

## PROJECT ABSTRACT

<b>Country:</b>	Brazil
<b>Project name:</b>	CEMAT Capital Investment Program
<b>Project number:</b>	BR-L1040
<b>Borrower:</b>	<i>Centrais Elétricas Matogrossenses S.A.</i> (“CEMAT”)
<b>Total Project Cost:</b>	Approximately US\$307.5 million
<b>Proposed IDB A- Loan:</b>	US\$75.0 million
<b>Department:</b>	Private Sector Department (“PRI”)
<b>Date:</b>	August 16, 2005

### I. PROJECT DESCRIPTION

*Centrais Elétricas Matogrossenses S.A.* (“Cemat”) was created in August 1956 in order to supply electricity to the State of Mato Grosso, in Brazil’s Central-West Region. The Company’s activities comprise electricity distribution and generation. Cemat was privatized in 1997 through a public bidding process won by *Grupo Rede* (“Rede”) and is presently one of Rede’s largest concessionary companies. Cemat operates under a 30-year renewable concession granted at the time of privatization (1997) and which may be extended upon termination for another 30-years. The State of Mato Grosso is the third largest state in Brazil, presenting an area of approximately 906,807 square kilometers (“km<sup>2</sup>”), and a population of almost 2.75 million inhabitants in 140 municipalities (79 percent of the population lives in urban areas).

Cemat’s 2005-2007 Investment Program is of US\$247.5 million plus US\$60.0 million for financing related costs (the “Project”). The Investment Program aims to expand and modernize Cemat’s electrical network and business management support systems, allowing the company to: (i) provide electricity to new customers, particularly those in rural areas; and (ii) improve the quality and reliability of its electric network.

Cemat’s Investment Program comprises the following components: (i) expansion of high-voltage distribution lines; (ii) rural electrification expansion; (iii) urban electrification expansion; (iv) distribution lines renovation; and (v) distribution system quality improvement.

### II. PROJECT BENEFITS

Promote basic infrastructure: The Investment Program will provide increased energy coverage in the State of Mato Grosso (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: Cemat will build new distribution networks in rural areas throughout the State of Mato Grosso, resulting in 62,000 new connections and installation of 36,000 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 Cemat 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: Cemat’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, Cemat’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 Mato Grosso.

Poverty Targeted Investment (“PTI”). The Investment Program targets rural areas in the State of Mato Grosso, 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).

### **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 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.