

**MIF PROJECT PROPOSAL
ABSTRACT**

SEPTEMBER , 2000

Project name: Strengthening of Public Utilities Commission
Project number: MIF/TC-00-03-026
Country Belize
Project team: Team Leader: Diego Belmonte (RE2/FI2); other members: Asako Yamamoto (MIF) and Harold Arzu (COF/CBL)

Executing Agency: Public Utilities Commission

Deleted: Ministry of Public Utilities Energy, Transportation and Communications

Estimated Cost and	MIF:	US\$	700,000 (70%)
Financing:	<u>Local Counterpart:</u>	US\$	<u>300,000 (30%)</u>
	Total:	US\$	1,000,000 (100%)

Date of project request: September, 2000

I. BACKGROUND

- 1.1 The Government of Belize (GOB) has been engaged for several years in a process of reform and privatization of various utilities sectors. In this regard, a very complete *Public Utility Act* was passed by the House of Representatives and the Senate in August of 1999. Within the Act, a *Public Utility Commission* (PUC) was established with its law and specific provisions in place. The entity is an autonomous, multi-sectorial, regulatory agency and is composed of seven members with legal, management, economic, financial and engineering expertise; all members are and have been appointed by the governors-general acting on the advice of the Prime Minister given after consultation with the Leader of the Opposition.
- 1.2 The primary duty of the PUC is to ensure that the services rendered by a public utility provider are satisfactory and that the charges imposed in respect of those services are reasonable. The PUC has the power to oversee the rates that may be charged in respect of utility services and the standards that must be maintained in relation to such services; in addition, the PUC is responsible for making recommendations on award of licenses and for monitoring and enforcing compliance with license conditions.

- 1.3 The PUC Act provides for eventual regulation of most public sectors. By the year 2001, the Electricity sector, outline by the *Electricity Act of 1999*, and Water and Sewerage sector will be controlled by private operators under regulation of the PUC. In 2002, it is expected that the telecommunications sector will be liberalized and moved from an exclusive monopoly to a competitive environment. The PUC is committed to the principles of incentive regulation and its funding comes from fees levied on regulated utilities to enhance its independence. Since its inception, the PUC has been active and played a major role in the final phase of the privatization of Belize Electricity Limited (BEL).

- 1.4 For the ongoing privatization efforts in Belize, assistance is needed in establishing an effective regulatory agency to provide: a competitive market environment, security and confidence to potential investors in infrastructure markets, the protection and enhancement of consumer rights and interests, the promulgation of Government's policies for development of the sector and the protection of the environment. The PUC has no in-country role model and its expertise is young and thin; the securing of the right personnel is essential for the success of these endeavors and the next few years are crucial in the development of incentive based rate setting methodologies and quality of service standards.

Formatted: Bullets and Numbering

Formatted: Bullets and Numbering

II. PROJECT BENEFICIARIES

- 2.1 The proposed project aims to increase the efficiency and effectiveness of the utilities sector of Belize. The main beneficiaries of the proposed operation are the Belize PUC through institutional strengthening, the private utility providers, and private consumers. Specifically, clear regulation and incentives built into the regulatory scheme will help promote private investment and build up confidence of private operators. Overall, this will add to the competitiveness of Belize, providing more stability for investment and location of related business operations. Additionally, the population of Belize will benefit from a more effective utilities service.

Deleted: and public sector actors of the various utility sector.

Deleted: (expand?)

Formatted: Bullets and Numbering

III. PROJECT OBJECTIVES AND COMPONENTS

- 3.1 The objective is to aid the GOB in establishing the appropriate institutional, legal, and regulatory frameworks to render the Public Utilities Commission fully operational and effective in carrying out its responsibilities. Specifically, the project seeks to:

- 1) Strengthen and organize the operational capabilities of the PUC. Within this component, an organizational structure will be define and implemented permitting the PUC to fulfill its operational procedures. Part of the activities of this component will be assisting the PUC in terms of (A) Hiring of an International Consultant which includes: (i) recruitment process, (ii)

relocation costs and (iii) associated fees; (B) Technical Support to (i) design the institutional organization, (ii) develop operational procedures, (iii) advise on staff requirements (developing specific ToR for each position), (iv) plan the budgeting to assure long term financial sustainability and (v) provide on-the-job training to other technical personnel of the PUC.

- 2) **Technical Assistance and training of the local staff of the PUC.** Technical assistance and training will be given to the local staff and Commissioners given its functions and responsibilities within the PUC. The staff will also be trained in the theory and practice of modern incentive-compatible utility regulation. The training program will cover a variety of topics such as: the role of the regulator, the relationship between the regulation and competition, incentive based regulatory systems, regulation of service standards, cost of capital, and monitoring and enforcement. This component will also provide the PUC with technical assistance to develop an integrated system for managing information.
- 3) **Completing the legal and regulatory framework for the Electric, Water and Sewerage and Telecommunication sectors.** The GOB has decided to proceed with a long-term arrangement for private participation in electricity (in 2000), water and sewerage sector (during 2001) and Telecommunications (during 2002). Within this component, the following activities will be implemented: (i) preparation of detail Terms of Reference for consultancies on all matters regarding regulatory instruments that will facilitate the implementation of the functions of the PUC, (ii) draft all necessary statutory amendments and regulatory instruments for completing the Electricity, Water & Sewerage and Telecommunications Acts.

Deleted: overnment

IV. PROJECT COST, FINANCING AND EXECUTION TIME

- 4.1 The cost of this project is estimated to be US\$ 1,000,000 million (100%). This sum is to be financed by MIF US\$ 700,000 (70%) and PUC US\$ 300,000 (30%) assigning 50% of the counterpart resources in cash. The PUC has financing from the GOB to help in the capital expenditures to establish the office and from an Electricity Special Fund set up by the Caribbean Development Bank, for all initial recurrent costs. The long term recurrent costs of the PUC is expected to be met by the levying of fees on the utility provider that it regulates. The ability to levy these fees will be determined in the license provided to the utility provider. The project is expected to be executed in 24 months and disbursed over 30 months.

Deleted: a period of two years

V. ENVIRONMENTAL AND SOCIAL ASPECTS

- 5.1 The project Team will assure that environmental considerations are taken into account throughout the project. Special attention will be paid within the review and completion of the legal and regulatory frameworks of all relevant sectors

(Electricity, Water & Sewerage and Telecommunications) in order to assure that legal environmental responsibilities, possible environmental liabilities and sanctions associated with environmental compliance are accounted for.

VI. EXECUTING AGENCY

- 6.1 The PUC will be the executing agency. The *Public Utilities Commission Act*, 1999 provides for the Chairman to be responsible for day to day administration of the PUC. The execution will start with the hiring of a long term consultant¹ to aid the Chairman. The Chairman and the Commissioners, with the support of the Consultant, will be responsible for preparing PUC's detailed budget, contracting specific consultants to prepare regulatory documents and training programs, etc. Throughout the duration of the project, the hiring of the consultants will be conducted in accordance to MIF procedures; procurement of goods and services will be limited to MIF eligible countries following Bank procedures.

Formatted: Bullets and Numbering

Deleted: ;

Deleted: t

Formatted: Bullets and Numbering

VII. EXPECTED PROJECT RESULTS AND JUSTIFICATION

- 7.1 The team envisions the project to be mainly the transfer of technical and other expertise to local counterparts. By the completion of the project, the PUC should become a fully functioning autonomous regulatory agency through the accomplishment of all project components. It is expected to have an active and well organized Commission with highly trained local experts, solid regulatory framework in all PUC's relevant sectors and a well integrated information system in place. It is expected that by improving the regulatory framework of the PUC, private sector investment will be mobilized into these sectors.

Formatted: Bullets and Numbering

VIII. MAJOR ISSUES

- 8.1 The primary concern of the Project Team has to do with: (a) not being able to achieve an autonomous and independent entity that can perform its duties transparently and independently of political influence and (b) the preparedness of the newly formed PUC to regulate effectively and proactively the rapid private sector operators under the new contracts. In this aspect, the Project Team will ensure that the specialist has the proper expertise and adequate profile to select other national experts and fulfill his/her task. Detail Terms of Reference for all relevant components/activities will be attached to the Donor's Memorandum. Both issues will be analyzed during project preparation.

Formatted: Bullets and Numbering

¹ Detail Terms of Reference will be presented for the hiring of the Long Term Consultant

Deleted: ¶

IX. RECOMMENDATIONS BY FI2 AND THE COUNTRY OFFICE

- 9.1 FI2 and COF/CBL believes this proposed project will further the nascent process toward consolidation of the PUC into a well-run institution that will provide higher quality services to private and public sectors, and consumers. FI2 and COF/CBL further believes it is vital to the project's success to immediately involve a short term consultant that will help establish, define and prepare the scope and bases of the components of the project.

Formatted: Bullets and Numbering

Deleted: and

Prepared By:

Diego Belmonte
Infrastructure Specialist, RE2/FI2
dbelmonte@iadb.org

Approved By:

Deleted: ¶

¶
¶
¶
¶

Jairo Sánchez, RE2/DEP

Date: _____