

PROJECT ABSTRACT
BANCO SOCIÉTÉ GÉNÉRALE BRASIL SME IMPORT FINANCING PARTNERSHIP
BR-L1433

Project Overview

Although small and medium sized enterprises (“SMEs”) are a vital contributor to social mobility, economic activity and employment in Brazil¹, often times they do not have the capital structure or access to credit² needed to carry out key capital investments for expanding their productive capacity and enhancing their productivity and competitiveness. The proposed partnership will provide Banco Société Générale Brasil S.A. (“SGB”) with long-term financing for the importation of information technology solutions, along with machinery and equipment sourced exclusively from the European Union, into Brazil through its subsidiary leasing company, Société Générale Société Générale Equipment Finance S.A. Arrendamento Mercantil (“SGEF”). SGEF will in turn support SMEs in Brazil by making such capital goods available to them via leases of three years or longer and maximum amounts of US\$1 million.

The financing will fall under IDB’s Board of Executive Directors approved facility entitled the “Internationalization of SMEs Financing Facility” (RG-X1217). Under this facility, the Board approved up to US\$250 million to be targeted to SMEs in Latin America and the Caribbean (“LAC”) seeking internationalization of their businesses, either through new foreign direct investment or through trade with the European Union.

Project Description

The objective of the proposed SME Equipment Import Financing Partnership is to support SGB’s equipment finance portfolio to SMEs in Brazil in order to facilitate SMEs’ access to financing for necessary capital investments at adequate tenors, which is otherwise limited in this market segment. The financing to SGB consists of an up to US\$40 million senior unsecured A-Loan (the “Loan”), to be disbursed in two or more tranches. SGB is a strong partner for IDB in this project because of: (i) its established equipment and vendor finance platform through SGEF, which provides it with proven in-depth asset and product knowledge; (ii) its strategic cooperation with key European Union equipment manufacturers and technology developers, and (iii) its country-specific expertise financing SMEs in Brazil.

Expected Development Impact

The proposed partnership will contribute to increase trade activity between Brazil and the European Union through the importation of capital goods for the direct benefit SMEs established in Brazil. By leveraging SGB’s balance sheet and established procurement relationships with top European Union vendors to purchase the fixed assets, the project will promote increased access of productive SMEs to specialized machinery, equipment and technology solutions in

¹ According to SEBRAE (*Serviço Brasileiro de Apoio a Micro e Pequenas Empresas*), a non-profit institution dedicated to promote MSMEs’ competitiveness and sustainable development, MSMEs account for 99% of registered companies in Brazil and employ over 50% of the formal workforce.

² Despite recent improvements, access to credit is a significant challenge for SMEs in the country as shown by the fact that, in spite of some small regional differences, only around 6% of SMEs’ investments in Brazil are funded by financial institutions.

competitive terms and conditions, allowing the SME clients to operate with a prudent cost structure, expand and modernize, as well as increase their contribution to Brazil's economic growth and job creation.

IDB's Additionality

IDB's financial additionality stems primarily from: (i) allowing SGB to diversify its funding structure, in order to reduce its reliance on long-term borrowings from its parent company and foster its self-sustainability, as well as (ii) providing SGB with a longer financing tenor than currently available in the local market, in order to match the tenor of its leases to SMEs.

IDB's non-financial additionality will derive from providing access to SGB and its SME clients to the ConnectAmericas virtual platform to assist the SMEs in the ongoing internationalization of their businesses (importing, exporting and investing abroad). Such assistance will be offered through access to commercial intelligence, interactive training and business networks in the LAC region. Additional non-financial additionality will be achieved through the establishment of IDB's environmental and social requirements, which will create incentives for SMEs in Brazil to maintain sustainable practices in order to be eligible under the partnership with SGB.

Project Contribution to IDB Objectives

The project is consistent with IDB's development goals established by its Ninth General Capital Increase ("GCI-9") under the "Lending to Support Regional Cooperation and Integration" program priority, since it will support integration through the "expansion of the coverage and depth of private finance", in particular internationalization and trade. The project is also aligned with GCI-9's sector priority of "Competitive Regional and Global International Integration" outlined in the IDB results framework, addressing specifically the regional development goal of "Trade openness".

The proposed project is also in line with IDB's Country Strategy with Brazil (GN-2327), as it contributes to its strategic objectives of "Promoting Development through the Private Sector", specifically in terms of supporting the growth and formalization of MSMEs and stimulating long-term credit to encourage private investment. The proposed project also contributes to SCF's specific vision targets of supporting financing for more than 700,000 micro and SMEs by 2015, and supports the accessBanking pillar of SCF's beyondBanking strategy.