

## PROJECT ABSTRACT

<b>Country:</b>	Brazil
<b>Project Name:</b>	Coelba Investment Program
<b>Project Number:</b>	BR-L1015
<b>Borrower:</b>	<i>Companhia de Eletricidade do Estado da Bahia</i>
<b>Total Project Cost:</b>	US\$ 486.3 million
<b>IDB A Loan:</b>	Up to US\$ 64.8 million
<b>Department:</b>	Private Sector Department (PRI)
<b>Status:</b>	Due diligence
<b>Date:</b>	July 8, 2004

### A. Description

1. The Bank has been approached by *Companhia de Eletricidade do Estado da Bahia* (“*Coelba*” or the “Company”) regarding its network expansion, including constructing new connections and extending the existing distribution network. *Coelba* was privatized on July 31st, 1997 when the State of Bahia sold through an international bidding process a controlling stake in *Coelba*. The Guarani consortium (“Guarani”) has 87.8 percent of *Coelba*’s total capital.
2. With the privatization, *Coelba* obtained a 30-year concession to distribute electricity in its area of operation, the State of Bahia, renewable for an additional 30-year period. *Coelba* has 3.3 million customers and sells 9,930 GWh per year, approximately 58.5 percent of the total energy consumption in the State of Bahia and 3.3 percent of Brazil’s total electricity consumption.
3. The Company is seeking financing for its 2004-2007 Investment Program (the “Program”) and other eligible costs (together the “Project”) estimated at US\$486.3 million. The Program comprises the following components:
  - (a) Energy Distribution and Transmission:
    - Network expansion: (i) extension of *Coelba*’s transmission and distribution lines (both aerial and underground) for increased network capacity; and (ii) construction of new substations to absorb the increased capacity;
    - Rural Electrification Project (*Projeto Luz no Campo*<sup>1</sup>): Expansion program, in conjunction with the government of the state of Bahia, to develop the energy distribution system required to bring electricity to over 200,000 rural customers located basically in the countryside of the state of Bahia;
    - Renewal of substations and distribution lines: modernization of existing substations, upgrading of existing lines;

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<sup>1</sup> The *Luz no Campo* was created in 1999 as part of a broader developmental program (*Brasil em Ação*). Its objective is to increase the electricity network in rural areas in Brazil. The *Luz no Campo* Program is funded: (i) 85% by the MME (via Eletrobrás), State governments and municipalities; and (ii) 15% by local distributors.

- Quality improvement of the distribution network: (i) improve quality of the distribution lines (aerial and underground) in order to minimize the duration and frequency of outages; and (ii) replacement of obsolete equipment.
- (b) Upgrading Systems Servicing Residential and Commercial Areas - (i) upgrading and/or modernization of existing distribution system components to improve services in residential and commercial areas throughout the state of Bahia; (ii) automation of control and management systems to curtail energy losses, optimize equipment use, and raise system reliability standards;
  - (c) Improvements and Modernization of Support Systems - (i) installation of new hardware and software to upgrade existing information support systems; and (ii) installation of equipment and software, and upgrading of support facilities associated with telecommunication systems; to improve data and communication transmission;
  - (d) Other investments to improve service provisioning, system maintenance and safety and working conditions, such as: (i) acquisition of Service Instruments, (ii) Tools, (iii) service vehicles; (iv) improvements in existing buildings and facilities; (v) Research & Development; and (vi) standards.

## **B. Project Benefits**

4. Coelba's concession area encompasses a population with a low purchasing power and dispersed regions of consumption. Additionally, 13.5 percent of families in Bahia are without electricity. Under such context, the Project rationale is twofold: (i) increase the level of electrification; and (ii) improve the efficiency of the electricity distribution system.
5. Increase the level of electrification. Law 10.438/2002 on "*Universalização do consumo de energia elétrica*" (universalization standards) aims to provide a nationwide electrical coverage in Brazil. Within such context, ANEEL resolution no. 223 of 04/29/2003 establishes the general rules for the universalization standards of energy in Brazil. Accordingly, ANEEL requires Coelba to provide full electrification to its concession area by 2013. The Project will enable Coelba to expand its existing distribution network and to make electricity available to customers in its concession area by increasing its electrification level from 86.7 percent (2003) to 92.4 percent (by full implementation of the Project). One of the components of the Project, "*Luz no Campo*", will increase the availability of energy supply in rural areas. The State of Bahia is among the weakest in rural electrification in Brazil and thus, the Project will bring social and economic benefits to up to 200,000 rural customers.
6. Improve the efficiency of the distribution system. The Project is designed to implement support systems (i.e. automation and telecom systems) that will increase service quality. The Project will enable Coelba to further improve its quality and performance indicators, which will continue to benefit consumers and have a positive developmental impact over the long-term.

### C. IDB Participation

7. The proposed Project is part of the reform program of the Brazilian power sector that began in 1995 with constitutional amendments allowing private investment in the electricity sector and the privatization of government-owned electricity utilities. The Project will enable Coelba to expand its existing distribution network and to make electricity available to customers in its concession area, the State of Bahia.
8. In addition to increasing service coverage, the Project is designed to improve the efficiency of the distribution system, by implementing support systems (i.e. automation and telecom systems) that will increase service quality. In addition, the implementation of the Project will enable Coelba to increase its coverage area by participating, among other initiatives, in the project “*Luz no Campo*”, which is intended to increase the availability of energy supply in rural areas. The State of Bahia is among the weakest in rural electrification in Brazil and thus, the Project will bring social and economic benefits to up to 200,000 rural customers.
9. Moreover, the Project will enable Coelba to continue to improve its quality and performance indicators, which will continue to benefit consumers and have a positive developmental impact. Coelba’s projects foster the economic and social development of its concession region, providing mainly the following benefits: (i) stimulate economic activity in the region; (ii) increase efficiency with reduction of energy losses and non-distributed power; (iii) maintain the system’s voltage levels according to supply standards providing customers with continuity; (iv) develop rural electrification; and (v) research and development, innovation and technology transfer.
10. Most of the actions associated with the investment program are not expected to generate significant environmental, social and health and safety negative impacts (please refer to “Environmental and Social Strategy”). However, significant economical and social positive impacts are expected to occur in association with the operation of the works foreseen in the investment program. The participation of the Bank provides significant additionality by requiring the Company to maintain environmental, social, health and safety plans and procedures, which are not only required by Brazilian regulations but is also compatible with usually stricter international standards. The Bank and its environmental and social consultants will support the Company in the development of the necessary mitigation and monitoring plans and procedures to ensure that Project-related environmental, social health and safety impacts and risks are adequately mitigated. The Bank will also undertake various supervision activities to ensure the correct implementation of these plans.