

## Environmental and Social Strategy (ESS)<sup>1</sup> Colombia CO-L1107

### Caja de Compensación Familiar de Antioquia (*Comfama*) Social Leasing for the Base of the Pyramid in Antioquia

#### I Overview

- 1.1 The *Caja de Compensacion Familiar de Antioquia* or “*Comfama*” is the largest private non-profit entity of its kind, which is part of a regional system of close to fifty Family Compensation Funds in Colombia, non-profit entities that are governed by private law, and whose mandate is to provide social security functions (e.g. health, education, housing and unemployment benefits) as well as certain financial services and culture and recreation activities to its affiliates. The main source of revenue for these entities is a mandatory 4% payroll tax collected from the employees of the affiliated companies. As part of its broad social service mandate, *Comfama* offers a range of housing services such as credits for home improvements, provision of technical assistance, implementation of new housing construction projects and allocation of own housing subsidies. Further information is available at [www.comfama.com](http://www.comfama.com).
- 1.2 The IDB Project consists of a senior loan from the Opportunities for the Majority sector (OMJ) of up to US\$6 million to *Comfama*, which will be sub-divided into two phases of US\$3 million each, where phase 1 is committed and phase 2 is uncommitted. In phase 1, US\$2 million of the IDB loan will be used to fund the purchase of the social housing units for a pilot *Arrendamiento Social* Program, with the remainder of the funding dedicated to the expansion of *Comfama*’s Home Improvement Program. Phase 2, if activated by *Comfama* and approved by the IDB upon satisfactory results from the first phase, delivers an additional US\$3 million of IDB funding to support further expansion of the two *Comfama* housing programs.
- 1.3 *Comfama*’s *Arrendamiento Social* Program was created for affiliates with incomes between one and three Colombian minimum wage (approx. US\$328/month for 2013) who also pay rent, as an alternative to lease-purchase their own house. The program offers the affiliate the possibility to pay for the down payment while paying for rent, with similar fees to what was previously paying. About 35% of the monthly obligation, on average, will go to savings, which must be maintained for 3 years. The remaining percentage is intended to cover costs related to property taxes, insurance, financing costs, among others. After that time, the tenant will have the percentage and equivalent to a down payment on the house, making it easy to take a traditional mortgage. The pilot project financed through this transaction comprises 400 houses in Antioquia.

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<sup>1</sup> This ESS will be made available to the public in accordance with the Bank’s policy on information disclosure. The ESS does not represent either the Bank’s approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank’s Board of Executive Directors.

*Comfama's* Home Improvement Program was specifically designed to offer credit loans for home upgrading and renovations, in order to improve the living conditions of the affiliates' homes. The average loan size is approximately US\$3,000, but may vary between US\$550 and US\$16,700. This is a well-established program in *Comfama* with an active portfolio of around US\$13 million.

## **II Risks**

- 2.1 Based upon the nature of this operation, which consists of the purchase of social housing units for rent and the financing of home improvements, there may be minimal direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental assessment is required.
- 2.2 The main ESHS risks and impacts involved with this operation are the ones associated with the purchase of social housing units that include location, integrity of the houses and basic facilities (sewer, electricity, water) as well as social aspects such as:
  - Potential impacts on houses located in areas of previous use activities that may result in localized environmental problems, such as abandoned landfills or waste disposal areas, industrial facilities, etc.
  - Potential impacts on houses located in areas susceptible to natural hazards, such as floods, seismic events, and fires.
  - Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc.
  - Potential risks on houses with low construction standards.
  - Potential impacts on houses if lacking the basic facilities mentioned above.
- 2.3 The Project presents certain indirect lesser risks and impacts related to the improvement and expansion of the houses associated with:
  - The sites where the housing improvement takes place (e.g. risk of contaminated site, or natural disaster risk)
  - The design of the housing improvement (e.g. unsafe or vulnerable structures)
  - The housing improvement works themselves (e.g. health and safety risks to construction workers from activities associated with the use and handling of heavy equipment, air and noise pollution)
  - The materials that will be used in construction (e.g. banned or dangerous materials)
- 2.4 These risks may be minimal to moderate and will be assessed during the due diligence.

## **III Status and Compliance**

- 3.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a financial intermediary project, this operation is not categorized.
- 3.2 In 2004, the IIC approved a loan for US\$3 million to *Comfama*, to support job creation through direct financing of SMEs.

#### **IV Strategy for the Environmental and Social Due Diligence**

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will assess *Comfama's* capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with its mortgage business. During this process the Bank will establish whether appropriate environmental procedures are in place to appropriately assess and manage these potential risks and impacts.
- 4.2 To that end, the environmental and social due-diligence will specifically include the components listed below:
  - (a) An assessment of *Comfama's* compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Colombia.
  - (b) An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, risks and/or impacts of home improvement loans, including a quick analysis of *Comfama's* loan portfolio. Current procedure should at a minimum be able to (i) include in the application and analysis process consideration of environmental or social aspects (such as risks from location of the houses, construction standards and lack of basic facilities) and assess potential environmental financial/credit risks and liabilities that may be associated with home improvement loans and (ii) include provisions to have personnel in charge of the technical assessment of the planned home improvement works trained to identify potential environmental, social, health and safety, and labor issues/liabilities.
  - (c) An assessment of *Comfama's* home improvement loan portfolio, as well as a summary analysis of its broader portfolio, to establish potential reputational risks associated with *Comfama's* involvement in projects, companies or activities considered unacceptable to the IDB.
  - (d) An evaluation to ensure an appropriate inventory of present environmental and health and safety liabilities in *Comfama's* loan portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them. An evaluation of *Comfama* compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining. An assessment of the adequacy of *Comfama* procedures to ensure that finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.