



Public-Private Partnership Stories

Brazil: COELCE Power Utility



The government of Ceará, one of Brazil's fastest growing states in the 1990s, hired IFC as the principal advisor to implement a modernization program in the power sector that included the privatization of Companhia Energetica do Ceara (COELCE), the state power utility.

With assistance from IFC, the government sold 90 percent of COELCE's voting shares, representing 55.4 percent of the company's total capital, to a consortium formed by Spain's Endesa and Chile's Enersis. At auction, the government received \$880 million for the shares, 27 percent above the minimum price. The concession agreement was signed in April 1998.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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A Japanese trust fund supported IFC's work to establish Brazil's first state regulatory agency as part of the COELCE privatization mandate.

BACKGROUND

Under the leadership of Governor Tasso Jereissati, the state of Ceará in Northeast Brazil successfully implemented major economic and social reforms that created the foundation for private sector development. As a result, the demand for power was growing at the rate of 10 percent a year.

The Secretary of Infrastructure recognized that attracting private investors to Ceará would require investing in critical infrastructure and ensuring high quality electricity service. COELCE's operations had been under close scrutiny and the utility presented its first \$5 million profit in 1995. The Secretary realized that the privatization of the utility could now be used to leverage financial resources necessary to invest in other infrastructure sectors. At the same time, the government recognized the need to balance social objectives with the concerns of private investors.

IFC'S ROLE

IFC organized an international tender to select a strategic investor for COELCE, which at the time was selling 4,400 gigawatt hours a year to 1.4 million customers. Ceará was at the time one of the poorest states in Brazil with a population of about 6 million people. About half lived in the capital and the rest were scattered in small urban centers and rural areas.

In addition to organizing the bidding process, IFC developed a privatization strategy, supervised the technical/economic/legal due diligence on the company, built a financial model to determine the company's value, directed the preparation of contract documents, spearheaded informal consultations with different stakeholders, and assisted in the investors' due diligence.

The design and creation of Brazil's first multi-sector state regulatory agency was a key component of the IFC mandate. IFC's role included conducting studies necessary to define the agency's structure, drafting a state law to create the agency, and designing institution-building and training programs for the agency's effective operation.

TRANSACTION STRUCTURE

The transaction involved the sale of 90 percent of the COELCE's voting shares, representing 55.4 percent of the utility's total capital. In addition, under a separate offer, 10 percent of the state-owned shares, corresponding to 8.97 percent of the total voting shares, were sold to COELCE employees for 50 percent of the established minimum price. The Share Purchase Agreement defined the obligations of COELCE's controlling shareholders to the state of Ceará, while the concession agreement defined the obligations to the conceding power at the federal level.

Besides the typical obligations of a concessionaire, the controlling shareholder's primary obligations to the state of Ceará included:

- Contributing a specific percentage of COELCE's annual revenues (2 percent from 1997 – 2002, 1.5 percent from

2002-2006, and 1 percent thereafter) to a government fund exclusively used to support rural electrification and other government contributions to the distribution segment.

- Maintaining all COELCE's obligations regarding social programs, public lighting, and the power purchase agreement for a proposed 60 megawatt wind farm and a proposed 240 megawatt independent power project.

BIDDING

Two bids were submitted for the COELCE privatization. The winning bidder was a consortium formed by Spain's Endesa and Chile's Enersis, which paid the government \$880 million for 55.4 percent of the utility's total capital (90 percent of voting shares), 27 percent above the minimum price. Most of the remainder of COELCE's capital consisted of preferred shares listed on the stock exchange.

EXPECTED POST-TENDER RESULTS

- One of the first large power sector privatizations in Brazil's Northeast Region.
- Government received \$880 million from the sale of 55.4 percent of COELCE's total capital, 27 percent above the minimum price.
- COELCE privatization helped ensure that Ceará's power needs were met and gave the state a competitive advantage to attract private sector development.
- Creation of Brazil's first multi-sector state regulatory agency served as a model for other states in Brazil.
- Proceeds were used to support investment programs in infrastructure and to establish a pension fund for state government employees.

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