

Environmental and Social Management Report
Banco Société Générale Brasil - SME Equipment Financing Partnership
(BR-L1433)

- **Project Description and Background**

- 1.1 The proposed partnership will provide Banco Société Générale Brasil S.A. (“SGB”) with long-term financing for SGB’s wholly-owned equipment finance subsidiary, Société Générale Equipment Finance S.A., Arrendamento Mercantil (“SGEF”), to 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.
- 1.2 The objective of the proposed SME Equipment Financing Partnership is to support SGEF’s equipment finance portfolio to SMEs in Brazil, in order to address the limited financing available for companies in this market segment to access productive capital goods. The project is presented under the Trade component of IDB’s US\$250 million “Internationalization of SMEs Financing Facility” (RG-X1217). The project complies with the eligibility criteria related to trade finance support established under RG-X1217 since, for any individual leasing transaction granted by SGB through its equipment finance subsidiary to its SME clients in Brazil that is financed with the proceeds of IDB’s financing, IDB will require that: (i) the beneficiary SME has relevant trade linkages to the European Union, or (ii) the underlying lease transaction contributes to increase trade between Brazil and the European Union (including but not limited to the case in which the leased good is labeled “Made in the European Union”).
- 1.3 The financing to SGB consists of an up to US\$40 million (or its equivalent in local currency) senior unsecured A-Loan (the “Loan”), including a US\$20 million (or its equivalent in local currency) committed tranche and a US\$20 million (or its equivalent in local currency) uncommitted tranche, that will become committed upon SGB’s request, at IDB’s sole discretion. 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 (SGEF is a board member of ABEL, the Brazilian Leasing Association, and is among the top seven leasing providers - excluding auto leases - in the country); 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.

- **Project Status and Compliance**

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (“E&S”) impacts and risks.
- 2.2 SGB has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (“ESHS&L”) laws and regulations.
- 2.3 Based on the sector focus (leasing), and maximum loan size (US\$1 million), this operation is categorized as low risk.

- **Environmental and Social Risks and Impacts**

- A. Potential risks and impacts associated with SGB’s portfolio*

- 3.1 SGB portfolio for the private sector is divided as of year-end 2014 as follows: industry (86%), commerce (10%), services (3%), others (1%). Within its leasing portfolio, SGB, through SGEF, had the following sector concentrations as of such date: machinery and equipment (48%), information technology equipment and solutions (34%), airplanes (9%), vehicles (7%) and others (2%). This operation will be limited only to the financing of small scale capital equipment and information technology solutions.
- 3.2 The Environmental, Social, Health and Safety (“ESHS”) impacts and risks associated with SGB’s SME leasing portfolio are likely to be low in light of the low risk sub-projects to be financed.

- B. Environmental and social risks associated with SGB’s facilities and human resources practices, and other considerations*

- 3.3 SGB has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. SGB indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). SGB’s guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Brazilian labor regulations.

- **Environmental and Social Management**

- A. SGB’s Environmental and Social Management System (“ESMS”)*

- 4.1 SGB has Environmental and Social General Guidelines (Directive 013661) which outline the key standards and parameters enabling a responsible engagement in all

its activities. In relation to this operation, SGB is committed to evaluate every sub-project against the IDB List of Exclusion, although SGB applies a different exclusion list for the rest of its operations. As part of its Know Your Client (“KYC”) procedures and the credit evaluation processes, SGB verifies the performance of its clients reviewing a global database system to make sure the client is in compliance with national law and also reviewing the black list of the Labor Ministry which includes the companies with labor issues.

- 4.2 SGB is committed to implement all the procedures required to be in compliance with the Brazilian Law, specifically with Resolution 4.327/2014 designed for Financial Institutions. This resolution requires the banks in Brazil to i) create and implement a Social and Environmental Responsibility Policy (“SERP”) by July 2015, which needs to be approved by its senior management, ii) designate a person responsible for its implementation, iii) provide training for the staff, and iv) have all the information related to the SERP available for the Brazilian Central Bank.

- **Environmental and Social Requirements**

- 5.1 For this operation which involves sub-leases in maximum amounts of US\$1,000,000, IDB has categorized the operation as low risk and will require SGB, as part of the Loan Agreement, to:

- (i) Comply with all applicable Brazilian environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing (leasing) to SMEs, to ensure that each transaction financed with IDB resources complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the Fundamental Principles of the Rights at Work; and (d) SGB’s SERP, currently under development.

- **Supervision**

- 6.1 The IDB will supervise the environmental and social aspects related to the use of proceeds of the IDB Loan, either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing SGB’s management of E&S impacts and risks.