

FINDEV CANADA TRANSACTION SUMMARY

Banco Sofisa S.A. ("Banco Sofisa")

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

Banco Sofisa is a Brazilian midsize bank focused on small and medium-sized enterprises ("SMEs"). FinDev Canada's US\$ 20M loan is part of an up to US\$ 200M syndicated facility led by IDB Invest in which FinDev Canada will participate as a co-lender alongside Proparco, among others. Banco Sofisa will commit at least 30% of FinDev Canada's proceeds to women-owned or led SMEs ("WSMEs").

Transaction Details

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| COUNTERPARTY | Banco Sofisa S.A. or "Banco Sofisa" |
| DOMICILE OF INCORPORATION | Brazil |
| DOMICILE OF OPERATIONS | Brazil |
| TERM OF FINANCING | 4 years |
| SECTOR | Financial Services |
| IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY | FI-2 |
| FINANCING PRODUCT | Debt |
| FINDEV CANADA TRANSACTION AMOUNT | USD 20 million |
| DATE OF TRANSACTION DISCLOSURE | May 25th 2021 |
| DATE OF TRANSACTION SIGNING | July 2th 2021 |
| DATE OF TRANSACTION SUMMARY PUBLICATION | October 5th 2021 |
| 2X CHALLENGE QUALIFYING | Yes, on leadership, employment, and indirect criteria |

Summary of Anticipated Development Impacts

The key development impact contribution of this transaction is to provide access to financial services to Brazilian SMEs to foster economic development and improve thousands of lives by supporting local jobs. The loan will support the growth of the Bank's SME portfolio in Brazil and 30% of FinDev Canada and ProParco's share will be for Women-owned/led SMEs ("WSMEs"). The impact theory of change summarizes how Banco Sofisa will contribute to FinDev Canada's long-term development impact goals and the UN Sustainable Development Goals (SDGs), particularly SDG 8 "Decent Work and Economic Growth" and SDG 5 "Gender Equality".

Barriers:

- SME financing gap in Brazil is US\$ 437 billion; US\$ 45 billion for WSMEs
- Low Access to finance: Between 2007 and 2017, the share of SME loans in total business loans declined from 55% to 36%
- 42% of SMEs in Brazil see access to funding as a major or severe barrier
- Approximately 10% of Brazilian SMEs are women-owned/led
- 73% of formal WSMEs in Brazil are un(der)-served by financial institutions





MARKET DEVELOPMENT

- **Providing access to finance to local SMEs:** Banco Sofisa has a focus on supporting locally owned SMEs and the individuals they employ.
- **Innovative solutions to increase financial inclusion:** Banco Sofisa established a completely digital bank, *Sofisa Direto*, and expanded its digital platform through which it provides online receivable loans and guarantees.
- **GDP contribution through economic value-added:** The transaction will contribute economic value, both directly and indirectly, through financial support for local businesses.



WOMEN'S ECONOMIC EMPOWERMENT

- **Addressing barriers faced by women in accessing financing:** Banco Sofisa commits to channeling at least 30% (US\$ 6M) of FinDev Canada's investment to WSMEs. IDB Invest, Proparco and FinDev Canada are exploring the use of Technical Assistance ("TA") to support Banco Sofisa in increasing the number of WSMEs in Sofisa's SME portfolio by developing tailored products and services informed by market research, customer segmentation.
- **Supporting women's leadership and employment:** Banco Sofisa is promoting gender equality among its workforce, where women account for 45% of employees and 25% of leadership. This is evidenced by its *Equal Pay Policy*, which defines employee positions and requirements, and ensures the roles are compensated according to market standards. Banco Sofisa offers its employees benefits such as paid leave, parental leave for mothers and fathers, and training opportunities. IDB Invest, Proparco and FinDev Canada are exploring the use of TA to help Banco Sofisa improve on overall gender equality internally through targeted policies or programs to intentionally advance recruitment, retention and promotion of women in the workplace.



CLIMATE MITIGATION AND ADAPTATION

- **Sustainable practices within operations:** Given the sector of operation, Banco Sofisa has a relatively low environmental footprint.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

The majority of Banco Sofisa's existing and proposed portfolio is comprised of low risk business activities with adverse E&S risks that are few in number, site specific, and readily addressed through mitigation measures. FinDev Canada's support will not be directed towards any project finance opportunities.

The E&S risks associated with this transaction lie with the individual companies that Banco Sofisa may support with the FinDev Canada funds it receives. Given that the use of proceeds is short-term loans for SMEs, it is anticipated that much of FinDev Canada's support will be directed towards working capital solutions for the lower risk commerce and services sectors (i.e., the trade and sale of goods and services) and overall transaction-related E&S risks are expected to be low to moderate. FinDev Canada's support will not be directed towards any project finance opportunities, nor any activities listed on the lenders' Exclusions List, which restricts Banco Sofisa from supporting high risk sectors and contexts.

During due diligence, no apparent gaps were identified in relation to Banco Sofisa's approach to customer protection and privacy, nor its policies and processes for maintaining compliance with host country requirements. Banco Sofisa is also working to develop an Environmental and Social Management System (ESMS) and policies aligned with the International Finance Corporation Performance Standards (IFC PS) to better identify, mitigate and manage the E&S risks associated with the loans they make.

As a well-established financial institution, there are good procedures in place to manage the terms and conditions and employment of those staff directly employed by Banco Sofisa. This covers the full range of issues which are anticipated by the IFC PS 2 (labour and working conditions), and all requirements established by Brazilian legislation for the types of employees engaged. Opportunities to enhance Banco Sofisa's Human Resources (HR) Manual to align with international standards and best practices were identified during due diligence and are currently under review, including expanding HR protections to indirect employees, reinforcing anti-discrimination measures, updating their internal grievance mechanism, and developing a health and safety tracking system.

The adverse E&S or human rights risks associated with the transaction are low to moderate and will be mitigated by Banco Sofisa's adherence to loan covenants and successful completion of identified action items, which will be monitored by FinDev Canada throughout the tenor of the debt facility. This review was completed in accordance with FinDev Canada's Environmental and Social Policy.

An illustrative list of key documents reviewed is outlined below:

- Due Diligence presentations for Lenders and questionnaires;
- Banco Sofisa's Ethics Code, Code of Conduct, Information Security Policy and other HR documents; and
- Banco Sofisa's Environmental & Social Questionnaire for clients.

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts; and
- IFC Performance Standard 2: Labor and Working Conditions.