

2. INFRASTRUCTURE

a. Strategic Guidelines

The Plan recognizes, as a premise, that the country does not have the financial capacity to become heavily indebted in order to undertake the enormous investments necessary to repair, rebuild and augment its physical infrastructure based on technical designs that provide greater resistance against disasters of a similar magnitude and offer greater protection of the environment. Nor does the country have its own financial resources in the required amounts.

Under these circumstances, the Plan considers the development of new alternatives for the construction, administration and maintenance of infrastructure services, such as capitalization, granting concessions, municipalization and privatization. These processes must be inserted into a framework of strong sectoral reforms that will stimulate private investment, with proper regulation through transparent mechanisms, and with environmental and design specifications and locations that allow for the prevention and mitigation of risk.

b. Specific Objectives

Road Network:

- ◆ Reestablish the road network to levels similar to those prior to Mitch, through the negotiation of external resources and the promotion of greater private participation;
- ◆ Improve regional transport, through a consensus among surrounding countries to implement the project to grant concessions for building segments of the Central American Natural Corridor;
- ◆ Prevent and mitigate new disasters by improving the construction specifications of roads, bridges and drainage structures;
- ◆ Assure permanent attention to maintenance by means of an efficient Road Maintenance Fund and greater decentralization to municipal governments.



Ports:

- ◆ Restore the damaged infrastructure of the country's various ports;
- ◆ Provide sufficient port services to meet the needs of increased trade and tourism, through the development of a concession system and other forms of private participation in such priority areas as management of the container terminal and cold-storage facilities at Puerto Cortés; and the construction, outfitting and operation of a solid-bulk terminal and a new container terminal at Puerto Cortés and Puerto Castilla;

- ◆ Guarantee preventive maintenance of port equipment and infrastructure, by generating investment funds through various methods.

Airports:

- ◆ Reestablish the infrastructure and communications and control equipment of affected airports;
- ◆ Implement the concession scheme for the country's international airports, with the goal of improving services.

Water and Sanitation:

- ◆ Reestablish the full functioning of damaged works;
- ◆ Increase and improve the coverage and quality of services, by implementing a Master Plan for water and sanitation and speeding up the approval of the Framework Law for the sector;
- ◆ Establish a financial policy for cost recovery, with rates based on long-term marginal costs, which would allow for self-sustainability of the resources.

Energy:

- ◆ Increase private participation in the generation and distribution of electric energy, by adjusting the legal framework and promoting new alternatives for energy generation;
- ◆ Implement a transparent and agile mechanism for setting rates, in accord with marginal costs that incorporate the costs/benefits of the resources;
- ◆ Convert the country into an international center for the provision of hydrocarbons, making the market more flexible and competitive.

Telecommunications and Post Office:

- ◆ Restore and modernize the telecommunications systems in the short term;
- ◆ Expand and modernize telecommunications, concluding the process of capitalizing HONDUTEL this year, and promoting competition in the cellphone market and the operation of new telecommunications services;
- ◆ Improve the efficiency and accessibility of other services necessary for better communications, particularly rural telephone and mail services, by implementing the legal dispositions currently in place and by adjusting the normative framework in the case of the postal system.

c. Financing

In order to rebuild infrastructure and implement sectoral reforms, total financing of US\$1,010 million is needed. The external funds required amount to US\$956.6 million, of which US\$405.9 million is expected to come from grants and US\$550.7 million from loans. National counterpart funds would amount to US\$53.5 million. A high percentage of these resources (80%) would be used for the road network and for water and sanitation systems (see the summary table on page 26.)

3. MACROECONOMIC POLICY AND STRUCTURAL REFORMS

In light of the strong negative impact the Honduran economy has suffered, it is urgent not only to undertake emergency and reconstruction activities but also to maintain and strengthen the achievements realized during the 90s in the area of macroeconomic policy.

Objectives and Policies

- ◆ Offset the expected GDP contraction of 2% in 1999 with positive growth rates of at least 5% in the 2000-2001 period, based on:
 - massive reconstruction and restoration activity, currently in progress;
 - reestablishment of agricultural production;
 - stimulation of private investment;
 - policies to strengthen the financial system and increase domestic savings; and
 - greater access, under better conditions, to large markets through NAFTA parity with Mexico under the Caribbean Basin Initiative, as well as through the search for increased benefits through mechanisms such as the Generalized System of Preferences in the European market.
- ◆ Decrease the inflation rate to 13% by December 1999 and to 8% by the end of 2001. In order to achieve these targets, prudent monetary and fiscal policies will be maintained, including public-sector financing limits and containment of growth of the monetary base through open-market operations.
- ◆ Maintain solid external accounts, sustained by exchange-rate flexibility and the continuation of open and liberalized trade.
- ◆ Continue managing the public finances in a way that contributes to complying with the objectives of adequately attending to the necessities associated with the effects of Mitch, promoting greater economic growth and consolidating economic stabilization. Achieving these goals, will require:
 - reorienting expenditures priorities toward emergency needs and the reconstruction of basic infrastructure; and limit the growth of operating expenditures and those not related to the emergency; and
 - strengthening public revenues by improving tax administration and a policy of gradual adjustment of the prices of public services, based on economic costs.
- ◆ Reduce the burden of foreign debt, by means of:
 - obtaining a moratorium of three years on the payment of bilateral debts and a restructuring and forgiveness on the most favorable terms offered by the Paris Club;
 - obtaining access to the Highly Indebted Poor Countries (HIPC) initiative; and
 - obtaining more resources for the Central America Emergency Trust Fund (CAETF), in order to service the multilateral debt.
- ◆ Accelerate the process of structural reforms, primarily in the following areas:
 - concluding the process of capitalization of HONDUTEL and the privatization of the distribution network for electric power;
 - increasing the participation of the private sector in the administration and/or operation of ports, airports, roads, and water and sewerage services;
 - reducing the size of the public sector, by rationalizing its employment structure and improving its efficiency in providing services; and
 - strengthening the social security system, by modernizing the pension system.