

ITAÚ UNIBANCO WOMEN-OWNED MSME FINANCING PARTNERSHIP
(BR-L1437)
PROJECT ABSTRACT

Background

Micro, Small and Medium-Sized Enterprises (“MSMEs”) are a vital contributor to social mobility and play a major role in Brazil’s economy, accounting for 99% of registered companies and employing 52% of the formal workforce¹. Women participation in the workforce and new business creation has been underpinned in the past decade in the context of Brazil’s macroeconomic stability, growing middle class with increasing purchasing power, improving education levels and regulatory efforts towards simplification of business registration and tax filing procedures². Brazil’s share of companies with female ownership (50%) is notably higher than the average of Latin America and the Caribbean (“LAC”) (40%) and the world (35%), a pattern that is consistent among MSMEs³. This notwithstanding, women-owned MSMEs (“WOMSMEs”) face a higher barrier to access financing than male-owned MSMEs, since they represent a minority of borrowers and frequently obtain less attractive financing terms. Limited credit availability combined with other institutional and market factors such as lack of access to business networks usually led by men,⁴ further constrain women’s ability to grow their business, improve productivity and further contribute to job and wealth creation.

Project Description

Aware of this market failure, Itaú Unibanco S.A. (“Itaú”) embarked on an intensive data mining and design thinking exercise and in 2013 with support of a Technical Cooperation (“TC”) from the MIF and from another multilateral launched the *Itaú Mulher Empreendedora* program consistent on financial services to WOMSMEs, and especially on non-financial services such as mentoring, networking and training, identified in the design phase as key aspects to strengthen women’s performance as successful entrepreneurs. Therefore, the objective of the proposed partnership is to support Itaú’s credit portfolio to MSMEs controlled by women in Brazil, in order to address the limited financing available in this market segment and complement financing with value-added non-financial services. As such IDB is partnering with Itaú to support the *Mulher Empreendedora* program: IDB’s proceeds will be used by Itaú to on-lend to WOMSMEs with annual sales below US\$2.5 million and with at least 51 percent women’s ownership (as defined by Itaú), and in all cases, with loans below US\$1 million (as per IDB’s definition of MSMEs). Itaú will complement on-lending of IDB’s proceeds with non-financial services to increase the value proposition to women clients as part of the *Mulher Empreendedora* program.

IDB’s proposed financing consists in a senior unsecured A/B term loan of approximately US\$350 million to Itaú, acting through its branch in Nassau, Bahamas. The A-Loan will be up to US\$100 million funded by IDB and the B-Loan is expected to be of approx. US\$250 million.

Expected Development Benefits

It is expected that IDB’s approx. US\$350 million A/B loan financing will fund approximately 60,000 sub-loans to beneficiary WOMSMEs per year, equivalent to 300,000 sub-loans during

¹ According to *Serviço Brasileiro de Apoio a Micro e Pequenas Empresas* (“SEBRAE”), a non-profit institution created in 1972 and dedicated to promote MSMEs’ competitiveness and sustainable development, which indicates that there are almost 9 million micro and small enterprises in Brazil (employing over 16 million people), of which over 80% are concentrated in the south-east, south and central regions of the country.

² According to SEBRAE, 52% of recently-started Brazilian companies in 2014 were women-owned.

³ According to Enterprise Surveys from the World Bank Group.

⁴ Women Matter: a Latin America Perspective. McKinsey&Company: <http://www.mckinsey.com.br/LatAm4/Data/Women%20Matter%20Latin%20America.pdf>.

the life of the partnership. This assumes that sub-loans granted with IDB's loan proceeds are in an average amount of US\$7,000 (vs. US\$6,300 current average sub-loan amount in Itaú's portfolio in this market segment) and tenor of ten months (vs. 9 months current Itaú's average sub-loan tenor). Itaú expects to grow its WOMSME portfolio by 6% annually, which is in line with Itaú's overall loan portfolio growth projections. To complement the financing, WOMSMEs will have access to Itaú's non-financial services offered through its *Mulher Empreendedora* program (networking, training, online platform, etc.).

Itaú's visibility as a leading commercial bank in Brazil with a strong reputation for prudent underwriting standards, coupled with its on-going initiative to promote improved access to credit and its value proposition to women entrepreneurs, will generate a demonstration effect for other Financial Institutions (FIs) to increase their services to women in Brazil and the region. Itaú has already taken particular regional and global leadership in supporting women entrepreneurs' businesses. As an active Board member of the Global Banking Alliance for Women ("GBA")⁵, Itaú will host the GBA Annual Summit and Study Tour in September 2015 to share with other banks worldwide its experiences and best practices in financing WOMSMEs. IDB has the opportunity to partner with a forerunner in women banking to spearhead and inspire other FIs in the region to follow the lead.

IDB's Additionality

The additionality of IDB's intervention stems mainly from the multiplicative effect on two angles: (i) financial additionality leveraging additional resources from the B Loan; and (ii) non-financial additionality increasing the value-added of each dollar channeled to WOMSMEs by partnering with Itaú who will couple IDB's financing with non-financial products designed with support from MIF's TC.

Lessons learned and best practices among leading international and regional banks in women banking⁶ show that non-financial services are equally important to increase the possibilities of success of women entrepreneurs. Itaú is one of the few partners in the region that has already built a platform to add value to its women clients. By offering a wide range of value-added non-financial services Itaú focuses not only on the expected outputs, but also on the outcomes; that is, look beyond access to credit, and focus on what women entrepreneurs can do with their credit.

Alignment with IDB Strategy

The Project is aligned with the strategic priorities of the IDB because:

- It serves the purposes of the Ninth General Capital Increase of the IDB ("GCI-9"), in particular: (i) its Lending Priority of "Lending for Poverty Reduction and Equity Enhancement" by channeling financing to MSMEs; (ii) its Strategic Priority to foster "Institutions for Growth and Social Welfare" by strengthening MSME lending through second-tier vehicles and financial services; and (iii) its Strategic Goal of promoting "Development through the Private Sector" by supporting MSMEs as a means to accelerate economic growth and job creation.
- The project contributes to IDB's current Country Strategy with Brazil (GN-2662-1) through "Promoting Development through the Private Sector" by supporting the growth and formalization of MSMEs and stimulating credit to encourage private investment. It is also aligned with IDB's Operational Policy on Gender Equality in Development⁷ by

⁵ The GBA is the leading international consortium of FIs and other organizations interested in building programs to support women entrepreneurs worldwide. It has 41 member institutions, including 8 banks from the LAC region, working in 135 countries. IDB hosted GBA's 2014 Annual Summit in Washington, D.C. with more than 200 attendants representing 34 banks from around the world. For more information on GBA please visit: <http://www.gbaforwomen.org/>.

⁶ GBA, [How Banks Can Profit From The Multi-Trillion Dollar Female Economy](#).

⁷ <http://www.iadb.org/document.cfm?id=35428399>.

- promoting gender equality and the empowerment of women.
- The project is consistent with SCF's strategy and will help surpass the 700,000 MSMEs target⁸ by 2015, and is aligned with two pillars of SCF's beyondBanking⁹ program: (i) accessBanking, by supporting financial and social inclusion through the access2MSMEs products lines, and (ii) equalBanking, by promoting gender equality.
 - The project is also part of womenentrepreneurshipBanking ("weB"),¹⁰ a joint-initiative between SCF and MIF through which the MIF's non-reimbursable technical cooperation is coupled with SCF's financial resources to increase the impact of the IDB Group's interventions in partnership with FIs interested in developing strategies to serve the women's market in LAC.

⁸ As of 1Q 2015, SCF reached 95% (668,462) of its MSME vision target.

⁹ 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, please visit: www.iadb.org/beyondbanking.

¹⁰ weB was launched during the Summit of the Americas in Colombia (04/2012) as a joint effort between SCF's beyondBanking Program and MIF's Line of Activity for Promoting Small Enterprise Financing ("LASEF"). For further information, please refer to weB's factsheet: www.fomin.org/Portals/0/Topics/Factsheet-womenentrepreneurshipBanking2014.pdf and video: www.youtube.com/watch?v=YAILKWrihxU&feature=youtu.be&list=UUtyrJVL5gkWEHv0rLHISJ5A.