PROJECT ABSTRACT

Project number	CH-0156
Project name	Rural Telecommunications Network
Country	Chile
Sponsor	SR Telecom, Inc.
Total project cost	US$111.4 million
IDB participation	IDB A-Loan: US$25
Department:	Private Sector Department
Status	Approved by the Board of Executive Directors
Date:	November 23, 1999

I. THE PROJECT

In an effort to promote growth and integration of rural areas of the country, which are under-served by the country's telephone network, the Government of Chile (GOC) created in 1993 a special program to improve and expand rural telephone service. Under this program, it awarded 122 concessions for the provision of rural telephone service, of which 27 were awarded to Comunicación y Telefonía Rural S.A. (CTR); these 27 constitute the project. The main thrust of these concessions is to cause public access payphones to be installed in key places in rural areas, with regulated rates, thereby giving the local populace affordable access to the communications network.

The concessions won by CTR are grouped into nine zones around Talca, Linares, Chillan, Concepción, Los Angeles, Temuco, Valdivia, Osorno and Puerto Montt, which cover 300,000 sq km, and are aimed at serving the rural inhabitants on these zones, with a total rural population of about 1.3 million according to 1994 census data.

The two primary goals of Chile's legal framework for its telephone industry are to maximize competition and insure that all citizens have access to telephone service. The markets are open to all, and there cannot be any monopoly granted, including under the rural concession program. In order to induce private operators to provide the services desired for high-cost rural areas, the GOC provided for subsidy to offset the high cost of such systems and facilitate commercial operation with an acceptable return. The concessions were awarded to the bidder who requested the least subsidy. Since from a technical standpoint the technology would need to be radio-based, the concessions are accompanied with the right to utilize the spectrum needed to operate the system in each area. Subsidies are provided through a special fund, the Telecommunications Development Fund, or "TDF"; resources for the TDF are annually allocated in the country's budget. Since 1995, the fund has provided more than US$10 million in subsidies under the rural telephone concession program.

CTR bid most of its concessions with zero subsidy. It could do this because its intention from the outset was to establish a fully-functioning local exchange service which could be profitable without subsidy, and it selected its target concessions based on demographic analysis which indicated which areas could support such a service.

II. THE SPONSOR

The project sponsor is SR Telecom, Inc. SRT, based in Montreal, PQ, Canada, is an acknowledged world leader in telecommunications systems for the provision of rural telephony. The company was founded in 1981 and became a public company in 1986. Its primary business is the design, manufacture, marketing, installation, and servicing of fixed wireless microwave radio and wireless loop systems which are used in both public and private telephone and data networks in some 85 countries.

SRT's products for telephony are used primarily in areas where telephone density is low, i.e. about one telephone per square km or less. This density is typical of rural regions especially in developing countries where a few telephone lines per village is the norm. Advanced digital wireless products are an affordable and reliable way of providing high-quality telephone service for such areas. Wireless fixed systems offer an effective alternative to traditional wire and cable systems whose per-subscriber cost is prohibitive in low-density areas. At this time, about 70% of SRT's revenue comes from its rural telephony products line.

III. IMPLEMENTATION OF THE CONCESSION

CTR will build and operate a fixed (non-mobile) wireless telecommunications network in the 27 concession areas. The network will include the mandated payphones, and will offer significant additional services as well, functioning as a local exchange telephone company providing interconnection among subscribers within each zone and multi-carrier access to any location within Chile and to the world by interconnection with long distance and international carriers. Subscribers will include residential, commercial, and institutional users. About 4,250 payphones will be installed, more than double the number mandated by the concessions.

At the end of April 1998, CTR initiated its telephone operations in the region of Chillan. Other areas are being incorporated into service as construction advances simultaneously in several other regions of Chile. CTR's efforts to date have shown that the demand is likely to be significantly higher than forecast in its original plan, with over 12,250 subscribers signed up for telephone service as of May 30, 1999.

The tariffs to be charged to users will be regulated in the case of the mandated payphones. Tariffs for CTR's other services are open; the company expects to keep the tariffs for its additional payphones at the same level as the mandated phones. Tariffs for subscriber services will be kept at a level which is affordable for the target market, but which will provide a reasonable return to the company.

IV. ENVIRONMENTAL AND SOCIAL ASPECTS

The telephone network to be implemented by CTR is based on modern techniques which involve minimal physical construction requirements and associated potential adverse environmental effects. The majority of the social impacts will be positive and compatible with the goal of socio-economic development of the rural areas, which is the basis of the rural telephony program of the GOC. More specifically, the main impacts of the project are related to minor construction effects, land use issues, and effects on the landscape due to the towers which are part of the telephonic system. Mitigation measures are directed toward minimizing the impacts of construction, re-vegetating, identifying potential archeological sites/objects, and site-selection to reduce changes to the landscape and avoid areas with fragile natural resources.

V. PROJECT COST AND FINANCIAL PLAN

The cost of the project is expected to be $106 million. The IDB will provide $25 million. Additional debt will be provided by the Export Development Corporation of Canada. The remainder will be equity in the form of sponsor contributions and cash flow from the project during its construction phase.