

## Environmental and Social Data Sheet

### Overview

Project Name: *LATAM ENERGY EFFICIENT HOUSING FUND III*  
Project Number: *2020-0881*  
Country: *Colombia and Peru*  
Project Description: *Equity fund developing energy efficient social and affordable housing in Colombia and Peru.*

EIA required: yes

Project included in Carbon Footprint Exercise<sup>1</sup>: no

(details for projects included are provided in section: "EIB Carbon Footprint Exercise")

### Environmental and Social Assessment

#### Background

The proposed operation concerns an equity investment targeting to invest in social and affordable energy efficiency ("EE") housing projects in urban areas of Colombia and Peru. The fund will invest in affordable housing built in relatively central locations that responds to specific requirements such as proximity of services (health education, transport and convenience retail centres). The Fund will also invest in social infrastructure (educational or health services) in the targeted countries.

All Fund's investments will be certified using IFC "Excellence in Design for Greater Efficiencies" (EDGE) standard, which is consistent with the 2019 EIB Energy Lending Policy. To achieve the EDGE standard, a building must demonstrate a 20% reduction in energy consumption, water use and embodied energy of materials as compared to the baseline.

#### Environmental Assessment

Construction activities are not under the scope of the current EIA legislation in Colombia as environmental aspects are embedded under the Land Use Plan regulation (POTs – *Planes de Ordenamiento Territorial*). For the city of Bogota, a new POT has just been released and will

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<sup>1</sup> Only projects that meet the scope of the Carbon Footprint Exercise, as defined in the EIB Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: 20,000 tonnes CO<sub>2</sub>e/year absolute (gross) or 20,000 tonnes CO<sub>2</sub>e/year relative (net) – both increases and savings.

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govern land regulation between 2022-2035. This new POT has increased its sustainability targets, including an increase of wetland areas protected in the city<sup>2</sup>.

In order to ensure that impacts are assessed adequately, the Bank will require that the Fund's Environmental and Social Management System (ESMS) is enhanced to include environmental, climate and social screening criteria aligned with EIB E&S Standards and requirements.

Every investment financed by the Fund will be screened for the E&S impacts and risks to determine whether an ESIA might be required. The scoping of the ESIA will be aligned with the principles and standards of the EU EIA Directive.

Waste management: Although the countries targeted have in place regulation relating to construction & demolition (C&D) waste management, control and enforcement activities are often weak, among others because of a lack of human resources. C&D waste management facilities are often limited in Colombia and Peru. Risks of inadequate waste disposal will be mitigated by implementing good international practice and ensuring compliance with EIB E&S Standards.

All Fund investments will be certified using the IFC EDGE standard. Therefore the units to be developed will include measures to (i) reduce energy consumption by introducing efficient lighting and improving the building envelope and (ii) reduce water usage by introducing low flow faucets and showerheads, elements which are usually not to be found in buildings of similar standards in the countries. The buildings are therefore expected to be amongst the best built in the country and will likely not pose a risk of lock-in effect.

Investments will comply with the EIB Energy Lending Policy (ELP) 2019 as well as with the relevant EIB Climate Bank Roadmap criteria. IFC EDGE certificates will be provided to the Bank. The investments will be contributing to the mitigation of GHG emissions and the Fund has been assessed as being Paris Aligned.

The project positive environmental impacts will be linked to the reduction of energy and water consumption at household level during operation, which would lead to the reduction of GHG emissions and translating into lower utilities related costs for the unit owners. The Fund will also ensure thermal comfort is achieved so as to guarantee indoor quality for all future users.

In order to achieve long-term impact, the Fund will provide to the unit owners information on EE actions and equipment that will increase their awareness and mainstream the proper use of the EE and water savings measures put in place. This information will be made available in the *Reglamento de Propiedad Horizontal (RPH) Manual*.

Negative environmental impacts during construction are likely to be related to (i) air, noise pollution (ii) increased vibration from construction and traffic activities as well as (ii) waste management issues, sourced from construction activities.

The Fund Manager has identified standard mitigation practices to be implemented in all construction sites. As part of Environmental and Social (E&S) due diligence processes the Fund Manager will assess the capacity of development partners to implement these mitigations actions as well as the ones identified by the ESIA report when required.

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<sup>2</sup> Colombia and Peru have currently 9 and 13 sites designated as Wetlands of International Importance (Ramsar Sites), respectively.

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Additionally, the Promoter will ensure that on site-personnel and environmental and social coordinators verify all environmental, Occupational Health and Safety (OHS) standards and the labour standards are fulfilled.

### **Social Assessment**

The aim of the Fund is to provide access to well-located affordable housing units to low income households (Colombia, Bogotá and Medellín and Peru, Lima), with priority attributed to women heads of households, low skilled construction workers and, in Colombia, also households under the reintegration process resulting from the Peace Accords.

The Fund investments will therefore not only create opportunities to tackle an identified housing deficit for the targeted households, increasing their security of tenure, but thanks to the central location of the investments, it will seek at improving their quality of life and social mobility and inclusion opportunities.

The due diligence process adopted by the Fund is built on the IFC Performance Standards and takes into consideration, among other standards: land acquisition and involuntary resettlement; labour and occupational health and safety; community health safety and security; Indigenous People; cultural heritage and stakeholder engagement.

As of now, the Fund Manager has a dedicated team responsible for the ESMS update and implementation, as well as related policies. It is expected that an additional E&S expert will join the Team to oversee the operations in Peru. The E&S team contracts external expertise to carry out specific assessments (ESIAs and related management plans) including monitoring activities.

With regards to

- Land acquisition and involuntary resettlement: the Fund Manager carries out the screening of projects based on criteria such as: previous and current land use; property rights clearance, current occupancy. The Fund Manager has agreed to enhance its due diligence (DD) to determine if, in anticipation of a possible investment, the land lot/s considered had been vacated (of formal or informal occupants) through expropriation or other means. In case the DD will reveal that the land acquisition process would have triggered the EIB and/or IFC Standard on involuntary resettlement involving Project Affected Persons (PAP) with no formal or recognizable rights, the Fund Manager will not consider the project for financing.
- Labour and OHS: the Fund Manager has in place a labour management policy aligned to the Colombian national legislation and the IFC PS 2, applicable to its development partners and to its first tier contractors. The Fund Manager has committed to revise its policy to make it applicable within different countries (namely Perú) and to align it with EIB Labour Standard 8. The revision will include a stronger emphasis on the prevention of Gender-based violence and harassment. This revision should be guided by the IFC Good Practice Note “Addressing Gender-Based Violence and Harassment: Emerging Good Practice for the Private Sector”
- The fund will not finance any project impacting indigenous communities or their land.

Colombia and Peru ranked 101th and 87th (out of 162 countries) respectively in the 2019 Gender Inequality Index, showing how gender inequality represents one of the largest disadvantages in social and economic terms in both countries. An increasing social gender

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gap is reflected in employment opportunities, access to financial resources or differences in salaries as well as access to housing, negatively impacting on poverty alleviation. In both countries, rising real estate prices pose pressure on lower income households, and many women have been forced to move far away from employment hubs thus increasing their commute times. That dynamic has a direct impact on their quality of life and productivity levels, with an additional stressor on vulnerable and disadvantaged segments including women head of household and people in reintegration process. As a result, there are high concentrations of poverty levels among these populations and in fact almost 30% of female-led households live in poverty in Colombia alone.

This operation is expected to promote opportunities for women as the Fund Manager is committed to providing affordable, high-quality and conveniently located housing solutions for low-income households.

The Fund Manager is developing a gender-responsive Investment Policy that is expected to tackle the gender aspect both in the company's corporate governance structure as well as throughout the portfolio. With regard to their internal structure, the Fund Manager currently has an average of 41% of women in the workforce.

On the portfolio side, the Fund Manager has developed the Women Households Impact programme, which has the following objectives:

- Preferential access to the pre-sales of a segment of the project: Priority access to appointments at the sales centres and selection of the best apartments without change in the payment terms for better-located units.
- Longer down payment period, resulting in lower monthly cash payments:
- No penalties for withdrawals: If a female-headed household cannot access government's subsidies or cannot afford the monthly payment, there will not be any penalty for withdrawal from the project.
- Targeted common areas for the incoming population: Special common areas including day care, children playground areas and workshops spaces, will be included in the project's design

## **Public Consultation and Stakeholder Engagement**

All new investments financed by the Fund will be subject to an environmental and social screening, which will determine the need for an environmental and social impact assessment to be carried out. The ESIA preparation process will entail as well public consultation following the Colombian and Peruvian legislation and aligned with E&S EIB Standards.

In line with its ESMS the Fund Manager also engages in informed consultation and participation with the project main stakeholders with the purpose of gathering their views and incorporating them into the project action plans. This process starts during the due diligence phase and continues until project completion.

The Fund Manager also conducts community surveys per project. This is a document meant to record the status of neighbouring properties (public or private). The document is further extended to capture as well feedback from the communities where the investment will be taking place. When require, the Fund Manager will also prepare stakeholder engagement plans.

This practice will be fine-tuned with EIB requirements during the revision of the ESMS.

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A grievance mechanism is already in place and will be enhanced to align it with EIB requirements.

Finally, the Fund will make available to the public the relevant environmental and social Documentation related to ESIA's where required.

### **Other Environmental and Social Aspects**

The Fund Manager has developed and gained experience in implementing its Environmental and Social Management System coupled with a labour management policy.

In the ESMS, the Fund Manager states its commitment to uphold ESG considerations throughout its portfolio and activities. It details how the Fund will operate in conformity with applicable local legal framework and through the integration of international good practices (more specifically IFC standards). The ESMS also details the due diligence process applied to each project from categorization, to approval and monitoring including reporting requirements through identified KPIs as well as excluded activities.

Finally, in its ESMS, the Fund Manager identifies responsibilities and resources needed for its implementation.

## **Conclusions and Recommendations**

The capacity of the Promoter to address and manage environmental and social issues was assessed during appraisal and is deemed good.

The residual impact of the investments targeted by the Fund are reversible and acceptable when appropriate mitigation measures are in place.

The following conditions will be applied to the Fund to the satisfaction of the EIB and to be included in the Fund legal documentation.

- *The Fund Manager will enhance its ESMS and its indicators in order to ensure consistency with EIB E&S Standards and the Fund commitment(s) on gender equality. This revision will include as well: labour management policy, contractor management, stakeholder engagement requirements and grievance mechanism (GRM), environmental screening, scoping, land acquisition and involuntary resettlement procedures and disclosure of relevant environmental and social information.*
- *The Fund Manager will ensure that when an Environmental and Social Impact Assessment (ESIA) is required, it is carried out by an independent expert in line with EIB E&S and IFC Standards and IFC Performance Standards and the required stakeholder engagement including disclosure of relevant ESIA documentation takes place*
- *The Fund Manager will ensure that: i) investments on land previously secured though evictions of informal residents or economic activities will not be considered for financing; ii) investments with adverse impact on indigenous communities and their lands will not be considered for financing.*
- *The Fund manager will prepare a C&D Waste Management Plan in line with EIB E&S Standards and international good practice.*

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- *For the first two developments in each country, the Fund manager will assess the asset's climate change vulnerability using energy simulation tools so as to verify the resilience capacity of the building to higher temperatures. The main parameters for simulation will be agreed with the EIB.*
- *The Fund Manager shall ensure that good international practice are applied when it comes to property management schemes and procedures. The RPH shall include information and activities to ensure awareness and proper use of the EE and water savings measures by the owners as well as the warranties and maintenance period to be offered by the Promoter. The RPH to be drafted by the Promoter is to be agreed with the Bank prior the sale of the first unit.*
- *The Fund will appoint a qualified ESG Focal point and his/her appointment shall be communicated to and agreed by the Bank.*
- *The Fund will appoint an additional qualified ESG team member to oversee the environmental and social aspects of the investments in Peru. The expert shall be based in Peru. The appointment will be communicated to the Bank for approval before any investment in the country is assessed.*
- *The Fund Manager will report annually to the EB on the implementation of its ESS, including E&S procedures as well as the E&S performance of the investments, where relevant. This will also include reporting on progress on agreed indicators around gender equality, climate action and environmental sustainability.*

Subject to the conditions mentioned above, the operation is considered acceptable for the Bank in environmental and social terms.