

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary Internal

Date: 1/18/2012

GAIN Report Number: BR12003

Brazil

Post: Sao Paulo ATO

GoB Support to the Sugar-Ethanol Sector - Prorenova

Report Categories:

Bio-Fuels

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Report Highlights:

On January 11, Brazil's National Bank for Social and Economic Development (BNDES) announced a credit line of US\$ 2.25 billion (R\$ 4 billion) available until December 31, 2012, called Prorenova, to finance the renewal and/or expansion of approximately 2.5 million acres (1 million hectares) of sugarcane fields.

General Information

Government Support to the Sugar-Ethanol Sector

BNDES

The Brazilian National Social and Development Bank (BNDES) is the main financing agent for development in Brazil. The Bank was founded in 1952 and has played a key role in encouraging the expansion of industry and infrastructure in Brazil. BNDES operations include support for exports, technological innovation, sustainable socio-environmental development and the modernization of public administration. The bank offers several financial support mechanisms to Brazilian companies of all sizes as well as public administration entities, enabling investments in all economic sectors. In any supported undertaking, from the analysis phase up to the monitoring, the bank states that three strategic factors are taken into account: innovation, local development and socio-environmental development.

Prorenova

On January 11, BNDES announced a credit line of US\$ 2.25 billion (R\$ 4 billion) available until December 31, 2012, called Prorenova, to finance the renewal and/or expansion of approximately 2.5 million acres (1 million hectares) of sugarcane fields.

The Government of Brazil (GoB) expects that the new credit is likely to support domestic ethanol production which sharply dropped from 27 to 22 billion liters during 2011/12 due to climate issues and low renewal rates of sugarcane fields in center-southern Brazil, and attractive sugar prices that diverted sugarcane crushing for sugar production. The GoB expects that Prorenova will encourage additional production of 2 to 4 billion liters between 2013 and 2014.

Prorenova will target medium to large-size companies with gross revenue over US\$ 50.8 million (R\$ 90 million), who will use commercial banks for the loan transactions. The interest rate will include the BNDES' long-term finance interest rate (TJLP) of 6 percent per year plus a basic remuneration rate of 1.3 percent, plus 0.5 percent for fixed costs, totaling 7.8 percent. In addition, the commercial bank will add its spread which will vary according to each bank and participating company, thus resulting in a final interest rate of approximately 10 percent per year.

The program will provide financing for up to 80 percent of investments with loan terms limited to 54 months plus a grace period of up to 18 months, for a total term of no more than 72 months.

Industry reaction to the announcement is positive. However, many consider it a half-measure that will mainly address the renewal of sugarcane fields and the recovery of production levels lost over the last two to three years; expansion into new fields is not likely to occur. Industry sources have commented that the GoB should have taken this measure a year ago in order to see a more immediate impact in the current year. Based on past experience, industry expects the BNDES credit requirements to be strict and prohibitive, which will deny many companies the ability to benefit from the new program.

BNDES already has a special credit line to finance micro, small, and medium-sized enterprises, including agricultural operations. The program is called BNDES Automático/MPME Investimento and supports investment projects under US\$ 11.3 million (R\$ 20 million). The interest rate includes the BNDES' TJLP of 6 percent per year

plus the basic remuneration rate of 0.9, plus the commercial bank spread. The program finances up to 90 percent of investments and the grace period and total term depend on the commercial bank and the enterprise.

Interest Rate for Prorenova

On a regular basis, the Brazilian Central Bank (BACEN) sets the SELIC rate (Special System for Settlement and Custody – “SELIC - Sistema Especial de Liquidação e de Custódia) which is the reference for the market interest rates used by different financial agents.

In December 2011, BACEN set the goal for the SELIC rate at 11 per cent per year. Thus, the minimum market interest rate is 11 percent plus the spread from financing agents.

This would make the interest rate for Prorenova below market rates. However, the program’s interest rates are in line with other government programs for agricultural activities such as those announced in the 2011/12 Brazilian Crop Plan. See last column on the table below for different rates applied to different programs.

Investimento: volume de recursos por programa

Programa/ Fontes	Recursos Programados		Limite de Crédito (R\$ mil)	Prazo Máximo (anos)	Carência (anos)	Taxa de Juros (% ao ano)
	(R\$ milhões)					
	BNDES/Banco do Brasil					
	2010/2011	2011/2012				
ABC	2.000	PROGRAMA ABC 3.150	1.000	até 15 ⁽¹⁾	até 8	5,5
Produsa	1.000					
Propflora	150					
Moderinfra	1.000	1.000	1.300 ⁽²⁾	12	3	6,75
Moderagro ⁽³⁾	850	850	600	10	3	6,75
Prodecoop	2.000	2.000	60.000 ⁽⁴⁾	12	3	6,75
Procap-Agro	2.000	2.000	50.000	até 6 ⁽⁶⁾	até 2 ⁽⁶⁾	6,75
Moderfrota	1.000	1.000	-	até 8 ⁽⁵⁾	Sem carência	9,5
Moderfrota Pronamp	500	500	-	até 8 ⁽⁵⁾	Sem carência	7,5
TOTAL BNDES/ B. do Brasil	10.500	10.500	-	-	-	-