

## PROJECT ABSTRACT

<b>Country:</b>	Brazil
<b>Project name:</b>	Celpe Capital Investment Program
<b>Project number:</b>	BR-L1042
<b>Borrower:</b>	<i>Centrais Elétricas do Pará S.A.</i> (“Celpe”)
<b>Total Project Cost:</b>	Approximately US\$372 million
<b>Proposed IDB A- Loan:</b>	Up to US\$75 million
<b>Department:</b>	Private Sector Department (“PRI”)
<b>Status:</b>	Due Diligence
<b>Date:</b>	August 16, 2005

### I. PROJECT DESCRIPTION

Celpe is the distribution concessionaire for the State of *Pará*, the second largest state in Brazil, located in the North Region. Celpe was created in 1962 to supply electricity to the State of *Pará* and was privatized in July 1998 when the *Grupo Rede* (“Rede”) successfully bid for the acquisition of Celpe’s controlling interest (65 percent).

With the privatization, Celpe obtained a distribution concession to supply electricity in the State of *Pará* (“the Concession Area”). The Concession Area covers the whole territory of the State of *Pará* -1,247,703 square kilometers (“km<sup>2</sup>”) - comprising 143 municipalities with a population of approximately 6.5 million and 1,292,149 (August 2005) clients. The concession’s duration is valid for 30 years, renewable one-time.

Celpe is seeking financing for its 2005-2007 Investment Program (“Investment Program”). The Investment Program aims to expand and improve Celpe’s distribution electrical system allowing the Company to: (i) provide electricity to new customers mostly in rural areas, (ii) allow productivity gains and reduce costs, and (iii) improve quality and reliability of its distribution network system.

Celpe’s Investment Program comprises the following components: (i) rural electrification expansion (“*Luz Para Todos*” - Light for All Project); (ii) urban electrification expansion; and (iii) quality improvement of the distribution network.

### II. PROJECT BENEFITS

Promote basic infrastructure: The Investment Program will provide increased energy coverage in the State of *Pará* (mainly in rural areas) with updated distribution infrastructure such as distribution networks, rural and urban distribution transformers and construction works in the distribution system.

Foster rural electrification: Celpe will build new distribution networks in rural areas throughout the State of *Pará*, resulting in 106,080 new connections and installation of 19,570 rural distribution transformers. The majority of Brazil’s population that does not have access to electricity is located in the North Region and amounts to approximately 2.5 million, representing 62.5 percent of the rural population. As such, the implementation of the Project will allow Celpe

to increase its coverage area in accordance with its concession contract and its participation in the “*Luz Para Todos*” project, intended to increase the availability of energy in rural areas.

Improve the quality of distribution network: Celpa’s Investment Program will contribute to improve the quality and reliability of the distribution network in both rural and urban areas. In addition, and as per the concession contract, Celpa’s investment program will also focus on reducing energy losses and thus increasing energy efficiency.

Promote private sector provision of infrastructure services. Total projects are over US\$300 million, which provides for significant private sector involvement in the energy sector. As such, the Project contributes to relieve the public sector of infrastructure investments that would have otherwise been required in this sector in the State of *Pará*.

Poverty Targeted Investment (“PTI”). The Investment Program targets rural areas in the State of *Pará*, which shows below country-average social indicators such as a lower human development index, lower than average per capital family income and higher than average illiteracy rate. Therefore, under the geographic classification, the Project classifies as PTI (Poverty Reduction and Promotion of Social Equity Strategy, GN-1894). In addition, over 50 percent of Celpa’s residential customers are low-income consumers.

### **III. IDB PARTICIPATION**

Access to long-term financing in local currency in Brazil is limited to *Banco Nacional de Desenvolvimento Econômico e Social* (“BNDES”) financing. In addition, the significant reduction of foreign financing to Latin America for the past few years, due to the regional and global economic downturn, negatively affect the capacity of distribution companies to finance their investment program with adequate tenors. Bank provision of longer-term financing (through the A-loan) provides such financial additionality.

### **IV. ENVIRONMENTAL AND SOCIAL ASPECTS**

The Investment Program to be financed by the Bank comprises essentially the expansion and renovation of the network and the rehabilitation and improvement of the operating conditions, as well as the expansion of distribution services in rural, as well as in urban residential and commercial areas. Significant environmental and social impacts are not anticipated as the new and upgraded infrastructure does not involve large construction works and is not expected to require resettlement or produce significant adverse impacts on indigenous communities or natural habitats.

The participation of the Bank provides significant additionality by requiring the Company to maintain environmental, social, health and safety plans and procedures that may go beyond what is required by Brazilian regulations. The Bank and its environmental and social consultants will assist 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.

IDB’s **Environmental and Social Strategy** for this operation is presented in a separate document.