

**ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)**  
**HABITAT FOR HUMANITY: INCREASING ACCESS TO HOME FINANCING FOR THE BOP IN EL SALVADOR**  
**ES-L1086**

**I. Project Description**

**Objective:** The objective of the project is to support increased access to home financing for the Base of the Pyramid (BOP) in El Salvador, contributing to reducing the quantitative and qualitative deficits that disproportionately affect that population segment. To this end, OMJ will seek to provide a loan of up to US\$5 million, with a tenor of up to seven years and a grace period of up to a one year, to *Asociacion Habitat para la Humanidad El Salvador* (HPHES), for on-lending to BOP families for new home construction or home improvement investments. The continued expansion of HPHES operations via OMJ financing will contribute to provide: (1) additional access to long term credit for the BOP that currently cannot access mainstream long term home financing; (2) housing solutions that are appropriate for the BOP and commensurate with their repayment capacity; and (3) comprehensive solutions that involve the appropriate construction technical assistance and oversight.

HPHES' comprehensive model is innovative in El Salvador as it combines access to finance, technical assistance for home construction or home improvement that includes beneficiary and community involvement in self-assisted building, and financial education to maximize the efficiency and effectiveness of the investment made by its beneficiaries. Beneficiaries are provided with advice regarding the best approach to their home building or home improvement project in terms of design, construction materials, quality of labor, and other related issues such as ensuring the proper existence and custody of property titles (beneficiaries must prove proper ownership of their land) and compliance with building codes. HPHES provides beneficiaries with training relating to project budget and debt service management.

All new home construction and home improvements financed by HPHES comply with national and international standards in terms of design (comfort and functionality), durability (standards for construction materials and systems that are resistant to earthquakes, winds, flooding, and fires), property rights (assurance that beneficiaries' own the land and are not squatters), water and sanitation (standards for access to sanitary services and drainage systems). HPHES has an in-house (staff) technical team that oversees construction, which is managed by a civil engineer and supported by quality control supervisors, construction technicians, and construction supervisors. In the case of home improvement projects, to ensure quality HPHES mobilizes quality control supervisors, construction technicians, and a team of qualified technical assistance providers that guide the beneficiaries regarding the quality and price of construction materials. Additionally, the technical assistance providers train the construction workers that are hired directly by the beneficiaries.

The average loan amount for new home construction is US\$7,000, with an average monthly installment of US\$57. The average loan amount for home improvement is US\$1,200, with an average monthly installment of US\$42.

**II. Project Status and Compliance**

Based on Directive B.13 of the Environmental and Social Safeguards Compliance Policy (OP-703), this operation was not categorized. HPHES has confirmed that it is in compliance with Directive B.2

(country laws and regulations), complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations.

### **III. Environmental and Social Impact Risks**

Given the fact that the project seeks to provide access to financing for the BOP to acquire new homes built by HPHES and make home improvements through on-lending of loan proceeds, this transaction is considered a non-rated financial intermediaries operation. The project is expected to generate positive social impact, as it will provide BOP families with access to finance that will allow them to acquire their own homes or improve their dwellings in such a way that will contribute to improving health, safety, and hygiene conditions.

There may be specific ESHS and labor risks and impacts related to new home building and home improvements, but these are considered minimal due to the small scale of each intervention and also due to the robust technical assistance and oversight that HPHES provides its beneficiaries in terms of construction quality.

The housing solutions may be exposed to additional ESHS risk and impacts. Other indirect risks associated with home improvement works include: location of the home improvement site; the design of the home improvements; the home improvement works themselves; the materials used. The mitigant again is HPHES's robust technical assistance and oversight relating to construction design, quality of materials, disaster risk management, among others (as described in point 1.4 of this annex).

The main ESHS risks and impacts involved with this operation are the ones associated with the construction and improvement of houses 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 landslides, hurricanes, floods, seismic events, and fires due to the fact that El Salvador is susceptible to natural hazards.
- Potential discrimination and barriers for an equitable process of providing the loans taking into consideration ethnicity, sex, religion, age, etc.
- Potential risks on existing houses with low construction standards.
- Potential impacts on houses with a lack of the basic facilities mentioned above.
- To a lesser degree, there are some indirect risks and impacts related to the construction process of the houses such as:
  - Potential impacts from construction on brownfield sites with existing contamination or present a human health risk, such as soil and ground water contamination, lead based paint, asbestos, equipment containing polychlorinated biphenyl compounds, or presence of hazardous gases/materials.
  - Typical temporary impacts from construction related activities such as loss of vegetation, soil erosion; increased air emissions and noise as a result of construction, increased generation of solid waste and construction debris, potential contamination or disruption of surface and ground waters; etc.

- Potential accidents or other health and safety risks to construction workers from activities associated with the use and handling of heavy equipment.
- Social issues associated with acquisition of the site, including any potential displacement of illegal settlements occupying the construction site, and any changes of land use.

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

As part of the due diligence process, the team will evaluate HPHES's social and environmental management practices and capacity as they relate to the home building and home improvement projects financed.

Social and environmental due diligence may include the following, among others:

- Evaluation of HPHES compliance with applicable national environmental, health, safety, and labor regulatory requirements in El Salvador.
- Evaluation of the credit appraisal, approval, and monitoring criteria to manage environmental and social liabilities, risks and/or impacts of the loans (compliance with policies, and processes as they relate to social and environmental issues such as: location of works, compliance with building norms and code, including anti seismic codes and connections to basic services, among others).
- Verification of which institutions are responsible for oversight of works, and validation of HPHES compliance with quality standards.
- Evaluation of HPHES portfolio to ascertain any reputational risks for the Bank.
- Evaluation of HPHES portfolio to ascertain any environmental and/or social risks. Evaluate HPHES 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, with fair labor practices.
- Evaluation of HPHES credit analysis and approval process to ascertain whether it is free of bias/prejudice, and whether it contemplates inclusion of vulnerable groups. Evaluation of an appropriate inventory of present environmental and health and safety liabilities in HPHES's portfolio, and facilities, and if they exist, an assessment of the adequacy of an action plan to properly resolve them.
- Evaluation of the HPHES model for home improvement to ascertain whether it complies with environmental, social, and labor standards. Evaluation of the adequacy of HPHES procedures to ensure that the loan procedures, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc.).

The results of said due diligence will be presented in an Environmental and Social Management Report (ESRM) and will be summarized in the Loan Proposal.