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POLICIES AND INSTITUTIONS TO PROMOTE INDUSTRIAL REORGANIZATION AND MERGERS: THE EXPERIENCE OF BRAZIL 1/

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CONTENTS

I. INTRODUCTION: THE CURRENT SITUATION IN BRAZIL

1. Based on studies made in the past few years, an effort is being made to establish, in Brazil, a modern, competitive and dynamic economy. In order to achieve this aim, the following objectives have been laid down:

(a) The attainment of the highest possible rate of economic development compatible with available resources;

(b) The gradual reduction of inflation;

(c) The reduction of personal and regional income disparities;

(d) The attainment of international levels of efficiency in the public and private sectors.

2. By observing the changes which have occurred in the productive structure, it is possible to conclude that the proposed objectives are attainable. The presentation of a few figures will suffice to illustrate these changes.

3. For example, the GDP growth rate, which was in the region of 1.5 per cent in 1963, began to rise as from 1964; from 1968 onwards it established itself at around 9 per cent, and in 1971 it reached 11.3 per cent, a figure attained by few countries in the world at any time. As a result of this rapid growth rate, in 1970 GDP reached the figure of US$38,000 million, 80 per cent more than the 1960 total. The latest estimates point to a figure in the region of US$44,000 million for 1971, representing a per capita income of around US$450.

4. In 1964 the level of inflation reached almost 90 per cent, but from then onwards it fell until it reached 18 per cent in 1971; in 1972 it should fall to around 15 per cent.

5. It should be noted that this transformation is not merely a question of striking quantitative advances, but also entails a change in the approach of Government and private industry. The private sector, with government support mainly in the form of tax incentives and financial assistance for industrialization, has become aware of the need to increase its competitiveness.

6. The reduction of regional income disparities is being achieved through programmes for national, economic and social integration. Important features of this policy are the building of strategic roads for the economic integration of Amazonia, the North East and the Central Highlands, regional tax incentives; housing and education programmes and programmes for the establishment of employees' savings funds. It should be emphasized that the volume of resources generated by regional tax incentives greatly exceeds that already obtained through international development agencies to be used for the same purposes in the same regions.

7. The qualitative change can be most convincingly demonstrated by quoting two examples. The first is the growth in the number of children attending school, as measured by the school rolls, which have expanded as a result of the investments made in education; the latter amount to 5 to 6 per cent of GNP, a level comparable to that of countries with a higher income than ours. The second example is the increase in foreign trade. It should be noted that industrial policy is less and less geared to import substitution and more to aggressive export promotion. This change is apparent in the composition of the foreign trade statistics.

8. In the following chapters an attempt will be made to show how the industrial sector is being reorganized in the light of the general picture presented above.

9. In chapter II we will try to give, to begin with, a general view of the position of the industrial sector within the economy, and then a general picture of the degree of concentration in the various branches of industry.

10. In chapter III the institutional and legal aspects of industrial reorganization and mergers will be explored. An account will be given of the action taken by the government to provide the country with the legal and institutional instruments for promoting mergers or for removing any obstacles which may exist.

11. Finally, in chapter IV, we will consider governmental action to promote industrial reorganization and business mergers. We will present and comment on the main instruments of objective action involved, such as financing programmes tax incentives and tariff policy. In this chapter emphasis will be laid on the measures taken to induce business amalgamations as a factor making for greater efficiency and increasing the competitiveness of domestic Brazilian industry, both at home and abroad.

II. THE EVOLUTION OF THE BRAZILIAN INDUSTRIAL STRUCTURE

1. We will now try to give an idea of how Brazilian industry is being transformed, through certain indicators which are not the only possible ones - and certainly not the best - but are sufficient to give a general picture.

The industrial sector within the economy

2. In our country the share of the secondary sector in the economy is gradually increasing. The national accounts bear unquestionable witness to this phenomenon, since industry is accounting for an ever increasing share of GDP and of net domestic income. This is proof of the process of industrialization through which the country is passing, accentuated in the past decade.

3. In addition, we find that in Brazil, between 1960 and 1970, the percentage of the economically active labour force working in the secondary sector has increased, while the percentage of the labour force working in the primary sector has shown a marked tendency to fall.

4. Furthermore, between 1960 and 1970 the average annual rate of increase in the productivity of the primary sector was far higher than the rates for the other sectors. This means that the movement of labour away from the primary sector is at least partly explained by the increase in the sector's productivity.

Size of businesses in the different branches of industry

5. In Brazil there is no generally accepted definition of a "large", "medium" or "small" enterprise. Various criteria are used, according to the purpose which one has in mind. The Bank of Brazil, the National Economic Development Bank (Banco Nacional de Desenvolvimento Econômico) and the regional development banks adopt a wide variety of definitions, either according to the programmes to which the funds which they administer are destined, or according to the sectors to be benefited by the resources.

6. As it is impossible to have a general and unanimously accepted criterion to classify establishments into "small", "medium" and "large", we start from the supposition that there would be no point in adopting the same quantitative parameters for every branch. Establishments with the same industrial processing value, the same capital or the same number of employees in two different branches of industry can

differ completely in effective size. One of them may be small in terms of the branch concerned, and the other large in terms of the branch in which it operates. Such differences reflect the particular structure of each branch. We shall therefore seek a less abstract classification and thus try to make allowance for the diversity between different branches of industry.

7. Concepts of "small", "medium" and "large" also vary internationally, according to the productive structure of each country. However, since our comparison is limited to Brazil, branches have been differentiated only in respect of industry in our country.

8. There are various criteria for classifying establishments into "small", "medium" and "large". capital, number of employees, value of production, turnover, energy consumption, processing value (added).

9. It seems to us that the industrial processing value*/ sums up all the others, because it represents the remuneration of the various factors involved and, consequently, the income generated by the branch of industry concerned. We shall therefore adopt it as the basic value for the classification criterion. This does not, however, mean that we have reached the final conclusion that this is the best criterion.

10. The source used for compiling the table showing industrial concentration (annex I) was the IBGE Foundation (Brazilian Institute of Geography and Statistics), through two of its publications, the 1960 Censo Industrial (Industrial Census) and the 1971 Anuário Estatístico do Brasil (Statistical Yearbook of Brazil). Both these documents show the total number of establishments in each branch of industry, distributed in ten classes according to the number of employees. The ten classes range from the class of establishments without employees to the class with 1,000 or more employees. For each class the total industrial processing value is also given.

11. It must be pointed out that in these statistics the concept used is that of the industrial establishment, and not the enterprise. Each enterprise may have one or more establishments. Although we recognize that this may lead to an under-estimation of the results relating to the concentration of enterprises, we have been obliged to use these data as they are the only data available to us.

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*/ Definition in annex I.

2. Here, in short, is the method followed in classifying establishments:

(a) We divided the total industrial processing value of each branch by the total number of establishments in the branch. We thereby obtained an average processing value for each branch. The absolutely average establishment would be an establishment showing this value.

(b) We applied the same procedure for each employment class (of the 10 classes mentioned above), calculating the average industrial processing value for each class.

(c) We then assigned the term "medium" to those establishments in classes with averages closest to the average processing value for the branch of industry concerned; we assigned the term "small" to establishments in the classes with averages closest to the lowest average of the ten classes; we assigned the term "large" to establishments in the classes with averages closest to the highest class average. In determining proximity to the various averages, geometric and not arithmetical criteria were used.

3. Each branch was thus classified according to its average industrial processing value. This procedure made possible a differentiation along the lines stated above.

14. It seems clear from the table that concentration was more pronounced in terms of the number of establishments than in terms of their share of the total industrial processing value.

15. The most dynamic branches of industry*/ (non-metallic minerals, metallurgy, engineering, electrical equipment, transport equipment and chemicals) are in fact those which show the greatest changes. The table in the annex reflects the natural, so to speak, trend towards concentration.

16. The merger and take-over process is still in an early stage. The largest number of amalgamations is occurring in those sectors on which the Government's merger and take-over policy is being brought to bear: insurance, finance and the sugar industry (as shown in chapter IV).

17. The results for the most dynamic branches of the economy (listed above), in which a natural trend towards concentration has been noted, reflect to some extent the growth of Brasilian industry over the past decade. It is to be supposed that, from 1969 to the present day, the process of concentration in these branches of industry has been accentuated.

*/ See annex I, tables II and III.

III. POLICIES AFFECTING INDUSTRIAL REORGANIZATION AND MERGERS

1. The Government has, through an extensive list of measures, encouraged the Brazilian businessman to take the initiative in industrial reorganization, so as to strengthen the competitiveness of industry and thereby enable it to operate on equal terms with foreign industry.

2. Such an approach shows confidence in internal and external competition as a stimulating factor in the search for greater operational efficiency. It also displays the Government's readiness to entrust the task of promoting and improving the industrial structure to private initiative and to take supplementary action, by the means at its disposal, to introduce any facilities required or to remove existing legal obstacles.

The institutional and legal structure

3. The legal requirements for the merger or take-over of businesses are established in the law on companies (Decree-Law No. 2,627 of 1940). This law lays down the general requirements to be observed by the parties concerned, such as the holding of meetings, the appointment of expert appraisers, etc. Thus there are no obstacles as far as civil and commercial law is concerned.

4. The procedures used for industrial reorganization, such as the raising of new capital, change in corporate status, merger, take-over, formation of conglomerates, etc., are always initiated by the parties concerned. In most cases the public (federal or state) authorities merely verify that the formal requirements provided for in general law (the companies law, the Commercial Code, business registration laws and other pertinent laws) have been complied with.

5. In specific cases there is special legislation which provides for approval by a governmental organ. These cases are, generally, those in which fiscal, technical or financial incentives are offered, as, for instance, in the case of the merger of finance companies for conversion into an investment bank, the merger or take-over of insurance companies with an increase in the retention limit (Decree-Law No. 1,115 of 24 July 1970), the merger or take-over of sugar factories with an increase in the production quota limits (Decree-Law No. 1,186 of 27 August 1971), and the merger or take-over of any type of business with exemption from income tax on its revalued fixed assets or even with financial support from a governmental development agency.

6. With regard to the fiscal aspects, the merger and take-over process has encountered obstacles in the income tax laws. Under the current rules the book value of property composing the fixed assets of enterprises can be updated every year through the application of monetary correction indices, without payment of income tax. This measure is designed to eliminate the distortions caused by inflation. When, however, revaluations above that limit are made, the balance is liable to corporation tax at the rate of 30 per cent.

7. In practice, because of the rapid inflation which we have had in the past, the corrected values are, as a rule, lower than the market values, with the result that the updating of the values is subject to tax.

8. This obstacle has now been removed in the case of mergers and take-overs found to be of interest to the national economy. Having regard for the desirability of encouraging this kind of amalgamation because of its beneficial effects in regard to increasing the size of enterprises, obtaining economies of scale, and reducing costs with a view to making the enterprises internationally competitive, the Government issued Decree-Law No. 1,182 of 16 July 1971, which instituted exemption from income tax in respect of the difference between the corrected book value and the market value; at the same time it established the Business Merger and Take-over Commission (COFIE), to be responsible for appraising and advising on applications for exemption and for establishing whether there are grounds for considering the operation concerned to be of importance for the national economy, the latter being an essential prerequisite for obtaining the tax benefit.

9. As far as the problem of the concentration of economic power is concerned, it can be stated that in Brazil there is no specific legislation on monopolies. The matter is dealt with, first of all, in the Constitution, which lays down basic principles for the conduct of business activities, including freedom of enterprise and prevention of the abuse of economic power. Such abuse is characterized by the control of markets, the elimination of competition and the arbitrary increase of profits.

10. This notion, which is only sketched out in the Constitution, was made explicit in ordinary law by Law No. 4,137 of 10 September 1962, regulated by Decree No. 52,025 of 0 May 1963. Under article 2, the following are considered forms of the abuse of economic power: the domination of national markets or the total or partial elimination of

competition, raising prices unjustifiably, in the case of natural or de facto monopolies for the purpose of arbitrarily increasing profits without increasing production; bringing about monopolistic conditions or engaging in abusive speculation for the purpose of promoting a temporary rise in prices; and forming an economic grouping, through the combining of enterprises, to the detriment of the free choice of buyers or sellers.

11. Having traced out the institutional structure erected to provide the legal basis for industrial reorganization and mergers, we will now describe the positive instruments which the Government is using, not only to support these operations, but also to induce businessmen to modernize and expand their activities and thereby to unite their efforts with those of the Government in the common concern to attain the aims defined as "Major National Objectives".

IV. GOVERNMENT ACTION TO PROMOTE INDUSTRIAL REORGANIZATION AND BUSINESS MERGERS AND TAKE-OVERS

1. Basically, the Government is making use of credit, fiscal and business merger and take-over policies as instruments to encourage the businessman to promote industrial reorganization and rationalization, endeavouring always to attain the proposed goal of the national economy - economic development.

Instruments of credit policy

2. The supreme organ of the national financial system is the National Monetary Council, which is responsible for laying down policy in this field. The principal governmental organs of the system are the Central Bank of Brazil, the Banco do Brasil S.A., the National Economic Development Bank, the National Housing Bank, and the Federal Economic Bank (Caixa Econômica Federal).

3. These organs operate through specific programmes and funds in financing the private sector of the economy*/.

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*/ In addition to the brief description of the financing programmes aimed at improving business efficiency presented in this document, we are preparing a document which explains in detail the conditions, objectives and priorities established by the Government for the granting of this financing.

A. Programmes of the central bank of Brazil

The Central Bank of Brazil, established by Law No. 4,595 of 31 December 1964, is he organ responsible for executing the Government's monetary policy.

Through various funds, it promotes or finances activities in the agricultural, nimal husbandry and industrial fields, as well as investments of a social nature such s basic services, health, education and supply facilities. Of these funds we will ention those designed to finance the following activities: agriculture, industry, the onstruction of warehouses, silos and supply centres, the purchase of Brazilian tractors, gricultural machinery and ancillary implements, and projects for the establishment, pansion reorganization and/or modernization of food industries.

The Bank also directs the merger policy of the financial institutions, with a view extending the scope of the system and to reducing operating costs.

B. Programmes of the Banco do Brasil S.A.

The Banco do Brasil S.A. is a State bank and the most important banking establish-nt in the country.

As a financial agent of the Government, it acts through a number of programmes under ich it assists industrial enterprises by financing working capital and investment. s financial assistance is mainly used for the purchase of raw materials and of finish-g and packing materials, for supplementing the working capital of industrial enter-ises, and for installing, renovating, expanding and acquiring machinery and equipment. ecific loans are granted for the import of machinery, equipment and technical services om countries such as the United Kingdom and Belgium.

C. Programmes of the National Economic Development Bank

In 1951 Congress authorized the Government to raise a compulsory loan in order to stitute an Economic Re-equipment Fund. A few months later, in 1952, the National nomic Development Bank (BNDE) was established to act as an agent in all transactions nected with the economic re-equipment plan.

10. The initial aim of BNDE was to serve infrastructure sectors of the economy such as energy, transport, agriculture, warehousing and cold-storage installations (frigorifi and industries considered to be basic - sectors which were not, at the time, attracting private capital.

11. Today BNDE's main activity is to finance the establishment and expansion of programmes and projects, as well as construction work and services designed to re-equip and develop the national economy. It was accordingly constituted as the principal financial investment agency of the Government and has the function of supplying long-term loans at a reduced rate of interest to finance the above-mentioned operations. Its principal funds are the Economic Re-equipment Fund, the Financing Programme for Small and Medium Enterprises and the Industrial Modernization and Reorganization Fund. The purpose of these funds is to finance projects for the establishment, expansion or remodelling of industries; the merger, take-over, recomposition, dismemberment or association of industrial enterprises; fixed investments for the establishment or expansion of enterprises, with increased productivity, through loans and/or the furnishing of guarantees; and increases in productivity through the implementation of sectoral programmes or specific projects.

12. BNDE's major instrument for promoting industrial reorganization and business merge and take-overs is the Industrial Modernization and Reorganization Fund (FMRI), the purpose of which is to finance the reorganization and modernization of Brazilian industrial sectors and enterprises with a view to increasing their efficiency and, consequently, their internal and external competitiveness, this being one of the Government's major objectives.

13. By this action BNDE is creating favourable conditions for strengthening the Brazilian enterprise by enabling it to eliminate problems of administrative organizatio management capacity, technological development and, in particular, scale of operation.

D. Programmes of the National Housing Bank

14. Established by Law No. 4,380/64, the National Housing Bank (BNH) is the supreme organ of the housing finance system, the Brazilian savings and loan system, the sanitation finance system, and the Fundo de Garantia do Tempo de Servico (a statutory non-contributory benefit fund for employed persons).

It provides financial assistance for the housing sector, either by financing con-
uction enterprises or by financing working capital and fixed investment for enter-
ses engaged in the production, transport tion or distribution of construction materials.

Among BNH's objectives we will mention those which are most closely co-ordinated
h the Government's development policy:

(a) Reducing the cost of housing by increasing supply to meet local demand;
(b) Obtaining economies of scale in production;
(c) Increasing productivity in the construction and construction materials industries;
(d) Obtaining a better geographical distribution of investments by reducing regional disparities;
(e) Promoting an increase in private savings, and, consequently, in the rate of investment;
(f) Increasing investment in the construction and construction materials industries.

E. Programmes of the Federal Economic Bank

The Federal Economic Bank is the principal organ of the system for small savings
for financing home purchases.

It also acts as a financial agency of the Government and, as such, it administers
ious programmes providing financial assistance to industrial enterprises.

One of the most important is that operated with the resources of the Social
egration Programme (PIS) to finance the establishment, expansion and modernization
enterprises and the purchase of technical assistance services.

F. Other programmes: FINAME and FINEP

The Special Industrial Financing Agency (FINAME) was established on 22 December 1964,
he Industrial Machinery and Equipment Acquisition Fund. Later on it was converted
an autonomous federal agency, and subsequently into a public enterprise incorporated
rivate law. It is linked to the Ministry of Planning and General Co-ordination,
ugh BNDE. Its purpose is to meet the credit needs of the equipment-producing sector;
inances the latter's sales and helps with the expansion, re-equipment and moderniza-
of the industrial sector.

21. The Financiadora de Estudos e Projectos S.A. (FINEP) is a limited company linked t the Ministry of Planning and General Co-ordination through BNDE. It chiefly finances feasibility studies on industrial, agricultural, agro-industrial and animal husbandry projects and sectoral and regional development programmes;

Instruments of tax policy

22. In an attempt to adjust to Brazilian circumstances, and having regard for the sta of development and the problems arising from the fast growth of the economy, a rational tax policy was introduced in which tax came to be used as an instrument for promoting economic and social development.

23. Acting pragmatically, the Government decided to renounce part of its tax revenue and to allow it to be used directly in the promotion of selected priority activities (fisheries, tourism, air services, re-afforestation) and in the development of economic less developed regions (the North-East, Amazonia, the Central West).

24. Apart from these tax incentives, the Government has instituted important tax exemp tions in areas such as the import of machinery and equipment for selected sectors, profits derived from exports, and the production of specific goods.

A. Customs policy

25. The Customs Policy Council (CPA), established by Law No. 3,244 of 14 August 1957, is an instrument which the Government uses to stimulate or develop the Brazilian industrial stock.

26. CPA acts through its authority to:

(a) Propose changes in customs legislation;
(b) Advise on the granting of customs privileges;
(c) Draw up or review lists of similar products;
(d) Modify quotas, within a given range, to protect products of interest to the national economy.

B. Income tax incentives

By permitting abatements in the assessment of gross income and deductions in payable ...s the Government created an excellent source of funds to be used in economic under-...ngs. Here are some examples:

(a) Agricultural, animal husbandry, industrial and telecommunications undertakings in the North-East.

Agency responsible: Superintendency for the Development of the North-East (SUDENE)

(b) Agricultural, animal husbandry, industrial and basic services undertakings in Amazonia.

Agency responsible: Superintendency for the Development of Amazonia (SUDAM);

(c) Undertakings for catching, processing and marketing fish.

Agency responsible: Superintendency for Fisheries Development (SUDEPE).

C. Miscellaneous exemptions

Other forms of industrial promotion through taxation are the exemptions granted economic development activities. Some examples of exemptions from income tax are:

(a) For enterprises installed in priority regions;

(b) For the revaluation of fixed assets in the case of the merger or take-over of enterprises;

(c) On profits from exports.

The Government also offers incentives for the industrialization and development of ...erprises through taxes such as those on imports and on industrialized products. These ...entives include, basically, exemption from tax on the import of equipment intended ... specific industrial activities which are considered to have priority, either because ...he nature of the activity itself or because of the region in which they are located.

D. Merger and take-over policy

30. If we follow the course of economic development at the international level, we find that fierce competition and the increasing pace of technological progress call for large-scale enterprises which can efficiently rationalize their productive processes. Thus the concentration of enterprises has been a marked characteristic of the Western economy in recent times.

31. The Government is convinced that a well-oriented process of mergers and take-overs, as the experience of the developed countries shows, leads to better cost, production and efficiency conditions through a dynamic management outlook, thereby enabling enterprises to pass through various stages of their development in a single step.

32. In order to induce businessmen to opt for greater concentration, tax and financial incentives have been introduced in favour of enterprises which merge or take over another enterprise. In some cases the inducement is directed at specific sectors such as banking, insurance and the sugar industry; in others it is aimed at all sectors without discrimination.

33. The main instrument used is the tax incentive instituted by Decree-Law No. 1,182 of 16 July 1971. This Decree-Law governs the granting of exemption, temporary and exceptional, from income tax in the case of mergers and take-overs, in return for a commitment that capital will be raised, for the purpose of transferring to the collectivity the advantages flowing from the tax benefit in particular and from the benefits resulting from the process in general.

34. Each of the hypotheses provided for above is susceptible to so many variations that general criteria valid for all cases cannot be laid down. In some cases, for example, according to the different aims which the Government may have in mind, the financial analysis may be more important. In specific cases of groupings, the order of importance of the benefits provided for may vary, greater prominence being given to obtaining an increase of scale and to reducing costs and prices on the home market in sectors of great inflationary impact. In other cases the principal objective may be to secure an appropriate level of profitability for one or more enterprises, while in yet others it may be to achieve better dimensions for specific industrial infrastructure projects.

35. This type of flexibility required in the assessment of projects is what justifies the importance of a deliberative organ such as COFIE, which was also created by Decree-Law No. 1,182. This agency, which is linked to the Ministry of Finance, seeks to adjust the instruments of analysis in each case to the different objectives and priorities of the Government's economic and social policy.

36. There are, however, general guidelines governing COFIE's activities. They are related to the different objectives and preoccupations which the Government had in mind when it promulgated Decree-Law No. 1,182, laying down the general methodology to be followed in the analytical processes.

37. Enterprises will be appraised in relative and absolute terms. The relative analysis is purely referential in nature. It is intended to situate the applicant enterprise or enterprises with reference to certain structural parameters (priority sectors, priority regions and priority types of integration).

38. As far as sectors are concerned, analyses of each sector's characteristic costs and basic technical and productive relationships provide information on the Brazilian industrial structure in regard to its optimum pattern in terms of the possibilities of successfully utilizing internal economies and economies of scale, and bringing about external economies or multiplier effects in relation to inputs or products. These indicators show whether the enterprises in the sector are under-sized or whether the present degree of concentration is less than that economically desirable.

39. The regions concerned are those which the Government has a particular interest in stimulating in order to correct imbalances.

40. The types of integration concerned are those which, in principle, are more in line with the objective of greater efficiency and lower operational costs.

41. In order to have a detailed picture of the specific contribution of each project, the enterprise will be judged by a series of partial criteria. The usual tests are, in principle, four:

(a) An economic test which will verify whether real economic advantages would result from the mergers proposed. In this test is included the analysis of the social benefits and the benefits to the enterprise in terms of an increase in efficiency;

(b) An economic and financial test which will verify the capacity of the enterprises involved to attain the proposed objectives;

(c) A fiscal test which will verify the tax liabilities of the firms to be associated and their possibilities of meeting them;

(d) A test regarding the valuation of the assets and the proposed criteria and revaluation.

42. The basic instrument used for this analysis will be the model schedule instituted in COFIE resolution No. 1, containing an information section in which the entrepreneurs describe their enterprises in terms of their legal, administrative and corporate nature, their principal operations, the cash flow and financial results, a list of their fixed assets, and a report on the valuation of their assets. It also contains an explanatory section in which enterprises submit a technical and economic diagnosis of the anticipated effects of the merger, take-over or raising of capital. This information may be supplemented by further particulars supplied by enterprises in response to requests for clarifications and by other data from internal sources and from organs such as the Central Bank, the Banco do Brasil S.A., BNDE, the Industrial Development Council, etc.

43. The economic test will evaluate the information collected with a view to quantifying the effects of the project and in the light of its importance in terms of priorities.

44. The main variables which have to be considered are:

(a) Increased production;
(b) Reduction of costs resulting from economies of scale;
(c) Increased sales on the home market and an increase in or the commencement of sales abroad;
(d) Effects on the labour force;
(e) An improvement in operational and administrative efficiency;
(f) Indirect effects on the production of inputs and the utilization of products;
(g) Strengthening of the capital market.

45. The economic and financial test is made on the basis of balance-sheets and profit and loss accounts. It consists of studying the most significant relationships over the past three years, with reference to the state of the assets, cost structure, profitabili[ty] and the proportion of share and loan capital. This analysis will be particularly intens[ive] in regard to the defence of the capital market, with a view to avoiding the over-capitalization of corporate funds to be placed on the market or the "watering down" of

siness capital. In order to protect the health of the market and the solidity of curities, it is necessary to assess the ability of enterprises to provide a future turn on their capital as increased by the revaluation.

6. The purpose of the fiscal test is to ascertain, on the basis of the statement of e enterprise's liabilities, the fiscal and para-fiscal debts and the amount of debtedness in relation to the enterprise's assets.

7. The aim of the assets value test is to verify the accuracy of the list of assets d purchase values and statements as to their deterioration, to test the indices and rmulae used for revaluation purposes and to determine whether the market value obtained compatible with information available on the state of the assets.

. The results of these partial tests and of the analysis will be harmonized and ighted according to their importance. Thus a general picture can be obtained of the nefits and costs of the projects submitted, which can be used when the final decision taken.

. The organs which assess merger and take-over projects which may qualify for govern- nt incentives are, besides COFIE, the Central Bank of Brazil, BNDE, the Superintendency r Private Insurance and the Sugar and Alcohol Institute.

. Mergers and take-overs carried out with the support of COFIE and BNDE have involved granting, by COFIE, of income tax exemptions to the value of Cr$628,940,000 and nancial assistance from BNDE to the value of Cr$219,515,000.

The commercial bank merger and take-over policy directed by the Central Bank has lped to reduce the number of head office establishments from 455 on 31 December 1950 159 on 31 July 1972.

As a result of mergers and conversions of financial companies, the number of invest- t banks has risen from 7 head office establishments on 31 December 1966 to 42 on July 1972.

Take-overs of sugar mills carried out thus far have had financial support from the er and Alcohol Institute (IAA) to the value of Cr$262,578,000. Twenty-four mills e been absorbed in the process.

54. As a result of the Policy administered by these organs, the following amalgamations have already taken place with government incentives:

Type of enterprise	Number of projects approved	Number of enterprises involved
I. Mergers:		
Industrial enterprises in general	1	3
Commercial banks	10	21
Investment banks	41	119
Insurance companies	2	4
II. Take-overs:		
Industrial enterprises in general	29	59
Commercial banks	128	251
Insurance companies	21	50
Sugar mills	29	53

ANNEX I

TABLE I

CONCENTRATION OF INDUSTRIAL ESTABLISHMENTS IN BRAZIL (1959-1969)*

Branches of industry	A Number of establishments, per cent 1959	A 1969	B Share of processing value, per cent 1959	B 1969
1. Non-metallic minerals	100.0	100.0	100.0	100.0
Small establishments	66.2	62.5	8.6	2.1
Medium establishments	32.7	35.4	32.4	33.8
Large establishments	1.1	2.1	59.0	64.1
2. Metallurgy	100.0	100.0	100.0	100.0
Small establishments	64.2	35.7	3.4	2.2
Medium establishments	34.8	62.6	46.7	50.1
Large establishments	1.0	1.7	49.9	47.7
3. Engineering	100.0	100.0	100.0	100.0
Small establishments	49.3	32.6	4.8	2.5
Medium establishments	48.2	59.9	49.6	36.3
Large establishments	2.5	7.5	45.6	61.2
4. Electrical equipment	100.0	100.0	100.0	100.0
Small establishments	60.8	24.6	5.1	0.8
Medium establishments	34.4	67.5	37.4	40.3
Large establishments	4.8	7.9	57.5	58.9
5. Transport equipment	100.0	100.0	100.0	100.0
Small establishments	65.6	38.3	2.3	0.6
Medium establishments	33.3	58.5	30.4	36.0
Large establishments	1.1	3.2	67.3	63.4
6. Wood	100.0	100.0	100.0	100.0
Small establishments	59.8	39.9	12.2	7.0
Medium establishments	39.7	59.6	74.6	79.6
Large establishments	0.5	0.5	13.2	13.4
7. Furniture	100.0	100.0	100.0	100.0
Small establishments	67.5	43.2	12.3	6.4
Medium establishments	31.8	56.2	57.3	72.9
Large establishments	0.7	0.6	30.4	20.7

* The year 1969 is the last year for which we have statistics; 1959 was chosen in order to give a ten-year period.

TABLE I (continued)

Branches of industry	A Number of establishments, per cent 1959	1969	B Share of processing value, per cent 1959	1969
8. Paper and board	100.0	100.0	100.0	100.0
Small establishments	21.9	25.6	0.5	1.8
Medium establishments	73.8	70.0	48.3	49.4
Large establishments	4.3	4.4	51.2	48.8
9. Rubber	100.0	100.0	100.0	100.0
Small establishments	64.0	48.9	4.1	2.0
Medium establishments	32.2	48.7	13.8	30.3
Large establishments	3.8	2.4	82.1	67.7
10. Leather, skins, etc.	100.0	100.0	100.0	100.0
Small establishments	70.2	40.6	6.4	4.1
Medium establishments	29.5	58.0	63.7	70.2
Large establishments	0.3	1.4	29.9	25.7
11. Chemicals	100.0	100.0	100.0	100.0
Small establishments	41.3	54.1	1.1	5.0
Medium establishments	55.5	43.7	38.2	46.3
Large establishments	3.2	2.2	60.7	48.7
12. Pharmaceutical and medicinal products	100.0	100.0	100.0	100.0
Small establishments	41.9	34.2	1.8	1.2
Medium establishments	52.6	51.1	41.0	26.6
Large establishments	5.5	14.7	57.2	72.2
13. Perfumes, soaps and candles	100.0	100.0	100.0	100.0
Small establishments	61.9	50.8	4.2	2.2
Medium establishments	35.6	45.5	37.6	33.8
Large establishments	2.5	3.7	58.2	64.0
14. Plastics	100.0	100.0	100.0	100.0
Small establishments	47.8	38.6	3.1	4.0
Medium establishments	51.5	58.2	54.9	48.1
Large establishments	0.7	3.2	42.0	47.9
15. Textiles	100.0	100.0	100.0	100.0
Small establishments	32.7	28.7	0.8	4.7
Medium establishments	63.6	62.7	52.0	44.9
Large establishments	3.7	8.6	47.2	50.4

TABLE I (continued)

Branches of industry	A Number of establishments, per cent		B Share of processing value, per cent	
	1959	1969	1959	1969
16. Clothing, footwear and textile goods	100.0	100.0	100.0	100.0
Small establishments	54.5	46.4	8.1	8.1
Medium establishments	45.1	52.6	71.0	65.1
Large establishments	0.4	1.0	20.9	26.8
17. Foodstuffs	100.0	100.0	100.0	100.0
Small establishments	74.1	59.9	11.8	6.7
Medium establishments	24.8	37.7	42.4	52.8
Large establishments	1.1	2.4	45.8	40.5
18. Beverages	100.0	100.0	100.0	100.0
Small establishments	80.6	61.0	10.1	2.6
Medium establishments	17.6	37.2	25.1	45.2
Large establishments	1.8	1.8	64.8	52.2
19. Tobacco	100.0	100.0	100.0	100.0
Small establishments	77.7	78.1	3.6	2.0
Medium establishments	17.3	19.6	17.3	25.0
Large establishments	5.0	2.3	79.1	73.0
20. Printing and publishing	100.0	100.0	100.0	100.0
Small establishments	69.7	57.7	10.2	8.6
Medium establishments	29.1	39.1	47.3	41.7
Large establishments	1.2	3.2	42.5	49.7
21. Miscellaneous	100.0	100.0	100.0	100.0
Small establishments	50.0	27.7	4.5	2.5
Medium establishments	49.1	68.9	58.8	55.6
Large establishments	0.9	3.4	36.7	41.9

The definitions of "industrial establishment" and "industrial processing value" are those adopted by the IBGE Foundation.

"Establishment"

"A unit of production in which a single product or various related products are obtained, using the same raw materials or the same industrial processes. To each establishment corresponds, in most cases, a physical or local unit (factory, works, mine, quarry, saltworks, sawmill, mill for processing agricultural produce, etc.). When in the same physical or local unit there were two or more units of production using different raw materials or different manufacturing processes (as can happen, for instance, with the manufacture of footwear and cardboard boxes for packing, cotton processing and the extraction of cottonseed oil), two or more establishments were counted, provided that the different activities were so separated that it was possible to obtain the necessary information for each of the units of production concerned."

"Industrial processing value"

"The industrial processing value was calculated by subtracting from the cost of production the sums spent on raw materials, packing and packaging materials, fuel, lubricants, electric power and contracted services, including amounts paid to workers working at home; as a result, this sum represents the value added to the value of the raw material and of the material consumed in production by the industrial operations performed in the establishment."

TABLE II

PROCESSING INDUSTRY: PERCENTAGE SHARE OF EACH BRANCH OF INDUSTRY IN TOTAL PROCESSING VALUE

		1949	1954	1959	1964	1969
1.	Non-metallic minerals	7.4	8.0	6.7	5.0	5.8
2.	Metallurgy	9.4	9.9	11.9	11.4	11.4
3.	Engineering	2.2	2.6	3.5	3.3	6.0
4.	Electrical and communications equipment	1.7	3.4	3.9	6.4	6.3
5.	Transport equipment	2.3	2.3	7.6	10.5	8.7
6.	Wood	3.9	3.6	3.3	2.2	2.6
7.	Furniture	2.2	2.4	2.2	1.6	1.6
8.	Paper and board	2.1	3.0	3.1	2.5	2.6
9.	Rubber	2.0	2.0	2.3	2.2	2.1
10.	Leather, skins, etc.	1.3	1.4	1.1	0.8	0.6
11.	Chemicals	9.4	12.3	13.4	17.3	17.7
12.	Textiles	20.1	18.4	12.0	11.7	10.1
13.	Clothing, footwear and textile goods	4.3	4.2	3.6	3.1	2.8
14.	Foodstuffs	19.7	16.1	16.6	14.6	12.9
15.	Beverages	4.3	3.6	2.9	2.7	2.6
16.	Tobacco	1.6	1.6	1.3	1.4	1.5
17.	Printing and publishing	4.2	2.8	3.0	2.1	3.0
18.	Miscellaneous	1.9	2.4	1.6	1.2	1.7
	TOTAL	100.0	100.0	100.0	100.0	100.0

SOURCE: *Conjuntura Econômica*, September 1971, F.G.V.

TABLE III

MANUFACTURING INDUSTRY: REAL GROWTH RATES, PER CENT
(1959–1969)

		59	60	61	62	63	64	65	66	67	68	69	Average
1.	Non-metallic minerals	2.5	14.5	6.7	3.9	-0.1	5.7	-9.5	8.8	8.5	14.3	5.9	5.5
2.	Metallurgy	18.1	11.2	9.3	20.3	3.4	6.0	-3.7	23.5	-2.4	18.1	14.3	10.7
3.	Engineering	13.1	27.3	24.1	10.7	2.5	1.4	-12.0	1.7	-5.3	32.9	8.4	9.5
4.	Electrical and communications equipment	13.2	27.3	24.1	10.7	-3.8	9.3	10.6	25.3	9.5	23.5	5.4	14.0
5.	Transport equipment	35.7	28.4	2.7	24.8	-10.6	3.4	-0.6	23.8	0.1	26.4	34.5	15.3
6.	Wood	7.5	11.5	11.1	18.2	2.4	2.8	-20.8	-8.5	2.1	-	-	2.9
7.	Paper and board	5.6	7.8	5.7	11.5	7.7	6.5	-2.2	9.6	15.9	4.8	3.5	6.9
8.	Rubber	20.0	22.3	4.8	16.0	0.9	6.5	-5.9	26.9	8.2	12.9	5.9	10.7
9.	Leather and skins	-1.3	-6.4	1.7	-0.6	-7.1	9.9	29.6	-16.0	8.9	9.5	-	2.8
10.	Chemicals	7.5	15.5	21.3	23.1	3.5	9.9	-3.6	15.4	3.4	12.4	10.8	10.8
11.	Textiles	7.3	7.7	7.3	4.2	-2.6	4.3	-16.0	-4.8	-1.9	19.2	2.5	2.2
12.	Clothing, footwear	-	-	-	-	0.8	12.1	-10.8	14.0	-5.7	19.6	-25.5	0.6
13.	Foodstuffs	9.6	5.5	7.0	5.5	-0.7	1.4	-4.7	4.8	7.3	6.1	13.7	5.0
14.	Beverages	0.0	-0.9	16.1	-2.5	1.9	-10.4	8.6	20.0	-12.4	3.7	19.1	3.9
15.	Tobacco	7.0	2.7	11.2	9.6	0.4	-1.3	-4.7	2.5	9.5	12.8	7.3	5.1

SOURCE: *Conjuntura Econômica*, September 1971, F.G.V.

ANNEX II

A STUDY OF TWO CASES OF INDUSTRIAL REORGANIZATION

FIRST CASE

General information

1.1 Enterprises involved

(a) Enterprise A;
(b) Enterprise B;
(c) Enterprise C.

1.2 Programmes carried out

(a) Merging of the enterprises;
(b) Modernization and industrial expansion.

1.3 Government incentive

Exemption from income tax on appreciation resulting from the revaluation of goods stituting parts of the fixed assets of the enterprises at market prices, in the form vided for in Decree-Law No. 1,102 of 16 July 1971.

The enterprises

2.1 Enterprise A - one of the most traditional and oldest Brazilian metallurgical rprises. It was established in 1896 by a group of pioneers of British origin and many years occupied an outstanding position in our industrial sector.

2.2 It operated in a factory complex situated in the district of Sao Cristovao on edge of the urban centre, which consisted of plants for wire drawing, the manufacture ails, electrodes, stampings and hollow enamelware.

2.3 The installed capacity, taking all products into consideration, was 10,450 t/year uction reached the level of 9,917 t in 1961, equivalent to approximately 95 per cent apacity. The entire wire-drawing production was intended for plants manufacturing s and electrodes; similarly, the entire output of stampings was consumed internally he manufacture of hollow enamelware. The nails, electrodes and enamelware were sold hird parties.

2.4 The enterprise had a capital of 21,125,000 cruzeiros, reserves of 35 million cruzeiros and fixed assets of 9,256,000 cruzeiros; it employed 635 persons and was managed by five directors, four of whom belonged to the family that owned the establishment, that is to say controlled the voting capital. It was a public company.

2.5 Enterprise B - this was an iron and steel enterprise established in 1925. It operated with two factories, one in the interior of the State of Minas Gerais and the other in the State of Rio de Janeiro, in the vicinity of the capital. Its activities also included metallurgy, beneficiation, re-afforestation, the production of charcoal and other ancillary activities. A large part of the inputs used were produced by the enterprise itself, such as for example, iron ore, limestone, dolomite, gypsum, charcoal gas and oxygen.

2.6 The Minas Gerais plant had a nominal capacity of 119,800 t/year; in 1971 it operated at 87 per cent of capacity. The plant in Rio de Janeiro State had a capacity of 96,600 t and operated at 92 per cent of capacity.

2.7 Enterprise B had registered capital of 35,100,000 reserves of the order of 26 million cruzeiros and fixed assets of 33,250,000; it employed 2,478 persons and was managed by five directors, three of whom belonged to the controlling family and were also directors of enterprise A. It was also a public company.

2.8 Enterprise C - a private company - was the controller of the group. It was established in 1956 and had registered capital of 15 million cruzeiros and fixed assets of 7,394,000. All the directors were members of the family that controlled enterprises A and B.

3. <u>The project</u>

3.1 The new enterprise

3.1.1 The parties interested intended to merge the three enterprises and to establish a new enterprise under the name of Companhia Siderúrgica D', with headquarters in Rio de Janeiro, in the State of Guanabara.

The new capital would be 85 million cruzeiros, divided equally into ordinary and preference shares. The management would cease to be in family hands and a change would be made to a professional management, with an Executive Board consisting of specialists selected on the open market for the functions of production, finance and general management. The majority group would participate in the Board of Management, which would make regulations and issue guidelines on matters of general company policy.

3.2 Merger and expansion plans

3.2.1 Since, under the conditions in which they operated, they were incurring ...icus losses in operational efficiency, with all the attendant negative effects on the ...fitability of the enterprises, the parties concerned decided to transform them into ...ingle organization and to reformulate operational and management patterns with the aim ... operating on a larger scale.

3.2.2 The form chosen was the merging of the enterprises, based on a moderniza- ...n and expansion plan. The plan was worked out for execution in stages, and technical ...istance from European enterprises was available.

3.2.3 The phases of the plan were as follows:

(a) For enterprise B:

Phase A	1970/1971
Intermediate programme	1972/1973
Phase B	from 1974

(b) For enterprise A:

First phase	1972/1973
Second phase	from 1974

3.2.4 For enterprise B, phase A was to include the development of the blast ...aces, the open-hearth furnaces and other installations with the purpose of increasing ...production capacity for pig-iron, hot metal and rolled products.

3.2.5 The intermediate programme proposes a concentration of production of ...iron and steel in the Minas Gerais plant, and an increase in production capacity for ...d products, castings and forgings, now concentrated in the plant in Rio de Janeiro ....

3.2.6 Phase B would include: consolidation of specialization by the ...idual plants, expansion of the installation and perfecting of the process in order ...crease production.

3.2.7 For enterprise A, the programme would develop as follows: in the first ... the enterprise would re-equip the manufacturing plants with the aim of improving ...uality of the products and production capacity.

In the second phase, all the plants in the manufacturing complex of the State of Guanabara would be transferred to the State of Rio de Janeiro; this change would free land of high value whose sale would finance part of the project.

3.2.8 This, in summary form is the expansion and modernization plan worked out by the enterprises, the principal benefits expected being indicated.

4. Assessment by the Government of the merger project

4.1 The enterprises presented the project mentioned to the Ministry of Finance a a basis for a request for exemption from income tax on the appreciation arising out of the revaluation of the fixed assets at market prices.

4.2 The project was examined by COFIE, the body responsible for giving rulings regarding the merits of applications and establishing whether the requirement of being of interest to the national economy is met.

4.3 The request for exemption was drawn up according to the guidelines prepared COFIE, including the information regarding the project for merger and expansion. In the analysis, the following matters were dealt with, *inter alia*:

The objectives of the merger

The expansion programme

The investment budget

Sales

The economic and financial situation

Estimated value of assets

Technical and managerial training

Economic merit.

4.4 The enterprises enunciated the objectives of the merger in the following fo "in the first place to unite the enterprises and in the second place, through the concentration of resources and efforts, as proposed, to achieve the following result:

Reduction of costs of production by the introduction of a modernization and expa plan;

Increase in operational efficiency through specialization in the plants and the integration of various plants; further training of manpower; utilization of more modern processes and equipment;

... using the rvices of qualified professionals in the Executive Board; utilization of modern data-ocessing methods;

Greater profitability as a function of an increase in production, a reduction in erational costs and an increase in efficiency;

Increase in sales in the internal and external markets resulting from the increase production capacity and the improvement of the quality of the product;

Maintenance of low selling prices in the domestic market.

4.5 These objectives were considered to be perfectly viable, taking into account analysis of the information presented.

4.6 The assessment of the expansion programme showed that its execution would have irect and immediate influence on production and costs and consequently on the ductivity of the enterprises. Considering the lines of production of the various nts and their location in relation to the sources of supply of inputs and the keting centres, the achievement of the profits quoted could be accepted as obvious. was self-evident that the lack of physical and legal integration was responsible for inadequate utilization of available resources, which compromised profitability.

4.7 The merger - in the form proposed in the project, would make possible the blishment of continuous production lines, rationalization of the flow of materials finished products, economies in transportation and stocks and the other economies were mentioned.

4.8 The capital investment budget showed expenditure from 1972 of the order of 600,000 cruzeiros. Most of the resources would be of internal origin, that is to resources already available, resources to be generated during the programme jection of liquid profits) and resources generated by the disposal of part of the estate holdings. Considering that the transfer of manufacturing plants from the of Guanabara to the State of Rio de Janeiro would free real estate in zones with ly rising values and that the development of sales and costs gave hope for a good t margin, the estimate had good changes of viability.

4.9 Analysing the achievements of the Brazilian iron and steel industry in the 1971 ess year and the market prospects, including exports, it was verified that the prises were in a position to achieve the projected aims.

4.10 Economic and financial analysis carried out from the point of view of the structure of the assets, the cost structure, liquidity, profitability and guarantee of capital by third parties showed a situation of equilibrium tending to improve with the introduction of the expansion plan. The analysis was carried out on the basis of data extracted from the balance sheet and trading account covering three business years, accompanied by certificates from external auditors.

4.11 The enterprises revalued only real estate. Such real estate comprised land and industrial buildings, houses and rural land. In fulfilment of a requirement of the COFIE regulations, evaluation reports were presented in which the real estate was described, mentioning its location, size and building specifications; in addition, th was an account of methodology adopted and the qualifications of the valuer indicating the extent of his responsibility for the work.

4.12 The management of the enterprises still belongs to the family group, with the consequence of a long period of stability in the management and considerable accumulati of experience. However, availing themselves of the advantages of professionalized management, those in control resolved to employ an Executive Board in the new enterpri reserving for themselves the function of formulating rules and guidelines with regard general policy.

5. After analysis of the project as a whole, COFIE decided to rule that the plan for the merger of the enterprises was of interest to the national economy and transmitted to the Ministry of Finance with a recommendation that the exemption requested should be granted. The merger has already been given legal effect and the plan is being impleme

SECOND CASE

1. **General information**

1.1 Enterprises involved:

(a) Factory A

(b) Factory B

(c) Factory C

(d) Factory D

1.2 Programmes carried out

(a) Merger of the enterprises

(b) Modernization and expansion

1.3 Government incentive

Financing by BNDE for the merger and modernization plans.

The enterprises

The enterprises were private joint-stock companies with family control of shares, located in the State of Santa Catarina.

The project

3.1 A general account of agricultural industry in Santa Catarina.

3.1.1 Agriculture represents almost 52 per cent of the product of the primary tor in the economy of Santa Catarina, which accounts for half of the income of the te. Sugar cane is one of the eight main crops in the State, approximately 4,000 icultural properties being devoted to the cultivation of sugar cane, but it contributed rcely 1 per cent of the income of the State.

3.1.2 Sugar cane growing in the State is located in the coastal area of rianopolis, in the lower Itajai valley, and in the coastal area of Sao Francisco. re are five plants as shown in the following table.

ts	Region	Quantities (in thousand sacks)		
		Official quotas	Nominal capacity	Harvest 70/71
	Florianopolis coastal area	236	420	257
	Florianopolis coastal area	200	120	23
	Itajai valley	200	252	135
	Itajai valley	200	100	41
	S. Francisco coastal area	200	150	60
	Total	1,036	1,042	516

3.1.3 Thus, with an installed capacity of 1,420,000 sacks/year, utilization was only 516,000 sacks in the last harvest. This represents a substantial loss in inco to the State.

4. <u>The merger and modernization plan</u>

4.1 Objectives

(a) Merger of four plants that account for 85 per cent of the installed capacity in the State of Santa Catarina, by means of the take-over of plant B by plant and the acquisition of the quotas of plants C and D, together with the establishment of a new enterprise - plant E, with an official quota of 836,000 sacks/year;

(b) Re-equipment and expansion of plants A and B in order to give them a nominal production capacity of 444,000 and 400,000 sacks respectively, for a period of 120 days of milling, each plant having a potential of up to 500,000 sacks for a period of 150/160 days of milling;

(c) The formation of an adequate level of working capital owned by the enterprise itself in order to enable the new enterprise to produce and market its produ under economic conditions; and

(d) Improvement of productivity both of industrial installations and equipme and of sugar-cane plantations belonging to the enterprise itself and to third parties.

4.2 Capital investment

			Million cruzeiros
(a) Fixed:	Incorporation of enterprises	4.0	
	Studies and improvement of processes	0.2	
	Modernization and expansion		
	- Machines and equipment	7.6	
	- Construction and installations	1.9	
	- Agricultural sector	5.7	
	Other	6.5	25.9
Working capital (circulating assets)			8.5
			34.4

4.3 Resources

(a) Enterprise's own resources

Existing	3.3	
Sale value of land	1.0	
Sale value of fixed assets	0.4	
Reduction of liabilities	1.6	
Re-investment	7.3	13.6

(b) Resources from third parties

BNDE/FMRI	18.6	
BRDF - rural credit	2.3	20.9
		34.4

Assessment by BNDE of the merger project

5.1 Comments and conclusions

(a) The project involves the merger of four of the five sugar mills in the ate with a closure of the activities of two of them (C and D) and the expansion of e other two (A and B), with the establishment of production plants located in areas itable for the cultivation of sugar cane and of sufficient size to obtain an economic ale of operations (1 million sacks/year).

(b) There is a rational plan for capital investment in the agricultural sector med at achieving agricultural yields corresponding to those of other regions of the untry.

(c) New cultivation areas would be added to existing areas, and a plan for sistance to suppliers of sugar cane is also being carried out, with the purpose of suring supply commensurate with the forecasts for the expansion of the enterprise;

(d) The capital investment in real estate, equipment and installations should e possible an improvement in the industrial productivity of two remaining plants, ch will achieve a minimum output of 400,000-500,000 sacks/year each;

(e) Other capital investment is being made by Federal and State bodies which tribute directly or indirectly to increasing the overall efficiency of the sugar e industry in the State;

(f) The development of the financial situation of plants A and B is favourable, pite the heavy investment in fixed assets carried out from 1969, and the existing mitments do not represent excessive burdens for the enterprise;

(g) The production of the plants, both of sugar and of alcohol, can easily marketed in Santa Catarina and Rio Grande do Sul and this situation should improve by tue of the production of granulated sugar for domestic consumption;

(h) The forecasts for the working capital formation necessary for the operation he enterprise in the coming seasons indicate that existing needs and possibilities the generation and harnessing of financial resources are compatible;

(i) The management of the enterprise shows a good level of qualifications;

(j) Studies are envisaged for the perfecting of the enterprises' management and marketing systems, in order to establish the machinery for assistance to suppliers of sugar cane and to examine the desirability of using a diffuser in plant B;

(l) The merger plan will benefit the States of Santa Catarina (also leading to a substantial increase in the collection of tax on the circulation of merchandise) and of Rio Grande do Sul;

(m) The enterprise has the capacity to generate the necessary resources duri the entire period of implementation of this plan and to amortize any financing that it is to contract, as it possesses guarantees that are adequate and of the necessary leve for the operation.

MINISTRY OF FINANCE

ANNEX III

Funds for assistance to small and medium-sized enterprises

FIPEME (BNDE)

FMRI - Working capital - (BNDE)

Raw materials programme (Banco do Brasil) (BB)

Working capital programme (BB)

FIP (BB)

FDI (BB)

Programme	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	[illegible]
BANCO NACIONAL DO DESENVOLVIMENTO ECONÔMICO (National Economic Development Bank)							
FRE - Economic Re-equipment Fund	(a) Establishment, expansion or remodelling of industries; (b) Merging, take-over, recomposition, division or association of industrial enterprises; (c) Acquisition abroad of model designs and processes for industrial use considered as deserving priority by the Bank.	Bodies corporate domiciled in the country and Brazilian partners - quota-holders or share-holders - of enterprises interested in bankable projects.	(a) Processing industries in sectors quoted annually as priority sectors in the Bank's investment budget; (b) Mining and mineral prospecting; (c) Agriculture, stock-rearing, food and supplies; (d) Utilities.	Up to 60 per cent of the bankable investment; in cases of remodelling or expansion, this percentage can be extended to cover the entire investment.	Fixed in each case, not exceeding twenty years.	(I) Repayment period up to twenty years: (a) Study commission: Calculated according to a special table; (b) Interest: 4 [illegible] per cent according to the sector of activity; (c) Monetary correction: That established for FRE operations; (d) Credit reserve commission: 1 per cent per annum on the balance not used within the periods specified. (II) Repayment period up to 6 years: (a) Study commission: Calculated according to the special table; (b) Interest: [illegible] per cent per annum; (c) Monetary correction: That fixed by the National Monetary Council for medium-term industrial funds; (d) Credit reserve commission: 1 per cent per annum on the balance unused within the established time-limits; (e) Auditing commission: Can be charged or waived at the Bank's discretion.	Guarantee or "aval" by majority partner or a financial institution, as an alternative or in addition to tangible security (real-estate mortgage, deposit, or transfer of title in trust).
Guarantees ("aval" and bond)	Carrying out operations aimed at the development of the national economy through the purchase of goods or services abroad; the guarantee can be given in the Bank's own name or in the name of the Bank as an agent of the National Treasury.	Public or private bodies	(a) Processing industry; (b) Mining and mineral prospecting; (c) Agriculture, stock-rearing, food and supplies; (d) Utilities.	Up to 60 per cent of the bankable investment; in cases of remodelling or expansion, the percentage can be extended to cover the entire investment. For cases of guarantee on behalf of the national treasury, the limits are those laid down in the laws inforce, as far as the amount of the operation is concerned.	According to the operation to be guaranteed.	(a) Study commission: Calculated according to the special table; (b) Guarantee commission: 2% per cent of the value for which "aval" or bond is given; (c) Auditing commission: 0.5 per cent per annum on the balance actually guaranteed during the moratorium period and 0.25 per cent per annum during the amortization period.	Guarantee or "aval" by majority partner or a financial institution, as an alternative or in addition to tangible security (real-estate mortgage, deposit, or transfer of title in trust).

FIPEME - Financing Programme for Small and Medium Enterprises	Financing of fixed capital investment intended for the purpose of establishing or expanding an enterprise, with increase of productivity, by means of loan and/or guarantees, and taking the form of: (a) The purchase of equipment of national or foreign manufacture; (b) The execution of construction work; (c) Expenses for the installation or assembly of equipment; (d) The provision of technical assistance, including the importation of know-how.	Industrial enterprises whose fixed assets at the time of the application plus the value of the fixed capital investment envisaged under the project do not exceed 16 million cruzeiros, and which are not under the direct or indirect control of public bodies or financial agencies.	Industries: mechanical, metallurgical, electrical, electronic and communication equipment, transport equipment, chemical, pharmaceutical, and medicinal products, pulp and paper, food, furniture, textiles (re-equipment), ready-made garments, hides and skins, footwear, rubber and plastic articles and the graphics industry.	Up to 60 per cent of the total capital investment; in the case of financing by a regional financial agency, this proportion may be as much as 80 per cent. In national currency up to the equivalent of US$2 million, comprising the loan and/or "aval". In foreign currency up to the equivalent of US$[illegible],000.	Up to four years, including the moratorium, with a possibility of extension to six or eight years at the Bank's discretion.	(1) Financing: (a) Study Commission: Calculated according to the special table; (b) Interest: [illegible] per cent per annum for operations in foreign currency and 12 per cent per annum for operations in cruzeiros; (c) Monetary correction: That fixed by the National Monetary Council for medium-term industrial funds; (d) Auditing commission: 0.25 per cent per half-year, on the balance due. (II) "Aval": (a) Study commission: 0.[illegible] per cent of the value of the application; (b) Guarantee commission: [illegible] per cent; (c) Auditing commission: [illegible] per cent per half-year during the execution of the project and 0.[illegible] per cent, after execution, on the balance guaranteed.	Guarantee or "aval" by majority partners or a financial institution, as an alternative or in addition to tangible security (real-estate mortgage, deposit, or transfer of title in trust).
FMRI - Industrial Modernization and Reorganization Funds Working capital	The purchase of basic raw materials intended for the establishment or maintenance of an adequate average stock.	Joint-stock companies, particularly public companies, the majority of whose voting capital belongs to persons resident or domiciled, or with registered offices, in the country.	(a) Primary metallurgy, rolling, extrusion, wire-drawing and casting of non-ferrous metals and alloys; (b) Forging and casting of iron and steel, in the case of a captive unit; (c) Chemical industry; (d) Fertilizers; (e) Pharmaceutical industry; (f) Paints, resins and varnishes; (g) Engineering industry, including heavy electrical and electronic equipment intended for the manufacture of capital goods; (h) Production of manufactured goods intended for the external market. Borrowers under the FIPEME programme are also eligible.	Up to the investment necessary for the maintenance of an adequate average stock of basic raw materials.	Up to thirty months, including the moratorium.	(a) Interest: [illegible] per cent per annum; (b) Monetary correction: That fixed by the National Monetary Council for medium-term industrial funds; (c) Credit reserve commission: [illegible] per cent per annum on the tranches not used within the periods specified.	Guarantee or "aval" by majority partners or a financial institution, as an alternative or in addition to tangible security (real-estate mortgage, deposit, or transfer of title in trust).

[illegible]	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	[illegible]
FN[illegible] - Produ[illegible]	To promote the improvement of productivity by carrying out sectoral programmes or specific projects: (a) At the enterprise level: Diagno[illegible] and establishment of rationalization systems and methods, and sales and distribution machinery; marketing surveys; personnel training; studies on industrial engineering and the fixed investment necessary; or (b) At the sectoral level: Sectoral studies and diagnoses, applied research, training of middle-level technicians and production engineers, data processing centres, standardization centres and Regional Productivity Centres.	Public or private bodies.	The processing industry (basic industrial sectors and sectors producing general consumer goods), agriculture and stock-rearing, mining and quarrying, commerce (marketing), basic industrial services (electrical energy, transport and communications), banking and data processing services. Courses for middle-level technicians and production engineers, in official or officially recognized establishments.	Financing up to 80 per cent of the project. Other forms of collaboration: Up to [illegible] per cent of the total cost of the programme or the project.	[illegible] to five years, including the moratorium. For fixed investments by profit-making organizations, up to four years. In both cases the period may be extended to a maximum of six years, at the discretion of the Bank. In the case of research, up to eight years.	(I) Financing: (a) Study commission: [illegible] according to [illegible]; (b) Interest: [illegible] per cent per annum; (c) Monetary correction: Half of that fixed by the National Monetary Council for medium-term industrial funds; (d) Auditing commission: [illegible] per cent per annum on the balance due; (e) Credit reserve commission: [illegible] per annum on the balance not drawn in the period specified. (II) When fixed investments by profit-making enterprises are being financed, the charges will be the same as those of FIPEME, plus the credit reserve commission.	Guarantee or "aval" [illegible] of a financial institution, [illegible] collateral [illegible], additional [illegible] security [illegible] mortgage, [illegible] Transfer [illegible]
FUNTEC - Technico-Scientific Development Fund	Execution of programmes having as their objectives: (a) Post-graduate courses leading to the degrees of Master of Science and Doctor of Science; (b) Studies and research related to the specific aims of FUNTEC; (c) Planning, organization of services and relevant technical assistance in connexion with loans related to the FUNTEC programme; (d) Documentation centre for systematizing and disseminating technico-scientific knowledge, studies and discussions.	(I) Teaching activities: Bodies officially recognized as being competent to carry on such activities. (II) Research: Universities, officially recognized advanced-level colleges and technological institutions and similar bodies that are technically and legally qualified and satisfy the requirements laid down for the activity.	(a) Fundamental sciences: Mathematics, physics, chemistry and biology; (b) Applied sciences: Agriculture and veterinary science, civil engineering, chemistry, metallurgy and science of materials, mechanics, electricity, electronics, mining and geology; (c) Economics; (d) Management sciences.	Up to 90 per cent of the total estimate.	Financing of fixed investment: Up to six years, including the moratorium. Financing of personnel expenditure: Indeterminate.	(I) Financing of fixed investment: (a) Interest: [illegible] per cent per annum; (b) Monetary correction: Half of the maximum ceiling established by the National Monetary Council for medium-term industrial funds. (II) Financing of personnel expenditure: (a) Nominal interest: 1 per cent per annum; (III) Other forms of collaboration: (a) Payment of personnel expenditure under the heading of remuneration for services rendered; (b) Hiring of scientific equipment, including computers and calculating machines, books and technical journals; (c) Granting of study fellowships.	Collateral [illegible] in the form of mortgage [illegible] the case of fixed investment, or the earmarking of resources as a means of payment, guarantee by a financial institution or other form, at the Bank's discretion.

FUNESPE - Fund for Financing of Studies and Technical Research	Financial collaboration in the following activities: (a) Preparation of regional and sectoral development plans and programmes; (b) Identification and orientation in relation to new investment opportunities; (c) Feasibility studies and preparation of specific economic development projects.	Public or private bodies.	Without restriction.	Up to 50 per cent of the cost of the studies.	Up to five years, including the moratorium.	(a) Interest: [illegible] per cent per annum, according to the sector of activity; (b) Monetary correction: That fixed by the National Monetary Council for medium-term industrial funds.	[illegible] or a financial institution, as an alternative or in addition to [illegible] security (real-[illegible] mortgage, [illegible] or transfer of [illegible] in trust and [illegible] earmarking [illegible] resources as a means of payment.
Guarantees to companies awarded international contracts	Guarantees to enterprises desiring to make bids in international invitations to tender carried out in the country or abroad or that have been awarded contracts of this type for the supply of goods and/or the execution of services.	Brazilian enterprises or consortia under the *de facto* or *de jure* leadership of a Brazilian enterprise that has been entered in the Bank register for at least ninety days.	Without restriction.	Up to the equivalent of US$5 million, the minimum being US$200,000.		(a) Fee for entry in the register: 2,000 cruzeiros intended to pay expenditure related to preparation of the register report. (b) Commission for updating the register report: Four times the minimum wage in force in the State of Guanabara for every year elapsed since the application for inclusion or since the last request for updating; (c) Guarantee commission: 0.5 to 2 per cent per annum, paid in advance on the amount guaranteed, the rate varying according to the nature of the guarantee, the margin of risk, the period of the operation, and the amount and degree of liquidity of the counter-guarantees offered.	Guarantee [illegible] majority [illegible] addition [illegible] security (real-[illegible] mortgage, [illegible] transfer of [illegible] trust [illegible] accepted [illegible].
Company participation	Carrying out of operations aiming at the development or exploration of bankable activities in the country, by means of the subscription of preferential shares with voting rights.	Industrial enterprises domiciled in the country constituted in the form of joint-stock companies.	(a) Processing industry; (b) Mining and mineral prospecting; (c) Agriculture, stock-rearing, [illegible] and supplies; (d) Utilities.	None.		(a) Study commission: Calculated according to the special table; (b) Minimum cumulative dividend: [illegible] per cent per annum.	[illegible] collateral [illegible] waived; [illegible]

Programme	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	Security
Underwriting	Financial support for the installation, expansion, modernization and financial recovery of enterprises by means of underwriting operations for stock issued by joint-stock companies; this operation can be carried out in isolation or in combination with other forms of financing. Such stock may take the following forms: (a) Debentures convertible into shares; (b) Ordinary debentures; (c) Shares.	Industrial enterprises domiciled in the country, constituted in the form of joint-stock companies.	The same sectors as those covered by the FIPEME programme.	No upper limit. Operations of below 4 million cruzeiros are not eligible, except in special cases, when this figure may be reduced to 1 million cruzeiros.	Minimum period three years in the case of debentures convertible into shares.	(a) Study commission: Calculated according to the special table; (b) Underwriting fee: Up to 3 per cent of the nominal amount of the operation; (c) Distribution and location fees: Fixed by the National Monetary Council; (d) Commitment commission: 1 per cent per annum on the amount subscribed by the Bank; (e) Reserve for the formation of a possible reserve fund: Determined in each case; (f) Administrative and operational expenditure of the Reserve Fund; (g) Provision for promotion and publicity; (h) Other expenses necessary for carrying out the operation.	In the case of underwriting debentures; general collateral, real-estate mortgage deposit or transfer of title in trust. In exceptional cases the tangible security may be replaced by a negative obligation on the part of the company not to encumber or to alienate goods that are part of the fixed assets.
BANCO CENTRAL DO BRAZIL	(Central Bank of Brazil)						
FUNAGRI	Financing of the needs of agriculture and industry.		Agriculture, stock-rearing and industry.	Up to 100 per cent.	Up to twelve years.	Miscellaneous fees.	
[illegible]	Re-financing of rural operations, including marketing, fertilizers and modern inputs.	Rural products and co-operatives.	Agriculture, stock-rearing and agro-industries.	Up to 100 per cent.	Up to twelve years.	Interest: Up to 1% per cent per annum. Correction: 8 per cent per annum (determined in advance).	
[illegible]	(a) Cost of stock-rearing activities relative to the rearing of bovines for meat and ovines for meat and wool; (b) Investments relative to rearing of bovines for meat and ovines for meat and wool.	Stock-farmers.	Stock-rearing.		Up to twelve years. Three to four years' moratorium.	Interest: 4 per cent, 6 per cent and 1% per cent per annum.	

FUNIBSO	Financing for investment of a social nature. Sanitation, water supply, public health and other social undertakings.	Public bodies.	Basic services, health, education and sanitation.	Up to 100 per cent.	Twenty years, with [illegible] years' moratorium	2¼ per cent per annum plus [illegible] 4 per cent as service commission plus ½ per cent commitment commission. Exchange correction.
Warehouses and silos	Finance for the construction of warehouses and silos.	Rural products and related co-operatives; industrial enterprises.	Agriculture, industry and stock-rearing.	Up to 100 per cent in the case of rural products and co-operatives, up to 70 per cent in the case of industrial enterprises.	Six years, with two years' moratorium.	Interest: [illegible] per cent per annum (rural products) and 12 per cent per annum (industrial enterprises). Correction: [illegible] per cent per annum and 10 per cent per annum.
Supply centres	Financing for the construction of supply centres.	Public enterprises and mixed-economy companies.	Services (supply).	Up to 70 per cent of the amount of the project.	Sixteen years and four years' moratorium.	6.25 per cent per annum; 10 per cent per annum. Exchange correction.
National tractors	Financing for the purchasing of national tractors, agricultural machinery and attachments therefore.	Factories or re-sellers; rural producers.	Agriculture and industry.	Up to 100 per cent of the purchase price.	Up to five years, with twelve months' moratorium.	Interest: [illegible] per cent per annum.
Industries producing modern inputs	Financing of projects intended for the installation, expansion, reform and/or standardization of industries producing modern inputs.	Industrial enterprises, service establishments and co-operatives.	Industry, agriculture and stock-rearing, and services.	Up to 100 per cent of the project.	Up to twelve years, with three years's moratorium.	Interest: [illegible] per cent to [illegible] per cent per annum. Exchange correction.
Agro-industries	Financing of projects intended for the installation, expansion, reform and/or modernization of agro-industries located in the south-eastern, central western and southern regions of the country.		Industry, agro-industry and services.	Up to 100 per cent of the project.	Up to twelve years, with three years's moratorium.	Interest: [illegible] per cent per annum. Exchange correction.
PROTERRA	Financing for the purchase or expropriation of land for re-sale to small and medium-sized rural producers, financing of projects for the expansion of agro-industries, financial assistance for modernization and organization of rural properties, research, etc., subsidies for incentives regarding the use of modern inputs, minimum prices for exportable products, financing for industries producing inputs, machines, tractors and implements for agriculture	Industries producing agricultural inputs, machines, tractors and implements for agriculture and stock-rearing and agro-industries: agriculturalists and rural producers.	Agriculture, industry and agro-industry.	Up to 100 per cent of the amount of the investment.	Up to twelve years, with three years' moratorium.	Interest: [illegible] per cent per annum or [illegible] per cent per annum. Correction: [illegible] per cent per annum.

Programme	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	[illegible]
PRODOESTE	Financing for the construction of highways, local roads, silos, warehouses, processing plants and cold storage installations.	DER's, enterprises with private capital, rural producers and related co-operatives.	Public sector, industrialists and rural producers.	Up to 100 per cent.	Up to twelve years, with three years' moratorium. Up to ten years, with one to three years' moratorium.	10 per cent per annum; 3 per cent per annum. Exchange correction.	
BANCO DO BRASIL S.A. **Financing of working capital**							
Raw materials.	1. Purchase of raw materials, including: Animals for industrial processing; **Coffee beans for domestic consumption; Raw hides; Fish and vegetable products for the preserving industry.** **2. Purchase of finishing, sales packaging and transport packaging materials.**	1. Industrial enterprises: With annual sales up to 600 times the highest minimum wage, whatever the branch of industrial activity; Of any scale, if processing products dependent on the harvest. 2. Large-scale industrial enterprises which preponderantly process products not dependent on the harvest, and which are traditionally assisted as far as raw materials are concerned. 3. Roasting and grinding plants (coffee for domestic consumption).	Industry	(a) One-third of the consumption of raw materials in the previous business year; (b) 60 per cent, 50 per cent or 40 per cent of the **weighted amount of the sales calculated according to C.C. Conf.312-3-a** (see C.C. 5.964-4); **(c) With reference to "Beneficiaries", item 2, renewal of a previous loan without any increase** (see C.C. 5.964-3-d); (d) Twice the IBC quota **fixed for July 1971, taking into account** the basis for the advance (see Avo. Circ.601, 9 June 1972); (e) **100 per cent increase** on the value of previous **financing, taking into account sub-paragraph (a)** (see C.C.5.285).	One year, in exceptional cases two to three years (see CIC CREAI 13-1-1-a e b). Two years (see CIC CREAI 13-[illegible]-7).	Using ordinary resources: (a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at [illegible] per cent per annum. (b) Amount above fifty times that of the highest minimum wage current in the country: (I) For a period of over two months and equal to or less than twelve months: Interest at 1.[illegible] per cent per month. (II) For a period of over twelve months: Interest at [illegible] per cent per annum. Monetary correction equal to that for ORTN, taking into account the maximum of 1[illegible] per cent per annum. Using extraordinary resources: Coffee for domestic consumption. Interest at 1.[illegible] per cent per month.	[illegible] (preferential). Certificates [illegible] raw materials. Certificates [illegible] machines. Transfer [illegible] title to machines. Mortgage.
Working capital	**Supplementation of the working capital of industrial enterprises.**	Small and medium-sized industrial enterprises whose sales in the last business year lay between the equivalent of 600 times the highest minimum wage and 15 million cruzeiros (here sales are computed in the external market, see C.C.6.070).	Industry	1. 10 per cent of the sales in the internal market during the previous business year. 2. Twice the amount of the last raw materials operation. 3. 60 per cent, 50 per cent or 40 per cent of weighted sales, calculated according to C.C.CONF.312-3-a (see	Two to three years.	(a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 1[illegible] per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country:	Deposit of [illegible] certificates (preferential). Certificates [illegible] raw materials. Certificates [illegible] machines. Transfer [illegible] title [illegible]. Mortgage.

				C.C.5.964-4, 6.009, 6.059 and 6.070).		(I) Period over two months and equal to or below twelve months: Interest at 1.[illegible] per cent per month. (II) Period over twelve months: Interest at [illegible] per cent per annum. Monetary correction equal to that for ORTN taking into account the maximum of 16 per cent per annum.	
FUNDECE	**Supplementation of the working capital of industrial enterprises.**	**(a) Enterprises that are constituted in the form of joint-stock companies or that have just converted to such form and agree to open their capital to public subscription; this requirement can be waived if the companies are related to exportation;** **(b) Enterprises constituted in any legal form and needing loans for the production of goods intended for export.**	Industry	1. 20 per cent of the total expenses in the last business year. 2. 60 per cent, 50 per cent or 40 per cent of the weighted sales, calculated according to C.C.CONF.312-3-A (see C.C.5.964-4). 3. 10,000 times the highest minimum wage (ceiling per client).	Two years.	<u>Using ordinary resources</u>: (a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 1[illegible] per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.[illegible] per cent per month. (II) Period over twelve months: Interest at [illegible] per cent per annum. Monetary correction equal to that for ORTN, taking into account the maximum of 1[illegible] per cent per annum. <u>Using extraordinary resources</u>: [illegible]	Deposit of [illegible] certificates (preferably). Certificates regarding raw material. Certificates regarding machines. Transfer in trust of title to machines. Mortgage.

Programme	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	Security
FIPEX	Supplementation of the working capital of industrial enterprises.	Industrial enterprises.	Industry	1. One-third of the total expenditure in the previous business year. 2. US$50,000 (minimum) and US$500,000 (maximum) (ceiling per client).	One to two years.	<u>Using ordinary resources:</u> (a) Amount up to fifty times the highest minimum wage current in the country irrespective of the period. Interest at 1[illegible] per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.[illegible] per cent per month. (II) Period over twelve months: Interest at [illegible] per cent per annum. Monetary correction equal to that for ORTN, taking into account the maximum of 16 per cent per annum. <u>Using extraordinary resources:</u> Interest at 12 per cent per annum and monetary correction equal to the exchange valuation.	Deposit of duplicate certificates (preferably). Certificates regarding raw materials. Certificates regarding machines. Transfer in trust of title to machines. Mortgage.
FINEG	Supplementation of the working capital of commercial, industrial, rural and service enterprises.	Enterprises: Commercial, industrial, rural and service.	Industry, commerce and services.	1. One-third of the total expenditure in the previous business year. 2. Twice the LC of the enterprise plus the LC of the co-makers. 3. US$50,000 (minimum) and US$500,000 (maximum) (ceiling) per customer.	Five years.	<u>Using ordinary resources:</u> (a) Value up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 1[illegible] per cent per annum. (b) Value more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.[illegible] per cent per month. (II) Period over twelve months: Interest at [illegible] per cent per annum.	<u>Inter alia:</u> Deposit of duplicates (preferably). Transfer in trust of title to movable property; mercantile assets; bank guarantee.
						equal to that for [illegible], taking into account the	

						equal to that [illegible], taking into account the maximum of 1[illegible] per cent per annum. __Using extraordinary resources:__ Interest at 12 per cent per annum and monetary correction equal to the exchange valuation.	
BANCO DO BRASIL S.A. __Financing of capital investment__ FIP - Capital investment financing	(a) Establishment; (b) Reform; (c) Expansion; (d) Purchase of machines and equipment; (e) Import of machines and equipment.	(a) Small and medium-sized industrial enterprises, whose sales in the previous business year (or sales forecasts for one year in the case of enterprises being established) do not exceed 15 million cruzeiros, (b) Rural producers' co-operatives that process or use products supplied by the members, (c) Enterprises engaged in the __fishing__ and __reafforestation__ sectors, only when located in an under-developed region of the country, at the discretion of the Directorate-General, (d) __Textile industry__, especially for the financing of: 1. Projects for the replacement of machines and/or equipment considered as unserviceable, in cases where such replacement does not result in an increase in the installed production capacity; 2. Projects for the expansion or replacement of equipment for purposes of export.	Industry, agriculture, reafforestation and fishing.	500,000 cruzeiros and 80 per cent of the amount of the estimated fixed assets.	Four to five years, including moratorium.	(a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 12 per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.5 per cent per month. (II) Period over twelve months: Interest at 8 per cent per annum and monetary correction equal to that for ORTN, taking into account the maximum of 10 per cent per annum.	When the operation is carried out by means of: (a) __Industrial [illegible] certificate:__ Mortgage, deposit of certificates (including ORTN), transfer of title in trust; (b) __Contract for the opening of credit:__ Mortgage, transfer of title in trust, or deposit.

[illegible]	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment period	Charges	[illegible]
[illegible]	(a) Establishment; (b) Reform; (c) Expansion; (d) Purchase of machines and equipment; (e) Imports of machines and equipment.	Small and medium-sized industrial enterprises (whose sales in the previous business year - or forecasts for one year, in the case of enterprises being established - do not exceed 15 million cruzeiros, and which produce: (a) Capital goods - (machines and equipment); (b) Intermediate consumer goods - (raw materials); (c) Final consumer goods, only in the sectors of food, garments and house furnishing. Enterprises not included in the above classification, provided that they are located in under-developed regions of the country.	Industry and under-developed regions.	One million cruzeiros and 60 per cent of the project.	Four to ten years, including moratorium (comprising the period envisaged for the establishment of the loan, with an additional period of up to twelve months).	Using ordinary [illegible]: (a) Amount [illegible] times the highest [illegible] wage current [illegible] try (irrespective [illegible] period): Interest [illegible] per annum. (b) Amount [illegible] fifty times [illegible] minimum wage [illegible] the country: (I) Period [illegible] months and [illegible] less than twelve [illegible]: Interest at [illegible] cent per annum. (II) Period [illegible] months: Interest [illegible] per annum and monetary correction [illegible] for ORTN, taking into account the maximum [illegible] per cent per annum. Using extraordinary resources: Interest at [illegible] per annum and monetary correction [illegible] variation in the exchange rate.	[illegible]
FIRUM - Financing of imports from the United Kingdom	Import of machines and equipment originating in the United Kingdom and technical services connected with their installation and operation.	(a) Industrial enterprises; (b) Rural producers.	Agriculture, stock-rearing and industry.	Imports of not less than £5,000 in value and 85 per cent of the CIF cost of the imports.	Two years: Imports from a minimum of £5,000 up to £20,000. Three years: Imports of between £20,000 and £50,000. Four years: Imports between £50,000 and £100,000. Five: Imports of more than £100,000.	Using ordinary resources: (a) Amount [illegible] times the highest minimum wage current in the country (irrespective of period): Interest at [illegible] per annum. (b) Value more than [illegible] times the [illegible] wage current in the country: (I) Period [illegible] months and equal to or less than twelve months: Interest at [illegible] per month. (II) Period over twelve months: Interest at [illegible] per annum and monetary correction equal to that for ORTN, taking into account the maximum of [illegible]	[illegible] carried out by means of: (a) [illegible] (b) [illegible]

						account the maximum of 16 per cent per annum. **Using extraordinary resources:** Interest at 12 per cent per annum and monetary correction equal to the variation in the exchange rate.	
FIR... - Financing by means of resources from non-external agencies	(a) **Establishment;** (b) **Reform;** (c) **Expansion;** (d) **Purchase of machines and equipment;** (e) **Imports of machines and equipment;** (f) **Assembly, engineering and supervisory services.**	**Industrial and rural enterprises.**	**Agriculture, stock-rearing and industry.**	**Equivalent of US$1 million and 80 per cent of the project; in exceptional cases 100 per cent, except with initial loans.**	**Five years, including moratorium.**	**Using ordinary resources:** (a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 1[illegible] per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.[illegible] per cent per month. (II) Period over twelve months: Interest at 5 per cent per annum and monetary correction equal to that for ORTN, taking into account the maximum of 16 per cent per annum. **Using extraordinary resources:** Interest at 12 per cent per annum and monetary correction equal to the variation in the exchange rate.	When the operation is carried out by means of: (a) Industrial credit certificate: Mortgage, deposit of certificates including ORTN, transfer of title in trust; (b) Credit-[illegible] contract: Mortgage, transfer of title in trust, ORTN deposit.

[illegible]	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	Security
[illegible] - 1	Importation of Michigan and Clark road-making and harbour equipment from Belgium.	Enterprises engaged in road construction and earth-moving activities and/or providing port services.	Transport	80 per cent of the FOB cost.	After five years.	Using ordinary resources: (a) Amount up to fifty times the highest minimum wage current in the country (irrespective of period): Interest at 12 per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.1 per cent per month. (II) Period over twelve months: Interest at 5 per cent per annum and monetary correction equal to that for ORTN, taking into account the maximum of 16 per cent per annum. Using extraordinary resources: Interest at 12 per cent per annum and monetary correction equal to the variation in the exchange rate.	When the operation is carried out by means of: (a) Industrial credit certificates: Mortgage, deposit of certificates (including ORTN), transfer of title in trust; (b) Credit-opening contract: Mortgage, transfer of title in trust, ORTN deposit.
BELGA - 2	Import of electronic equipment, especially for ships, from Belgium.	Industrial enterprises, especially those engaged in shipbuilding.	Industry, especially shipbuilding.	85 per cent of the FOB cost.	Seven years.	Using ordinary resources: (a) Amount up to fifty times the highest minimum wage current in the country (irrespective of the period): Interest at 12 per cent per annum. (b) Amount more than fifty times the highest minimum wage current in the country: (I) Period over two months and equal to or less than twelve months: Interest at 1.1 per cent per month. (II) Period over twelve months: Interest at 5 per cent per annum and monetary correction equal to that for ORTN, taking into	When the operation is carried out by means of: (a) Industrial credit certificates: Mortgage, deposit of certificates (including ORTN), transfer of title in trust; (b) Credit-opening contract: Mortgage, transfer of title in trust, ORTN deposit.

						account a maximum of [illegible] per cent per annum. Using extraordinary resources: Interest at [illegible] per cent per annum and monetary correction equal [illegible] variation [illegible] exchange rate.	
PROMP	(a) Establishment; (b) Reform; (c) Expansion; (d) Purchase of machinery and equipment of national origin; (e) Assembly, engineering and supervisory services.	Enterprises: - Commercial; - Industrial; - Service.	Commerce, industry and services.	80 per cent of the project; in exceptional cases 100 per cent, except with initial loans; from 500,000 cruzeiros, in the case of industrial enterprises.	Six to eight years including moratorium with possible extension up to ten years.	Interest: [illegible] per annum. Monetary correction: equal [illegible] Note: [illegible] monetary [illegible] due on the last [illegible] each calendar quarter. Commitment commission: 0.[illegible] per cent [illegible]. Note: On the value of the loan between the date of [illegible] approval and the contracting of [illegible]; on the value of tranches [illegible] from the [illegible] after the date fixed [illegible]	[illegible]
EXIMBANK	Importation of non-military goods and services from the United States, mainly equipment, materials and components.	Natural persons or bodies corporate engaged in industrial, commercial or rural activities or in the service sector.	Agriculture, stock-rearing, industry, commerce and services.	Equivalent of US$1 million. 80 per cent of the CIF cost of the imports.	From one to five years, depending on the product to be imported and its value.	[illegible] of every six months, together with the principal: (1) with regard EXIMBANK [illegible] per cent per annum; [illegible] with regard [illegible] New York [illegible] per cent per annum [illegible] the prime rate [illegible] New York. Commission: [illegible] [illegible] [illegible]	[illegible]

[illegible]	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	[illegible]
[illegible]	Construction of warehouses and silos for the storage of rice, beans, millet, soya and wheat.	(a) Industrial enterprises; (b) Rural producers and related co-operatives.	Agriculture, stock-rearing and industry.	(a) Rural producers and related co-operatives: Up to 100 per cent of the amount of the project. (b) Industrial enterprises: Up to 75 per cent of the amount of the project.	Up to six years including moratorium.	(a) Rural producers and related co-operatives: Interest - [illegible] per annum. Correction - [illegible] per annum. (b) Industrial enterprises: Interest - [illegible] per annum. Monetary correction - 10 per cent per annum. [illegible] of annum: Interest - [illegible] per annum. Correction or monetary correction - [illegible]. Note: [illegible] and [illegible].	[illegible]
RUBBER SUPERINTENDENCY Promotion programme for the production of natural rubber	Incentives for rubber cultivation.	Rubber planters.	Amazonia Ocidental and Bahia.	None.	Maximum twelve years, with eight years' moratorium.	Interest: [illegible] per cent per annum in Amazonia. [illegible] per cent per annum in Bahia.	[illegible]
Programme of incentives for new factories	Incentives for the establishment of new rubber factories.	Associations of rubber planters and others.	Amazonia Ocidental and Bahia.	None.	Maximum six years, with eighteen months' moratorium.	Interest: [illegible] per cent per annum for associations of rubber planters and [illegible] per cent per annum for others.	[illegible]
Latex collection programme	Collection of latex from native growth and plantations.	Rubber planters.	Amazonia Ocidental and Bahia.	None.	Maximum four years, with one year's moratorium.	Interest: [illegible] per cent per annum.	[illegible]

FINEP - Financiadora de Estudos e Projetos S.A.

	1. Feasibility studies and industrial and agricultural, agro-industrial and stock-rearing projects. 2. Central and regional development programmes. 3. Organisation and settlement plans. 4. Exploitation of natural resources. 5. Application of resources in the infra-structure.	Projects covered by the priority criteria of the strategic development programme.			Six years, with one year's moratorium. (In special cases: ten years)	Interest: 1. per [illegible]	[illegible]
FINAME (Special Industrial Financing Agency)							
Short-term	For the purchase or sale of industrial and agricultural equipment (of domestic or American origin, when there is not a similar product in the country) as well as of medium and heavy chassis for omnibuses and lorries.	Public or priva[illegible] bodies.	Priority: Industries producing capital goods and consumer goods and infrastructural services (transport and medical - hospital).	Up to 50 per cent of the investment in the case of industrial equipment; 75 per cent in the case of heavy chassis; 30 per cent in the case of medium chassis; 80 per cent in the case of national agricultural and industrial equipment or agricultural equipment of American origin.	(1) Industrial equipment and medium and heavy chassis of national origin: thirty-six months, including twelve months' moratorium. (2) Agricultural equipment and implements of national origin: sixty months, with twelve months' moratorium. (3) Industrial and agricultural equipment of American origin (with USAID resources): sixty months, including twelve months moratorium.	Interest at 1[illegible] per [illegible] plus monetary correction determined in advance.	[illegible]
Long-term	For the purchase or sale of industrial equipment whose value is equal to or greater than 5,000 times the highest minimum wage current in the country, produced to order by one or more manufacturers, with a time-limit of not less than 180 days.	Public or private bodies.	Priority: Re-equipment of traditional industrial sectors.	Up to 50 per cent in general; up to 70 per cent if the manufacturer is taking part in an international tender; up to 100 per cent when it includes the supply of spare parts required under the regulations of an invitation to tender.	Up to eight years.	Interest at [illegible] per [illegible] per annum, corr[illegible] according to the [illegible] figure.	[illegible]
BANCO NACIONAL DE HABITAÇÃO (National Housing Bank)							
REFINVEST	Financing of fixed investment and consolida-tion of debts with a view to the reduction of operational costs.	Enterprises producing, transporting and distributing building materials.	Production, transporta-tion and distribution of building materials.	90 per cent from the BNH and [illegible] per cent from the financial agency.	Six years plus two years' moratorium.	Interest - [illegible] per annum. [illegible] Insurance [illegible]	[illegible]

Programme	Purpose	Beneficiaries	Sectors and areas served	Limits	Repayment periods	Charges	[illegible]
REDIP	Financing of working capital.	Enterprises producing building materials.	Production of building materials.	40 per cent from the BNH and 10 per cent from the financial agency.	Thirty-six months plus six months' moratorium except when connected with an increase in fixed capital, in which case the periods will be the same as those of REINVEST.	Interest - [illegible] per cent per annum. ORTN monetary correction [illegible]. Commission - [illegible]. Credit insurance [illegible] [illegible] per cent.	Mortgage. [illegible] per annum [illegible]. Deposit of [illegible] bonds [illegible].
CAIXA ECONÔMICA FEDERAL PIS	Installation, expansion and modernization of enterprises and the purchase of technical assistance services.	Priorities for: Public joint-stock companies that have already been granted incentives by the CDI.	Industrial commercial and service enterprises and development banks.	(1) Fixed investment - Up to 80 per cent of the amount of the investment. (2) Working capital - Up to 60 per cent of the liquid assets. (3) Commerce and services Up to 30 per cent.	(1) Fixed investment - Eight years and two years' moratorium. (2) Working capital - Two years, with moratorium.	Interest at [illegible] per cent per annum. Monetary correction equal to that for ORTN.	Deposit of [illegible] bonds. Mercantile assets or deposit of certificates. Mortgage of immovable property. Transfer of [illegible] trust. Guarantees, [illegible] and others.

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