

FINDEV CANADA TRANSACTION SUMMARY

Cooperativa de Ahorro y Credito Alianza del Valle Limitada ("Alianza del Valle" or the "Cooperative")

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Alianza del Valle
Cooperativa de Ahorro y Crédito

Transaction Description

This transaction consists of a 3-year loan of US\$ 7.5M to finance Alianza del Valle's lending activities in Ecuador and to bring diversification to its funding sources. Alianza del Valle supports its members through microfinance and personal loans. The Cooperative will commit to apply 50% of the Financing to women-owned micro enterprises ("WMEs").

Transaction Details

COUNTERPARTY	Cooperativa de Ahorro y Credito Alianza del Valle Limitada ("Alianza del Valle" or the "Cooperative")
DOMICILE OF INCORPORATION	Ecuador
DOMICILE OF OPERATIONS	Ecuador
TERM OF FINANCING	3 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	FI-3 (equivalent to category C)
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	US\$ 7.5 M
DATE OF TRANSACTION DISCLOSURE	February 23rd, 2021
DATE OF TRANSACTION SIGNING	March 30th, 2021
DATE OF TRANSACTION SUMMARY PUBLICATION	June 29th, 2021
2X CHALLENGE QUALIFYING	Yes on <i>Leadership, Employment and Investments through Financial Intermediaries</i>

Summary of Anticipated Development Impacts

In Ecuador, microenterprises account for 90% of the country's 900,000 businesses¹. Of this segment, only 15% are WMEs², which reflects the many barriers faced by women entrepreneurs in Latin America and the Caribbean, such as the difficulty to access financing to support their business needs³. Despite the important role of microenterprises in Ecuador's economy, it is estimated that the financing gap for microenterprises in the country is US\$ 2.2 billion⁴.

The key development impact contribution of this transaction is to provide microfinance in Ecuador to foster economic development by supporting local livelihoods and jobs. The impact theory of change summarizes how Alianza del Valle will contribute to FinDev Canada's long-term development impact goals and the UN Sustainable Development Goals (SDGs), particularly SDG 8 "Decent Work and Economic Growth" and SDG 5 "Gender Equality".

Barriers:

- Microenterprises financing gap in Ecuador is US\$ 2.2 billion
- Only 15% of microenterprises are women-owned in Ecuador
- Credit gap of US\$ 5 billion for WMEs in LAC
- Difficulty for women entrepreneurs in LAC to access funding due to a limited or absent credit history, and a lack of collateral



¹ World Bank, Ecuador Micro Pequeñas y Medianas Empresas, 2020

² SME Finance Forum, MSME Finance Gap

³ Gender Smart, Regional Brief Latin America & Caribbean, 2021

⁴ SME Finance Forum, MSME Finance Gap



MARKET DEVELOPMENT

- **Supporting local employment:** FinDev Canada's investment of US\$ 7.5 million will enable Alianza del Valle to provide financing to hundreds of microenterprises, half of which will be WMEs, and contribute to promoting sustainable livelihoods. Supporting jobs and income-generating activities in the local economy is particularly valuable considering that Ecuador recorded a drastic decrease in its rate of employment during the pandemic from 48% to 39%⁵.
- **Innovative solutions to increase financial inclusion:** To overcome COVID-19 restrictions precluding in-person meetings, Alianza del Valle developed an innovative product, reaching its members through digital credit. The online channel automates loan processes using biometric data to confirm the identity of applicants. Alianza del Valle expects this tool to facilitate loans at a national level, expanding the cooperative's reach beyond its brick-and-mortar locations to rural areas where 36% of the Ecuadorian population lives⁶.



WOMEN'S ECONOMIC EMPOWERMENT

- **Support women's leadership:** The Cooperative's workforce demonstrates notable representation of women across all levels of the organization, including at Board level where women account for 60% of the group.
- **Offering decent employment for women:** As an employer, Alianza del Valle strives to provide its employees with equal opportunities. The Cooperative offers quality local employment with fair compensation, as determined by a benchmarking exercise led by Deloitte⁷. Alianza del Valle also ensures job postings are gender-neutral. The company does not require applicants to have a university degree which expands the pool of eligible women applicants, as only 11% of Ecuadorian women complete a university degree or equivalent⁸. Instead, the Cooperative sponsors employees and subsidizes the cost of the degree while employees work at Alianza del Valle. In 2019, the Cooperative was recognized for its efforts, achieving 6th place in Latin America for being *A Great Place to Work*, a distinction that celebrates organizations creating inclusive workplaces⁹.
- **Addressing barriers faced by women in accessing funding:** Given Alianza del Valle's current microfinance portfolio distribution (35% women, 65% men), the Cooperative will have to make efforts to deploy half (50%) the capital effectively to WMEs and demonstrate intentionality to promote women's economic empowerment. Currently, the Cooperative uses its thorough approval process to finance applicants with damaged or absent credit histories and demonstrates flexibility on collateral requirements. This has the potential to increase financial inclusion, especially for women, as issues with credit and a lack of financial or physical assets as collateral are common obstacles for WMEs in developing countries¹⁰.



CLIMATE MITIGATION AND ADAPTATION

- **Sustainable practices within operations:** Given the sector of operation, Alianza del Valle has a low environmental footprint. Nonetheless, the Cooperative has plans to develop an *Environmental Policy* for their internal operations.

⁵ [Trading Economics, Ecuador Employment Rate, 2019](#)

⁶ [Trading Economics, Ecuador Rural Population, 2019](#)

⁷ Alianza del Valle Analysis

⁸ [Trading Economics, Educational Attainment, Completed Bachelors or Equivalent, 2015](#)

⁹ [Great Place to Work, Small and Medium, 2019](#)

¹⁰ [OECD, The private sector and the catalytic role of micro, small and medium-sized enterprises, 2018](#)

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

This review has been completed in accordance with FinDev Canada's Environmental and Social Policy. The transaction is considered to be Category FI-3, which is equivalent to Category C and specific to financial intermediation organizations, such as Alianza del Valle's existing and proposed portfolio, and will include exposure to micro enterprises with business activities that predominantly have minimal or no adverse environmental or social impacts.

Alianza del Valle's key sectors for lending have a variety of low to high environmental and social risks. However, given the typical size of loans (e.g. microfinance) and asset class of their customers (e.g. individuals, families, and micro enterprises) the likelihood for significant environmental and social impacts is lower. However, there is the potential for cumulative impacts across their entire loan portfolio that is not currently assessed.

During due diligence, documentation was reviewed, such as Alianza del Valle's relevant policies, procedures and overall capacity to manage the environmental and social risks of its operations and loan portfolio. Information that was not publicly available was sought through a due diligence questionnaire and calls.

Alianza del Valle's human resource and labour management policies and procedures are generally consistent with the requirements of IFC PS 2 and national law, though some opportunities for improvement have been identified that will be addressed through an action plan. Alianza del Valle is also currently working with FinDev Canada to strengthen their environmental and social management approach in order to ensure alignment with international standards for F1-3 categorized financial institutions.

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions