

# Federación de Cajas de Crédito y de Bancos de los Trabajadores Sociedad Cooperativa De Responsabilidad Limitada De Capital Variable ("Fedecrédito")

*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.*



## Transaction Description

The transaction consists of a bilateral 7-year, US\$ 10M, senior secured debt facility for Federación de Cajas de Crédito y de Bancos de los Trabajadores Sociedad Cooperativa De Responsabilidad Limitada De Capital Variable ("Fedecrédito"), the biggest federation of credit unions and Workers' Banks in El Salvador. This financing will support the expansion of lending to micro, small and medium-sized enterprises ("MSMEs") in El Salvador by Fedecrédito's 55 members, with a minimum of 40% of the funds going to women-owned MSMEs ("WMSMEs") through funds on-lent by Fedecrédito to its members.

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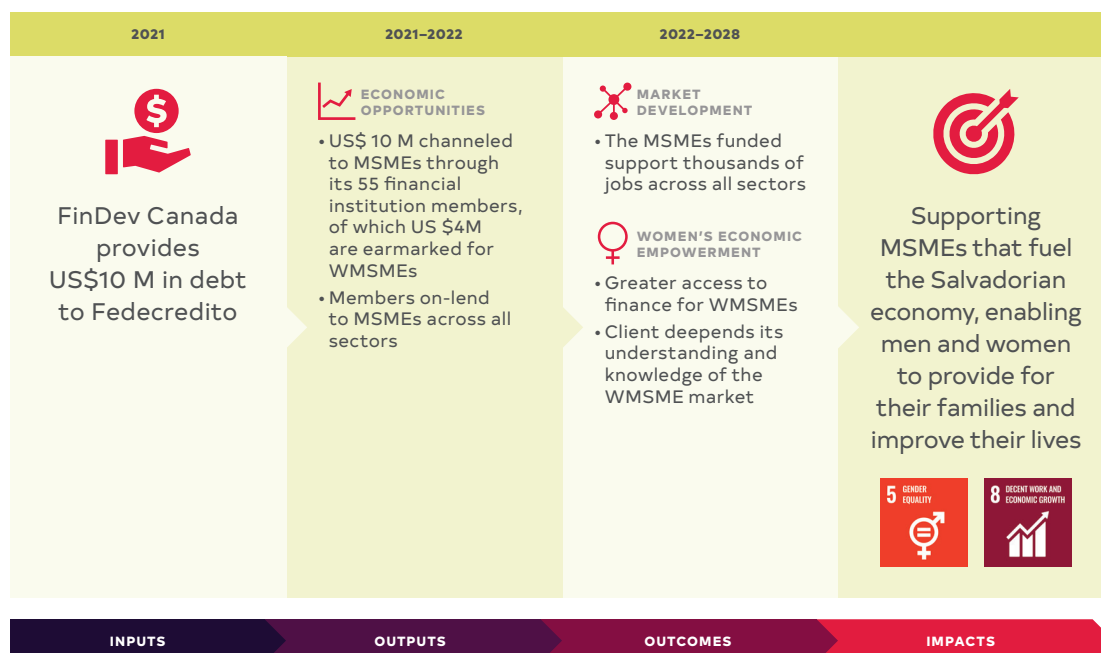
<sup>1</sup> MSME is defined as per Fedecrédito as a business with less than US\$ 1M annual sales

## Transaction Details

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|---|---|
| <b>COUNTERPARTY</b>                                   | Federación de Cajas de Crédito y de Bancos de los Trabajadores Sociedad Cooperativa De Responsabilidad Limitada De Capital Variable ("Fedecredito") |
| <b>DOMICILE OF INCORPORATION</b>                      | El Salvador   |
| <b>DOMICILE OF OPERATIONS</b>                         | El Salvador   |
| <b>TERM OF FINANCING</b>                              | 7 years   |
| <b>SECTOR</b>   | Financial Services  |
| <b>IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY</b> | FI-3  |
| <b>FINANCING PRODUCT</b>                              | Debt  |
| <b>FINDEV CANADA TRANSACTION AMOUNT</b>               | US\$ 10 million   |
| <b>DATE OF TRANSACTION DISCLOSURE</b>                 | December 7th, 2020  |
| <b>DATE OF TRANSACTION SIGNING</b>                    | August 25th, 2021   |
| <b>DATE OF TRANSACTION SUMMARY PUBLICATION</b>        | November 25th, 2021   |
| <b>2X CHALLENGE QUALIFYING</b>                        | Yes, under the indirect criteria  |

## Summary of Anticipated Development Impacts

The key development impact of the Fedecredito investment is to provide access to financial services to MSMEs across El Salvador, channeling at least 40% to WMSMEs, in order to foster economic development and improve thousands of lives by supporting local jobs. The impact theory of change summarizes how Fedecredito will contribute to FinDev Canada's long-term development impact goals and the Sustainable Development Goals (SDGs), particularly SDG 8 "Decent Work and Economic Growth" and SDG 5 "Gender Equality".





## MARKET DEVELOPMENT

- **Strengthen local MSMEs and value chain:** Fedecredito will use FinDev Canada's loan to primarily support its 55 financial institution members that in turn on-lend to their respective MSME clients in El Salvador.
- **Support local employment and economy value-add:** Fedecredito supports thousands of MSMEs in El Salvador and the individuals they employ. As an employer, Fedecredito offers benefits including insurance (health, life, vision, dental), a pension, parental leave, vacation days, performance bonuses, training opportunities for advancement, educational loans and scholarships, which exceed requirements stipulated by national law.
- **FINANCIAL AND NON-FINANCIAL SERVICES FOR MSMEs:** Their financial products include micro- and agricultural loans, savings accounts, and both credit and debit cards. Fedecredito serves its MSME clients through several channels, including 726 access points across 195 municipalities.<sup>2</sup> Fedecredito offers online banking, mobile banking, and convenience store banking. These channels enable MSME clients to secure essential services such as: bill payments, money transfers, cash international remittances, cash deposits and withdrawals, review account balances, and obtain telephone data credits.



## WOMEN'S ECONOMIC EMPOWERMENT

- **Support women's leadership, and quality employment:** Within its internal operations, Fedecredito maintains female representation at the executive level (24%) and throughout the organization (47%). FinDev Canada and the International Finance Corporation (IFC), the private sector lending arm of the World Bank, are exploring partnership opportunities to help Fedecredito better understand and support the WMSME segment it serves.
- **Supporting women's business ownership:** Fedecredito commits to channeling at least US\$ 4M of FinDev Canada's investment to WMSMEs. At present, Fedecredito's members direct 56% of their MSME loans to women by number and 27% by volume. Based on the volume earmarked for WMSMEs and the average size loan, it is estimated that FinDev Canada's funding could support over a thousand WMSMEs across a variety of sectors. After securing a loan from Fedecredito, clients receive a savings account, some specifically designed for women including a debit card that offers access to an affordable health plan for the women entrepreneur and her family. Fedecredito also offers non-financial services, including conferences<sup>3</sup> sensitizing women to their critical role in the economic development of El Salvador, and financial education seminars empowering women to manage their business and household finances successfully.



## CLIMATE MITIGATION AND ADAPTATION

- **Sustainable practices within operations:** Fedecredito has taken proactive steps to reduce its carbon footprint and make efficient use of natural resources. In 2019, Fedecredito installed solar roof panels at its headquarters which provide 26% of the building's energy requirements. Fedecredito's additional initiatives focus on recycling, reforestation, and marine conservation programs as part of its CSR agenda.

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<sup>2</sup> Fedecredito Annual Report 2019, and Fedecredito due diligence

<sup>3</sup> With support from IFC's Banking on Women, Fedecredito convened the first annual Congreso Nacional de Mujeres Emprende Salvadoreña

## Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

Environmental and Social (E&S) due diligence was undertaken consisting of environmental and social documentation review, which included: Fedecredito's policies; code of conduct; management systems; monitoring templates and institutional capacity as they relate to the organization's ability to manage the environmental and social risks of its loan portfolio. Given that the FinDev Canada's debt facility will be limited to MSMEs and a low-income individual asset class, the review of Fedecredito's environmental and social management system (ESMS) was focused on risks and impacts specific to those assets. An assessment of labour practices was also undertaken through review of Fedecredito's human resources regulations and tools.

From an E&S perspective, the risks associated with this transaction are with the enterprises and individuals that receive funds through the Fedecredito System (FS), which disburses funds into local markets through 48 credit institutions and 7 workers' banks. The FinDev Canada debt facility will support the FS Productive Credit asset class which predominantly includes MSME and low-income individuals and supports their working capital needs to purchase equipment, finance inventory and build housing. In 2019, the FS loan portfolio by economic sector included agriculture, commerce, services and other activities, which include credit cards, mortgages and consumer loans.

Fedecredito is responsible for E&S management throughout the FS and has implemented an ESMS to identify and manage E&S risks associated with their portfolio. Fedecredito has developed a screening and assessment criteria for potential Productive Credit transactions, which includes determining if an applicant is in compliance with the company's Exclusion List; assigning a risk rating; identification of mitigants and monitoring of asset performance. Additionally, Fedecredito has in place human resource regulations for hiring staff, overtime work, and compensation, an internal grievance mechanism, and a Code of Ethics. The organization's adequate management capacity and scope of financing under FinDev Canada's debt facility (e.g. MSMEs and low-income individuals), which are considered to be of lower risk from E&S perspective, are the primary mitigants for this transaction.

Opportunities to improve the organization's ESMS may be pursued should the risk profile of Fedecredito's loan portfolio increase, but at this time will not be required. The adverse E&S or human rights risks associated with this transaction are limited and mitigated by Fedecredito's adequate management capacity, lack of third-party criticism, and the scope and sector of FS investments that will be supported through the FinDev Canada debt facility. FinDev Canada will continue to engage with Fedecredito in order to share knowledge and best practices in E&S management, supporting their efforts to align with international standards. This review has been completed in accordance with FinDev Canada's Environmental and Social Policy.