

Environmental and Social Management Report (ESMR)

FOMEPADE

I. Project Description

- 1.1 The proposed operation consists in reducing the qualitative and quantitative housing deficit for the Base of the Pyramid (BOP) in Mexico by facilitating access to financing for home improvements and self-construction. To achieve this objective, the Opportunities for the Majority Sector is proposing to provide a loan of up to MXN\$84 million (approximately US\$6.3 million) to FOMEPADE, S.A. de C.V., SOFOM, ENR (“FOMEPADE”), a Mexican non-bank financial institution (SOFOM) with an innovative financing program via payroll deduction for low-income public sector employees at the state and municipal levels. FOMEPADE provides families not only with a complete financing solution (including access to government housing subsidies), but also with a technical solution through its housing partners, all certified by the *Sociedad Hipotecaria Federal* (SHF). The IDB resources would support FOMEPADE’s loan origination activity and allow it to expand its existing low-income housing portfolio.
- 1.2 The financing program and FOMEPADE’s business model are based on three main activities: (i) Through its formal collaboration agreements with municipal and state institutions, FOMEPADE identifies potential clients, prequalifies them by assessing their income and indebtedness levels, and assesses whether the individual is able to receive a credit and is subject to receive a federal subsidy collaboration agreements with public entities, FOMEPADE structures convenient repayment plans via payroll deduction leading to lower administrative costs and lower credit risk; (ii) coordination with public housing schemes, allows FOMEPADE to complete the financial package and tap directly into the federal subsidy “*Esta es tu Casa*” for qualifying beneficiaries; (iii) access to high-quality housing solutions through assisted construction developers (APVs), allows FOMEPADE to offer housing solutions built under a patented construction system, which combines high quality materials at market costs, appropriate quantity of material supply, scheduled material delivery program, technical assistance and fast construction. Additionally, the certified APVs use environmentally-friendly construction techniques, such as anti-seismic and energy-efficient construction methods, access to utility services (e.g. solar panels, water filters, thermic materials, energy-efficient light bulbs, biodigestors, rainwater capture and filtering systems, etc.), and a reduction in both construction time and materials’ waste.
- 1.3 FOMEPADE is in charge of completing the technical file concerning the housing solution, i.e. blueprints and work plan, technical specifications, licenses and permits. The average cost of a complete solution is around MX\$115,000 (US\$9,600) combined with a subsidy of up to MX\$45,280 (US\$3,770), thus the loan amount to the beneficiary is on average MX\$70,000 (US\$5,800). As for home improvement solution, the average cost is around MX\$26,040 (US\$2,050), combined with a subsidy of up to 40% of the total cost, resulting in a loan amount to the beneficiary of on average MX\$18,600 (US\$1,464).

II. Project Status and Compliance

- 2.1. The Environmental and Social Strategy for the Project was presented and approved on March 28th, 2013 to facilitate financing housing solutions for home improvements and self-construction by the Environmental Safeguards Review team. Based on Directive B.13 of the Environment and Safeguards

Compliance policy ("Environment Policy"), and given this is a financial intermediary, this operation was not categorized.

- 2.2 FOMEPADE has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of the Environment Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations.

III. Environmental and Social Impacts and Risks

A. Environmental and social risks associated with FOMEPADE's portfolio

- 3.1. Due to the nature of this operation, which consists of financing housing solutions for home improvements and self-construction, this operation is considered as a low risk financial intermediaries operation. The operation is expected to generate positive social impacts as it will provide access to high-quality housing solutions to BoP public-sector employees that do not have access to national housing mortgage programs in Mexico.
- 3.2. There may be specific ESHS and labor risks and impacts related to home improvements and the construction of low-income housing units, however those are considered minimal, in particular due to FOMEPADE's stringent selection process of the APVs, which have to be certified by the SHF and comply with the government's environmental and social policies. Furthermore, FOMEPADE only operates with renowned construction companies in Mexico, all of which comply with national, construction standards and norms.
- 3.3 The housing solutions may be exposed to additional ESHS risks and impacts such as being located in areas susceptible to natural hazards (e.g. floods, seismic events, landslides, fires). The Project also presents certain indirect lesser ESHS risks and impacts related to the improvement and expansion works of the existing housing units, financed through the FOMEPADE's home improvement credit line. These indirect risks relate to the sites where the housing improvement takes place, the design of the housing improvements, the housing improvement works themselves and the materials that will be used in construction (e.g. materials damaging to human health such as unbounded asbestos, lead paint, formaldehyde, and radon).
- 3.5. FOMEPADE has stated that it has neither financial liabilities in its existing portfolio, related to ESHS issues nor outstanding ESHS concerns, through involvement in projects, companies or activities considered unacceptable to the IDB that could potentially generate significant public opposition or concerns. FOMEPADE has also stated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage).

B. Environmental and social risks associated with FOMEPADE's facilities and Human Resources practices

- 3.6. FOMEPADE's head office is located in Puebla, Mexico. The risks associated with FOMEPADE's facilities and operations, such as environmental liabilities in their offices or employees having occupational health and safety problems due to working conditions are considered minimal. FOMEPADE confirmed that it is in compliance with Mexico's labor law and regulation. FOMEPADE also confirmed that it does not have any material employee or labor disputes or any material health

issues (including legal claims). Furthermore, FOMEPADE has not faced any fine or non-monetary sanctions for noncompliance of its operations with environmental regulations. FOMEPADE is an equal opportunity employer, unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). FOMEPADE is in the process to become a SAPI (*Sociedad Anonima Promotora de Inversion*), which amongst other benefits requires the company to have a code of ethics and good governance outlining the organizations relations with its affiliates, employees and other stakeholders.

IV. Environmental and Social Management

- 4.1. FOMEPADE requires all of its housing projects to comply with relevant Mexican laws and regulations, to be eligible for financing from the SHF. Additionally, FOMEPADE has a comprehensive screening process, to assess whether the housing solution complies with the Federal's urban-development guidelines. This screening process, which is in line with the Federal's urban-development guidelines, not only mitigates location risks for potential housing projects, but also involves the APVs which verifies and certifies the viability of the construction itself, the compliance with required licenses and technical standards, as well as the demand in the area.
- 4.2 Additionally, in order to operate in the program "*Esta es tu Casa*", FOMEPADE is required to follow the CONAVI's urban development guidelines, which are based on the Mexican Housing Law. FOMEPADE also uses a geo-referenced information system developed by the CONAVI to identify potential risks related to new house developments' sites and disaster risks.
- 4.3 Other risks related to the location and the technical aspects of the works themselves are mitigated through a technical review conducted by FOMEPADE's network of retail stores which provides technical assistance and quality construction materials. FOMEPADE outsources the technical advisors to *CNI Consultores*, a specialized engineering company, ensuring quality home improvement projects, as well as adequate supervision during construction for both housing solutions. Also, construction material suppliers are also certified by the state housing institutes and are selected based on their price offering, technical advice capacity and quality of the materials.

V. Environmental and Social Requirements

- 5.1. As part of the IDB-FOMEPADE Loan Agreement, the IDB will require that FOMEPADE comply with: (i) all applicable Mexican ESHS, and labor regulatory requirements, (ii) IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, (iii) the Fundamental Principles of Rights at Work, (iv) SHF regulations, (v) CONAVI's urban development guidelines, and (vi) FOMEPADE's comprehensive screening process for potential housing projects.
- 5.2. Furthermore, FOMEPADE has to notify the IDB of any significant change envisaged to those collaboration agreements, particularly those which might impact the housing solutions financed by the IDB as part of this project.

VI. Supervision

- 6.1. The IDB will supervise the environmental and social aspects of the Loan Agreement either by an in-house specialist or with external consultants, and require FOMEPADE to present environmental and social compliance reports in form, content, and frequency satisfactory to the IDB.