

PROJECT ABSTRACT

Project Name: CAPITAL EXPENDITURES FOR ELECTRICITY DISTRIBUTION (GU-0151)
Country: Guatemala
Project Costs: Approximately US\$94 million
IDB A-Loan: US\$25 million
Status: Board Approval on December 4, 2002
Date: March 25, 2003

The project to be financed by the Bank consists in a capital expenditure program for electricity distribution in Guatemala, to be undertaken by *Distribuidora de Electricidad de Oriente, S.A.* ("DEORSA") and *Distribuidora de Electricidad de Occidente, S.A.* ("DEOCSA") (together, the "DISCOs") covering the Eastern and Western rural parts of the country, pursuant to a Strategic Business Plan for 2001-2004 ("SBP") (the "Project"). The DISCOs will be co borrowers of the Bank's loan, and will be jointly and severally liable for the full repayment of the loan.

The SBP 2001-2004 comprises capital expenditures of US\$78.2 million to meet the following objectives: (a) improve reliability and quality of service to customers by meeting international standards, thus creating the conditions for sales growth; (b) reduce technical losses due to inefficiencies in the distribution network; (c) minimize non-technical losses deriving from inefficient measurement processes and from inadequate administrative and commercial management; and (d) increase the number of connections in rural areas, where the DISCOs are required by law to connect any user located within 200 meters of an existing distribution line.

In addition, the DISCOs will implement the investments required under a Rural Electrification Plan (the "PER"), designed by the Government of Guatemala with the objective of expanding services to 80 percent of rural areas and incorporating 280,629 new customers by 2004. A successful completion of the PER will make electricity available to more than 90 percent of the country's population. The Government of Guatemala has requested a loan from the public sector of the Bank (GU-0126) to support the PER and thus provide the funds required to complete the PER.

The DISCOs were privatized in 1998 when the *Instituto Nacional de Electrificación* ("INDE"), Guatemala's public electric utility, sold 80 percent of their shares to a wholly-owned subsidiary of Union Fenosa, a leading Spanish developer and qualified operator of power generation, transmission and distribution systems. As part of the privatization, the private investor committed to undertake the capital expenditure program detailed in the PER, thus expanding coverage of electrification services to rural areas. Implementation of the PER was structured as an integral component of the privatization of the DISCOs.