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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF
THE TELEPHONE EXPANSION PROGRAM
THE NATIONAL TELECOMMUNICATIONS ADMINISTRATION
(ANTEL)
EL SALVADOR

September 13, 1963

CURRENCY EQUIVALENTS

US \$1	=	2.5 Colones
₡ 1	=	US \$0.40
US \$1 million	=	₡ 2.5 million
1 million Colones	=	US \$400,000

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SUMMARY

- i. The Government of El Salvador has asked the Bank for a \$9.5 million loan to finance the foreign exchange costs of a program to expand and improve telephone and telegraph services in the country. The estimated total cost of the program is \$13.6 million equivalent.
- ii. The project, to be completed by mid-1967, includes the first phase of a comprehensive long-range development of telecommunications facilities for San Salvador. It will provide automatic central office equipment for 26,000 telephone lines in the cities of San Salvador, Santa Ana and San Miguel plus toll dialing between these cities over an adequate microwave radio network. The project includes only the immediate and more essential telecommunication needs, thus holding local currency requirements to a sum that is practicable. The limitation will also provide time for the new operating organization to meet the test of experience before additional investments are undertaken. However, unit costs will in no way be prejudiced as basic design will from the start provide for subsequent expansion in later stages.
- iii. On August 27, 1963, the Congress of El Salvador approved an act creating the National Telecommunications Administration (ANTEL) for the purposes of providing national telecommunication service. Existing telephone and telegraph facilities, presently operated under the Ministry of Interior, are to be transferred to this autonomous public agency. In accordance with the act creating ANTEL, its five-member Board of Directors is to have three members appointed by the Government and two members from business and financial circles.
- iv. The justification of the proposed expansion is well established by the pent-up demand alone. In addition, the serious inadequacies of the present system will be eliminated in the principal cities.
- v. Initial tariffs for ANTEL's services would be those charged at present by the Telecommunications Branch. These present tariffs have been used in the estimates. They would be reviewed by consultants engaged to recommend, among other things, desirable tariff modifications. Even at present rates, however, the estimates show that in the first years after completion of the project the earnings would result in rates of return on average net fixed assets in operation of about 9%.

vi. All equipment to be financed under the proposed Bank loan would be purchased through international competition and in accordance with plans and specifications prepared by competent consulting engineers.

vii. The proposed project is technically sound and economically justified. It is suitable for a Bank loan of \$9.5 million equivalent for 20 years, including a grace period of $4\frac{1}{2}$ years.

APPRAISAL OF THE TELEPHONE EXPANSION PROGRAM

THE NATIONAL TELECOMMUNICATIONS ADMINISTRATION (ANTEL)

EL SALVADOR

I. INTRODUCTION

1. The Government of El Salvador has asked the Bank for a loan of \$9.5 million equivalent to cover the estimated foreign exchange cost of a program to expand and improve telephone and telegraph services in the country. The estimated total cost of the project is \$13.6 million equivalent. The requirements of local currency financing will be met by the sale of bonds to applicants for telephone service and by internally generated funds.

2. The Borrower will be the National Telecommunications Administration (ANTEL), an autonomous government agency now being established to own and operate the country's telecommunications facilities. Existing telecommunications operated by the Ministry of Interior are to be transferred to this agency following an appraisal in accordance with existing legislation.

3. A feasibility study and expansion program was first made in 1960 by a combination of two consulting engineering firms - Allen K. Hamilton Associates of Woodstock, Illinois, and Preece, Cardew & Rider of London. Commencing in late 1962, a team of consultants from the French Telegraph and Telephone Department have been carrying out a regional telecommunications survey under a U.N. Special Fund grant administered by the Bank. The project as now presented comprises the provision of the telephone facilities recommended in the 1960 study, brought up to date and incorporating the recommendations of the French team of experts.

II. THE BORROWER

4. The National Telecommunications Administration (ANTEL)^{1/} is an autonomous public agency, entirely owned by the Government, established by an act approved August 27, 1963, by the Legislative Assembly of the Republic of El Salvador. Prior to enactment, the project of law was reviewed by the Bank and found acceptable. The act gives ANTEL the right to plan, acquire, construct and operate telecommunications. At its discretion, ANTEL may make arrangements with others, private or public, for the purpose of providing telecommunication service. ANTEL will also have authority, subject to the prior approval of the Government, to fix tariffs and other charges for telecommunication services.

1/ Administracion Nacional de Telecomunicaciones

5. ANTEL will be governed by a five-member Board of Directors, serving for four-year terms and designated as follows:

- (a) One regular full-time director to hold the office of Chairman, the appointment being made by the Executive Power acting through the Ministry of Interior;
- (b) Two regular directors and two alternates, appointed by the Executive Power acting through the Ministry of Economic Affairs and the Ministry of Public Works;
- (c) One regular director and one alternate, elected by the private banks operating in El Salvador;
- (d) One regular director and one alternate, elected by the agricultural, industrial and commercial associations of El Salvador.

6. Administration of the day-to-day business of ANTEL is to be the responsibility of the Chairman of the Board of Directors and of a Manager, to whom the Chairman may delegate such administrative powers as he considers necessary. The Manager is appointed by the Board and is to attend Board meetings as Secretary with the right to speak but without vote.

Present Organization

7. The existing staff and telecommunication facilities of the Telecommunications Bureau of the Ministry of Interior, are to be transferred to ANTEL under the provisions of the law creating ANTEL.

8. The Telecommunications Bureau is inadequately organized and staffed. For example, there are no graduate engineers in the organization. The administration now depends upon suppliers for engineering. Top management has been subject to frequent changes.

9. Extensive reorganization is necessary before ANTEL can provide efficient and economically sound services. This will require for some time the help of qualified consultants to provide continuing management guidance, to establish training courses and to advise on organization and recruiting of personnel. Appropriate steps have been taken to obtain these consultant services.

III. EXISTING FACILITIES

Existing Facilities

10. The existing communications facilities to be taken over by ANTEL consist basically of about 16,000 local subscriber telephone lines and an extensive telegraph network. Of the telephone plant, 7,000 lines are automatic equipment located in the capital, San Salvador. This equipment is in good condition, 5,000 lines having been installed in 1951 and

2,000 lines having been added in 1958. Some existing cables in San Salvador can be continued in service but a large amount of the underground cable should be replaced as should the uncommonly large number of single pair wires strung along the streets. The rest of the telephone exchange equipment in the country is manual and in extremely bad condition.

11. The bulk of the telegraph traffic is carried by a network of 32 simplex circuits superimposed on telephone toll lines. Outlying regions have telegraph connection by means of single wire lines with ground return and are in poor condition.

12. International communication is carried by seven radio-telephone and seven radio-telegraph channels. The El Salvador ends of four of the radio-telephone circuits are operated by the government-owned Radio Nacional, and the other three ends by the Tropical Radio Company, a subsidiary of United Fruit Company. The El Salvador terminals of all international telegraph circuits are operated by Radio Nacional.

IV. DEMAND FOR TELEPHONE SERVICES

Local Service

13. In El Salvador there are only about 6 telephones per 1,000 population, a little below average for the whole of Central America. It compares with 80 per 1,000 in Europe and 410 per 1,000 in the United States. By the end of 1967, upon completion of the first stage of the proposed expansion program, it is estimated that El Salvador will have about 11 telephones per 1,000 population.

14. The demand for telephones in El Salvador far exceeds availability. For example, in the San Salvador area with 7,000 lines in service, the telephone administration held approximately 12,500 unfilled applications. These were accumulating at the rate of 25 per month in spite of the known non-availability of telephones. Although the standard installation charge is ₡40.00 (\$16.00), it has been telephone administration policy to require customers to pay the cost of poles, wire, and the telephone set necessary to connect them to the system; a cost that frequently exceeded 2,500 Colones. Under the proposed policy, whereby ANTEL would provide this connection at considerably lower total connection costs, additional applications can be expected.

15. The experience of the present limited automatic office in San Salvador provides an indication of probable future demand. This office was installed in 1950 and an extension made in 1958. In that period the rate of growth was 10% annually and limited only by insufficiency of facilities.

16. Present service is far from satisfactory. Exchanges are overloaded and this, combined with the poor condition of the equipment, causes a disproportionately large percentage (over 20% during a typical week) of uncompleted calls. Improvement in service after the new plant is built and extended should increase the demand for new telephones.

17. The consultants estimate that when the present backlog of orders is satisfied (about three years after beginning work on the project) future telephone growth would be 10% per year. The facilities for 26,000 new telephones proposed under the project will all be utilized shortly after completion of the installation and extensions, which can readily be made, will then be needed to meet this estimated 10% annual growth.

Long Distance Service

18. The present long distance facilities are so inadequate and unreliable that actual traffic figures provide little basis for estimating future requirements. Two teams of consultants, using such statistical information as is available coupled with their observations in the field and judgment related to experience in countries having a level of development similar to El Salvador, have established the traffic that could reasonably be expected once an adequate grade of service is provided. From this they developed the facilities required and the related costs. It has been the experience throughout the world that when adequate facilities are provided, long distance services will have a higher rate of growth than urban telephone facilities; also, that the rate of net earnings on investment in long distance facilities will exceed that of urban telephone facilities.

V. THE PROJECT

19. The project consists of the purchase of land, construction of buildings and purchase of equipment, materials and services for the necessary engineering and installation as shown below.

Telephones

20. Under this project provision is made for the installation of a total of 26,000 automatic telephones in the cities of San Salvador, Santa Ana and San Miguel.

San Salvador

21. The project covers the installation of 20,000 lines of automatic exchange equipment, distributed over 2 new main exchanges and 2 new satellite exchanges, plus modifications to the existing 7,000 line Centro exchange for its interconnection to the new exchanges and its conversion from four to six digit operation.

22. In the principal new main exchange to be called "Flor Blanca," would also be installed the equipment for long distance, information, repair and other special services.

Santa Ana

23. A new automatic exchange of 4,000 lines initial capacity would be provided, replacing the existing worn-out inadequate common battery equipment.

San Miguel

24. A new automatic exchange of 2,000 lines initial capacity would be provided to replace the existing worn-out magneto equipment housed in a building one side of which is open to the weather.

Urban Outside Plant

25. With the exception of some underground conduit and main underground cables in the central part of San Salvador that can be reused, practically the entire outside plant (cables, wires and poles) in the above cities is to be rebuilt under this project.

Long Distance Facilities

26. A microwave radio system is to be constructed through the center of the country from Santa Ana in the northwest via San Salvador to San Miguel in the southeast. Subscriber dialing between these three cities will be provided; also, microwave connections to Sonsonate and to Usulatan and a VHF radio link to Santiago de Maria. For a later stage, radio connections are planned to 13 other towns. No specific provision is made for additional telegraph circuits but, as a by-product of the telephone facilities proposed, improved telegraph service between the principal cities would result.

Engineering and Construction

27. Engineering assistance is being provided by the team of consultants from the French PTT. This has included the preparation of specifications for the urban automatic exchanges as well as the long distance plant engineering. To assist in further detailed engineering, the review of tenders, supervision of installation work and the training of staff, ANTEL plans to make arrangements to continue with assistance from the French PTT. Should negotiations to this end not be successful, ANTEL will engage other qualified consultants.

28. The detailed plans for the long distance facilities will be prepared after the French PTT team has completed the plans for the Central American regional telecommunication network - so assuring co-ordination of these facilities.

Procurement

29. All main contracts for this project will be awarded on the basis of international competition.

Schedule of Construction

30. Assuming a loan will be made by the autumn of 1963 and allowing for completion of engineering, bid invitations, bid analysis,

30 months for equipment manufacturing, shipping, installation and testing, the first major automatic exchange is expected to be in service in the latter part of 1966 and construction completed by mid-1967.

31. Some sections of the microwave relay system can be expected to be in operation by the middle of 1966 and all sections by the end of 1966. The construction schedules are reasonable.

Cost Estimate

32. The construction of this project is estimated to cost (in thousands):

	Foreign Cost in \$	Local Cost in ₵	Total Costs in \$	Total Costs in ₵
Land	-	843	337	843
Buildings	250	1,710	934	2,335
Central Office Equipment	4,150	1,063	4,575	11,437
Telephones	455	112	500	1,250
Urban Cable Network	1,850	3,667	3,317	8,292
Radio Equipment	1,450	375	1,600	4,000
Furniture and Office Equipment	170	325	300	750
Overhead Admin. and Consultants	280	800	600	1,500
Sub-Totals	8,605	8,895	12,163	30,407
Interest during Construction	895	1,310	1,419	3,548
Totals	<u>9,500</u>	<u>10,205</u>	<u>13,582</u>	<u>33,955</u>

33. The estimate is a consolidation of all data available, including the Hamilton-Preece, Cardew & Rider study, the survey of the French PTT team and recent proposals from a number of large suppliers of telecommunication equipment. The estimate contains an allowance for contingencies of approximately 10%, which is reasonable.

VI. FUTURE CONSTRUCTION

34. For financial planning purposes further expansion of the telephone system after completion of the present project has been envisaged. Taking a reasonable estimate of costs and growth of 10% per year in the years immediately following 1967, new annual construction requirements of about \$1.5 million may be expected. The plans for financing these requirements will have to be developed on the basis of ANTEL's actual operational results achieved during the next few years.

VII. ECONOMIC CONSIDERATIONS

35. The present communication system in El Salvador is grossly inadequate. There are more names on the telephone waiting list than persons who have service. Some 40 business enterprises, in order to carry out their function under the present lack of suitable communication services, have provided their own private radio links. Such procedure is costly of investment, uneconomic in operation and inefficient in the usage of available radio frequencies.

36. Except for 7,000 lines of modern automatic telephone central office equipment in San Salvador, the telephone and telegraph installations are in such poor condition that service is unreliable. The plant is over-loaded and much of it obsolete. In attempting to telephone, long delays are suffered with a consequent wastage of time and effort.

37. By means of the proposed project, that is, the establishment of adequate telephone service within and between the principal cities, these obstacles to efficient government and business services will be alleviated and so assist the economic development of the country. The projected communications system should aid in fostering tourism, industry and commerce. By means of better communications, facilities for transportation can be more efficiently utilized and the important agricultural products of El Salvador be more readily marketed.

VIII. FINANCIAL ASPECTS

General

38. The law establishing ANTEL provides that, subject to prior approval of the Chief Executive and Minister of Economy, this entity can fix its tariffs and other charges. It also states that these charges shall be such as to provide, with adequate margin, for operating expenses, development and expansion, interest and other charges on capital obligations and the amortization of capital. Following the completion of the construction program, the earnings in excess of these requirements and provisions are, under the law, to be applied to the general revenues of the nation as amortization of the value of the telecommunication plant transferred to ANTEL. Commencing January 1, 1964, the Government is to be billed for its telephone service.

39. The telephone department, as presently operated, keeps no proper records of its expenses and capital expenditures. This complete lack of any data of actual operating results and investment makes the estimates of future operations and financial results more uncertain than usual. After ANTEL has been functioning and more adequate data becomes available, the estimates on operating results should be re-examined and, if necessary, suitable action be taken to obtain satisfactory financial performance.

Past Structure and Financial Results

40. The Telecommunications Bureau of the Ministry of Interior at present provides the telecommunication services of the country. It operates under an annual budget, drawing funds from and paying revenues to the National Treasury.

41. It files with the Government memoranda statements of income and expenditures. These memoranda include neither depreciation nor charges for service to other Government branches, since it follows the practice of providing free service to these Government branches. The expenditures comprise both operating expenses and capital additions to telecommunications plant. On this basis its records are as follows:

<u>Calendar Year</u>	<u>Income</u>	<u>Expenditures</u>	<u>Surplus (deficit)</u>
	(expressed in thousands of Colones)		
1958	3,781	5,064	(1,283)
1959	4,048	4,624	(576)
1960	4,435	4,022	413
1961	4,825	4,161	664
1962	4,899	4,319	580

42. ANTEL will establish an accounting system, patterned on accepted practices in the communications field. The consultants will advise and assist in setting up such a system and in establishing a training program. They will also assist in the preparation of budgets and an appropriate tariff structure.

Tariffs

43. The principal existing urban telephone, long distance telephone and telegraph tariffs are presented in Annex 1.

44. The tariffs for urban telephone service produce revenues per telephone closely approximating those obtained in the self-sustaining communication entities of developed countries. However, the low message charge of 5 centavos (2 US cents) per urban call and the rather excessive monthly call allowance deserve re-examination to secure the maximum of revenues with the minimum of subscriber resistance. It will be an important duty of the consultants to advise on such desirable tariff adjustments.

45. For long distance national service, a unified charge of 30 centavos (12 US cents) is applied for calls of up to three minutes' duration, regardless of distance. This too should be re-examined.

46. For the purpose of determining the revenues forecast in this report, the tariffs at present in force have been used. The Bank has, however, obtained assurances that adequate rates will be established and maintained.

Financial Plan

47. Under the terms of the financing plan, ANTEL is to be financed entirely by debt. The value of the existing plant to be transferred to ANTEL from the Telecommunications Bureau of the Ministry of the Interior is to be considered as a redeemable government advance. The local funds required are to be obtained from an issue of State Bonds; and the foreign exchange requirements of the project are to be financed by the proposed Bank loan.

48. An eight-year (1963-70) Forecast of Sources and Application of Funds is shown in Annex 2. This covers the proposed project and the transfer to ANTEL of the existing old plant. For the purpose of the forecast the plant to be transferred was assumed to have an appraisal value of ₩7.5 million (\$3 million). The actual valuation will be made by the Director of the Budget as provided under existing legislation. The borrower has agreed to have the valuation completed within one year and to give the Bank an opportunity to comment thereon.

49. The valuation estimated at ₩7.5 million will be a non-interest bearing obligation due the Government. Amortization will be made by offsetting against the debt the charges to the Government for telephone service.

50. Total capital expenditures during the period 1963-1970 are estimated at ₩63.3 million (\$25.3 million). A breakdown of the requirements and the expected sources of funds is as follows:

<u>Requirements of Funds</u>	<u>1963-1967</u>	<u>1963-1970</u>
	(in thousands of Colones)	
<u>Construction Expenditures</u>		
Acquisition of Existing Plant	7,500	7,500
Construction of New Plant	<u>30,407</u>	<u>50,417</u>
Sub-Total	37,907	57,917
Capitalized Interest	<u>3,548</u>	<u>5,338</u>
Total Construction	41,455	63,255
Increase in Net Current Assets	<u>1,990</u>	<u>5,379</u>
	<u>43,445</u>	<u>68,634</u>
<u>Sources of Funds</u>		
Internal Cash Generation	7,316	26,037
Less: Debt Service:		
Interest Charged to Operations	680	5,582
Amortization	<u>1,941</u>	<u>11,071</u>
Total Debt Service	<u>2,621</u>	<u>16,653</u>
Net Internal Cash Generation	4,695	9,384
<u>Borrowings</u>		
Proposed IBRD Loan	23,750	23,750
Local Bonds	7,500	7,500
Redeemable Government Advance	7,500	7,500
Future Foreign Exchange Loans	-	18,500
Future Local Loans	<u>-</u>	<u>2,000</u>
Total Borrowings	38,750	59,250
Total Sources	<u>43,445</u>	<u>68,634</u>

51. During the construction period (1963-1967) internal cash generation would represent about 11% of total requirements. During the total period considered (1963-1970) this share would increase to about 14%. The proposed Bank loan would represent 55% of the funds required during the initial period and 35% during the total period.

52. If the above program is carried out as planned, ANTEL's fixed assets in operation at the end of 1970 would be valued at ₩54.8 million (\$21.9 million), more than 7 times the estimated valuation placed on the existing plant.

53. The proposed Bank loan of \$9.5 million would finance the estimated foreign exchange requirements of the telecommunications project including interest charges during the construction period. For the purpose of calculation, an interest rate of $5\frac{1}{2}\%$ and a term of 20 years including a grace period of four and one-half years has been assumed.

54. On July 3, 1963, Decree No. 340 authorizing the issue of ₩7.5 million in State Bonds for the local financing of the telecommunication project was approved by the Legislature. Under this Decree, the bonds are to:

- (a) bear interest at 6% per annum, payable semi-annually commencing January 31, 1966. (The interest for 1964 and 1965 will be accrued and paid January 31, 1966. Thereafter interest will be paid as it becomes due);
- (b) be free of all existing or future taxes, as to principal and interest;
- (c) have a term of ten years with the principal to be amortized over five years, beginning January 31, 1968;
- (d) be acceptable at par value for the payment of inheritance and gift taxes.

55. Under the Decree, provision is made that applicants for telephone service will be obliged to purchase bonds in amounts to be established by the Government. The amounts as presently proposed are:

- (i) A ₩200.00 bond for private service,
- (ii) A ₩500.00 bond for professional service,
- (iii) A ₩1,000.00 bond for commercial service.

56. No Government grants or credits other than the ₩7.5 million transfer of the existing plant, have been assumed.

57. The required working capital (Net Current Assets) has been estimated at approximately one-fourth of the annual gross revenues.

Estimated Future Earnings

58. A statement of Actual and Forecast Operating Statements for the period 1961-1970 is shown in Annex 3. This covers the operations of the telecommunications branch of the Ministry of Interior for the actual years 1961 and 1962 and the forecast year 1963. It is assumed that ANTEL will begin operations of telecommunications at the first of 1964 and the forecast operations for 1964-1970 are assigned to ANTEL.

59. In the period of forecast ANTEL operations, depreciation was computed on a straight-line basis at 4% per annum on average gross plant in service during each year.

60. Net income before interest is expected to increase from ₩897,000 (\$358,800) in 1964 to ₩4.7 million (\$1.9 million) in 1970.

61. The estimated return on net fixed assets in operation would reach 9.0% in 1968 (the first year of full operation) and would continue at this level.

Rate Covenant

62. To ensure the continued soundness of its financial position, ANTEL has agreed that it will maintain (and the Government has agreed that it will authorize) tariffs and charges at levels sufficient to provide a rate of return of 9% on net fixed assets in operation and, should experience indicate this rate of return is not sufficient to ensure the efficient operation and continued improvement, extension and expansion of telecommunication services, further adjustments in rates and charges will be made.

Debt Service

63. Because of the relatively short life of the State Bonds, the annual debt service requirements are high. In 1968 (the first full year of automatic operation) the debt service would be covered about 1.1 times. This ratio would increase to 1.2 times in 1969 and 1.3 times in 1970.

64. In order to protect the Bank's interest in ANTEL, ANTEL has agreed that it will not borrow, without the Bank's prior consent, unless its net revenues, adjusted to reflect the rates in effect at the time of such borrowing, shall be at least 1.5 times the maximum future debt service requirements on all of ANTEL's long-term indebtedness (including the debt to be incurred).

Debt/Equity

65. The only equity accruing to ANTEL will be the surplus which will be retained to finance a reasonable portion of future construction. The debt/equity ratio, therefore, will be 100/0 at beginning of the project and is estimated to become 79/21 in 1970.

Accounts and Auditors

66. Under the law establishing it, ANTEL is to prepare a two-year budget which will be presented every second year to the Legislature through the Minister of Finance. This budget must include estimates of all sources of funds and all expenditures (both operating expenses and capital investments) for the ensuing two years.

67. This law also requires that ANTEL be subject to two audits. One audit is to be performed annually by a firm of Certified Public Accountants to be named by the Central Reserve Bank of El Salvador. ANTEL has agreed to submit to the Bank copies of this auditor's annual reports. The second audit is to be performed continuously by an auditor named and paid by the Court of Accounts of El Salvador. He will work permanently in ANTEL's office and will issue an annual report to the Board of Directors.

IX. CONCLUSIONS

68. The project is well designed to meet the more immediate and most essential telephone needs of the principal cities of El Salvador. The planning is coordinated with the regional telecommunications feasibility study for the Central American countries that is being effected under a U.N. Special Fund grant.

69. Estimates of costs are reasonable. Procurement procedures and financing proposals are satisfactory.

70. The project will make a substantial contribution towards the economic development of El Salvador.

71. Forecasts of operations indicate that a sound financial position should be attained upon completion and placing in service the projected telephone facilities and that further gains are probable in the years following.

72. Legislation has been enacted to create a National Telecommunications Administration owning and operating the telephone and telegraph facilities presently under the Ministry of Interior. This law provides the basis for creating a telecommunications operating organization with such autonomy and rights as to facilitate its operational and financial success.

73. Satisfactory agreements have been reached that:

- (a) The value of the property transferred to ANTEL will be treated as a redeemable government advance and that amortization will be limited, during the construction period, to the charges for telephone service to the Government. Thereafter the amortization may be increased by the amount gross revenues exceed operating and administrative expenses, interest and other charges on debt, amortization of other long-term debt and provision for future expansion of plant.

- (b) Consultants satisfactory to the Bank will be engaged to guide and assist ANTEL on:
 - (i) planning and supervising the execution of the project;
 - (ii) assisting in the organization of the services and training of the personnel;
 - (iii) developing and establishing satisfactory tariffs; and
 - (iv) establishing and maintaining an accounting system following accepted practices of utility accounting and operation.
- (c) Tariffs will be adjusted from time to time as necessary to maintain a return on net fixed assets in operation of at least 9%.
- (d) ANTEL will not incur any long-term indebtedness, without the Bank's prior consent, unless net revenues for the calendar year, or a later twelve consecutive months' period, immediately preceding the date of such incurrence are at least 1.5 times the maximum debt service requirements (including the debt to be incurred) in any succeeding calendar year, including the calendar year in which the debt is to be incurred.
- (e) ANTEL will have its accounts regularly audited and its financial statements certified by independent accountants acceptable to the Bank.

74. The project is suitable for a Bank loan of \$9.5 million equivalent. A term of 20 years including a grace period of four and one-half years would be appropriate.

EL SALVADORPrincipal Existing TariffsUrban Telephone

	<u>Basic Monthly Tariffs</u>		
	<u>Dial</u>	<u>CB Manual</u>	<u>Magneto</u>
Business	₡25.00 (\$10.00)	₡20.00 (\$8.00)	₡15.00 (\$6.00)
Professional	₡20.00 (\$ 8.00)	₡15.00 (\$6.00)	₡12.00 (\$4.80)
Residence	₡15.00 (\$ 6.00)	₡10.00 (\$4.00)	₡10.00 (\$4.00)

An additional charge of five centavos (2 US cents) is applied for each call over the basic monthly call allowance. The basic monthly call allowances are equal to the above tariffs divided by five centavos.

A one-time charge of ₡40.00 (US\$16.00) is made for each new telephone installation.

Interurban Telephone

The tariff structure for national long distance calls is 30 centavos (12 US cents) for the first three minutes and 10 centavos (4 US cents) for each additional minute, both regardless of distance.

Telegraph

The telegraph tariffs vary as follows, according to the urgency of the message and whether placed in "regular" hours.

	<u>Telegraph Tariffs</u>	
	<u>Regular Hours</u>	<u>Irregular Hours</u>
Ordinary messages		
1 to 5 words	₡0.30 (\$0.12)	₡0.50 (\$0.20)
Each additional word	₡0.05 (\$0.02)	₡0.10 (\$0.04)
Urgent messages		
1 to 5 words	₡0.50 (\$0.20)	₡0.70 (\$0.28)
Each additional word	₡0.10 (\$0.04)	₡0.15 (\$0.06)
Very urgent messages		
1 to 5 words	₡0.70 (\$0.28)	₡0.90 (\$0.36)
Each additional word	₡0.15 (\$0.06)	₡0.20 (\$0.08)
Telegraph letters		
1 to 30 words	₡0.85 (\$0.30)	
Each additional word	₡0.30 (\$0.012)	

EL SALVADOR

ADMINISTRACION NACIONAL DE TELECOMUNICACIONES

Forecast of Sources and Applications of Funds
(in thousands of Colones)

Years Ended December 31	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>Total</u>
SOURCES OF FUNDS									
<u>Internal Cash Generation</u>									
Net Operating Income	-	897	1,008	1,142	2,274	3,689	4,296	4,731	18,037
Depreciation	-	300	300	358	1,037	1,708	2,010	2,287	8,000
Total Internal Cash Generation	-	<u>1,197</u>	<u>1,308</u>	<u>1,500</u>	<u>3,311</u>	<u>5,397</u>	<u>6,306</u>	<u>7,018</u>	<u>26,037</u>
<u>Borrowings:</u>									
Proposed IBRD Loan	-	3,691	7,859	7,587	4,613	-	-	-	23,750
Local Bond Issue	975	2,712	2,663	1,045	105	-	-	-	7,500
Redeemable Government Advance	-	7,500	-	-	-	-	-	-	7,500
Future Foreign Exchange Loans	-	-	-	-	-	6,019	6,461	6,020	18,500
Future Local Loans	-	-	-	-	-	1,500	500	-	2,000
Total Borrowings	975	<u>13,903</u>	<u>10,522</u>	<u>8,632</u>	<u>4,718</u>	<u>7,519</u>	<u>6,961</u>	<u>6,020</u>	<u>59,250</u>
Total Sources of Funds	975	<u>15,100</u>	<u>11,830</u>	<u>10,132</u>	<u>8,029</u>	<u>12,916</u>	<u>13,267</u>	<u>13,038</u>	<u>85,287</u>
APPLICATIONS OF FUNDS									
<u>Construction:</u>									
Foreign Exchange	-	3,425	7,312	6,675	4,100	5,730	5,870	5,260	38,372
Local Currency	975	2,712	2,663	1,045	1,500	1,650	1,000	500	12,045
Acquisition of Existing Plant	-	7,500	-	-	-	-	-	-	7,500
Total Construction	975	<u>13,637</u>	<u>9,975</u>	<u>7,720</u>	<u>5,600</u>	<u>7,380</u>	<u>6,870</u>	<u>5,760</u>	<u>57,917</u>
<u>Debt Service:</u>									
<u>Interest:</u>									
Proposed IBRD Loan	-	266	547	912	1,193	1,292	1,240	1,183	6,633
Local Bond Issue	-	-	863	447	427	315	202	2,254	
Future Foreign Exchange Loans	-	-	-	-	-	289	591	883	1,763
Future Local Loans	-	-	-	-	-	45	105	120	270
Total Interest	-	<u>266</u>	<u>547</u>	<u>1,775</u>	<u>1,640</u>	<u>2,053</u>	<u>2,251</u>	<u>2,388</u>	<u>10,920</u>
<u>Amortization:</u>									
Proposed IBRD Loan	-	-	-	-	-	963	1,012	1,063	3,038
Local Bond Issue	-	-	-	-	-	1,500	1,500	1,500	4,500
Redeemable Government Advance ^{1/}	-	468	476	493	504	520	528	544	3,533
Total Amortization	-	468	476	493	504	2,983	3,040	3,107	11,071
Total Debt Service	-	734	1,023	2,268	2,114	5,036	5,291	5,195	21,991
Total Application of Funds	975	<u>14,371</u>	<u>10,998</u>	<u>9,988</u>	<u>7,744</u>	<u>12,416</u>	<u>12,161</u>	<u>11,255</u>	<u>79,908</u>
Cash Surplus (Deficit)	-	729	832	144	285	500	1,106	1,783	5,379
Cash at Beginning of Year	-	-	729	1,561	1,705	1,990	2,490	3,596	-
Cash at End of Year	-	729	1,561	1,705	1,990	2,490	3,596	5,379	5,379
Debt Service - Times Covered	2/	2/	2/	2/	2/	1.1	1.2	1.3	

^{1/} Annual Amortization of Redeemable Government Advance is the billing to Government for Telecommunications Service.
^{2/} Not included during construction period.

EL SALVADOR

ADMINISTRACION NACIONAL DE TELECOMUNICACIONES

Actual and Forecast Operating Statements
(in thousands of Colones)

Years Ending December 31	<u>Government Operations</u>			<u>Forecast ANTEL Operations</u>						
	<u>Actual</u>			<u>Forecast</u>			<u>1964</u>			
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	
<u>Operating Revenues:</u>										
Exchange Revenues	) 3,504	) 3,538	) 3,555	) 3,905	) 3,930	3,981	6,300	8,650	9,759	10,780
Long Distance	)	)	)	)	)	482	1,270	1,780	1,962	2,163
Telegraph and Cable	1,321	1,361	1,401	1,630	1,740	1,377	1,480	1,618	1,675	1,740
Other Operating Revenues	-	-	-	4	4	240	798	435	404	445
Total Operating Revenues	<u>4,825</u>	<u>4,899</u>	<u>4,956</u>	<u>5,539</u>	<u>5,674</u>	<u>6,080</u>	<u>9,848</u>	<u>12,483</u>	<u>13,800</u>	<u>15,128</u>
<u>Operating Expenses:</u>										
Costs of Operation	4,161	4,319	4,330	4,342	4,366	4,580	6,537	7,086	7,494	8,110
Depreciation	-	-	-	300	300	358	1,037	1,708	2,010	2,287
Total Operating Expenses	<u>4,161</u>	<u>4,319</u>	<u>4,330</u>	<u>4,642</u>	<u>4,666</u>	<u>4,938</u>	<u>7,574</u>	<u>8,794</u>	<u>9,504</u>	<u>10,397</u>
Net Operating Income	<u>664</u>	<u>580</u>	<u>626</u>	<u>897</u>	<u>1,008</u>	<u>1,142</u>	<u>2,274</u>	<u>3,689</u>	<u>4,296</u>	<u>4,731</u>
<u>Interest</u>										
Total Interest Charges	-	-	-	266	547	1,775	1,640	2,053	2,251	2,388
Less: Interest Charged to Construction	-	-	-	266	547	1,775	960	334	696	760
Net Interest Charged to Operations	-	-	-	-	-	-	680	1,719	1,555	1,628
Net Profit	<u>664</u>	<u>580</u>	<u>626</u>	<u>897</u>	<u>1,008</u>	<u>1,142</u>	<u>1,594</u>	<u>1,970</u>	<u>2,741</u>	<u>3,103</u>
<u>Accumulated Surplus</u>										
Beginning of Year	-	-	-	897	897	1,905	3,047	4,641	6,611	9,352
End of Year	-	-	-	897	1,905	3,047	4,641	6,611	9,352	12,455
<u>Average Net Fixed Assets in Operation</u>										
-	-	-	7,350	7,050	9,922	25,228	40,994	47,006	52,146	
<u>Rate of Return</u>										
-	-	-	12.2%	14.3%	11.5%	9.0%	9.0%	9.1%	9.1%	
<u>Telephone Statistics:</u>										
Telephones (Lines) at End of Year	16,000	16,100	16,200	17,800	17,900	21,900	30,100	43,860	48,210	53,010
Net Gain in Telephones During Year	-	100	100	1,600	100	4,000	16,200	5,760	4,350	4,800
Average Telephones in Service During Year	16,000	16,050	16,150	17,750 ^{1/}	17,850	19,900	30,000	40,980	46,035	50,610

^{1/} 1,500 Government telephones will be added to the "paying subscriber" list on January 1, 1964.

9/12/63

EL SALVADOR
ADMINISTRACION NACIONAL DE TELECOMUNICACIONES
Forecast Balance Sheets
(in thousands of Colones)

As of December 31	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
ASSETS								
Fixed Assets								
Fixed Assets in Operation	-	7,500	7,500	13,302	38,558	46,878	53,600	60,755
Less: Depreciation Reserve	-	300	600	358	1,045	2,403	4,063	6,000
Net Assets in Operation	-	7,200	6,900	12,944	37,513	44,475	49,537	54,755
Work in Progress	975	7,378	17,900	20,993	1,947	991	1,485	500
Total Net Investment	975	14,578	24,800	33,937	39,460	45,466	51,022	55,255
Current Assets - Net	-	729	1,561	1,705	1,990	2,490	3,596	5,379
Total Assets	975	<u>15,307</u>	<u>26,361</u>	<u>35,642</u>	<u>41,450</u>	<u>47,956</u>	<u>54,618</u>	<u>60,634</u>
LIABILITIES								
Equity								
Equity	-	897	1,905	3,047	4,641	6,611	9,352	12,455
Borrowings								
Redeemable Government Advance	-	7,032	6,556	6,063	5,559	5,039	4,511	3,967
Proposed IBRD Loan	-	3,691	11,550	19,137	23,750	22,787	21,775	20,712
Local Bond Issue	975	3,687	6,350	7,395	7,500	6,000	4,500	3,000
Future Foreign Exchange Loans	-	-	-	-	-	6,019	12,480	18,500
Future Local Loans	-	-	-	-	-	1,500	2,000	2,000
Total Borrowings	975	<u>14,410</u>	<u>24,456</u>	<u>32,595</u>	<u>36,809</u>	<u>41,345</u>	<u>45,266</u>	<u>48,179</u>
Total Liabilities	975	<u>15,307</u>	<u>26,361</u>	<u>35,642</u>	<u>41,450</u>	<u>47,956</u>	<u>54,618</u>	<u>60,634</u>
Debt/Equity Ratio	100/0	94/6	93/7	91/9	89/11	86/14	83/17	79/21

EL SALVADOR
PROPOSED TELEPHONE SYSTEM

— Microwave System

- - - VHF Radio System

0 10 20 30 40 50 KM

