

Projects

NEWSLETTER

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State of Espírito Santo Announces an Incentive Program to Attract Investments in Industry and Infrastructure

The Government of the State of Espírito Santo (“ES”) has announced the Espírito Santo Sustainable Development Program (“PROEDES”), created to increase the State’s economic competitiveness, promote priority infrastructure projects, develop the automotive industry in the State and attract and retain industrial activity in general.

- **Priority Project Fund.** State Law 9905, of September 12, 2012, created the Espírito Santo Development and Private Equity Fund (“FUNDEPAR”). FUNDEPAR seeks to support investment projects that are strategic to the State’s economy, namely projects with strong interrelations between sectors, capable of stimulating the appearance of a large and diversified network of suppliers of goods and services or alternatively projects within areas of highly intensive technology with substantial effects in terms of disseminating innovations to other economic activities.

FUNDEPAR will support projects in the following manners: (i) by holding shares and subscribing for convertible and nonconvertible debentures issued by private and state-owned companies; (ii) by purchasing or subscribing for securities or participation in projects, in accordance with applicable laws; (iii) by financing private companies; (iv) pre-investments in the form of studies, projects and research in the interest of State development.

Financial support will be provided for use in connection with acquisition of fixed assets, working capital and other expenses included in the investment project. The general conditions applicable to financial support in the form of loans and acquisition of convertible and nonconvertible debentures will be as follows: (i) a 10 year grace period and an amortization period of up to 10 years; (ii) interest rate subject to a cap equal to the SELIC rate published by the Central Bank of Brazil.

FUNDEPAR’s portfolio will be managed by a Managing Board coordinated by the ES Development Secretary (“SEDES”) whereas the ES Development Bank (“BANDES”) will manage and operate the fund.

State Law 9905 will be regulated by the Executive Branch within 90 days of the date of its publication, and the regulation will deal with the conditions applicable to holding shares in companies.

- **Automotive Industry.** In its turn, State Law 9906, of September 12, 2012, created financial incentives for the establishment and expansion of the automotive industry in ES for automotive land vehicles manufacturers, pursuant to Federal Law 6729/79. These benefits may be extended to manufacturers of auto parts.

Loans will be provided in connection with investments for establishment of a project or expansion of an existing structure, product research and development, and working capital. The following conditions will apply: (i) total loan term of up to 20 years; (ii) grace period of up to 10 years after each disbursement; (iii) repayment in up to 120 equal and successive monthly installments commencing upon the end of the grace period; (iv) applicability of interest at the rate of 6% per annum, no monetary adjustment, capitalization applicable to the grace period.

No loan may exceed an amount equal to 12% of the gross revenue, as determined in accordance with State Law 9906, of the taxable products sold by the relevant qualified company located in the State.

The Technical Committee Established to Stimulate the Automotive Industry (“Committee”), being a committee within SEDES’s administrative structure, will be responsible for performing analyses and making decisions in relation to

incentives. The Committee will take into account a project's compliance with legal requirements, as well as its economic feasibility and repercussion. BANDES will be responsible for operating loans, but the ES may extend this to other financial institutions.

- **Tax Incentives to the Industry in General.** Decree 3080-R of August 27, 2012, extended the ES Investment Incentive Program (INVEST-ES), created by Decree 1951-R, of October 25, 2007. The purpose of INVEST-ES is to contribute to expanding, updating and diversifying the productive sectors present in the ES by stimulating investments, renewal of the technologies used by production structures and increases in the State's competitiveness.

INVEST-ES consists of several tax incentives, such as: (i) deferred ICMS payment in the cases specified in Section 3 of Decree 1951-R; (ii) presumed tax credit for interstate transactions in an amount of up to 70 percent of the tax owing each month; and (iii) reduced tax basis in internal transactions up to 70 percent of the relevant amount.

INVEST-ES benefits that have already been granted may be extended for 12 years if the beneficiary agrees to keep employment at the average level prevailing in the 12 months preceding any such renewal.

- **Foreign Trade and Global Inclusion for the State.** In addition, pursuant to Complementary Law 641, of September 24, 2012, the Government created the State Sub-secretariat of Foreign Trade. This Sub-secretariat is linked to SEDES and focuses on matters relating to development of foreign trade in ES and inclusion of the State in the global market.

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Topic

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