

PROJECT ABSTRACT

Country:	Brazil
Project name:	Coelba Capital Investment Program
Project number:	BR-L1015
Borrower:	<i>Companhia de Eletricidade do Estado da Bahia</i> ("Coelba")
Total Project cost:	Approximately US\$1,225 million
IDB participation:	IDB A-Loan up to US\$ 112 million
Department:	Private Sector Department (PRI)
Date:	August 15, 2006

I. Project Description

The project to be financed by the Bank is part of an investment program to be implemented by *Companhia de Eletricidade do Estado da Bahia* ("Coelba", the "Company" or the "Borrower"), a private distribution company in Brazil. Coelba was privatized in July 1997 through an international bidding process, through which it obtained a 30-year concession, renewable for an additional 30-year period. Coelba's concession area covers the State of Bahia, amounting to 563,375-km² and comprising 415 municipalities with approximately 3.8 million customers.

The Company's 2006-2010 Investment Program (the "Program") is estimated at US\$1,225 million equivalent. The Program comprises capital expenditures towards: (i) increasing access to electricity for all households and consumers in rural areas under the Luz Para Todos ("LPT") program; (ii) expansion of the Company's distribution network; (iii) connections to new customers; and (iv) other investments such as in information technology and general equipment.

II. Project Benefits

Improve service quality through increased network efficiency and reliability: The Program will contribute to improve the quality and reliability of the distribution network in both urban and rural areas. In addition, and as per the concession contract, the Program will also focus on reducing energy losses and thus increasing energy efficiency and reliability.

Increase electricity coverage, particularly in rural areas: The Program mainly targets the investments associated with rural electrification under the LPT program, a program sponsored by the Government of Brazil. The LPT program aims at promoting access to electricity for all households and consumers in rural areas in Brazil.

Improve living standards of the population: The Program targets rural areas in the State of Bahia, which show below country-average social indicators such as a lower human development index, lower than average per-capita family income and higher than average illiteracy rate. In addition, over 50 percent of Coelba's residential customers are low-income consumers. Therefore, under

the geographic and headcount classifications, the Project classifies as PTI (Poverty Reduction and Promotion of Social Equity Strategy, GN-1894).

III. IDB Participation

Financial additionality. Access to long-term financing in Brazil, despite the recent increase in availability of longer tenors in foreign and local currency, has been limited to tenors of 5-7 years, as evidenced by the debt profile of Coelba and other discos in Brazil. The IDB's loan will contribute to provide the longer tenors required by the Program, while mobilizing funds from commercial banks.

Catalytic demonstration effect. The role of the Bank's private sector window is to act in cases where its participation serves as a catalyst. To the extent that the Bank participates in this successful financing, there will be a demonstration effect to the market regarding the viability of Brazil's electricity distribution companies under the new electricity sector model and the viability of longer tenors.