

PROJECT ABSTRACT

Country:	Nicaragua
Project Name:	Enitel Investment Program
Project Number:	NI-L1002
Borrower:	<i>Empresa Nicaragüense de Telecomunicaciones</i>
Total Project Cost:	US\$ 99.9 million
IDB A Loan:	Up to US\$ 35.2 million
Department:	Private Sector Department (PRI)
Status:	Due diligence
Date:	March 09, 2004

A. Description

- 1.1 The Bank has been approached by *Empresa Nicaragüense de Telecomunicaciones* (“Enitel” or the “Company”) regarding the expansion of its fixed-line network in Nicaragua. On August 31, 2001, the Government of Nicaragua (“GON”) partially privatized Enitel through the sale of 40 percent of its shares pursuant to an international public bidding and 11 percent distribution among the employees. On January 2004, the GON sold its remaining 49 percent stake on Enitel through an international public tender to America Movil.
- 1.2 The privatization of Enitel included: (i) a 20-year, renewable concession (the “Concession”) by the *Ente Regulador de los Servicios de Telecomunicaciones* (“TELCOR”, or the “Granting Authority”) to provide long distance and local services to the public; and (ii) a 10-year license for wireless services. In order to comply with the concession contract, Enitel is required to implement substantial capital expenditures to expand its fixed line network towards nation-wide coverage.
- 1.3 The Company is seeking financing for its 2003-2004 upgrade and expansion program (the “Investment Program”) estimated at US\$ 88.5 million and other eligible costs (all together the “Project”) for a total of US\$ 99.9 million which comprises mainly:
 - Addition and maintenance of 50,000 fixed-lines in Managua for a total cost of approximately US\$ 37.3 million including eligible costs. The costs include expansion of the infrastructure, equipment, vehicles, management of the works, design and study.
 - Addition and maintenance of 60,000 fixed-lines in rural areas in the cities of *Granada, Chinandega, Masaya* and *Esteli* among others for an approximate total cost of US\$ 43.0 million including eligible costs. The costs include expansion of the infrastructure, equipment, vehicles, management of the works, design and study.

- Provision of 1000 new public payphones and the respective management control system for rural and semi-urban parts in the following departments: *Carazo, Chinandega, Chontales, Granada, Leon, Managua, Masaya, Matagalpa* and *Rivas among others*. The installation of these public payphones will cover 531 localities and attain approximately 1.6 million recipients, at a cost of US\$ 2.1 million including eligible costs.
- Fiber optic ring that will connect the main cities in Nicaragua. This will allow to increase the number of fixed line, cellular and Internet subscriber as well as providing a better services to current ENITEL's costumer avoiding traffic congestion. The approximate cost of the project is US\$ 16.3 million including eligible costs.
- Value-added service Platform. This project will create virtual telephone lines, prepaid services and voice mail services that could be accessed from every fixed, cellular and public telephone in ENITEL's network. This will allow ENITEL to reach a new market as well as providing new services such a universal prepaid calling card. The approximate cost of the project is US\$ 1.2 million including eligible costs.

B. Project Benefits

- 1.4 Nicaragua has both the lowest fixed-line teledensity rate¹ (3 percent) and the lowest combined teledensity rate (wireline and wireless) (8.9 percent) of Central America. As a comparison, Central America's average fixed-line teledensity rate is 10 percent and average combined teledensity rate is 20 percent (in 2002). Nicaragua also has the largest waiting-list rate for fixed-line installations (36 percent) in Central America, with a waiting-time during 1995-1999 of approximately 8.4 years.
- 1.5 The lack of technology and investments before privatization, as well as low per capita GDP levels (less than US\$ 500 in 2002) have hindered demand and consequently shrunk the telecommunication market. The Nicaraguan telecommunication market is far from saturated and is poised for further growth. The International Telecommunications Union ("ITU") projects that combined teledensity will reach 29 percent in Nicaragua by 2005, primarily attributable to growth in mobile telecommunications subscribers.
- 1.6 The Project will provide increased telephone access and improved services through network upgrade. In addition, the Project will develop and introduce new products and services to satisfy its existing and new customer base.

C. IDB Participation

- 1.7 Information technology makes a substantial contribution to economic growth in the developing world by lowering communication costs and encouraging the emergence of a global marketplace. The project will provide widespread, high quality telephony services throughout Nicaragua, especially to lower income areas. More specifically, this project

¹ Teledensity is the average number of telephone lines per 100 people as published in the "World Telecommunication Development Report 2002" (International Telecommunication Union).

will have a positive developmental impact in Nicaragua as it will cover both urban and rural areas by providing basic as well as advanced telecommunications services of excellent quality of product and coverage via digital and analog, state-of-the-art network.

- 1.8 Furthermore, financing for telecommunications projects, even in developed nations, has become difficult to obtain because of the global economic downturn, and access to long-term financing has always been more limited without the participation of multilaterals, such as IDB. Bank participation in the Investment Program would confirm recognition of the importance of extending and upgrading telecommunications infrastructure in Central America and its willingness to support appropriate private sector investment in the sector.
- 1.9 The environmental, social, health and safety negative impacts associated with this Project are expected to be minimal (please refer to the “Environmental and Social Strategy”). The participation of the Bank will provide a significant additionality related to environmental, social, and health and safety aspects by requiring compliance with Bank policy requirements, which are beyond the in-country regulatory requirements. The Bank requires the development and implementation of all necessary mitigation and monitoring plans and procedures to ensure that the project-related environmental, social and health and safety impacts and risks are adequately mitigated, and will also undertake various supervision activities to ensure the correct implementation of these plans.