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Second Party Opinion

Banco W S.A.'s Social Bond For Financial Inclusion

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Location: Colombia

Sector: Banks

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

See [Alignment Assessment](#) for more detail.

Strengths

Banco W S.A. has incorporated a robust risk assessment that allows it to mitigate social risk. Through its qualitative, onsite assessment, the entity is able to assess its customers' payment capacity, which we view as a better practice for limiting overindebtedness.

Weaknesses

No weaknesses to report.

Areas to watch

No areas to watch to report.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Banco W is a small financial institution, was founded by Women's World Banking (WWB) Foundation, who remains its biggest shareholder. With a gross portfolio of \$39 million, the entity is the fourth-biggest microlender in Colombia with a market share of 7%. Additionally, the bank is focused on female-lending (56% of its portfolio), and lending to Colombia's Amazon regions, which represents 5.6% of its portfolio. The entity provides microfinancing for lower- to middle-income borrowers through consumer loans, and deposits to more than 200,000 customers. Banco W has a presence in 29 of the country's departments. It was founded in 2010 and is based in Cali, Colombia.

Material Sustainability Factors

Access and affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion.

Impact on communities

Banks) can affect a wide range of community issues by providing access to essential services for economically vulnerable groups, as doing so not only has the potential to alleviate income inequality but also foster upward social mobility. Realizing these objective hinges on the responsible lending practices of financial institutions, which include transparent contractual terms, financial education programs, and support for borrowers encountering financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, Banks can access new markets, achieve better financial performance, reduce their cost of capital, attract top talent, and mitigate their reputational and regulatory risk.

Privacy protection

Banks rely heavily on IT systems, using digitization (or computer processing of information) extensively. Growing use of client data collection, data mining, and artificial intelligence (AI) have brought significant efficiency gains and facilitated financial access. However, this has increased banks' exposure to the risk of IT infrastructure failures, cyberattacks, and other quickly evolving risks. The resulting disruptions (such as client data leakage, data theft, or AI-related unintended or biased use of private personal data) could subject banks to higher and unpredictable risks given their large number of customers and business partners. In addition, stolen data may be used by criminals to commit various types of frauds. We see privacy protection risks rising and evolving as cyber hackers become more sophisticated, but most banks have strong risk governance and controls in place to prepare for these risks.

Physical climate risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint (e.g. branches or ATMs) may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts. These are heightened risks given the entity's focus on increasing its product offering in the Amazon region.

Issuer And Context Analysis

The eligible social projects aim to address some of Banco W's most significant sustainability risks. Eligible projects under the Framework address access to essential services and socioeconomic advancement and empowerment. These projects include microlending to female-owned microenterprises, microenterprises in general, and microenterprises in the Colombian Amazon region. We believe these projects contribute to the economic development of vulnerable communities across the country. According to data from the Organization for Economic Cooperation and Development (OECD) for April 2024, while OECD countries' average unemployment rate was 4.9%, Colombia's was 10.3%, one of the highest among the OECD members. Banco W has two main pillars to help promote financial health among its customers based on financial education, and a wide range of financial services targeted to meet customers' needs. We believe eligible projects under the Framework will help promote economic development for women, Amazonian communities, and microenterprises in general.

The bank's purpose is to narrow gender gaps for women through the promotions of their economic development. The bank has focused on economic development for vulnerable populations and women since its inception in 2010. Under this Framework, the bank will lend to female-owned or led enterprises, which will help Banco W continue to promote women's economic development. This is particularly important in Colombia, where female-led entrepreneurship accounts for 39.0% of the total, compared with 46.2% for men, according to the most recent Socioeconomic Atlas of Women in Colombia (2021). Given that women's entrepreneurial activities lead to financial inclusion, projects that finance female-owned and led enterprises contribute to closing a persistent gender gap in the country.

The Framework also provides funding for microenterprises in the Colombian Amazon region, which aim to stimulate economic development in the region. Currently, 5.56% of Banco W portfolio corresponds to Amazonian loans, which places the issuer above its industry peers' average share of 0.75% (0.61% not considering Banagrario). The Colombian Amazon covers over 40% of the country's surface, and Colombia is one of the nine countries that composes the Amazon Rainforest. The Amazon biome is key for global nature preservation by producing over 20% of the world's oxygen, home to 40,000 plant species, 3,000 fish species, and 1,000 bird species. Currently, the Amazon is exposed to deforestation and a decrease in rainfall due to climate change. Additionally, the region is mostly populated by indigenous tribes, whose main economic activities are fishery and agriculture. According to data from the Departamento Administrativo Nacional de Estadística (National Administrative Department of Statistics), in 2022, 36.6% of the region's inhabitants were poor, and 13.8% were extreme poor. Projects related

Second Party Opinion: Banco W S.A.'s Social Bond For Financial Inclusion

to microlending in the region can help promote its economic stability by providing communities with diverse and reliable economic activities.

As part of its business strategy, Banco W has developed innovative products and issued sustainable instruments to promote its social projects. As part of its strategy, the bank has issued both social and gender bonds to further increase its social products. The bank issued three labeled bonds, the proceeds from which it used to disburse loans for more than 74,000 female borrowers and 72,000 micro entrepreneurs. We believe this Framework will further expand the entity's social portfolio focused on women, microenterprises, and microenterprises in the Amazonian region. Additionally, while the bank's digital product strategy is still nascent, the entity incorporates financial education programs through digital channels and has developed a digital lab that will help it increase its digital presence.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

✓ Use of proceeds

All the Framework's social project categories are considered as aligned. Banco W commits to allocate the net proceeds issued under the Framework exclusively to eligible social projects, contributing to specific Sustainable Development Goal (SDG) targets and social goals. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds. The bank will disclose the proportion of financing in its allocation reporting.

✓ Process for project evaluation and selection

Banco W's Credit Analyst, Office Manager, Area Manager, Regional Manager and Commercial Vice President will be responsible for project evaluation and selection process. They will meet at least annually to screen and approve the proposed projects. The bank has processes to identify and manage environmental and social risks related to eligible projects. In practice, it will identify and address the potential risks, including the risk of indebtedness, through a quantitative risk assessment, which is in line with industry's practices and a qualitative "character" assessment that helps identify the client's economic stability, reputation, and debts outside the formal economy. Information gathered will help determine the loan's amount and payment criteria. The Framework also includes an exclusion list, covering projects that are classified under their social and environmental risk assessment, as having adverse, irreversible risks, as well as an exclusion list covering topics such as weapons and munitions, alcoholic beverages, adult entertainment, tobacco, and gambling.

✓ Management of proceeds

The net proceeds will be managed by the bank's Treasury Management. Banco W commits to replacing projects that cease to comply with the Framework's eligibility criteria within two months following their removal from the invested pool. Pending allocation, the net proceeds will be temporarily held in cash or cash equivalent instruments, in accordance with the bank's policy.

✓ Reporting

Banco W commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds and in case of material developments. Reporting will be available on the bank's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects, and the breakdown of allocation of net proceeds by eligible category. Banco W also commits to receiving an external limited assurance on the allocation and impact reporting until full allocation, which we consider to be a stronger practice. While the entity commits to do its reporting based on International Capital Markets Association's (ICMA's) Harmonized Framework for Impact Reporting, we view as a limitation that proposed impact metrics focus on outputs, limiting our view on positive social impacts derived from the projects.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the years following issuance of the financing (for up to four years), Banco W expects to allocate at least 20% of the proceeds to loans in the Amazonian region. The remaining proceeds will be allocated to loans for women and general microenterprise loans.

The issuer expects all of proceeds to be allocated to finance new projects.

Social project categories

Access to essential services through access to financing for Microenterprises (Microenterprise)

Exclusively to provide new financing of working capital, purchase of inventory or investment of capital and fixed assets to customers in the microenterprise segment.

Analytical considerations

- Banco W will support the activities that help micro, small- and mid-size enterprises (MSMEs) access capital. The activities included in the Framework aim to empower target groups and promote equitable economic growth and participation in the financial ecosystem. This greater access to capital supports scaling up businesses, which in turn promotes job creation, rising wages, and greater economic activity. These practices ultimately bring greater resilience to these communities.
- MSMEs play a crucial role in Colombia's economy, accounting for 99.5% of formal businesses and contributing approximately 40% to GDP, while generating 79% of total employment, 53% of which is in formal sectors. These enterprises drive innovation, foster competition, and create local jobs, with employees typically spending their earnings within the community, further boosting the local economy.
- The Framework clearly defines the eligibility criteria for microenterprises applicable for all project categories. The eligibility criteria is in accordance with the Ministry of Commerce, Industry and Tourism's Decree 957 where definition is based on annual income by sector, as well as levels of debt.
- Banco W has defined the steps it takes to assess a client's credit request. The process incorporates a qualitative, in-site, assessment to confirm the establishment of the microenterprise, the clients, stability, and behavior, which incorporate the assessment of other financial commitments outside the formal economy and that could limit the client's payment capability. This is followed by a quantitative assessment in line with sector practices that includes cash flow assessment and credit risk. We believe Banco W's assessment is robust and helps mitigate risk from overindebtedness.

Socioeconomic Advancement and Women's Empowerment through Access to Financing for Women's Microenterprises

Exclusively to provide new financing of working capital, purchase of inventory or investment of capital and fixed assets to female-led or women-owned microenterprises.

Analytical considerations

- Eligible projects in this category aim to contribute to women's socioeconomic advancement and empowerment through the financing of female entrepreneurship. The Framework establishes robust criteria to ensure social benefits reach women. In addition to complying with official definitions to determine the eligibility of microenterprises, as stated above, eligible projects under the category must be female-owned or -led to qualify, following the IFC's definition, which is confirmed by Banco W through document analysis and interviews.

Second Party Opinion: Banco W S.A.'s Social Bond For Financial Inclusion

- In 2022, 92% of formal businesses in Colombia were microenterprises, but only 15.8% of which had access to formal credit, according to data from the Confederation of Chambers of Commerce and the Financial Superintendency. Women actively participate in this sector, accounting for about of 55% of decision-makers in MSMEs in the country, according to the Economic Studies Center. Furthermore, more than half of women in developing countries are either entrepreneurs or aspire to be, with many operating subsistence-oriented microenterprises, according to the World Bank. In this context, Banco W's eligible projects support closing the gap in female-owned or led enterprises' access to formal credit in Colombia.
- Women often reinvest up to 90% of their earnings back into their families and communities, prioritizing social goals alongside profitability, as stated by the Harvard Center for International Development. Therefore, female-owned businesses are not only economically impactful but also enhance community welfare by addressing both financial and social needs, making them key agents of change in local development.
- Process to select and assess credits and social risk for the category follow the same criteria as described in the previous category, which we consider clearly defined and sufficient to address main material social risks.

Access to essential services through access to financing for microenterprises in the Colombian Amazon region

To provide the microenterprise segment new financing for working capital, the purchase of inventory, or investment of capital and fixed assets.

A microenterprise (according to the criteria defined above) is located in municipalities of the Colombian Amazon region as defined by the map of the Amazon Network of Georeferenced Socio-Environmental Information (RAISG), and corresponds to the work area of the Amazon Forever Program (AFP) of the Inter-American Development Bank

Analytical considerations

- Eligible projects under the category aim to promote the economic development of microenterprises in Colombia's Amazon region. By diversifying the economy and fostering innovation, MSMEs in this region strengthen resilience and contribute to environmental and social stability.
- The economy of Colombia's Amazon region is primarily based on agriculture, natural resources, and subsistence activities, with challenges such as limited infrastructure, access to markets, and high poverty levels. Key sectors include agriculture (cassava, plantains, cocoa), forestry, and ecotourism. Access to financing, particularly financing for microenterprises, contributes to economic development, especially because it allows diversification away from livelihoods, like agriculture and fishing, that are jeopardized by advancing climate change.
- In this context, a microenterprise is defined as a small-scale business located in the Amazon region of Colombia, as outlined by the RAISG map. These microenterprises also align with the operational areas of the AFP, contributing to the economic and social development of this environmentally sensitive region.
- A process to select and assess credits and social risk for the category follow the same criteria as described in the previous category, which we consider as clearly defined and sufficient to address material social risks.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the SDGs, we consider which SDGs it contributes to. We compare the activities funded by the Financing to the ICMA SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

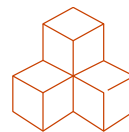
Access to essential services



1. No poverty*



8. Decent work and economic growth*



9. Industry, innovation and infrastructure*

Socioeconomic Advancement and Empowerment



5. Gender equality*

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [Analytical Approach: Shades Of Green Assessments](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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Second Party Opinion: Banco W.S.A.'s Social Bond For Financial Inclusion

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