

PROJECT ABSTRACT

Country:	Brazil
Sector:	Agro-industry
Project Name:	Sucden –Corporate Finance Loan Sucden –Financing Facility
Project Number:	BR-L1418 / BR-X1038
Borrower:	Sucres et Denrées S.A («Sucden »)
Sponsors:	NA
Proposed Corporate A Loan:	Up to US\$50.0 million
Proposed Facility:	Up to US\$100.0 million in aggregate financing commitments at any time.

PROJECT OVERVIEW

For the past few years the sugarcane processing industry in Brazil has under-invested in the maintenance and renovation of sugarcane fields and in technology upgrades of industrial facilities. The situation, compounded by successive periods of dry weather, has especially affected the productivity of sugarcane fields in the South-Central region, which produces nearly 90% of the cane in Brazil. As a result, productivity has declined from about 86 tons/ha in 2009 to 72.1 tons/ha in 2014. The shortage of sugarcane available for processing has impacted negatively unit-production costs of sugar and ethanol. The industry requires large sums of capital to begin a new cycle of investments in the renovation and maintenance of sugarcane fields as well as in industrial facilities upgrades. This will enable the industry to remain competitive and Brazil to maintain its leading role as the largest supplier of sugar to the world markets and match the projected increase in global sugar demand. However, the availability of capital to support investments in the sugarcane processing industry has been limited, particularly since the 2008/2009 financial crisis, as commercial banks have become more restrictive in their lending because of sector limits and more stringent credit terms (e.g. shorter tenors), while funding from ProRenova, a BNDES financing program aimed at supporting the renovation of sugarcane fields, is being reduced.

IDB, in partnership with Sucres et Denrées S.A (“Sucden”, or, the “Borrower”), a leading French company in the global sugar market, seeks to provide financing to the sugarcane processing industry in Brazil to encourage a new cycle of investments aimed at increasing productivity and sustainability in the sector. IDB plans to make available to Sucden two financing instruments that will be implemented in parallel: i) the Sucden Corporate Finance Loan (the “Corporate Loan”); and ii) the Sucden Financing Facility (the “Facility”). Sucden is the borrower under both the Corporate Loan and the Facility and will on lend the IDB proceeds to eligible sugar producers in its sugar supply chain in Brazil (the “Sub-Borrowers”) to finance working capital and/or capital expenditures investments in sugarcane fields and/or industrial facilities (the “Sub-Loans”).

Sucden is a well-established global leader in sugar origination and trading, handling approximately 14% of the world's sugar volumes traded internationally. Its activities include sourcing, transportation, storage, price hedging, and delivery of soft-commodities (mainly sugar, but also cacao, coffee and ethanol) directly to major industrial customers worldwide. Sucden operates globally through its network of offices and subsidiaries, with main offices located in the United States, Russia, Switzerland, and Brazil. Sucden do Brasil Ltda., Sucden's subsidiary in Brazil, handles some 20% of the country's total sugar exports

PROJECT DESCRIPTION

The Project seeks to improve the long-term competitiveness of the sugarcane processing industry in Brazil by supporting sustainable agricultural and industrial practices in the sector while encouraging sugarcane processor to focus more actively in social and environmental factors (the "Project"). IDB envisions a total financing package of up to US\$150 million comprised of a full-recourse revolving Corporate Loan of up to US\$50 million and a revolving Facility of up to US\$100 million in aggregate financing commitments at any time to Sucden on a limited recourse basis for its on lending to eligible sugarcane processors in the form of Sub-Loans. The Sub-Loans will finance any of the following: (i) maintenance, renovation, or expansion of sugarcane fields; (ii) installation of water and ferti-irrigation systems in sugarcane plantations; (iii) mechanization of sugarcane harvesting and planting; (iv) maintenance of existing equipment and technological improvements in industrial processes; (v) modernization of steam boilers and equipment for electricity production from residual sugarcane biomass; (vi) expansion of storage and warehousing infrastructure to attenuate the seasonality of sugar production; and (vii) refinancing of short-term debt to improve capital structure.

The Corporate Loan and the Facility will provide needed additional financing for the sugarcane processing industry. Commercial banks are selectively providing short-term working capital lines and only exceptionally medium term financing of up to 3-5 years. Both the Corporate Loan and the Facility will allow for tenors of up to 7-years. The Corporate Loan will be a full-recourse senior secured financing to Sucden. The Facility will be limited recourse to Sucden with the IDB and Sucden sharing the credit risk of the Sub-Borrowers. The Corporate Loan will target Sub-Borrowers with whom Sucden has a more established relationship and that need more financing to support their investment plans. The Facility will target Sub-Borrowers with whom Sucden seeks to expand its relationship and that have more limited access to commercial bank financing..

An integral element of the Project is the implementation of an Environmental and Social Management System ("ESMS") within Sucden's on-lending credit evaluation process. This ESMS, which will take the form of an Environmental and Social Protocol, will be developed with the Bank's support. The system will require that Sub-Borrowers employ good social and environmental practices that are consistent with IDB policies and practices in their operations. The Protocol will also help eligible sugarcane processors that are financed as part of the Project to extend these practices to their suppliers and contractors over time, thus improving practices across the entire supply chain.

DEVELOPMENT IMPACT

The Project will support the sustainability and long-term competitiveness of the sugarcane processing industry in Brazil and is expected to generate a range of positive impacts, including: (a) Sustainable sugarcane production: the renovation, mechanical harvesting, and planting of sugarcane fields will enhance the productivity and quality of cane available for processing; (b) Improvements in industrial processes: the maintenance and technological upgrades of sugarcane extraction processes will have a positive impact on the efficiency of sugar production; (c) Food security: Brazil's share in world sugar trade is about 50%, thus, the sustained production of sugar would enhance the industry's ability to match the expected increase in world sugar consumption; (d) Employment: The increased competitiveness of the sugarcane processing industry will enhance job stability and create new job opportunities along the value chain.

IDB'S ADDITIONALITY

IDB will provide financial additionality by enhancing liquidity through an innovative financial structure which will provide longer term financing to the sugarcane processing industry in Brazil. IDB's non-financial additionality consists of supporting Sucden in the implementation of an Environmental and Social Management System (ESMS) to disseminate environmental and social good practices within the industry and to identify potential biodiversity, energy efficiency or social shared value interventions at the Sub-Borrowers level.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

The Project is consistent with IDB's GCI-9 objectives of lending to support climate change initiatives and environmental sustainability. The Project is consistent with IDB's Country Strategy for Brazil (2012-2014) to increase long term agricultural investments and to expand Brazilian participation in international trade, both of which are expected to continue to be a priority for the country. The Project is also consistent with SCF's strategy to promote sustainable agriculture and food security and with the IDB's Food Security Sector Framework Document (GN-2825).