

**RESTRUCTURING AND PROMOTION OF PRIVATE SECTOR PARTICIPATION IN THE
TELECOMMUNICATIONS AND ELECTRICITY SECTOR**

(TC-95-03-05)

EXECUTIVE SUMMARY

BENEFICIARY: Republic of Honduras

EXECUTING AGENCY: National Telecommunications Commission (CONATEL)
National Electrical Energy Commission (CNEE)

MIF FACILITY: Technical Cooperation (Facility I)

COST OF PROJECT: US\$1,380,000

MIF: US\$1,130,000

LOCAL: US\$ 250,000

OBJECTIVES: To attract technical and operational capacity and venture capital from the private sector for the delivery and expansion of coverage of services, in support of efforts by the Government of Honduras to improve quality and efficiency and promote sustained development in the telecommunications sector (subprogram A) and the electricity sector (subprogram B).

The private sector is expected to respond favorably and to have the necessary incentives to participate and assume risks in direct service delivery and in financing the expansion of installed capacity in a setting of autonomous and independent regulatory agencies and a stable and transparent regulatory framework.

DESCRIPTION: The MIF funding will be used to develop and establish regulatory frameworks, organize and set into operation the agencies responsible for regulating these sectors, train human resources, and provide computer hardware and software to regulate services.

IDB AND MIF STRATEGY FOR THE SECTOR: The MIF financing in support of creating a favorable climate for private investment in infrastructure is provided as part of the Bank Group resources backing public sector modernization in general and the reform of household utilities in particular. This strategy is based on the recognition that these sectors will contribute the necessary resources to finance the costs associated with service delivery and regulation. Nevertheless, in the context of the fiscal adjustments being made under the public sector reform

program and in view of the absence of a national tradition or experience in the area of regulation, the MIF grant will contribute critical resources to initiate the privatization process in Honduras.

RISKS:

The principal risks are associated with the lack of a regulatory tradition or experience and the difficulty of achieving regulatory agencies that are effectively impartial and independent of influence from both the public sector and service providers.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The following are proposed as conditions precedent to disbursement: (a) an agreement is to have been signed on the transfer of funds and execution, designating CONATEL and the Empresa Nacional de Energía Eléctrica [National Electrical Energy Company] (ENEE) as the executing agencies for the program; (b) the proceeds of the financing for the electricity sector are to become available only once the decree regulating the framework law on the electricity subsector has entered into force; and (c) the executing units are to have submitted the action plan to execute the program and the terms of reference for consultancies.

**SPECIAL ASPECTS OF
EXECUTION:**

The project design has grouped the consultancies by thematic areas related to the project objectives, bearing in mind the availability of qualified human resources in the country. In general, to ensure execution of this project and the normal operations of the regulatory agencies once they are set up, flexible and small regulating agencies are sought that will have a critical mass of qualified, well-paid staff. For highly specialized technical assistance jobs required in the future, international consultants will be hired as needed.

In the case of telecommunications, a task force made up of national citizens has, with initial support from World Bank resources, been working for over a year on the sector reform program, including the preparation and processing of the telecommunications law, the creation of CONATEL, and the privatization program for Empresa Hondureña de Telecomunicaciones [Telecommunications Company of Honduras] (HONDUTEL). This group will act as the national counterpart, directing and coordinating the work of the consultants, and will provide continuity in execution of the technical assistance program and the subsequent functioning of CONATEL and the Privatization Commission.

MODALITY: The MIF resources will be disbursed in the form of a grant.

**ENVIRONMENTAL
CLASSIFICATION:** The Environmental Committee, at its September 14, 1995 meeting, considered the environmental brief and classified this as a Category II operation.

I. COUNTRY ELIGIBILITY

- 1.1 On December 14, 1993, the Donors Committee declared Honduras eligible for all forms of MIF financing.

II. PROGRAM BACKGROUND

- 2.1 The administration that came to office in early 1994 has taken action to confront the serious fiscal crisis that has beset the country since early 1993. In addition to improving tax administration and streamlining current and capital expenditure, the government authorities have taken a number of actions aimed at *redefining the role of the public sector and promoting participation by the private sector in the economy, especially in the delivery of basic infrastructure services.*
- 2.2 One of the major stumbling blocks to private sector participation in these sectors has to do with inconsistencies and lack of definition in current legislation, particularly in the area of institutional structure, including overlapping functions and the absence of an appropriate regulatory framework. In order to address these problems, the Government, with Bank support, is actively encouraging the implementation of sector reform programs in electricity, telecommunications, and water supply and sanitation.
- 2.3 In order to resolve the problems of efficiency, quality, sustainability, and scarce resources in these sectors and to meet the challenges posed by Honduras's integration into the world economy, the Government of Honduras, with the support of the Bank and the World Bank, has designed and approved a reform program whose objectives include increasing the coverage and improving the quality of household utilities, as well as their modernization. The program seeks to attract technical and operational capacity and venture capital from the private sector to deliver services and expand coverage in the sector.

III. TELECOMMUNICATIONS: THE GOVERNMENT REFORM PROGRAM

A. Background

- 3.1 Telecommunications services in Honduras are provided by HONDUTEL. The company holds a monopoly, is vertically and horizontally integrated, and is responsible for setting policy as well as regulating and delivering services; consequently, it is beset by the typical problems and weaknesses facing the other such companies in the region. Also, in conjunction with Comisión Nacional Supervisora de los Servicios Públicos [National Public Utilities Commission]

(CNSSP), HONDUTEL has a regulatory and standard-setting role in the sector.

- 3.2 The sector has the following problems: (1) the regulatory framework is vague and inadequate; (2) service is deficient; (3) considerable demand goes unmet; (4) HONDUTEL does not have the technical or financial capacity to operate efficiently, and the government lacks the required resources to modernize and increase capacity within the sector.
- 3.3 Sector reform rests on the framework law passed by Congress in November 1995. In addition to amending the HONDUTEL Charter, this legislation created CONATEL as the agency responsible for regulation and oversight of services, and made it possible for the private sector to participate in the delivery and expansion of services. The law establishes CONATEL as a deconcentrated agency that is to act with complete technical, administrative and budgetary independence, with the following powers: (a) obey and enforce laws, regulations, technical standards, and other national and international telecommunications arrangements; (b) adopt the necessary measures (approve rates and minimum cost expansion plans) to promote efficiency and competence in service delivery; (c) regulate rates for services which, owing to market shortcomings, are delivered under conditions of imperfect competition; (d) ensure equal access to operators and users; (e) award, renew, and revoke concessions, licenses, and other permits for delivering services; and (f) manage and control the radio spectrum.

B. Program objectives and elements

- 3.4 The program provides for: (1) the adoption of a stable and transparent regulatory framework; (2) institutional reform to separate direct service delivery from regulatory and policy-setting responsibilities - the former being incumbent on service providers, which may be public, private or mixed companies; and the latter on the central government; (3) the creation of CONATEL for regulation and oversight of services; (4) operating licenses and concession contracts for incorporating the private sector into service delivery; and (5) the restructuring of the sectors so that services are delivered under free competition. The concessions are to be awarded through a public bidding procedure, as a general rule with no exclusive rights, on a renewable basis.

IV. TELECOMMUNICATIONS: THE MIF PROJECT

A. Components and activities

- 4.1 The funding from the MIF telecommunications project will be allocated to accomplish two components: (a) the regulatory framework

and the regulations of the framework law; and (b) establishment and implementation of CONATEL.

a. Regulatory framework

- 4.2 Preparation of this component will require expert technical assistance in telecommunications regulations. Principally, the regulatory framework of the sector will be defined on the basis of the framework law for the telecommunications sector passed in November 1995, which establishes the dominant role of CONATEL in regulatory matters and in the process of privatization ("capitalization") of HONDUTEL.
- 4.3 Based on the foregoing, the general regulations of the framework law for the telecommunications sector will be drafted. They will specify the roles of leadership, coordination and approval that CONATEL should exercise in the preparation, design and approval of the concession contract that results from the capitalization. The regulations will establish procedures to achieve the objectives of the law. Furthermore, specific regulations will be drafted on services, the types of service delivery, and the specific rules, procedures and standards of CONATEL.

b. Strengthening and startup of CONATEL

- 4.4 This component covers all the activities required to create CONATEL and have it commence operations as a regulatory agency for the telecommunications sector, including the following:
1. **Organizational structure, procedures, and preparation of the operating budget for CONATEL.** In order to prepare this component, the requirements and the profile of human resources will have to be determined, along with the terms of reference for each position, the pay structure, and the internal regulations and operating procedures of CONATEL. In addition, the equipment requirements of CONATEL will have to be determined, along with the budget requirements for its first year of operations and the funding sources that will make it viable in the long term.
 2. **CONATEL legal documents.** This activity will consist of the transfer of the assets belonging to the HONDUTEL Radiocommunication Department to CONATEL. An inventory of the assets will be prepared prior to the transfer.
 3. **Training.** Staff will receive in-service training and formal courses, according to the following needs: (i) rate administration; (ii) administration of the radiocommunication spectrum; (iii) monitoring of the radioelectric spectrum; (iv) conflict resolution; and (v) follow-up on commitments under concession contracts.

4. **CONATEL information system.** This activity will consist of the design and implementation of the documentation and software system that CONATEL will need for its operations, as well as the hardware and software required for the administration of telecommunications services. This system will also be used for the administration of the radioelectric spectrum.
5. **Rate system.** This activity will consist of developing the rate structures and procedures to determine the rates for each one of the telecommunications services provided under conditions of market imperfections. In addition, the method of setting rates will be determined and software programs will be developed to simulate and assess alternative rate schemes.

B. Cost and financing

- 4.5 The total cost of the entire project will be \$1,000,000, of which the MIF will contribute \$800,000. At the same time, the International Development Association (IDA) has granted \$2,480,000 in financing for the preparation of the concession contract for HONDUTEL services. A breakdown of these activities is included in Annex III-1.

C. Complementary support and financing for the sector reform program

- 4.6 Implementation of the restructuring and privatization program includes two additional components that will be carried out with resources from IDA and the Government of Honduras in support of the public sector reform program. The first component relates to the activities involved in the privatization of HONDUTEL; the second concerns funding for the technical group responsible for the coordination and execution of sector reforms.
- 4.7 These resources will be used to finance the technical, legal, and financial assistance involved in the bidding on the concessions, including preparation of expansion and quality targets, market analysis, preparation of bidding documents, and other tasks relating to advisory assistance for investment during the bidding process.
- 4.8 The advisory assistance for investment includes retaining the services of an investment bank to support international public bidding on a concession contract for the provision of local telephone service as well as for long-distance domestic and international service. The activities include prequalification, preparation of final bidding documents, presentation of bids, opening of bids and contract award, presentation of guarantees, signing of contracts, and transfer.
- 4.9 A breakdown of these financing activities is included in Annex III-1.

V. ELECTRICITY SUBSECTOR: THE GOVERNMENT REFORM PROGRAM

A. Background

- 5.1 The reform of the institutional framework of the electricity subsector was initiated in 1991 with the support of energy sector loans from the IDB and World Bank, which are currently being executed. In late 1994 the Bank approved additional financing for the energy sector hybrid program, through loans 936-SF/HO and 937-SF/HO, in order to provide continuity to the sector reform program. Concurrently, the nonreimbursable technical cooperation project ATN/SF-4737-HO was approved, mainly to support the regionalization and corporatization of electricity distribution for subsequent sale.
- 5.2 As part of the institutional reform process in the subsector, the National Public Utilities Oversight Commission (CNSSP) was created through Decree 85-91 of July 1991 with the principal objective of supervising compliance with standards of operational and financial efficiency among the decentralized institutions that deliver utilities, as well as approving and reviewing public utility rates. Subsequently, in November 1994, the framework law for the electricity subsector was approved (Decree 158-94). This law created the Energy Cabinet as the governing entity for the sector and the National Electrical Energy Commission (CNEE) as the agency responsible for the regulation and enforcement of the framework law. Additional details of the structure and process of the reform in the electricity subsector are provided in Annex IV-1.
- 5.3 The regulations of the framework law for the electricity subsector, approved by the Executive in November 1995 (pending publication in the Official Gazette), clarify and regulate the functions of the Energy Cabinet, CNEE and CNSSP, and also clarify provisions of the framework law itself. However, there is still functional overlap among the different regulatory and oversight agencies, particularly between the two aforementioned commissions in the area concerning rate approval procedures, as shown in greater detail in Annex IV-1.
- 5.4 The impact of this situation is lessened given that, under the principles established by the framework law, rates are to reflect the economic cost of delivering the service, and the CNSSP will not be able to approve rates that differ from those proposed by the CNEE. In addition, as the regulatory and standards base of the subsector is finalized and put in place by the CNEE, the regulatory structure developed will become available to the regulatory agency for use in its operations. Therefore, the strategy that is recommended for this operation is to focus support on the CNEE in order to consolidate the regulatory framework of the subsector as is detailed in the program components presented below.

B. Objectives and elements of the reform program

- 5.5 The following are the objectives of the reform program for the electricity sector: (i) to establish a regulatory framework and to consolidate and strengthen the capacity of CNEE to perform its regulatory function; (ii) to separate energy distribution from energy generation and transmission; (iii) to create an environment that promotes participation by the private sector in the distribution and expansion of generating capacity.
- 5.6 The reform rests on the framework law for the electricity subsector that Congress passed in late 1994 and the corresponding regulations. The basic elements of the framework law include: the separation of business functions from regulatory functions; (i) private sector participation is permitted in energy generation and direct delivery to large consumers and in sales to energy distribution companies; (ii) open access to transmission networks is ensured through the payment of user charges and rates; (iii) the ENEE is required to sell the existing distribution systems in whole or in part to private interests, municipalities or cooperatives; (iv) generation and transmission activities are separated from distribution activities through regionalization and the creation of new distribution enterprises for subsequent sale to private parties; (v) mechanisms are established that set rates and charges for services; and standards are to be followed in the subsector with respect to environmental matters, quality of service and consumer protection.
- 5.7 A fundamental element incorporated into the reform process concerns the mandate established under the framework law to sell the electricity distribution systems currently belonging to ENEE, in order to separate the function of electricity distribution from electricity generation and transmission. Through the aforementioned technical cooperation project (ATN/SF-4737-HO), the Bank is supporting the part of this component that concerns the preparation of studies on readiness for sale of distribution zones and markets.

VI. ELECTRICITY SUBSECTOR: THE MIF PROJECT

A. Components and activities

- 6.1 The following are the main project components in the electricity subsector that are to be supported by the MIF:
- a. Further development of the regulatory framework required to support the sale of assets for electricity distribution
- 6.2 Under the framework law for the electricity subsector, CNEE is responsible for the preparation of rules and procedures to facili-

tate the sale of electricity distribution assets that are the property of ENEE. CNEE is also responsible for reviewing and issuing an opinion on the procedure to be followed for the sale of assets for electricity distribution, which is to be presented to the Energy Cabinet for final approval. Consequently, in support of CNEE, consultancies will be hired to: (i) establish and define efficiency parameters for the operation of the distribution systems, and define the methodology for calculating the incremental costs and expenses of the companies providing the distribution service; (ii) determine the terms and conditions for awarding operating and concession contracts to companies distributing electricity as a result of the process of sale; (iii) devise formulas for price adjustment, quality of service, and service obligations.

b. Strengthen the regulatory structure of the subsector and CNEE

- 6.3 In terms of the regulatory structure in place in the subsector, the regulations of the framework law for the electricity subsector are in the process of being published in the Official Gazette, which is required for them to take effect. With ENEE support, draft national electricity regulations and the power line extension regulations have been prepared. CNEE will need to review them and present them for approval to the Department of Communications, Public Works and Transportation (SECOPT).
- 6.4 Moreover, consultancies are required to support this operation in order to: (i) prepare the regulations on electricity service and procedures for the application of penalties to service delivery; (ii) review the current regulatory framework and identify inconsistencies and constraints on participation by private investment; conduct studies to achieve further liberalization of the electricity market; (iii) develop measures to prevent monopolistic, anti-competitive or discriminatory behavior in the subsector.

c. Training

- 6.5 Strengthen regulatory and oversight agencies through the design and execution of a program for basic training in regulation and oversight procedures. In order to carry out this component, on-site workshops and seminars will be held on aspects of oversight and regulation, taking into account experiences in these areas in other countries of the region. To carry out this activity, individual consultancies will be contracted in order to share experience acquired in other countries of the region.

B. Cost and financing

- 6.6 The total budget of this component is US\$380,000, of which the Government of Honduras will contribute US\$50,000. The cost

estimate for the component of support for the electricity subsector is presented in Annex II-2.

C. Complementary support and financing for the sector reform program

- 6.7 The electricity subsector seeks to complement the efforts already begun by CNEE and ENEE to develop the regulatory structure of the subsector, to develop CNEE, and to create an additional regulatory structure to facilitate the sale of the distribution systems.
- 6.8 This effort complements both the support that the Bank is giving for the definition of the distribution companies and their sale, and the support for the subsector being extended by the Canadian International Development Agency (CIDA). The latter is mainly geared toward the establishment of systems and methodologies for activities such as planning the national electricity system, making estimates of demand, defining programs to expand electricity systems, updating the marginal costs of service delivery, calculating rates, holding training workshops and developing financial models. The design of this operation has been coordinated with CIDA, CNEE and ENEE in order to ensure complementarity and, to the extent possible, avoid the duplication of efforts.

VII. EXECUTION, CONDITIONALITY AND DISBURSEMENTS

A. Execution

- 7.1 The project is coordinated by the Presidential Commission for Modernization of Government (CPME) and the Advisory Commission on Privatization (CCP). Direct execution will be the responsibility of the respective regulatory commissions for each one of the sectors. Each one of the executing units will be responsible for selecting, contracting, orienting, directing, and supervising the work of the consultants and purchasing equipment, and for relations with the Bank on all activities in connection with the execution of the grant agreement.

B. Conditionality and disbursements

- 7.2 The financing for the electricity subcomponent will become available for disbursement only once the decree regulating the framework law of the electricity subsector has taken effect.
- 7.3 The disbursement period will be 24 months from the date of the agreement.

C. Control

- 7.4 Control over the use of resources will require the preparation of semiannual reports providing information on progress in program execution, problems encountered, and proposed solutions. Furthermore, within 90 days after the last disbursement, the executing units will present a final report summarizing the activities executed, the components delivered, the objectives met, and the main lessons and recommendations that result from program execution.

D. Feasibility and risks

- 7.5 In addition to the risk of the regulator being subject to outside influence and risks related to asymmetries in access to information, the main risks of this operation are as follows: (a) the constitutional rule establishing that the CONATEL budget should be approved annually by Congress, which could potentially limit the autonomy and independence of CONATEL; (b) the lack of a national tradition and experience in regulation; (c) a scarcity of qualified human resources and technical equipment that could act as a constraint on CONATEL's capacity to perform its functions.
- 7.6 The main risks in the electricity subsector have to do with finalizing the sale of the regional distribution systems, given that the sector reform process is still being consolidated and technical and economic mechanisms and criteria for setting electricity rates, as established under the framework law of the subsector, have not been applied in the past in a timely fashion as specified by the law. This operation supports the strengthening of sector rules and regulations in order to consolidate the regulatory process in the subsector. In addition, the political will exists to encourage even greater private sector participation in the subsector, given the considerable investments required to meet the growth in demand and expansion of coverage, which would not be feasible without the support of private investment under the current financial conditions prevailing in the subsector and the country's present levels of indebtedness.

E. Supervision

- 7.7 The Bank's project team will continue to function throughout the execution of the program and, through the Country Office, the team will exercise technical and operational responsibility for execution of the operation. In cases that are duly justified, consideration will be given to the reallocation of financial resources, provided the proposed changes are consistent with the objectives of the proposed program. The Bank will approve the reallocation of resources in consultation with the MIF Office.

VIII. COMPLIANCE WITH ELIGIBILITY CRITERIA

1. General criteria and project eligibility

- 8.1 The technical cooperation operation has been designed for the purpose of supporting deregulation efforts in the sector in the framework of reforms that the Government of Honduras has undertaken; it is fully compatible with the general objective of the MIF, which seeks to strengthen investment and the expansion of the private sector as a basis for spurring economic growth and socioeconomic development. It is important that this program be implemented, as part of the MIF strategy to establish an appropriate legal and regulatory structure in order to attract private investment to the region.

2. Criteria of the Technical Cooperation Facility

- 8.2 The proposal is in keeping with the criteria for granting financing under Article III, Section 2 (c) of the Agreement Establishing the MIF. This prescribes, *inter alia*, that financing is to be provided to governments for the purpose of funding advisory services for regulatory agencies, to encourage the elimination of regulatory restrictions that pose obstacles to private investment and to create a favorable environment for such investment. Likewise, the design of the operation is compatible with the goal of achieving the institutional strengthening required for the beneficiary country.
- 8.3 The proposal is also consistent with the first strategic vector of activity defined by the Donors Committee for the MIF Technical Cooperation Facility, which is to support reform programs seeking to attract private investment for infrastructure sectors. Projects having similar objectives have already been approved or are under preparation for several of the countries eligible for MIF financing, in the Central American region in particular. Three similar projects were approved for Costa Rica, El Salvador and Nicaragua.

IX. CONSISTENCY WITH THE BANK'S COUNTRY STRATEGY

- 9.1 The program is consistent with the Bank's strategy, particularly with those aspects related to programs geared toward resolving the structural root causes underlying the high cost in public funds of providing these services. Moreover, the program objectives are consistent with steps taken to rationalize fiscal expenditure and to promote privatization, as provided for under the program to modernize the public sector.

X. AVAILABILITY OF MIF RESOURCES

A. Type of funding

- 10.1 Financing is to be provided in the form of a grant, based on the following considerations: (a) the Donors Committee declared Honduras to be eligible for all types of MIF financing on December 14, 1993; (b) Section III of the country eligibility memorandum details the compliance of Honduras with the eligibility criteria for obtaining a national level grant; (c) the proposed project will have a major catalytic impact on investment flows, as required under Article III, Section 5(a) of the Agreement Establishing the MIF, since the objective is to create conditions for the expansion of private investment; and (d) MIF grant financing is intended to promote and accelerate the implementation of legal reforms and policies crucial to promoting private investment. The validity of these criteria was confirmed by the Donors Committee at its meeting held on March 30, 1994 '(MIF/GN-23).

**MIF – FACILITY I – HONDURAS
RESTRUCTURING AND PROMOTION OF PRIVATE INVESTMENT IN THE
TELECOMMUNICATIONS SECTOR**

General Objective – To complement Bank support for sector reform programs designed to obtain efficient delivery of services through the creation of conditions appropriate for private sector participation in the sector.		
Specific Objective – To design and implement a new regulatory framework for the sectors and establish an autonomous and independent regulatory agency that will ensure the viability of the privatization program in the sector.		
Subprograms	Activities	Expected Outputs
A. Legal and regulatory framework for the sector	Consultancies for regulations accompanying the HONDUTEL Restructuring Law and the framework law for the sector.	March/97 • Regulatory framework for the sector and CONATEL regulations June/97 • Regulations on the radio spectrum • Regulations on conflict resolution • Regulations on sanctions • Specific regulations on services: basic telephone service, carriers, mobile cellular phones, data transmission and switching, beepers, satellite communications, cable television, value added • Regulations on consumer service • Regulations on interconnection • Regulations on standardization June/97 • Rate system: rate framework, manual of service rates, computer models for calculating and updating rates Sept/97 • Computer model for automating spectrum management • CONATEL information system
	Consultancies for regulatory functions	
B. Establish CONATEL	Legal and technical consultancies performed by persons experienced in setting up and operating telecommunications regulatory agencies	March/97 • CONATEL regulations and manuals: positions and pay, functions, recruiting and selection, performance, incentives, etc. • Draft operating budget for CONATEL • CONATEL human resources training

**MIF – FACILITY I – HONDURAS
RESTRUCTURING AND PROMOTION OF PRIVATE INVESTMENT IN THE
ELECTRICITY SUBSECTOR**

<p>General Objective – To complement Bank support for sector reform programs designed to achieve efficient service delivery by strengthening and consolidating the regulatory framework and regulatory capacity in the subsector, in order to send the appropriate signals to private investors and encourage their participation in the subsector.</p>		
<p>Specific Objective – To support the process of selling off electricity distribution assets, strengthen standard-setting and regulatory capacity in the subsector itself, and strengthen the regulatory and oversight agencies through the design and implementation of a training program on regulation and oversight procedures.</p>		
Subprograms	Activities	Expected Outputs
A. Support the process to sell off electricity distribution assets	Consultancies to determine the terms and conditions for selection in awarding concessions, establish efficiency parameters and define the incremental costs and expenses of distribution; define formulas for price adjustments, service quality, and electricity service obligations.	<p>Nov/96</p> <ul style="list-style-type: none"> Formulate the terms and conditions for selection in the award of concessions. Issue the methodology and define value added for distribution and the price adjustment formula <p>Nov/96</p> <ul style="list-style-type: none"> The CNEE issues an opinion and presents to the Energy Cabinet the detailed procedures for the sale of electricity distribution.
B. Strengthen the standards and regulatory base of the subsector	Consultancies to prepare the electricity service regulations, procedure for applying penalties, review of the current regulatory framework; preparation of a study on further liberalization of the electricity market; and measures to avoid anticompetitive practices.	<p>Nov/96</p> <ul style="list-style-type: none"> Issue regulations on electricity service and regulations on the application of penalties. Issue an opinion on review of current legal framework in the subsector and recommendations to provide incentives for private sector participation. <p>Nov/96</p> <ul style="list-style-type: none"> Complete study for proposing further liberalization of the electricity market to Energy Cabinet. Propose measures to prevent monopolistic behavior in the electricity market.
C. Training	In-service training of officials responsible for regulation, including seminars and exchanges on experiences in other countries.	<p>Dec/96</p> <ul style="list-style-type: none"> Seminars and training in the workplace.

HONDURAS
BUDGET FOR TECHNICAL ASSISTANCE TO MODERNIZE AND RESTRUCTURE
THE TELECOMMUNICATIONS SECTOR
(in US\$ thousands)

NO.		COMPONENT	PERSON MONTHS	IDB/MIF	GOV'T OF HONDURAS	TOTAL
1		Regulatory Framework		440	90	530
	1.1	Advisory assistance on regulations for the framework law and preparation of regulations on services, including the rights and obligations of providers and users, types of service, and guidelines for use in setting rates.	Firm	440		440
	1.2	Promotion and dissemination campaign			90	90
2		Creation of CONATEL	16	310	110	420
	2.1	Organizational structure. CONATEL budget procedures and preparation	2	20		20
		Travel expenses		10		10
	2.2	CONATEL legal documents	2		10	10
	2.3	Training of CONATEL personnel		70		70
	2.4	CONATEL information system	5	50		50
		Travel expenses		15		15
	2.5	Rate system	7	70		70
		Travel expenses		25		25
	2.6	Equipment		50	100	150
		Total base cost		750	200	950
		Contingencies		50		50
		TOTAL		800	200	1,000

HONDURAS
BUDGET FOR TECHNICAL ASSISTANCE TO REFORM
THE INSTITUTIONAL FRAMEWORK OF THE ELECTRICITY SUBSECTOR
(in US\$ thousands)

NO.		COMPONENT	PERSON MONTHS	IDB/MIF	GOV'T OF HONDURAS	TOTAL
1		Support the development of the additional regulatory framework required for privatization of electricity distribution	6	180	30	210
	1.1	Determine and prepare the terms and conditions for operating and concession contracts for distribution companies Travel expenses	3	40 10	10	50 10
	1.2	Studies to define efficiency parameters and the method for calculating value added for distribution	Firm	90	10	100
	1.3	Define and prepare price adjustment methodology and formulas Travel expenses	2	20 5	5	25 5
	1.4	Prepare standards for quality and delivery of service Travel expenses	1	10 5	5	15 5
2		Strengthening of the regulatory structure	5	70	20	90
	2.1	Prepare regulations for electricity service and procedures for application of penalties Travel expenses	2	20 5	10	30 5
	2.2	Review current regulatory framework and identify disincentives to private sector participation. Travel expenses	1	10 5		10 5
	2.3	Studies to achieve greater liberalization of the electricity market Travel expenses	1	10 5	5	15 5
	2.4	Develop measures to prevent monopolistic practices Travel expenses	1	10 5	5	15 5
3.		Training		60		60
	3.1	Workshops and seminars in the workplace, exchanges and visits, including travel expenses		60		60
		Total Base Cost		310	50	360
		Contingencies		20		20
		TOTAL	11	330	50	380

PROPOSED RESOLUTION

HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION FOR A PROGRAM OF
RESTRUCTURING AND FOSTERING PRIVATE SECTOR PARTICIPATION
IN TELECOMMUNICATIONS AND ELECTRICITY

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 agreement or agreements as may be necessary with the República de Honduras and to adopt such other measures as may be pertinent for the execution of the technical cooperation program described in Document MIF/AT-_____, the objective of which is to support the restructuring of and foster the participation of the private sector in the telecommunications and electricity sectors.

2. That up to the sum of US\$1,130,000, or its equivalent in other currencies, is authorized for the purposes of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

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