

PROJECT ABSTRACT
BANCO SOCIÉTÉ GÉNÉRALE BRASIL SME EQUIPMENT FINANCING PARTNERSHIP
(BR-L1433)

Background

Small and Midsized Enterprises (“SMEs”) are a major contributor to economic activity, employment and social mobility in Brazil¹. Trade also contributes a substantial amount of economic activity in Brazil, representing more than 25% of GDP². SMEs’ growing involvement in trade and international investment reinforces their sustainability through diversifying their procurement and sales channels, gaining access to more efficient production factors, and increasing their technical and market knowledge and expertise. However, the limited availability of financing, among other institutional and market barriers³, significantly constrains the ability of SMEs to make the necessary investments in state-of-the-art equipment and technologies to expand their production capacity, enhance their competitiveness, innovate and increase their international activity. Credit is indeed scarcer, more difficult to obtain and often carries a higher premium for SMEs than for larger competitors, due to the perception of higher risk among lenders in this market segment, derived from SMEs’ generally insufficient credit history, financial information and collateral to secure the financing⁴. For this reason, available credit to SMEs is concentrated in short term credit lines for working capital purposes⁵, which are often inadequate to finance key investments. Alternative models of financing, such as leasing, can be used to help mitigate these constraints, allowing the lessor to maintain ownership of the assets financed during the leasing period and to consider the recovery value of such assets as collateral into the transaction’s credit assessment. This serves as a credit enhancement and thereby increases approval rates and financing tenors offered to SMEs, allowing SMEs easier access to capital goods.

Project Description

The objective of the SME Equipment Financing Partnership is to increase Brazilian SMEs’ access to productive capital goods through leasing solutions and promote their internationalization. This objective will be achieved by providing Banco Société Générale Brasil S.A. (“SGB”) with a senior unsecured up to US\$40 million loan. The proceeds of the loan will then be on-lent by SGB to its wholly-owned subsidiary, Société Générale Equipment Finance S.A., Arrendamento Mercantil (“SGEF”), which will support its SME clients in Brazil by making machinery, equipment and information technology solutions available via leases of three years or longer, in amounts ranging from US\$10,000 to US\$1,000,000 (as per IDB’s definition of SME lending).

Given SGEF’s important network of equipment and technology vendors from the European Union (“EU”) and given that Brazil is the largest trading partner in Latin America and the Caribbean (“LAC”) with the EU⁶, this project is being presented under the Trade component of

¹ According to SEBRAE (*Serviço Brasileiro de Apoio a Micro e Pequenas Empresas*) SMEs account for 99% of registered companies in Brazil and employ over 50% of the formal workforce.

² <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=BR>.

³ OVE (2014): “A comparative analysis of IDB approaches supporting SMEs, assessing results in the Brazilian manufacturing sector” (publications.iadb.org/handle/11319/6683).

⁴ EIB: “The importance of leasing for SME finance” (2012).

⁵ IFC: “Scaling-Up SME Access to Financial Services in the Developing World” (2010).

⁶ The European Commission states that Brazil is EU’s 10th largest trading partner (representing 34.4% of the EU trade volumes with LAC), while the EU is Brazil’s largest trading partner (with 19.5% of its total trade). <http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/>.

the US\$250 million “Internationalization of SMEs Financing Facility” (RG-X1217), approved by IDB’s Board of Executive Directors in 2014⁷.

SGB and SGEF are strong partners for this project because of: (i) SGB’s established presence as a banking group in Brazil, which benefits from the support of its French parent financial group; (ii) the Société Générale Group’s leading global equipment and vendor finance platform through SGEF, which provides in-depth asset and residual value knowledge and proven expertise in working with SMEs that allows it to offer competitive leasing solutions to its clients in Brazil; and (iii) SGEF’s strategic cooperation and relationships with major equipment manufacturers and technology developers, which enables SGEF to source state-of-the-art capital goods and make them available to its SME clients in Brazil.

Expected Development Impact

The proposed partnership will leverage SGEF’s product, segment and country-specific expertise, as well as its established asset procurement relationships and know-how to expand access to lease financing for eligible SMEs established in Brazil. This will enable SGEF’s eligible SME clients to benefit from the use of specialized machinery, equipment and technology in order to facilitate their growth, modernization and internationalization, as well as to operate with a prudent cost structure. It can be anticipated that increased financing for SMEs will generate spillover benefits in the country’s economic activity, based on SMEs contribution to Brazil’s GDP⁸ and potential for job creation⁹, while also supporting and enhancing such SMEs’ trade linkages to the EU.

IDB’s Additionality

IDB’s financial additionality stems from: (i) providing SGB with a longer financing tenor than it currently has available in the local market (up to three years), supporting portfolio’s sustainability by matching the leasing tenors (three to five years) that SGEF offers to its SME clients; and (ii) allowing SGB to diversify its funding structure to reduce its important reliance on borrowings from its parent company and lead the way to achieve increased funding autonomy and sustainability.

IDB’s non-financial additionality is intended to derive from providing SGEF’s SME clients with access to customized content, including commercial and technical knowledge, interactive training and business networks through an envisioned specifically-created community within the ConnectAmericas virtual platform. The provision of leasing and the access to the ConnectAmericas network are expected to contribute to ease some of the main barriers that limit access to finance for SMEs (need for collateral and asymmetry of information) and will assist SMEs in growing and internationalizing their businesses.

Project Contribution to IDB Objectives

The project is aligned with IDB’s strategic priorities as it is consistent with IDB’s development goals established by its Ninth General Capital Increase (“GCI-9”), specifically: (i) its lending

⁷ PR-4163- The “Internationalization of SMEs Financing Facility” was developed in partnership with the European Investment Bank to promote and support trade finance and new foreign direct investment between the EU and LAC by addressing the financing gaps in these sectors. The project complies with the eligibility criteria related to trade finance support under RG-X1217 since, for all individual leases granted by SGB to its SME clients in Brazil that are financed with IDB’s loan proceeds, IDB will require that: (i) the beneficiary SME has relevant trade linkages to the EU, or (ii) the underlying lease transaction contributes to increase trade between Brazil and the EU.

⁸ SMEs account for approx. 20% of Brazil’s GDP, as estimated by the Council of the Americas.

⁹ See Footnote 1.

priorities of “Lending to Support Regional Cooperation and Integration” through the “expansion of the coverage and depth of private finance”, and of “Lending for Poverty Reduction and Equity Enhancement” by channeling financing to SMEs; and (ii) its strategic priorities of “Institutions for Growth and Social Welfare” by “strengthening SME lending through second-tier vehicles and financial services”, and of “Competitive Regional and Global International Integration.” The project is also in line with IDB’s current Country Strategy with Brazil (GN-2662-1), through “Promoting Development through the Private Sector” by supporting the growth and formalization of Micro, Small and Midsized Enterprises (“MSMEs”) and stimulating long-term credit to encourage private investment. In addition, the project contributes to SCF’s vision target of facilitating access to finance for more than 700,000 MSMEs in LAC by 2015¹⁰, and is aligned with the accessBanking pillar of SCF’s beyondBanking¹¹ program by promoting financial and social inclusion through the access2MSMEs products lines.

¹⁰ As of 1Q 2015, SCF reached 95% (668,462) of its MSME vision target.

¹¹ beyondBanking is SCF’s strategy to support the provision of products dedicated to improve access to finance for businesses and individuals and foster a more inclusive and sustainable banking industry in LAC (for further reference, visit: www.iadb.org/beyondbanking).