurance, and Pension Fund Managers (SBS) and the Superintendency of the Securities Market.

3.2 **Execution mechanism.** As the executing agency, the FMV will be responsible for the program’s technical, administrative, socioenvironmental, fiduciary, and operational execution, including overall coordination and resource management. For the execution of program resources, the FMV, within the scope of the Finance Division, the Commercial Division, and the Real Estate and Social Projects Division, will set up a specialized program team (SPT) as indicated in the Program Operating Regulations. The SPT will coordinate with and rely on the FMV's functional areas.

3.3 To extend subloans, the FMV will act as an intermediary institution of the resources to the eligible beneficiaries through the IFIs and will be responsible for transferring the resources and monitoring the program accounts in its role as executing agency. The FMV will be responsible for implementing the following procedures relating to the use of the Bank's financing resources, which will be included in the Program Operating Regulations to be approved by the Bank, including: (i) definition of the attributes and conditions of the financial products; (ii) selection, evaluation, accreditation, and monitoring of the financial and socioenvironmental performance of the eligible subloans; (iii) application of eligibility criteria, resource allocation and collection, monitoring and supervision of beneficiaries and projects/investments; and (iv) instruction for all stakeholders on the program's requirements and conditions, including breaches. To this end, the FMV's Finance Division will be in charge of program management and act as the focal point vis-à-vis the Bank, including all the activities described in the Program Operating Regulations and the monitoring and evaluation plan.

3.4 **IFI eligibility.** Authorized IFIs that have a current line of credit under FMV programs and meet the eligibility criteria set out in the Program Operating Regulations[41] may participate.

3.5 **Special contractual conditions precedent to the first disbursement of the loan. The following will be special contractual conditions precedent to the first disbursement of the loan: (i) the borrower, through the Ministry of Economy and Finance (MEF), and the executing agency have entered into an agreement, and this is in force, for the transfer of proceeds from the loan and the obligations of the parties with respect to execution of the program; and (ii) the executing agency has approved the Program Operating Regulations, and these are in force, in accordance with the terms and conditions previously agreed on with the Bank, which include clauses relating to socioenvironmental issues based on the environmental and social review summary (ESRS).** These conditions are justified since: (i) the Program Operating Regulations contain basic criteria and requirements for program execution; and (ii) the borrower/FMV agreement formalizes the mechanisms to transfer resources and obligations between the borrower and the executing agency.

3.6 **Procurement.** Since the program is structured as a global credit operation and does not consider the procurement of goods or consulting services, its resources will be used exclusively to extend loans as defined in the program Operating Regulations. The provisions of paragraph 3.13 of the Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and, consequently, current commercial or private sector practices will apply, without prejudice to the contents of Section I of these policies.

3.7 **Disbursement.** The loan proceeds may be disbursed through the advance of funds or reimbursement of expenses modalities. For advances of funds, the FMV will request the disbursement of funds from the Bank based on a financial programming supported by the program’s actual liquidity needs for up to 180 days. Disbursements will be substantiated with the transfers that the FMV makes to the IFIs for at least 80% of the total cumulative balances pending substantiation, using the Bank's forms.

3.8 **Financial management and audits.** Financial management is governed by the guidelines set out in document OP-273-12. The fiduciary agreements and requirements (Annex III) set out the financial management, planning, and supervision framework applicable to the operation. The FMV will submit annual and final financial reports for the program, audited by a Bank-eligible external audit firm contracted by the FMV in accordance with the terms of reference agreed on with the Bank, even if the cost of the audit is financed using FMV resources. Audited financial reports for the program will be submitted within 120 days following the closing date of each financial year, and final audited financial statements will be submitted within 120 days following the date of the last disbursement. Program audits will be financed with own resources of the FMV.

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[41] The program Operating Regulations will set out eligibility criteria aimed at promoting the access of low-income households to financing for adequate housing solutions, such as the implementation of the Integrator BBP to issue the NCMV loans.

3.9 **Program Operating Regulations.** Program execution will be governed by the provisions set out in the loan contract and in the program Operating Regulations, which will be subject to the Bank's no objection and will include at least: (i) the organizational arrangement for program execution, including the SPT's roles and responsibilities; (ii) the guidelines for financial, audits (such as the scope of audited financial statements), procurement, and environmental and social processes; and (iii) the description of the mechanisms for coordination, monitoring, and evaluation of the program's physical and financial progress, both within the FMV and with the MEF, in the case of disbursements. The Program Operating Regulations will contain the eligibility criteria for beneficiaries, the terms and conditions of subloans, information and reporting requirements on financial conditions, and other parameters or restrictions that will govern the use of program resources.

B. Summary of arrangements for monitoring results

3.10 **Monitoring.** The executing agency will monitor and control project management, including: (i) half-yearly monitoring reports on the achievement of objectives for the indicators in the Results Matrix, physical and financial progress of the outputs and the annual work plan, compliance with environmental and social safeguards, risk assessment, and the updating of planning and monitoring tools; (ii) the issue of the program’s audited financial statements; and (iii) the preparation of the project completion report as detailed in the monitoring and evaluation plan.

3.11 **Evaluation.** The program provides for a midterm evaluation, covering technical, administrative, and financial issues as well as issues relating to the operation's effectiveness, so as identify from an early stage whether the program's specific objective will be achieved and, if not, to make the necessary adjustments to ensure its achievement, once 50% of the loan has been disbursed or three years have elapsed since the loan contract came into force (whichever occurs first). At the end of the operation, a final evaluation will verify achievement of the proposed objectives and determine their attribution; a qualitative evaluation will validate the theory of change within the context of Peru and, subsequently, an impact evaluation will measure the contribution to the general objective; and an economic evaluation will be conducted to enable an ex post economic analysis. At closing, a final evaluation will be conducted in accordance with the Bank's guidelines to generate inputs for the project completion report.

C. Post-approval design activities

3.12 Resources will be dedicated from technical cooperation ATN/CV-21221-PE; ATN/OC-21222-PE) to support technical studies related to: (i) the optimization of housing subsidy parameters; (ii) the development of mechanisms to reduce risk and/or capture the savings capacity of households with informal incomes; (iii) the structuring of a new home improvement product; (iv) the creation of a baseline for sustainable social housing; and (v) the strengthening of the FMV's communication capabilities with a focus on low-income and vulnerable groups.

Development Effectiveness Matrix		
Summary	PE-L1293	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Social protection and human capital development -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3110-1	Strengthen environmental management with a focus on sustainability and climate change/ Improve social inclusion.
Country Program Results Matrix		The intervention is not 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	9.8	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	3.5	
3.3 Results Matrix Quality	3.8	
4. Ex ante Economic Analysis	10.0	
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	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	6.1	
5.1 Monitoring Mechanisms	0.6	
5.2 Evaluation Plan	5.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium Low	
Environmental & social risk classification	FI	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.
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/CV-19177-PE,ATN/OC-18604-PE

Evaluability Assessment Note: The general objective of the program is to contribute to improving access to adequate housing solutions for low- and middle-low-income households in Peru. The specific objective is: (i) to expand access to financing for adequate housing solutions for low- and middle-low-income households.

The project presents a comprehensive diagnosis that identifies the main determinants. The outcome indicators included in the results matrix are SMART (specific, measurable, achievable, relevant, and time-bound) and have appropriate verification means.

The economic analysis was conducted separately for subcomponent 1, which finances the acquisition of housing, and subcomponent 2, which finances housing improvements, achieving internal rates of return of 14.3% and 15.1%, respectively, with an aggregate internal rate of return of 14.5%. The benefits considered the value of the housing and its appreciation over time as sources of increased wealth for beneficiaries, and imputed rent as a measure of the benefits from consuming housing services. In addition to the described benefits, given the defined timeframe for the implementation of the investment project (20 years), it was considered that the initial capital of the operation could, through a revolving mechanism, finance a considerable number of new credit operations by recycling the capital resources. The analysis includes reasonable assumptions and an appropriate sensitivity analysis in the form of a base scenario and a conservative scenario.

The Monitoring and Evaluation Plan proposes a mid-term evaluation, which will identify progress in product and outcome indicators, and a final evaluation, which will consist of a before-and-after evaluation, an ex post economic analysis, a qualitative analysis, and a quantitative impact evaluation with attribution, leveraging the discontinuity in the scoring that determines whether a household's credit application is accepted.

RESULTS MATRIX

Program objective: The specific objective is to broaden access to financing for adequate housing solutions for low- and lower-middle-income households (LLMIH). Achieving this objective will contribute to the general development objective of helping expand access to adequate housing solutions for LLMIHs in Peru.

GENERAL DEVELOPMENT OBJECTIVE

General development objective: Help expand access to adequate housing solutions for low- and lower-middle-income households (LLMIHs) in Peru

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
1. LLHMIH beneficiaries of loans with a reduced quantitative housing deficit	LLMIH beneficiaries of loans with a reduced quantitative housing deficit/LLMIH beneficiaries of loans with quantitative housing deficit decreased	0	2024	2031	N/A	Ex post survey	See Required link 2 The baseline will be confirmed within the framework of the kick-off workshop, in coordination with the Office of Strategic Planning and Development Effectiveness (SPD).
2. LLHMIH beneficiaries of loans with a reduced qualitative housing deficit	LLMIH beneficiaries of loans with a reduced qualitative housing deficit/LLMIH beneficiaries of loans with qualitative housing deficit decreased	0	2024	2031	N/A	Ex post survey	See Required link 2 The baseline will be confirmed within the framework of the kick-off workshop, in coordination with the Office of Strategic Planning and Development Effectiveness (SPD).

SPECIFIC DEVELOPMENT OBJECTIVES

Specific development objective: Broaden access to financing for adequate housing solutions for low- and lower-middle-income households (LLMIHs)

Indicators	Unit of measurement	Baseline value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
1.1 LLMIHs that accessed financing for adequate housing solutions as a result of program support	Number of households	0	2024	-	-[1]	8,150	-	16,979	16,979	FMV report	Adequate housing solutions include new home purchases and home improvements. See required link 2
1.2 Relevant portfolio of the FMV for access to adequate housing solutions for LLMIHs	US$	645,475,744	2024	-	-	833,552,453	-	945,475,744	945,475,744	FMV report	Adequate housing solutions include new home purchases and home improvements. This indicator measures the program's impact on expanding the FMV's portfolio of loans to LLMIHs through IFIs. See required link 2
1.3 Financing for LLMIH access to adequate housing solutions extended to women	Financing for LLMIH access to adequate housing solutions extended to women/ Financing for access to adequate housing solutions extended to LLMIHs	50%	2024	-	-	50%	-	50%	50%	FMV report	Adequate housing solutions include new home purchases and home improvements. See required link 2

[1] The program is expected to provide 8,979 loans for home purchases (new or used) and 8,000 loans for home improvement (paragraph 1.31 of the loan proposal).

OUTPUTS

Subcomponent 1: Financing for home purchases

Indicators	Unit of measurement	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
1.1 Program resources disbursed to IFIs and earmarked to provide financing for LLMIHs to purchase homes	US$	0	2024	57,085,597	59,358,903	61,632,209	49,154,056	32,769,235	260,000,000	FMV report	See Required link 2 This output will benefit from the technical support provided through PE-T1593, which will generate mechanisms and incentives to expand the placement of mortgage loans with LLMIHs. See optional link 7
Milestone 1.1.1. Financing for housing with at least 20% savings in water and embodied energy in the materials used	Financing for housing with at least 20% savings in water and embodied energy in the materials used/Total financing	0	2024	-	-	-	-	45%	45%	FMV report, which shows that a minimum of 45% of the financing went to housing with at least 20% savings in energy, water, and embodied energy in the materials used equivalent to an available national or international green building certification, even if the certification process is not carried out.	

Indicators	Unit of measurement	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
1.2. Population-adapted communication strategy (female heads of household, Indigenous people, Afro-Peruvians, and persons with disabilities) developed and implemented	Number of strategies	0	2024	0	1	0	0	0	1	Communication strategy document	See required link 2 This output will be funded by technical cooperation PE-T1593.
1.3. Dissemination activities with IFIs to promote the implementation of the Integrator BBP in their platforms	Number of activities	4	2024	0	0	0	0	14	14	FMV report	See Required link 2 This output will be funded by technical cooperation PE-T1593.
1.4. Study prepared on the challenges and gaps in access to financing for adequate housing solutions for Indigenous people, Afro-Peruvians, persons with disabilities, and migrant populations	Number of studies	0	2024	0	1	0	0	0	1	Study document	See Required link 2 This output will be funded by technical cooperation PE-T1593.

Subcomponent 2: Home improvement

Indicators	Unit of measurement	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
2.1 Program resources disbursed to IFIs and earmarked to provide home improvement financing for LLMIHs	US$	0	2024	0	3,350,000	6,650,000	12,500,000	17,500,00(	40,000,000	FMV report	See required link 2 This output will benefit from the technical support provided through technical cooperation PE-T1593, which will enable the structuring of a new lending product for improvement. See optional link 7

Fiduciary Agreements and Requirements

Country: Peru **Division**: HUD **Operation No.:** PE-L1293 **Year**: Sept/2024

Executing agency: Fondo MiVivienda (FMV)

Operation name: Program to Promote Social Housing in Peru

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation (any system or subsystem approved subsequently could be used for the operation, under the terms of the Bank's validation).

☒ Budget	☒ Reports	☒ Information system	☐ National competitive bidding
☒ Treasury	☒ Internal audit	☐ Shopping	☐ Others
☒ Accounting	☒ External control	☐ Individual consultants	☐ Others

2. Fiduciary execution mechanism

☒	Special features of fiduciary execution	The executing agency will be Fondo MiVivienda (FMV), a State-owned company governed by private law created in 1998 under the National Fund for Financing State Business Activity (FONAFE) and attached to the Ministry of Housing, Construction, and Sanitation, which is supervised by the Superintendency of Banking, Insurance, and Pension Fund Managers (SBS) in Peru. Its principal activity is the promotion of and financing for the purchase, improvement, and construction of social housing. Program execution will use the FMV's current structure, concentrated in the Finance Division, which will coordinate with the institutional areas involved in execution, will be responsible for managing the program's technical, operational, and fiduciary issues, and will be the counterpart vis-à-vis the Bank.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	An analysis was performed using the Institutional Capacity Assessment Platform (ICAP) to evaluate the FMV's fiduciary capacity and determined that the fiduciary risk is low. However, the following actions were proposed to be performed prior to program execution: (i) create the specialized program team (SPT) within the FMV's own organizational structure for internal coordination with other FMV agencies and with the Ministry of Economy and Finance (MEF) for program disbursements; and (ii) establish the necessary procedures for compliance with the eligibility criteria for the use of the IDB-provided resources. Both will be detailed in the Program Operating Regulations to be approved beforehand by the Bank. In addition, training will be provided on the Bank's operational and

	fiduciary policies and procedures because, although the FMV has extensive experience in advancing the program's purposes, it has not executed IDB financing in the past.

4. Fiduciary risks and risk response

Risk taxonomy	Risk	Level of risk	Risk response
Economic and financial	If exchange rate conditions become unfavorable in the short term and volatility persists, then an imbalance in the program accounts could occur, since the IDB loans are denominated in U.S. dollars and loans to end borrowers are expected to be disbursed mostly in local currency.	Medium-high	The IDB will keep the FMV apprised about strategies to hedge this risk and will remain sufficiently connected with other financial institutions willing to hold U.S. dollar positions locally.

5. Policies and guidelines applicable to the operation: Financial Management Guidelines for IDB-financed Projects (OP-273-12), Disbursement Instructions, Audited Financial Reporting Instructions, and External Audit Management. Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15).
6. Exceptions to policies and guidelines: Not applicable

II. Considerations for the Special Provisions of the Loan Contract

Special contractual conditions precedent to the first disbursement:	See Executive Summary and paragraph 3.5 of the proposal for operation development.
Exchange rate:	For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(i). For the purpose of determining the equivalent value of expenditures incurred in local currency as charges against the local counterpart or for the reimbursement of expenditures chargeable to the loan, the agreed-on exchange rate will be the exchange rate on the effective date on which the borrower, the executing agency, or any other person or legal entity given the authority to incur expenses, makes the respective payments to the contractor, vendor, or beneficiary.
Type of audit:	The program's audited financial reports will be prepared by an external audit firm acceptable to the IDB on an annual basis, within 120 days after the close of each financial year, and 120 days after the expiration of the original disbursement period or extensions thereof. The terms of reference will be previously agreed on with the Bank.

III. Agreements and Requirements for Procurement Execution

☒	Procurement supervision	The project is structured as a global credit program and, therefore, the funds are provided to the FMV for the rediscounting of eligible credit operations through IFIs, which allocate these resources to legal entities and individuals carrying out activities compatible with the Program Operating Regulations (second-tier operations). The provisions of paragraph 3.13 of the Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and, consequently, current commercial or private sector practices will apply, without prejudice to the contents of Section I these policies.
☒	Records and files	The FMV's Finance Division will be in charge of keeping the program files and records. In order to prepare and file the reports of this program, the official disbursement request forms must be used, in which the list of the subloans that are the object of the rediscounted loan must be recorded with the financing of the program.

IV. Financial Management Agreements and Requirements

☒	Programming and budget	The FMV has an operations manual that defines budgetary and financial procedures, including accounting and treasury. The Finance Division is responsible for managing program resources. The FMV's budget administration is independent, i.e. it is not included in the national administrative budget. The FMV will manage the IDB funds through a transfer made by the MEF through a subsidiary agreement. The FMV has the legal capacity to administer loans with external financing.
☒	Treasury and disbursements	Disbursements of program resources channeled by the FMV to accredited IFIs to issue eligible subloans, through the COFIDE trustee, which will validate the relevance of transfers, will constitute the expenditure for the purposes of justification vis-à-vis the IDB. Disbursements will be committed and made to the FMV on a half-yearly basis in accordance with IDB policies. Disbursements will be made based on a committed portfolio (reimbursements) or a projected portfolio (advances) of at least 80%. In all cases, the portfolio of subloans to be recognized by the program will be subject to review by the IDB in order to proceed with the disbursement. Reimbursement requests will be accompanied by a list of eligible rediscounted loans, as established in the Program Operating Regulations. The FMV will prepare the disbursement schedule annually. The programming that justifies the disbursement will cover periods of up to six months. The IDB will make disbursements to the treasury single account, from which the resources will then be transferred to an FMV account for program use. Since the MEF is the joint and several guarantor of the operation, it will authorize the disbursements that the FMV requests of the IDB.

☒	Accounting, information systems, and reporting	The program accounting records will be kept using the FMV's accounting system, integrated for the different areas of planning, budgeting, accounting, and treasury. The financial statements are extracted from the Sistema Integrado de Gestión Administrativa (Integrated Administrative Management System). The Finance Division is responsible for keeping the accounting records and generating the financial statements of the program and the appropriate third parties, following the rules issued by the SBS and stipulated by FONAFE. The program's financial statements will be prepared separately in accordance with the Financial Management Guidelines for IDB-financed Projects (OP-273-12) and the Bank's instructions for audited financial reports and external audit management.
☒	Internal control and internal auditing	The FMV has an internal audit unit and internal control body that contribute to improving corporate control management. The internal audit unit discharges its duties independently with hierarchical dependence on the FMV board of directors, which are for providing assurance and consultation to improve the entity's operations. It is governed by the provisions of the General Law of the Financial and Insurance Systems and the charter law of the SBS and the internal audit regulations.
☒	External control and financial reports	As the governing body of the National Control System, the Office of the Comptroller General of the Republic outsources the external audit of the projects to Bank-eligible independent audit firms. Eligible independent audit firms are periodically evaluated by the Bank to ensure that they are of high quality. The external audit will verify compliance with the eligibility criteria set out in the Program Operating Regulations, for which the type of engagement to be commissioned to the auditor will be agreed, either a financial audit or reasonable assurance engagement. The terms of reference will be approved by the Bank. The independent audit firm will be selected and contracted in agreement with the FMV and the Office of the Comptroller General of the Republic. The process will be carried out following the Bank's policies and for the entire execution period, including extensions to the final disbursement period. The program auditor may be the same independent audit firm that audits the FMV's institutional financial statements, provided it is a Bank-eligible independent audit firm. External audit costs will be covered using the FMV's own resources. Management of the program's audit is governed by document OP-273-12 and the IDB's instructions for instructions for audited financial reports and external audit management.

☒	Financial supervision of the operation	Support will be provided during project execution through on-site visits to the executing agency's offices, participation in the launch workshop and other training sessions, the review of the audited financial statements, and any other reviews that may be set up in coordination with the project team leader. The frequency of these activities is determined based on the risk associated with project execution. The portfolio will also be reviewed with the FMV twice per year.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Peru. Loan ____/OC-PE to the Republic of Peru
Program to Promote Social Housing in Peru

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 the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Promote Social Housing in Peru. Such financing will be for the amount of up to US$300,000,000 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)

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PE-L1293