

DONORS PROJECT MEMORANDUM

COUNTRY: COSTA RICA

EXECUTIVE SUMMARY

PROJECT NAME: Enabling Private Investment in Infrastructure

PROJECT NUMBER: TC 93-07-34-0

EXECUTING AGENCY: Ministerio de Recursos Naturales, Energía y Minas (MIRENEM)

PROJECT AMOUNT: US\$ 1,550,000

MIF FACILITY : Technical Cooperation (Facility I)

OBJECTIVE: To support the establishment of the appropriate legal, institutional, and regulatory framework for private sector investment in infrastructure.

DESCRIPTION: The project proposes the utilization of MIF resources to finance: (a) institutional strengthening program for the Servicio Nacional de Electricidad (SNE-ARESEP) in order to fulfill its regulatory role and improve the climate for private sector investment and to protect consumers. The program will include: (i) design of the institutional strategy and preparation of SNE regulations; (ii) implementation of new organizational structure; (iii) implementation of new pricing methodologies; (iv) establishment of quality control measures for regulated services; (v) enactment of hearing procedure system; (vi) implementation of strategic plan for information systems; and (vii) creation of an environmental unit to review compliance of regulated agencies with environmental requirements.; and (b) a program aimed at identifying the existing legal impediments for private investment in energy, telecommunications, potable water and sewerage, transportation and irrigation projects, and supporting the Government in the implementation of required legal reforms to remove the identified impediments.

CLASSIFICATION: Classified as Category II by the Environmental Committee.

MODALITY: Grant

PROJECT TEAM: Jorge Lamas (OP2/OD4); Eduardo Villaseñor (PRA/AGR); Francisco Marcondes (PRA/SUD); Jacques Pepin (PRA/TRC); Marcelo Antinori (PRE/MIF); Laura Profeta (LEG); and Ligia Castro (FCR).

I. COUNTRY ELIGIBILITY

- 1.1 Costa Rica was declared eligible for all modalities of financing under the MIF by the Donors Committee on December 3, 1993.

II. PROJECT

Background

- 2.1 Over the past ten years, Costa Rica has implemented a comprehensive economic reform program, and while there are still areas for improvement, the depth of the reforms has been impressive. They have helped the country to greatly increase its exports, sustain much higher economic growth than its neighbors, decrease an onerous debt burden, and maintain and improve upon some of Latin America's best social indicators. For example, from 1983 to 1993, Costa Rica's annual GDP growth averaged 4.7 percent --the highest in Central America and among the highest in Latin America. It grew by 7.3 percent in 1992 and by about 6.3 percent in 1993.
- 2.2 Over the same period, export growth surged at an annual average of close to 10 percent. Non-traditional exports showed exceptionally high growth and almost reached 60 percent of merchandise exports in 1993, allowing the country to decrease its former dependence on coffee and bananas. Thanks to burgeoning tourism receipts, the service balance became positive in 1988 (after registering a deficit for more than 25 years) and, afterwards, widened in every year through 1993.
- 2.3 The stock of foreign debt was about the same in 1992 as in 1983. As a proportion of GDP, it decreased from 122 percent to 70 percent over this period. Likewise, the debt service ratio fell from 60 percent to 14 percent. Inflation in 1993 was brought down to 9 percent, well under the targeted rate of 12 percent and a great improvement over the 17 percent inflation registered in 1992. The non-financial public sector showed a small surplus in 1992 and preliminary data indicate that it probably realized a small surplus in 1993. Central Bank losses, however, continue to be a problem.
- 2.4 Substantial progress has been made on improving trade policies. Much freer trade in Central America has been an important source of export growth. The maximum import tariff has been lowered to 20 percent on most items (the exceptions on clothing and footwear are programmed to be phased out this year) and most non-tariff barriers have been eliminated. Moreover, the authorities dropped foreign exchange controls in March 1992.

- 2.5 Over the past ten years Costa Rica has taken major steps to improve its private investment climate (the Constitution generally protects private investment). Private investment more than doubled from 1982 (a year of economic crisis) to 1992 and, over the same period, increased its share of GDP from less than 10 percent to more than 15 percent (similar to its share prior to the economic crisis of the early eighties). Over the same time period, the balance of payments shows that direct foreign investment increased from \$26.5 million in 1982 (this was a year of very low investment --direct investment was \$48.1 million in 1980) to \$220 million in 1992.
- 2.6 All but two (of more than 40) enterprises previously belonging to the largest public sector holding company (CODESA) have been privatized, and authorization to privatize the last two was approved by the Legislative Assembly early this year. Moreover, the government is allowing private sector participation in what were formerly areas reserved exclusively for the public sector through the General Law for Concessions of public Services. However, the country's largest banks continue to be owned by the public sector.
- 2.7 To assist the Government in its goal of stimulating further private sector involvement in the economy, in March 1993 the IDB approved an Investment Sector Loan (Loan 742/OC-CR) designed to mobilize the private sector and spur investment, production, exports and economic growth. The policy measures under this operation address issues in the financial system such as; capital markets, foreign exchange, deregulation of investment and improvement of business conditions, private sector development, and human resources.
- 2.8 Legislative ratification of this loan is still pending; however, the authorities have advanced in the design and implementation of proposed reforms. Regarding reforms in the financial system, some progress has been made, but core measures such as the reform of the state-owned commercial banks and the capital adequacy requirements for financial institutions have not been implemented. Also, agreements that make the country part of the International Center for Settlements of Disputes (ICSID) and Multilateral Investment Guarantee Agency (MIGA) have been implemented. Nonetheless, action plans for industrial and intellectual property rights, the telecommunications sector, environmental protection and the concessions regime need to be implemented.
- 2.9 In addition to the above measures, there are additional actions that the Government proposes to implement to enhance the participation of the private sector in the economy. Among these remaining actions is the creation of an enabling environment for private sector investment in infrastructure projects. These investments are not being carried out by private investors due to existing legal restrictions. Consistent with

this objective, the Legislative Assembly approved in 1993 a General Law for Concessions of Public Services (Law no. 7329), authorizing the concession of public works, currently under the exclusive responsibility of the public sector, to private companies. An action plan for putting this mechanism into operation needs to be prepared. The Bank is also assisting the Government in preparing the draft law to relax limits for private sector investment in the energy sector.

- 2.10 Furthermore, as a significant step to improve the climate for private sector investment in infrastructure and to protect consumers, the Government submitted to the Legislative Assembly a draft law granting autonomy and empowering Servicio Nacional de Electricidad (SNE), the regulatory agency for public utilities, to perform its regulatory role.

Objectives

- 2.11 The Government of Costa Rica is currently requesting MIF support through the Technical Cooperation Facility for a twelve month program aimed at the institutional strengthening of SNE/ARESEP so that it can efficiently perform its regulatory role and at identifying and removing the existing legal impediments for private investment in infrastructure.

Activities

- 2.12 The Program was designed to include all activities required to ensure appropriate implementation and will consist of two subprograms (Annex I presents a summary of activities to be executed and expected achievements for each one of the subprograms):

Subprogram I Institutional Strengthening of SNE-ARESEP.

Subprogram II Identification and Removal of Legal Barriers for Private Sector Investment in Infrastructure.

- A Subprogram I Institutional Strengthening of SNE-ARESEP.

Frame of reference

- 2.13 Given that the market structure of some public services have monopolistic characteristics, it becomes important to regulate such markets to assure consumer protection, guarantee quality of service, and ensure the most efficient use of resources. Public services are regulated in Costa Rica by the Servicio Nacional de Electricidad (SNE) created in 1941, which has a mandate (Law No. 258) for setting rates and quality standards in electricity, telephones, and potable water and sewerage services.

- 2.14 The Government originally created SNE to control the operation of electricity companies, the quality of their service, and the rates that they could charge. Over the years, additional functions were added such as the administration of water resources (giving concessions for the water use), telecommunication regulation, approval of rates for potable water and sewerage, determining hydrocarbon prices and the profit margins for the transportation and marketing of hydrocarbons, and setting irrigation rates.
- 2.15 General Law for Concessions of Public Services (Law 7329) which is aimed at promoting a greater participation of private investment in the provision of public services, maintained SNE's responsibility for the setting of rates for energy, telecommunications, transportation and water and sewerage and added the duty of reviewing prices and fees of other services also rendered under concession agreements.
- 2.16 The evolution of SNE as a regulatory entity was not accompanied by a comprehensive revision of its legal and institutional framework. In the past SNE's actions on rate modifications in electricity and potable water and sewerage were based strictly on historical costs of the public utilities in charge of those services. Economic efficiency considerations have not been taken into account. Furthermore, rates have not considered quality control and environmental and natural resources protection aspects. Eventhough, the institution has always had the responsibility for controlling the quality of regulated services, it has been devoid of the technical capacity to set quality standards and scrutinize the compliance of regulated institutions. SNE also lacks the sufficient autonomy from the Executive Branch to carry out its functions. An example of this is that the Government in the past has delayed the implementation of approved tariff rate increases in water and other services as a means of controlling inflation, to the detriment of the operational and financial performance of the public utilities companies.
- 2.17 Recognizing that a modern legislation framework and a strong and autonomous SNE is an important step to improve the climate for private sector investment in infrastructure, guarantee the efficient use of resources and protect consumers, the Government submitted to the Legislative Assembly a draft law that contemplates fundamental changes in the manner that regulation of public services is carried out and enhances the scope of action of the regulatory agency. The draft legislation proposes to transform SNE into "Autoridad Reguladora de Servicios Públicos" (ARESEP) and clearly defines its role as a regulatory agency granting it the necessary autonomy to carry out its duties. Under the new legislation the entity would have the responsibility for regulating, supervising, setting rates and quality standards and prices and/or granting concessions in the following areas: electricity, telecommunications, potable water and sewerage, irrigation,

transportation for hydrocarbons and the public, and cargo services. According to the new legislation the procedures for setting tariffs will also include a new mechanism for public hearings designed to give a forum for public opinion and to increase the transparency of the process. The legal and institutional reforms of SNE are expected to send a clear signal to private investors (and promote competition among them) and foster their participation in the provision of public services.

- 2.18 The challenges that SNE will face with the new legislation require the technical strengthening of the institution as to be prepared to implement with efficiency and efficacy its new regulatory role, and thus provide the private sector with the proper framework for its enhanced role in infrastructure investment. Nevertheless it should be noted that under present legislation SNE has the responsibility of setting tariffs under the most efficient mechanisms for each public service and for regulating the quality of the services and SNE is not currently prepared to fulfill its regulatory role. Therefore, even if the approval of the new legislation establishing the new regulatory agency is delayed, the institutional strengthening of SNE is immediately required to provide it with the capacity to perform functions included in current legislation.

Specific objective

- 2.19 The specific objective of this subprogram is to instill the technical and institutional capacity in SNE allowing it to fulfill the regulatory role defined by the current legislation and to prepare the institution to fulfill its new and expanded role under consideration by the Legislative Assembly. The expected achievements of the project are: (i) design of the institutional strategy and preparation of regulations to implement the legislation establishing the new regulatory agency; (ii) implementation of a new organizational structure; (iii) development and implementation of new pricing methodologies; (iv) establishment of quality control measures, including environmental, for regulated services; (v) enactment of hearing procedure system; (vi) implementation of a strategic plan for information systems; and (vii) creation of an environmental unit to review compliance of regulated agencies with environmental laws and other requirements.

Subprogram activities

- 2.20 In order to achieve the proposed objective MIF resources would be used for:
- (i) recruitment of experts (foreign and local) to design an institutional strategy for SNE and to prepare the appropriate policies and regulations. This component will provide SNE with a modern, transparent and efficiency-oriented strategy and

operational direction that will enable the institution to become a facilitator to increase private investment in public service industries and improve the quality of the service; and promote the efficient use of resources;

- (ii) recruitment of experts to design and assist in the implementation of the corresponding organizational structure. The new structure will enable the institution to perform efficiently its role as a regulatory agency;
- (iii) recruitment of foreign experts with expertise in rate setting to support SNE in the implementation of modern methodologies of economic rate regulation (such as long term marginal costs and variations, including making provisions for power purchases from independent generations and the development of competition arrangements in certain market segments or competition among firms bidding for a service concession). These experts would also provide on-the-job training for SNE's staff in the use of pricing methodologies that would provide the economy with signals to allocate efficiently its resources;
- (iv) recruitment of foreign experts with expertise in quality control to support SNE in the definition, preparation and application of norms and standards for quality control of regulated services, and to provide on-the-job training enabling the institution comply with its mandate of controlling the quality of service;
- (v) recruitment of foreign experts to assist SNE in the design and implementation of the new hearing procedures;
- (vi) recruitment of local experts to design SNE's environmental unit that would verify compliance by regulated entities with environmental and natural resource legislation;
- (vii) recruitment of local consultant to design and implement the strategic plan for information systems and purchase of hardware and software needed by SNE in determining new rates.

2.21 Preliminary terms of reference have been prepared for most activities. However, the final terms of reference will be prepared by MIRENEM and included in a plan of action to be reviewed by the Bank.

B. Subprogram II Identification and Removal of Legal Barriers for Private Sector Investment in Infrastructure.

Frame of reference

- 2.22 In the past, the country's development strategy stressed the participation of Government in all areas of the economy and production was oriented for the domestic market. As part of this strategy, barriers were established to protect domestic producers and public entities from competition. On the other hand, the ongoing economic reform program recognizes the importance of private sector participation in the economy as a means to achieve sustainable economic growth.
- 2.23 The approval by the Legislative Assembly in 1993 of a General Law for Concessions of Public Services (Law no. 7329), authorizing the concession of public works, currently under the exclusive responsibility of the public sector, to private companies and the legal and institutional strengthening of SNE/ARESEP represent significant and necessary steps for attracting private investment in infrastructure. Nevertheless there are still many legal restrictions to private sector participation in these sectors, and the Concessions Law and the strengthening of SNE/ARESEP do not comprise by themselves an enabling environment for attracting the private sector.
- 2.24 To overcome the existing constraints the Government in coordination with the Bank, is implementing and/or planning complementary reforms aimed at attracting private investors for infrastructure projects:
- (i) Electricity: The Bank is assisting the authorities in accelerating the incorporation of private investment in power generation up to 15% of installed capacity, and then to assist if there is a need to remove the current limits of: (i) 20 MW limit on private hydroelectric plants and the total power generated from private companies and the cumulative 15% of installed capacity. (ii) foreign participation on domestic power generation companies limited to 35%; and (iii) private sector generation is restricted to renewable sources of energy. Another issue to be addressed to promote private sector participation is the different treatment of public enterprises and private sector companies regarding the payment of taxes. Private energy generators currently have to pay taxes while the state enterprise (ICE) does not, and they face the same service rates.
 - (ii) Telecommunications: The Bank is supporting the administrative and financial separation of the electric power and telecommunications branches of the Instituto Costarricense de Electricidad (ICE) in an effort to improve operating efficiency and step-up investment.

This reform might facilitate an expanded private sector participation in telecommunications in the future, however this will require significant modifications in the legislation since the existing legal framework reserves to ICE the monopoly on telecommunications activities.

- (iii) Potable water and sewerage and transportation: Government's efforts are being concentrated in the enactment of clear and transparent regulations under the Public Works Concession Act that allow the awarding of private concessions for works within the purview of the public sector. Moreover, this measure is being complemented with more effective planning and management of public efforts and the streamlining of public institutions in order to create a more attractive framework for private investment.
- (iv) Irrigation: The Government is planning to develop a transparent and concise system that would expedite the approval of concessions and the sustainable use and protection of water resources. Several public agencies have responsibility over water resources creating uncoordinated layers of administrative control making the present system very bureaucratic with several institutions having to grant approval for private sector use of the country's water resources.

Specific objective

- 2.25 The specific objective of the subprogram is to support the Government in the identification of existing legal barriers that limit the participation of the private sector in infrastructure, prepare drafts of legal reforms removing the identified impediments and provide support in the implementation of the agreed upon reforms. The expected achievements of the subprogram are: (a) preparation of a thorough list of barriers limiting private sector investment in electricity, potable water and sewerage, irrigation, transportation and telecommunications; (b) drafting of laws and regulations required to remove the identified barriers; and (c) design and implementation of a special body that would regulate the management and protection of water resources.

Subprogram activities

- 2.26 In order to achieve the proposed objectives MIF resources would be used to finance:
 - (i) recruitment of foreign consultants with expertise in legal and regulatory framework of energy to review the existing legislation

and support the Government in the preparation of the required modifications;

- (ii) recruitment of foreign consultants with expertise in legal and regulatory framework of telecommunications to review the legislation and support the Government in the preparation of a draft legislation enabling private sector participation;
- (iii) recruitment of foreign consultants with expertise in legal and regulatory frameworks of potable water and sewerage to review the existing legislation and support the Government in the preparation of a draft legislation enabling private sector participation;
- (iv) recruitment of foreign consultants with expertise in legal and regulatory framework of transportation to review the existing legislation and support the Government in the preparation of the required modifications;
- (v) recruitment of foreign consultants with expertise in legal and regulatory framework of irrigation to review the existing legislation and support the Government in the preparation of a draft legislation enabling an expanded private sector participation;
- (vi) recruitment of local legal advisers with expertise in the local legislation governing the delivery of public services to support the foreign consultants; and
- (vii) recruitment of foreign consultants with expertise in management and protection of water resources to design and support the Government in the implementation of a new institutional framework for regulation of water resources.

2.27 Preliminary terms of reference have been prepared for most activities. However, the final terms of reference will be prepared by SNE and MIRENEM and included in a plan of action to be reviewed by the Bank.

Cost and Financing

2.28 The projected costs for each one of the components which will be financed by the MIF grant are presented below. The Ministerio de Recursos Naturales, Energia y Minas will provide the offices and support staff required by the consultants.

PROJECT BUDGET (US\$)

I. Institutional Strengthening of SNE

1. Strategy design and preparation of regulations		90,000
a. Foreign experts (six professional/months)		
2. Organizational Structure		72,000
a. Foreign Experts (four prof./months)	60,000	
b. Local Experts (three prof./months)	12,000	
3. Tariffs		540,000
a. Potable Water and Electricity		
Foreign Experts (six prof./months)	90,000	
b. Water Resource		
Foreign Experts (six prof./months)	90,000	
c. Irrigation		
Foreign Experts (eight prof./months)	120,000	
d. Transportation		
Foreign Experts (eight prof./months)	120,000	
e. Telecommunications		
Foreign Experts (eight prof./months)	120,000	
4. Quality Control		165,000
a. Foreign Experts (eleven prof./months)	165,000	
5. Hearing Procedures		60,000
a. Foreign Experts (four prof./months)		
6. Environmental Unit		30,000
7. Information Systems		193,000
a. Local Experts (twelve prof./months)	48,000	
b. Equipment and software	145,000	
6. Subprogram Coordinator (local)		50,000
a. Local experts (twelve prof./months)		
Subprogram I - Total		1,200,000

II. Adjustment on the Legal framework for Private Sector
Investment in Infrastructure

1. Consultants for energy	60,000
---------------------------	--------

PROJECT BUDGET (US\$)

2. Consultants for telecommunication	80,000
3. Consultants for potable water and sewerage	30,000
4. Consultants for transportation	30,000
5. Consultants for irrigation	30,000
6. Local legal advisers	90,000
7. Consultants on Administration of water resources	30,000
Subprogram II - Total	350,000
TOTAL FOR THE PROGRAM	1,550,000

Organization and Execution

- 2.29 The Executing agency- A special technical unit will implement the proposed operation. The unit will be created at MIRENEM to execute the institutional strengthening component of the Program (Subprogram I). The identification of legal impediments to private sector investment (Subprogram II) will also be carried out by this unit. Program resources will finance a consultant that would act as Coordinator to assure efficient program implementation and be in charge of hiring Program consultants.
- 2.30 Disbursement - The technical cooperation will be disbursed according to Bank procedures. However, as a condition prior to first disbursement, MIRENEM will present a plan of action detailing the implementation schedule of the Program activities, as well as the final Terms of Reference of the consultants. A tentative schedule for disbursements is presented as Annex II.
- 2.31 As it is impossible to anticipate, with absolute precision, all the requirements for program implementation, MIF support would include a mechanism to enable flexibility in the allocation of MIF resources. There will be a mid-term review and reports will be prepared by MIRENEM proposing modifications in any of the subprograms, if necessary, and recommending to the MIF Office the corresponding reallocation of resources among budget items.

Monitoring

- 2.32 The monitoring of the program will require the preparation of two reports. The first after 6 months of program implementation and the final report at the end of the twelve-month period. The report that MIRENEM

would present must include a review of the first 6 months of the Program as well as recommendations for improving its implementation and should also include the barriers identified, the proposal of legal modifications and a schedule for implementation of said reforms. MIRENEM's final report will also include recommendations for the consolidation of the institutional strengthening process and the modifications implemented and a timetable for the implementation of pending modifications.

Viability and risks

- 2.33 The program was designed to include all the activities required to ensure the achievement of the proposed objective and adequate flexibility has been built into program execution in order to ensure its successful implementation. Furthermore, it is important to note that the major political parties support the legislation transforming SNE into ARESEP. Likewise, the employees of the institution have participated actively in the design of the strengthening proposal. The removal of legal barriers fits in the scope of activities of the economic reform program being implemented by the authorities. These factors increase the possibility of successful Program implementation.
- 2.34 The accomplishment of the project objective, however, will depend on the political support required to approve the legal modifications in the Legislative Assembly. Presidential elections took place in early February 1994 with a new administration taking over in May 1994. Moreover, the opening up of private initiatives in infrastructure could be opposed by public sector entities dominating those sectors. These issues have to be considered as risks, notwithstanding the best efforts of those responsible for implementation of the Program.
- 2.35 To minimize these risks actions have been designed to enhance the participation of the regulated entities in the whole process of reforms, and, since the analysis required to identify existing legal barriers to private investment in infrastructure and the elaboration of proposals for legal modifications would be completed after the elections, the Project Team would review with the new administration the timing and structure of the program implementation.

III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

General Criteria for Project Eligibility

- 3.1 The reform program implemented by the Government of Costa Rica, and MIF financing for the enabling of private sector investment in infrastructure are fully consistent with the general purpose of the MIF which is to increase private investment and expand the private sector.

Facility Criteria for Project Eligibility

- 3.2 The proposal is also fully consistent with the criteria for grant financing under the Technical Cooperation Facility, Article 3, Section 2 of the MIF Agreement, which establishes, among other criteria, that grants shall be provided to governments to finance advisory services required to implement reforms of the policy and legal environment for investment and to establish and/or strengthen regulatory agencies.

IV. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 4.1 The strategy of the Bank in Costa Rica emphasizes, among other things, the consolidation of trade liberalization and increased private sector participation in the provision of public services. This process would also entail the definition of new areas for the participation of the private sector, especially in the provision of public services and works; this would allow public investment to be focused on financing social projects or infrastructure projects that could not be financed with private sector resources. To attract private sector investment in infrastructure, there is a need to strengthen the regulatory framework in order to set clear rules of the game and identify any other legal barriers to private sector participation in public services. The proposed operation will assist in achieving this goal by strengthening the technical capacity of SNE and in determining rates and identifying remaining legal barriers that prevent increased private sector participation in these areas.

V. AVAILABILITY OF MIF RESOURCES

Funding Modality

- 5.1 The project is expected to be financed through a grant. Costa Rica's eligibility for grant financing was approved by the Donors Committee on

December 3, 1993, and no restrictions apply on the allocation of MIF resources to Costa Rica.

VI. EVALUATION

- 6.1 The results of this technical cooperation will be evaluated by the project team on the basis of the degree to which the specific objectives have been met, and the evaluation will be presented in the Project Completion Report.

VII. ACTION PLAN

- 7.1 In order to complete the activities for operation approval and execution of the project, the following human resources are required:

DESCRIPTION	TO DATE		FUTURE	
	IDB	MIF	IDB	MIF
I. STAFF (Project Team)				
1. MIF Coordinator/Assistant		2 weeks		2 weeks
2. OPS/OD4	2 weeks		2 weeks	
3. FCR	2 weeks		8 weeks	
4. PRA/ENE	2 weeks		2 weeks	
5. PRA/TRC	1 week			
6. PRA/SUD	1 week		2 weeks	
7. LEG/OPR	1 weeks		2 weeks	
TOTAL	9 weeks	2 weeks	16 weeks	2 weeks

ANNEX I

MIF - FACILITY I - COSTA RICA: ENABLING PRIVATE INVESTMENT IN INFRASTRUCTURE		
Project General Objective Enable private sector investment in infrastructure		
Project Specific Objective Promote the institutional strengthening SNE/ARESEP, and support the Government on the identification of modifications in the legal and regulatory framework required to enable private sector investment.		
Institutional strengthening of SNE/ARESEP	Activities to be executed	Expected Achievements
Designing of the strategy and preparation of regulations	Recruitment of short term consultants to prepare the strategy and to draft the required policy regulations	Strategy designed within 4 months and regulations and policies enacted within 10 months
Designing and implementing a new organizational structure	Recruitment of short term consultants with expertise in designing organizational structures of regulatory agencies.	New operational structure implemented within 10 months of structure design.
Designing and implementing a new pricing policy	Recruitment of short term foreign consultants with expertise in tariff setting	Pricing policy implemented within 10 months
Establishing quality control norms and supervision criteria	Recruitment of short term foreign consultants with expertise in technical aspects of quality control	Quality control system implemented within 10 months
Establishing a hearing procedure system	Recruitment of short term foreign consultants with expertise in hearing procedures	Hearing procedure operational by 4 months after approval of new legislation
Designing and implementing a management information system	Recruitment of consulting services for the design of the information systems,	Information system designed within 6 months
	Financial support for the acquisition of software and hardware, and staff training	Equipment purchased within 10 months
Creating an environment unit	Recruitment of short term consultants with expertise in environment and natural resources regulations.	Environment unit implemented within 8 months.

MIF - FACILITY I - COSTA RICA: ENABLING PRIVATE INVESTMENT IN INFRASTRUCTURE		
Project General Objective Enable private sector investment in infrastructure		
Project Specific Objective Promote the institutional strengthening SNE/ARESEP, and support the Government on the identification of modifications in the legal and regulatory framework required to enable private sector investment.		
Legal framework for private sector investment	Activities to be executed	Expected achievements
Electricity	Recruitment of short term consultants to review legislation/ prepare modifications	Draft legislation prepared within 8 months
Telecommunications	Recruitment of short term consultants to review legislation/ prepare modifications	Draft legislation prepared within 10 months
Water and Sewage	Recruitment of short term consultants to review legislation/ prepare modifications	Draft legislation prepared within 10 months
Irrigation	Recruitment of short term consultants to review legislation/ prepare modifications	Draft legislation prepared within 10 months
Transports	Recruitment of short term consultants to review legislation/prepare modifications	Draft legislation prepared within 8 months

ANNEX II

TENTATIVE SCHEDULE FOR THE UTILIZATION OF MIF RESOURCES (US\$ 000)					
Quarters					
Sub Programs	1st	2nd	3rd	4th	Total
I	300.00	410.00	290.00	200.00	1,200.00
II	90.00	90.00	90.00	80.00	350.00
TOTAL	390.00	500.00	380.00	280.00	1,550.00

PROPOSED RESOLUTION

COSTA RICA. NONREIMBURSABLE TECHNICAL COOPERATION FOR
ENABLING PRIVATE INVESTMENT IN INFRASTRUCTURE

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de Costa Rica and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a program of technical cooperation for enabling private investment in infrastructure.

2. That up to the amount of US\$1,550,000, or its equivalent, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.