Multilateral aid for privatization of telecommunications in Central America: Facilitating the leap into the information age or perpetuating structures from the past?

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Draft. For comments, not for quotation.

Abstract

International financial institutions (IFIs) have supported formulation and implementation of policies to privatize state owned telecommunication companies (SOTs) in Latin America for over a decade. They have done so with varying degrees of success, both in terms of convincing states to change their policies and in terms of ensuring a more efficient production of services. However, little research exists on the impact of the IFIs' policies; their power is more often assumed than investigated. This paper asks to what extent the IFIs are influential, what their sources of influence are, and how their involvement affects the outcome of privatization in the telecommunications sector. It traces the power of the IFIs in relation to societal elites in different phases of telecommunication reform in Guatemala, Honduras and Costa Rica. It is argued that the main source of IFI influence is not conditionalities, but transfer of knowledge and ideas. However, ideas and knowledge do not translate directly to each national context. Through policy implementation, they are reinterpreted and transformed. The practical implication of the work is that in order to ensure that their policies facilitate the leap into the information age and do not perpetuate structures from the past, the IFIs should place more emphasis on the implementation process and post-privatization issues.
Introduction

During the past one and a half decades, Latin American states have retreated from their active role in the economy through privatization of state owned enterprises and other market oriented policies. Some view this as a collective return to rationality by policy makers. Whereas policy makers previously cared for enhancing their own power bases through distribution of spoils or collection of revenue, they are now concerned with economic efficiency and development.¹ Opponents of this view argue that rather than a return to rationality, the policy change is a result of external pressure, primarily from international financial institutions (IFI).²

Lately, the premises of both of these arguments have been undermined. With respect to the former, it has become clear that privatization is not the panacea it was thought to be. Its success is dependent on a regulatory framework and institutions willing and able to enforce it, both of which often have been lacking in Latin America.³ Thus, privatization is not necessarily more "rational" than other policies. With respect to the latter, research on the impact of IFI involvement on the likelihood of implementing market-oriented reforms has shown it to be limited.⁴

In this paper I argue that the influence of the IFIs may be greater than concluded by theses studies because they fail to take into account the influence of ideas and knowledge. Constructivist theory has argued for a while that the traditional relational and material view of power must be complemented with an understanding of how ideas change identities and interests. The challenge now is to specify where, when and how ideas are important. It is argued here that the impact of IFI ideas differs across states, depending in particular on the autonomy of each state from societal elites. State autonomy is a key for understanding the degree to which elite learning is important for a new issue to enter the domestic agenda. But it is also a key for understanding the process of reinterpretation of the ideas that follow in the decision making and implementation phase. The state owned telecommunication companies (SOTs) have been important means to raise regime support and income for the Central American states. However, their importance and role have differed with the differing degrees of state autonomy and legitimacy found in the states under scrutiny here.

In this paper I will first make the argument that the impact of IFI involvement on privatization of telecommunications varies across states depending on state autonomy and the role that the SOTs have played in regime support. Thereafter results from a comparative case study of Guatemala, Costa Rica and Honduras are presented. First, the historical role of the SOT is investigated. Second, the process of agenda setting is studied, and finally the reinterpretation and resistance strategies applied in the decision-making and implementation phase are discussed.⁵

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¹ An extreme version of this view is found in Roberts and Araujo (1997). It is also an underlying premise in much of the work on policy reform. See for example Williamson (1994).
² See for example Green (1995).
³ See Basañes, Uribe and Willig (1999) for an account of various experiences with privatized infrastructure sectors in Latin America. Snyder (1999) incorporates more political variables in his account of re-regulation of the coffee sector in Mexico after the implementation of neo-liberal reforms.
⁴ Kahler (1992) observes that receipt of World Bank structural adjustment loans does not predict whether or not a country implements reform. Only in nine of nineteen cases he examines did the governments implement coherent stabilization programs and in only five were structural adjustment programs sustained. Killick (1996) reaches the same conclusion from a study of the effect of IMF programs, as does Molano (1997) from a study of implementation of privatization programs in Latin America.
⁵ In Costa Rica, the reform process has only just started, and it is too early to discuss the decision-making and implementation stages. Thus, this part of the paper will concentrate on Guatemala and Honduras.
This case study is based on extensive interviewing with representatives for the Inter-American Development Bank, the World Bank and the IMF (in Washington, D.C. and Central America), as well as policy makers, private sector representatives, politicians and representatives of bilateral donors in the countries studied. In addition, a variety of public and non-public documents and press reports are used.6

Ideas and interests in the empowerment phase

International relations theory has traditionally viewed the units in the international system as autonomous states. Their identities and interests are exogenous to the international system, and interaction between states consists of self-interested behavior based on pre-defined goals. Lately, constructivist theory has challenged this notion, arguing that the international system is also a social system that affects identities and states' interests (Wendt 1989, 1994). Their goals and interests are transformed through interaction with other states and non-state actors. In this perspective, the mechanisms of influence in the international system include socialization, learning and persuasion, in addition to use of material power. The idea that material power is no longer the only, or even the main power mechanism, also means that non-state actors may be influential. Some argue that international organizations "teach" state representatives new behavior (Finnemore 1996), or that transnational activist networks persuade states to change policy (Keck and Sikkink 1998).

Constructivists have been criticized for underplaying the role of the states and the importance of self-interested behavior.7 In some accounts, the state is seen as a passive recipient of ideas and knowledge that it makes no attempt to reinterpret or resist. This perspective is not suited to catch the dynamic of states pursuing active strategies of making compatible diverse ideas and interests. A second point of critique is methodological: the constructivist conclusion that learning or transfer of ideas has occurred has, for example, been supported by the observation that states adopt a certain type of legislation, or establish a certain type of institution. However, little proof is provided that this has caused actual change in behavior. A third point against much constructivist work is that it fails to show exactly how the transfer of ideas or knowledge has occurred. It is impossible to enter into someone's head to decide whether or not they have changed their minds. Nevertheless, for the constructivist argument to be valid there is a need to demonstrate mechanisms through which socialization or learning occur. A fourth point related to the three above is that few constructivists are able to explain why learning and socialization occur to different degrees in different countries. Since states are seen as passive and little attention is paid to the actual change of behavior or the

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6 Interviews in Washington, D.C. were made in several periods during 1998 and 1999. Interviews in Guatemala and Honduras were made in November-December 1999. Extensive interviewing has not yet been conducted in Costa Rica, but a few interviews with representatives of the state-owned telecommunication-company, ICE were made in February 1999. Although some authors argue that there are benefits to undertaking interviews during the actual process under study (Wallander 1998), there are also obvious drawbacks. In this case the most important has been the highly politicized nature of telecommunication privatization (particularly in Guatemala) leading to potential flaws in the answers. The other main difficulty has been lack of transparency of the process (again primarily in Guatemala) which means that a lot of useful information has not been available. Both these potential sources of errors are attempted corrected through a careful interpretation of the answers, as well as application of multiple sources.

7 Hurd (1999) makes an important clarification with respect to the meaning of self-interested behavior. He argues that the fact that individuals pursue "interests" in the sense of choosing means to achieve goals is not the same as the particular assumption of "self-interest" which refers to an instrumental attitude toward other actors and toward rules. This meaning of self-interest is applied here.
process of learning or socialization, the issue of how these processes vary across states also has been neglected.

The ambition here is to run clear of these points of criticism. I attempt to show how the learning process has differed between the cases that I study, through what mechanisms it has occurred and how the states have taken an active part in redefining and interpreting the ideas that have been promoted by representatives of international organizations. To do this I develop a two-phase model. The first issue to be studied is how the idea of privatization was placed on the domestic agenda. The second is how the ideas that were placed on the domestic agenda have been reinterpreted. Whereas in the first phase learning is viewed as having a significant impact (depending on domestic politics), in the second phase interests and pre-existing norms are viewed as more important for the explanation of outcomes. I do not try to argue that socialization or learning is more important than the outcome of interaction between self-interested agents. I argue that they co-exist but that the dominance depend on (i) the domestic political system and (ii) the policy phase that we study.

Much constructivist work has been concerned with agenda setting. Checkel (1998) calls this process empowerment, understood as occurring when "the prescriptions embodied in a norm first become, through changes in discourse or behavior, a focus of domestic political attention or debate" (Checkel 1998:476). One may essentially think of three mechanisms in which new ideas or norms become the focus of domestic political attention. Either new groups have entered the circle of power, the existing circles of power have been pressured from external actors, or they have learned, or become socialized, or in other ways "changed their minds". The question is can we predict where one mechanism will be more important than another will?

Checkel argues that elite learning is more important when the state "sits apart from and exercises considerable control over society" (Checkel 1998:478). Based on findings from cognitive psychology, he also argues that learning is more likely in these cases where decision making is centralized and the circle of actors small. He distinguishes between four political systems: liberal, corporatist, statist and state-above society. In the liberal system individuals and groups in society are accorded a central role in policy making and are therefore likely agents of normative change. In the state-above society structure, the policy-making process is top-down and elite learning is necessary if policy change is to occur. In the corporatist state, the state still has the 'upper hand' but extensive policy-making networks characterize it. The statist state seems to be a more democratic version of state-above society.

His categories are based on experience from European countries. With respect to developing countries, discussions of the relationship between state and society have focused on the long-term and overall role of the state in society, not only the role of the state in agenda setting. Weiss (1998) argues that where we find a relationship of "governed interdependence" between the state and the private sector, the state is also more capable of learning and responding to changing external circumstances. Governed interdependence refers to a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. Weiss wants to demonstrate why the developmental state, argued to be a key to understanding the rapid economic growth of the East Asian Tigers is relevant today in spite of the decreasing validity of the economic strategies they pursued. The characteristics of the developmental state may

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8 The strategies are summarized by Pempel as follows: extraction of capital, generation and implementation of national economic plans, manipulation of private access to specific industrial projects, insulation of domestic economies from extensive foreign capital penetration, and carrying through a sustained project of ever-improving productivity, technology and increased world market shares (Pempel 1999). See also Amsden (1990) and Wade (1989). Although Amsden (2000) argues that many of the development strategies still are viable,
have best been captured in Evans' (1995) term "embedded autonomy" depicting a Weberian state with a high degree of capacity, and relative autonomy from specific capitalist elites, but nevertheless with close ties to the private sector. The latter ensured both that the state kept informed about developments in the private sector, and that it had the necessary power to induce the private sector to achieve the goals that the state had set. Thus there was no conflict between the two, but the state always had the 'upper hand'. This relationship was key to understanding why some states contributed to the development of societies (developmental states) whereas others (predatory states) extracted "at the expense of society, undercutting development even in the narrow sense of capital accumulation" (Evans 1995:12). Thus, one of the virtues of the developmental state was its ability to implement policies, but the developmental state was also the agenda setter (although learning from the private sector).

The hypothesis that emerges from the above is that the developmental state due to its relative autonomy of decision making, is better able to learn than less autonomous states. Elite learning is also more important for change in these countries. Thus for the developmental states to also have relevance beyond the specific economic strategies it pursued, there has to be a degree of elite learning. In other states, we may also see changes due to new groups gaining power, or due to external pressure.

So far so good. The crucial question that follows this is whether the extent to which the new policy has entered the agenda as a result of elite learning or other mechanisms impacts implementation of this policy. This will be discussed in the next section, but let me first add some qualifications to Checkel's categories based on experience from non-European countries.

One important qualification is that in political systems where the states lack autonomy from societal elites, one may find a form of top-down policy making style, which nevertheless is not based on state control of the society. The extreme case is when the state is seen as a private instrument of those who at any point in time are entitled to the state power (Reno 1998, Chabal and Daloz 1999). In these cases, a clear distinction between the public and the private does not exist. O'Donnell's description of "delegative democracies" points to some of the same mechanisms: democratically elected politicians governing in a context of lack of institutions (O'Donnell 1994). Although I would argue that there may exist institutions, though not necessarily democratic or formal, the point is that when studying elite learning, not only elites in control of the state are of interest, but also competing elites who may take power at the next cross-roads.

Guatemala is good example. It has a centralized policymaking structure with a strong president and few inroads into the policy making process for the majority of societal actors. However, parallel to the state, there is the private sector, primarily represented by the umbrella organization CACIF (The Coordinating Committee for Associations of Agriculture, Industry, Commerce and Finance), making up a "parallel power structure" or a system of "co-governance". Before and upon arrival of a new government, CACIF starts negotiations over ministerial-posts and economic policy. The negotiations frequently result in appointment of

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9 This is the source of one difference between Weiss and Evans. Weiss argues that Evans's model of embedded autonomy is unsustainable faced with long term growth. The developmental state will be the victim of its own success because with growth, the private sector will get the upper hand, and the state will lose its ability to direct it.

10 See Valdez and Palencia Prado (1998) for a good account of the power of CACIF in fiscal policy making in Guatemala. See Martí (1994) for an account of the historical role of the private sector in development in Guatemala.

11 The first expression is of Arturo Montenegro, member of the commission for the fiscal pact. The other one is of former finance minister, Ana de Molina, interview, 12/10/99.
members of competing parties in central governmental positions, and also of adoption of new policies. In this system, learning may be a more difficult process and less likely than in a statist system, as power is highly contested. However, it also opens the possibility of policy change based on learning among private sector leaders.

The Honduran state illustrate yet another model. It is also characterized by a lack of autonomy. However, the parallel power structures here are multiple and contested. Historically foreign economic and political interests and the military have constituted competing powers to the state. Currently, a stronger domestic private sector is emerging, although it has not gained the same form of power as its Guatemalan counterpart. Although it can hardly be called a liberal state, it is rather decentralized and we may expect learning mechanisms to be less influential here than in the strong states.

Costa Rica, the third state included here, fits better into Checkel’s categories. It may be characterized as a statist structure, in which both elite learning and societal pressure on elites are operating mechanisms.

SOTs, regime support and resistance strategies in the implementation phase

I argued above that the process of empowerment depends on the form of state in which it is to occur. Here I will argue that it also depends on the issue area. Risse, Ropp and Sikkink (1999:271) argue that "international norms are more likely to be implemented and complied with in the domestic context, if they resonate or fit with existing collective understandings embedded in domestic institutions and political cultures". Also studies of the transfer of economic ideas apply this "fit" argument (Sikkink 1991, Hall 1989). The challenge is thus to specify what this "fit" means. What are the new norms promoted for the telecommunication sector and how do they differ from previous norms?

The norms and ideas promoted by the IFIs in the telecommunication sector are not uniform, and they have changed over time, also after the main shift from state-led to private-led development occurred in the late 1980s. However, one may point to some "basic" norms that the IFIs argue for. Telecommunication services should: (i) be regulated and produced according to economic and not political goals; (ii) be produced primarily by private sector operators; (iii) be regulated by stable rules and norms, enforced in an egalitarian manner; and (iv) not be produced and regulated by the same institutions.

Apart from these four "laws" of telecommunications, there are several models for privatization and regulation of the sector. In the Central American countries, two models have dominated. These may be labeled "traditional privatization" and the liberal "Spiller-model". The main differences between them relate to the timing and degree of competition and the strength of the regulator. In the traditional model the SOT is sold with a guarantee of a 5-10 year monopoly on basic phone-services, a superintendence of telecommunication (SIT) is given power to intervene in the sector, and the rights and duties of the company are specified. In the Spiller-model, the SOT is sold in a competitive environment, the telecommunication sector is supposed to be self-regulating and the SIT is an arbiter with little intervening power.

Most SOTs were established in the two decades after World War II. There were two main arguments for state involvement. First, telecommunications was a natural monopoly and there would consequently be efficiency losses by allowing different operators to be involved.

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12 One description of the system emerging in the 1980s is "bureaucratized anarchy" (Schultz and Schultz 1994).
13 Named after Pablo Spiller, who developed it. For accounts of the different models for telecommunication reform in Central America, see Raventos (1997), Belt (1999) and Urizar (1998).
14 There exists various systems of price regulations that are used both to regulate the prices on interconnection and prices for the final services.
Second, one doubted that private entrepreneurs would view it as an interesting investment, and in consequence the state had to fill the gap. This justification points to a developmental role of the state, as promoted by international organizations (in Central America, primarily the IDB, the World Bank and the UN Economic Commission for Latin America (ECLAC)). However, even at that point, norms promoted by the international organizations were reinterpreted to suit domestic political motives. Whereas in some cases the SOTs were used primarily as developmental institutions, in others the SOTs took on a series of other functions.

The question we must ask is why some states have been motivated to pursue developmental goals through the establishment of SOTs, whereas rulers of other states were more concerned with enhancing their personal power or extending the wealth of a small group. Kohli (1999) has asked this question in relation to the developmental states, and he points to the requirement for the state to pursue developmental goals that it had established certain legitimacy within its territory. Without this, the state would be too occupied with the "politics of survival" (Migdal 1988) to be concerned with promoting growth.

Based on a Weberian idea of legitimacy, one may distinguish between different forms of regime support in which SOTs have played a role. Table 1 sketches six such forms. These are not meant as mutually exclusive; they coexist and complement each other, but they may also be in conflict. The point here is that one may expect different strategies of resistance and reinterpretation based on the form of regime support in which the SOT has played a part.

The main dividing line goes between the first two forms and the rest. Where support of the state is based on coercion or patron-client relationships, the division between the public and the private is not firmly established. The SOT has been important for control and legitimacy functions, but may still be viewed as "private property" of groups controlling the state. Although privatization may have entered the agenda and is being implemented, the content of the policies implemented may be changed significantly. Thus, although learning has occurred, new knowledge and ideas may be molded to fit with existing collective understandings embedded in domestic institutions and political cultures.

Table 1 Political motives for control of the telecommunication sector

<table>
<thead>
<tr>
<th>Basis of state-power</th>
<th>Political role of SOT</th>
<th>Performance criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coercion</td>
<td>Surveillance</td>
<td>Regime survival</td>
</tr>
<tr>
<td>Patron-Client relations</td>
<td>Distribution of spoils</td>
<td>Regime survival</td>
</tr>
<tr>
<td>National cohesion</td>
<td>Symbolic</td>
<td>Establishment of positive image, &quot;the crown jewel&quot;</td>
</tr>
<tr>
<td>Egalitarianism</td>
<td>Ensuring redistribution</td>
<td>Equal access to services</td>
</tr>
<tr>
<td>Democratic institutionalism</td>
<td>Expanding the reach of public power</td>
<td>Procedural correctness, justice</td>
</tr>
<tr>
<td>Delivery of services</td>
<td>Ensuring efficiency in production</td>
<td>Availability, price and quality of services</td>
</tr>
</tbody>
</table>

15 See for example Waterbury (1993) for an account for the role of SOEs in these coalition formations.
The functions of state owned telecommunication companies in Central America

In all the Central American countries, telecommunications were operated by state owned monopolies until June 1998, when El Salvador privatized its SOT, ANTEL. However, the state owned monopolies had important differences. It should be unnecessary to point out that the relationship between the state and civil society has differed significantly across the Central American countries throughout history. Here I argue that these relationships have impacted on the operation of telecommunications as well. The SOTs in Costa Rica, Guatemala and Honduras were established during a period of increased state intervention, but the nature and goals of this intervention differed.

In Guatemala, telecommunications were nationalized in 1966, and the SOT Guatel was established in 1971 as an autonomous institution of the state. Prior to this, Tropical Radio and Telegraph Company (TRT), a subsidiary of United Fruit Company, had a monopoly on international telephony. Compañía de Teléfonos de Guatemala operated national telephony with participation from various international companies. Nationalization was undertaken during a period of increasing military control over the economy. It was facilitated by the changes that Enrique Peralta Azurdia made to the constitution after having seized power through a military coup in 1963. Colonel Carlos Arana Osorio who established Guatel in 1971, came to power on a platform of a hard line strategy against the increasingly visible insurgency, and increased state involvement in the economy (Berger 1993).

The Honduran SOT, Hondutel, was established in 1978 as a branch of the Ministry of Communications. However, telecommunications had been under military control since mid 1960s. Prior to nationalization, telecommunications were also in Honduras operated by TRT. The establishment of Hondutel came at the tale end of a period of military reformism in Honduras. The take over of conservative Policarpo Paz Carcía in 1978 signified the end of reformism and strengthening of the repressive elements of the military (Schulz and Schulz 1995, Lapper and Painter 1985).

The Costa Rican Institute of Electricity (ICE) was one of two Autonomous Institutions (AIs) of the Costa Rican state that were established through constitutional amendments during the short junta-period (1948-1949) following the civil war (1948). It was given monopoly on electricity generation and supply. Telecommunication services were operated by Compañía Nacional de Fuerza y Luz (CNFL), a subsidiary of the U.S. American and Foreign Power. In 1963, the infrastructure operated by CNFL was incorporated into ICE, which was given a constitutional monopoly on owning and operating telecommunication infrastructure (ICE 1994). The junta period marked the transition to the social democratic regimes of the National Liberation Party (PLN), which espoused ideas of state-led development, industrialization and egalitarianism (Franklin 1998). Under the leadership of José "Pepe" Figueres, the PLN regimes in the 1950s, although contested by conservative elements of society, also gained significant legitimacy due, e.g. to its redistributivist policies (Wilson 1998). One of the main motivations for good recent comparative studies, see Yashar (1997) and Paige (1997). See also Flores and Torres-Rivas (1989) and Booth and Walker (1989).

Interview with Mario Maldonado Muñoz, director of Hondutel May 1994-January 1996, 11/24/99. His dating of the establishment of Hondutel differs somewhat from that reported by US department of Commerce, which is 1976 (Cohen 1998). The history of Hondutel is rather obscure and little exact information has been available.

16 This performance criteria underlies analyses of economic reforms in new democracies that points to the threat to democratic institutions if the reforms does not deliver what they promise in terms of economic outcomes (Bresser Pereira, Maravall and Przeworski 1993)
17 For good recent comparative studies, see Yashar (1997) and Paige (1997). See also Flores and Torres-Rivas (1989) and Booth and Walker (1989).
18 For a more elaborate version of the history of the telecommunication companies and state-society relations in Guatemala and Costa Rica, see Bull (2000).
19 Interview with Mario Maldonado Muñoz, director of Hondutel May 1994-January 1996, 11/24/99. His dating of the establishment of Hondutel differs somewhat from that reported by US department of Commerce, which is 1976 (Cohen 1998). The history of Hondutel is rather obscure and little exact information has been available.
for placing electricity and telecommunications within one company was to facilitate electricity development in rural and poor areas. Profits from telecommunication services, viewed as a luxury good, were used to subsidize expansion of the electricity services.

US regional surveillance activities are also an important part of the context of establishment of SOTs in Central America. Following the meeting of President Kennedy with the Central American presidents in 1963, strengthening of the capacity of the surveillance system through development of telecommunications was defined as part of the anti-Communist campaign. By October 1966, the Central American Military Telecommunications System (SIMCATEL) had been established with participation of representatives of the U.S. Southern Command. The US was particularly active in Guatemala, where a police intelligence service was established. This began operating in 1966, with responsibility for investigating subversive activities and it obtained intelligence from penetrations of the insurgency movement and from postal and telephone censorship (Holden 1999).

Born with different purposes, the Central American SOTs were also given different conditions to operate under due to different state–society relations. In Guatemala, the SOT had little autonomy from the institution that came to dominate it, the military. Arana Osorio believed that the military was better qualified than civilians to rule due to superior discipline, education and experience. Thus, he turned to the officer corps to fill top government positions and to make policy decisions. Moreover, he encouraged the military to establish economic ventures. The military and individuals within it became large landowners, set up commercial enterprises and industrial projects, and took control over utilities, among them telecommunications (Berger 1993). The engagement in economic activities was an attempt to extend political control, but it was also an answer to the problem facing all Guatemalan administrations: its very narrow tax base. As of the late 1960s, total governmental revenue was only 7.9% of GNP and tax revenue was 7.1% of GNP (Jonas 1991). Consequently, the yearly transfer from Guatel of 45% of its profit to the state has been significant source of income. Thus, the main mission of Guatel was not to provide telecommunication services to the people, but to be a part of the military apparatus. The consequence was a very low density of telephone lines, and a low productivity of the sector (See Tables 2 and 3).

The two most significant changes in Guatemala in the last two decades have been the return to a constitutional democracy in 1985 and the signing of the Peace Accords between the government and the guerrilla umbrella organization URNG in 1996. With this came also a relative shift in power from the military to the private elites that they initially were set out to protect, and in mid 1980s, the military lost control over Guatel. Simultaneously, private elites looked to the service sector for new investment opportunities. Consequently, the private sector had an interest both in improved telecommunication services and in participating in their provision. Thus, neither the military dominance over Guatel, nor its disastrous failure to provide the Guatemalans with telecommunications services, would be tolerated any longer.

The Honduran state is and has been considerably larger than the Guatemalan, but its autonomy from civilian elites and the military has been no greater. Throughout the 1980s, the president was considered secondary to the chief of the armed forces and the US ambassador.

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20 For example was the transfer of profits from Guatel to the central government equal to 25% of all direct taxes in 1994. (Numbers based on data on government revenues from Global Info Group (1999) and data on Guatel’s profit from Guatel’s annual reports, referred in Casado Guzmán (1996)).

21 Interview with Victor Suarez, ex-president CACIF, 12/8/99 and journalist Edgar Gutierrez, El Periodico/Myrna Mack institution, 2/12/99.

22 According to a poll published in El Heraldo, as late as in 1995 the majority of the people was of the opinion that the American ambassador was the most powerful person in the country, followed by the chief of the armed forces with the president as number three, El Heraldo, Honduras. 9/13/95.
The state bureaucracy was seen as having very low capacity and few means of power in relation to societal forces or the military (Schultz and Schultz 1994:117). Although Hondutel formally was a branch of the Ministry of Communications, it was under direct control of the military. It provided free services to the armed forces and functioned as a source of jobs and income for members of the armed forces and their families.23 Whereas in Guatemala it was a general rule that military governments appointed military managers of Guatel, in Honduras there was no exemption to the rule of military managers before 1994, even with civilian governments. The position as a manager of Hondutel was seen as one of high degree of prestige, and to obtain it was considered a "reward". There was also a high degree of turnover. Between 1978 and 1994, there were 12 managers of Hondutel, most of whom lacked any knowledge of sector, and were running it "as a national security institution".24

Hondutel was also a considerable source of income for the Honduran state. However, as Honduras has a broader tax base than Guatemala and received generous aid from the US government throughout the 1980s, the income from Hondutel was never as important for the Honduran state as income from Guatel was for the Guatemalan. In 1994, transfers from Hondutel equaled 4% of the direct taxes, compared to 25% in the Guatemalan case. The Hondutel transfers currently makes up approximately 1% of total state income.25 It is also beyond doubt that Hondutel has been a source of income for the military privately. Obviously, few numbers exist, but according to existing research on corruption in Honduran public institutions Hondutel is one of the worst (Salomon, Castellanos and Castillo 1996).

The democratization and gradual retreat of the military from public power have been the main changes affecting Hondutel the last two decades. This has brought civilian management to Hondutel. However, the state is still weak and dependent on patron-client relationships.

Table 2 Lines per 100 habitants

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Costa Rica</td>
<td>6.9</td>
<td>9.3</td>
<td>16.35</td>
<td>17.89</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1.4</td>
<td>2.1</td>
<td>2.72</td>
<td>3.0</td>
</tr>
<tr>
<td>Honduras</td>
<td>0.9</td>
<td>1.7</td>
<td>2.87</td>
<td>3.28</td>
</tr>
</tbody>
</table>


Table 3 Indicators of Unsatisfied Demand and productivity (1996)

<table>
<thead>
<tr>
<th></th>
<th>Costa Rica</th>
<th>Guatemala</th>
<th>Honduras</th>
</tr>
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<tbody>
<tr>
<td>Waiting list/lines</td>
<td>12.7%</td>
<td>34.5%</td>
<td>142.7%</td>
</tr>
<tr>
<td>Waiting time (years)</td>
<td>0.8</td>
<td>4</td>
<td>&gt;10</td>
</tr>
<tr>
<td>Lines per employee</td>
<td>126</td>
<td>37</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Raventos (1997).

In Costa Rica, the government took several actions to increase the autonomy of the state apparatus during the first decade of the new constitution. In 1953, a new civil service system was introduced in which bureaucrats were hired on merit, and job stability and advancement

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23 Various interviews.
24 Interview with Mario Maldonado Muñoz, 11/24/99.
25 The percentage increased for 0.97% in 1991 to 1.12% in 1998. In absolute numbers the transfer to the state from Hondutel increased by more than 500% from 1991 to 1998 (from 27.6 to 160 million Lempiras). In the same period the total transfers from the public sector only doubled (136.6 to 287.4 million Lempiras) (Secretaría de Hacienda y Crédito Público, República de Honduras, Memoria, Various Issues).
and retirement benefits were provided (Rottenberg 1993). In order to enhance the AIs' autonomy, they were given budgetary independence from the central government (Wilson 1998). With respect to ICE, autonomy was, perhaps ironically, further increased because the president took a personal interest in the well being of ICE and trusted its director. Thus, favorable conditions were coupled with a norm of non-intervention. The board was made up by private sector representatives in order to ensure that the company was run on "sound business principles." ICE soon became one of the telecommunication companies with the highest productivity and highest levels of technological development in Latin America.

The performance of ICE not only buttressed the support of PLN by the beneficiaries of its subsidized services, but also earned the PLN governments respect within the opposition. Two changes occurred in the 1970s reversing the relative autonomy of ICE. First, PLN party leaders, having established the AIs to decentralize power, now promoted the centralization of power in the executive (Rottenberg 1993). Second, the state bureaucracy expanded rapidly and created a class of political entrepreneurs associates with the state owned development corporation CODESA (Stone 1974). This in turn threatened the cordial and symbiotic relationship that had developed between the state and the industrial groups. ICE was affected by the changes through the passing of the Law of Four Three (Ley de Quatro Tres). It required that on all boards of the state owned enterprises there should be four from the current government and three from the opposition. In consequence, the board of ICE now became politically appointed. Furthermore, the budgetary situation became difficult after the Arias administration decided to stop external borrowing due to the severe debt crisis experienced in the 1980s. One of the few remaining ways for the central government to acquire funds to cover the fiscal deficits was to force AIs (among them ICE) to purchase state bonds. Without significant resources to invest, the quality of the services of ICE declined. Nevertheless, on all telephone indicators Costa Rica still stood out in comparison to its Central American neighbors (See Tables 2 and 3).

In summary, provision of telecommunication services has been only one of several functions that the SOTs have had in Central America. In Costa Rica, ICE played a role also in the redistribution of wealth and the extension of the democratic jurisdiction to public institutions, as well as in establishment and reinforcement of the national myth. Costa Rica has not been an exception to the practice of using the SOT as a source for distribution of spoils. Nevertheless, this practice has been more prevalent in Honduras and Guatemala. In these countries, the SOTs have been closely linked to the military and served both as surveillance institutions and sources of redistribution of revenue and spoils. There are also important differences between Guatemala and Honduras. The greater military control over Hondutel reflects the greater autonomy of the Honduran military from civilian elites.

The process of empowerment: placing telecommunication reform on the agenda

The idea of privatization of state owned enterprises was introduced to Central America during the 1980s. It was not the IFIs, but the USAID that came to be associated with the early privatization efforts (Sojo 1992, Shallat 1989, Evans Castro and Jones 1995). The focus was

26 Eloy Vidal, Principal telecommunication engineer, the World Bank and former sub-director of ICE, interview, 02/10/98.
27 From his interviews with the coffee producing elites in Costa Rica, Paige reports that although there was firm resistance against AIs among the conservative elite, ICE was viewed as the "least bad" of the state owned enterprises (Paige 1997:257). Yashar argues that AIs also enhanced support among the opposition through the distribution of positions (Yashar 1997:218).
28 Currently, the central government's debt to ICE amounts to Colones 80,000 million (US $ 275 million).
on commodity producing enterprises, the agricultural sector and governmental service institutions. Privatization of public utilities has primarily been pushed by the IFIs, but as we will see, also with some USAID involvement.

In Guatemala, the first attempts to privatize public enterprises were made during the Vinico Cerezo government (1985-1991), but privatization of Guatel was not discussed until 1991 when Jorge Serrano Elías (1991-1993) took office. The private sector was well prepared for the arrival of the new president. Camara Empresarial de Guatemala (CAEM) presented a study with a prioritized list over recommended privatization of public enterprises, where Guatel figured among the urgent cases (Cabrera 1997). CACIF had published a "Yellow Book" outlining their desired economic and social policy for 1991-1995, where privatization was an important element. This had been elaborated in collaboration with Arnoldo Harberger, previous director of the Department of Economy of the University of Chicago. The contact with Harberger was made through the Center for Economic Research (CIEN) a "think-tank" established in 1982 at the initiative of USAID (Palencia Prado 1992). At this point, a consensus was emerging within the private sector of the need for demonopolizing the telecommunication sector for ensuring development in Guatemala. However, the private sector also had material interests in the telecommunication sector. During the Serrano government, the private sector presented a request to the president to issue a concession to allow a private company to operate cellular band A.

Also the IFIs tried to put privatization of Guatel on the agenda in this period. In 1991, the government had started negotiations of the "Program for Economic Modernization with the World Bank". There was no agreement on including privatization of Guatel in this, but a "revision of the state enterprises" was one of the elements, and the discussion of the possibility of selling Guatel was opened up.

There were however also promoters of privatization of telecommunications within the state elites. The President of the Central Bank, Federico Linares, argued that Guatel should be the first company to be privatized, but Serrano did not share his position. Linares said in the aftermath that: "I am wondering why he (referring to Serrano) never gave me a reason either for or against privatization [of Guatel], but what I can tell you is that his opinions were unpredictable". In general there is little that indicates that Serrano was convinced of the virtues of privatization of Guatel. Before his election he declared to Prensa Libre: "With respect to the size of the state, in my opinion it should not be smaller or bigger, but sufficiently large to satisfy the basic needs of the people." He did create a privatization commission,

29 In Guatemala, few such state owned enterprises existed, as state involvement in the economy was limited to utilities and infrastructure. However, both Costa Rica and Honduras had extensive public sectors. They were homes to large umbrella corporations (CODESA in Costa Rica and CONADI in Honduras), that were sold off or liquidized in the late 1980s and early 1990s.
30 During this period, the state owned airlines, Aviateca were sold. In the telecommunication sector a concession were given to Millicom for operating the cellular band B. In 1993, concessions were given to private operators of electricity services. See CIEN (1999a) for a complete overview over infrastructure privatizations in Guatemala.
34 Prensa Libre, Guatemala, 12/12/90.
reporting to the vice-ministry, consisting of a handful of representatives for the private sector. However, it was never established by law and it had limited support from the president.\(^{35}\)

Ramiro de León Carpio took office after Serrano's attempted self-coup in 1993. De León was only supposed to rule until a new election could bring a democratically elected president to power. In his governmental plan (*Plan for the 180 days*), privatization was not mentioned, but shortly after resuming power he established a commission for privatization, and named Manuel Ayau Cordón, a convinced neo-liberal, as "privatizer."\(^{36}\) Ayau's preferred form of privatization of Guatel was to distribute shares to all Guatemalans ("popular capitalism"). However, due to lack of political and financial support from the President, Ayau resigned.

There are diverse explanations for de León's actions. According to the president's confidant, Minister of Finance Ana de Molina, de León was not against privatization and neither was she. However, the government had limited capacity. It had proved difficult for the government to attract qualified people to fill positions close to the government for such a short period of time. Moreover, the government had set challenging agenda for itself. The issue that occupied the lion-share of the time of the finance minister was tax-reform, whereas the president was deeply engaged in peace negotiations with the URNG.\(^{37}\) Others argue that the president did not understand the idea of privatization. He had no understanding of the technological changes in the telecommunication sector that had led to a weakening justification for monopoly, and he did not understand the benefits of Ayau's scheme of popular capitalism.\(^{38}\) The appointment of Ayau was interpreted as a means to mend the bad relationship between de León and the private sector.

Due to this relationship, few believed that de León would be able to do anything with the issue of privatization of Guatel. The international community started to focus on the possible new government to take office after the elections in 1995. With support from the USAID, CIEN had set up an office for technical assistance inside the congress that provided support for elaboration of law proposals that matched the liberal market oriented philosophy of CIEN. Through this office, CIEN made contact with a young deputy of the Party for National Progress (PAN), Alfredo Guzmán, who was interested in telecommunications and had offered his assistance to his former teacher, Manuel Ayau. Previous to this, Carmen Urízar of CIEN had met USAID's Juan Belt in El Salvador. Belt was a believer in the free-market ideas of Pablo Spiller, and had assisted the Salvadoran government in drawing up the telecommunication legislation. He came to Guatemala in October 1995. A group of three met with USAID representatives to inquire about possible support for drafting a new telecommunication law: Carmen Urízar, Alfredo Gúzman, and Víctor Suárez.\(^{39}\) USAID found money for it through its regional program to support the Central American countries' preparation for the FTAA. They supported the elaboration of a draft telecommunication law, and funded a trip for Urízar and Gúzman to Berkley to meet with telecommunication guru Pablo Spiller to discuss it.

At the same time, the IFIs started to negotiate new structural adjustment loans to be able to act rapidly upon the entering of the new government. Modernization of the state was now among the priority areas of the World Bank, whereas the IDB was negotiating a sector adjustment loan for the infrastructure and finance sectors. At this point, the agenda of the multilaterals had changed: whereas economic adjustment was the main goal previously, now the peace process was the point of reference. This did not mean that they had abandoned the

\(^{35}\) Interview Richard Aitkenhead, Minister of Finance of the Serrano government, 12/9/99.

\(^{36}\) Ayau is the founder of Guatemala's conservative private university, Fransisco Marroquin.

\(^{37}\) Interview with Ana de Molina, 12/10/99.

\(^{38}\) Interview with Richard Atikenhead, 12/9/99.

\(^{39}\) The latter a distinguished member of the private sector and former president of CACIF.
free market ideas, but that contribution to the formulation of content and the implementation of the peace accords had become first priority.\textsuperscript{40}

PAN won the elections as expected and President Alvaro Arzù took office in January 1996. Although privatization of Guatel was not mentioned in the party program,\textsuperscript{41} few had doubts about PAN's priorities in the matter. The World Bank and several bilateral donors supported the establishment of an office for state modernization that got the responsibility for some of the privatizations to be undertaken. However, privatization of telecommunications was to be managed directly by the SOT. Arzù appointed Alfredo Guzmán as manager of Guatel and let him lead the process of privatizing it. The model that Guzmán promoted with the backing of Arzù was acclaimed for being one of the most "liberal in the world",\textsuperscript{42} highly inspired by Spiller. The goal was to promote competition in the telecommunication sector to ensure lowering of prices and extension of services. Obtaining a good price for the company was a secondary concern. At this point, one could observe a real change of mentality according to some observers. Now the government talked about that the state should promote the private initiative rather than replace it.\textsuperscript{43}

Thus at this point, privatization of telecommunications was firmly placed on the Guatemalan agenda. This happened through a combination of two processes: first a process of learning by persons close to the governing party PAN. Although the IFIs had been instrumental in bringing privatization to the agenda in the early 1990s, it was the actions of USAID that got the telecommunication process rolling in the end. Both indirectly, through the support of CIEN, and directly through the involvement USAID personnel and the making of the connection with Pablo Spiller, USAID managed to transfer ideas and knowledge. However, as we shall see in the second part of the story, when the hawks entered the process the ideas of USAID, Pablo Spiller and Alfredo Guzmán got challenged. Before I go into that, let us take a look at Honduras.

The IMF raised privatization of Hondutel first time in the early 1990s. During the 1980s, there had been close to no economic reform in Honduras. In spite of economic mismanagement, burgeoning foreign debt and ever increasing fiscal deficits, the Hondurans were confident that the US would "bail them out". By the end of the 1980s this began to change, due to the changing regional political situation and the shift of president in the US. In 1990, US balance of payment support was held up due to economic mismanagement, and the multilateral sources (IDB, the World Bank and IMF) were closed due to arrears on old debt (UNAT 1998). In June 1990, the new president Rafael Callejas of the Nationalist Party, signed an agreement with the multilaterals removing Honduras from the "black list", and in 1992 an Enchanced Structural Adjustment Facility (ESAF) was approved by the IMF. Privatization of Hondutel was discussed in these negotiations, but it never was agreed upon as conditionality.\textsuperscript{44} Several of the other conditionalities agreed upon were never fulfilled. The goal of keeping fiscal deficit down was among the most important among them. During the last 18 months of the Callejas government, fiscal deficit rose to about 10% of GDP, which led to a suspension of ESAF. Callejas also started a program for Modernization of the State with support from the United Nations Program for Development (UNDP). This included reforms of all three branches

\textsuperscript{40} Interview with Edmundo Urrutia, the Presidential Secretary of Social Communication of the Arzù government, 11/17/99.

\textsuperscript{41} Privatization is actually not mentioned at all. Instead words such as "desincorporation" and "demonopolization" are used (Secretaría General de Planificación 1996). Interestingly, when CIEN quote the program in an English document on the reforms, it is translated to "privatization" (CIEN 1999b).

\textsuperscript{42} Wall Street Journal, 9/25/97.

\textsuperscript{43} Interview, Carmen Urízar, CIEN, 11/2/99.

\textsuperscript{44} Interview, Clarance Zuvekas, UNAT/USAID, 12/3/99.
of the state: it envisioned deepening of the democracy, strengthening of the rule of law, and modernizing and decentralizing state activities. However, apart from improvement in the system of protection of human rights, the achievements were modest. With respect to privatization, the only achievement was the sale of the state owned cement fabrics, a sale which enjoyed little transparency, facilitated the military and certain economic groups close to the president, and created a negative image of privatization (Cosenza Jiménez 1999, Brenes and Casa 1998).

Little indicates that Callejas himself favored privatization or an operation of the telecommunication sector according to market principles. In general, placing Hondutel under market rules was seen as impossible in this period, something that was understood also by the IFIs. According to one World Bank official: "In 1993, when I started to work in Honduras, I was told that privatization of Hondutel was impossible because it was owned by the military".

Privatization of Hondutel did not enter the agenda in a serious way until 1994, after the inauguration of the government of Carlos Roberto Reina (1994-1998) of the Liberal Party. Reina inherited an economy in chaos, a huge fiscal deficit (that in addition had been attempted hidden by Callejas) and a suspended ESAF program. Upon taking office, Reina started to negotiate with the IFIs and by January, ESAF had been restored. Later that year, a new and ambitious state modernization program was initiated, this time jointly funded by the Inter-American Development Bank (US$ 155 million) and the World Bank (US$55 million). Privatization of Hondutel was conditionality for the disbursement of the 2nd tranche.

However, prior to this, ex-vice president, prominent Liberacionista and well-known businessman Jaime Rosenthal had started a campaign to convince the government to privatize Hondutel. Through meetings with the president, paid advertisements in the newspapers, and other media appearances, he argued that the obvious solution to Honduras' urgent balance of payment problem was to privatize Hondutel. Vice-president in Cámara de Comerico e Industrias de Cortés (CCIC) Guillermo Kattán supported him, but the manager of Hondutel, the unions and university representatives countered him.

President Reina took a series of actions to get the process of privatization of Hondutel going. In February he announced that he had started talks with the militaries with respect to privatize Hondutel, and in March he declared that he had made the decision to privatize (Posas 1995). In a letter to the people of May 1994, he announced that he had established a commission to privatize Hondutel, something he saw as a historical step towards a pact between the people and the armed forces. He also appointed the first civilian manager of

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46 One example of the state of affairs is the 1991 decision to expand the telephone network with 110,000 lines. Bids were issued and Siemens gained the concession in competition with At&t. Hondutel planned to finance the project by issuing bonds through the Caribbean Basin Project Financing Authority (CARIFA). By the end of 1992, Hondutel and Siemens waited for acceptance by the CARIFA board. The decision was postponed due to pressure from At&t and when it finally was accepted it was on the condition that At&t got a supply contract of equal size as Siemens. That meant that instead of 110,000 lines, 220,000 lines would be installed and that Hondutel's debt would be equally increased. There are several explanations for the decision. One is that At&t was offended by the decision to choose Siemens because it was funded through an American financial provision. Another, and perhaps equally plausible explanation is that Siemens had bribed Callejas through a payment of US$2 million to his father. This was what At&t complained about, but the decision of choosing Siemens could not be changed because in that case it would be obvious to everyone that corruption was involved.
47 The deficit turned out to be close to 10% whereas the Callejas administration had presented a number of 6.5% to the IFIs (El Heraldo 21 January 1994).
48 Of the José Ascona government 1986-1990.
Hondutel, Mario Maldonado Muñoz (that nevertheless was a retired colonel). Reina's main mission was to curb the political power of the military and for this purpose he needed the support from the private sector. He appointed Guillermo Bueso, the owner of one of Honduras largest banks, Banco Atlantida, as the Minister of the Presidency. He also appointed Mario Agüero as the Executive Secretary for the Privatization Commission. Agüero had previously been working for the USAID and was close to Guillermo Bueso.

Meanwhile, the IFIs were busy preparing Hondutel for sale and to ensure political support for it. The World Bank's own telecommunication expert, Eloy Vidal had informal consultations with Hondutel representatives. While USAID had previously financed the Secretary for Privatization, the World Bank took over this role. The IDB and the World Bank also became the main donors for the Office of State Modernization after UNDP. UNDP on the other hand, got involved in funding UDAPE (Unit for Analysis of Economic Policy), a "governmental think-tank" established and funded by the USAID.

Although Reina's commitment to privatization was at times cast in doubt, from several of his comments it is clear that he not only saw the need to privatize Hondutel, but understood the changes in mentality that would have to follow if it were to have the desired consequences. In a seminar about privatization of public utilities in December 1994 he argued for the urgent need to privatize the private sector. By this he meant that the private sector had to start behaving "in accordance with the principles of the market economy, the rules that competition establishes, the regulations of the state and the responsibilities that the enterprises have towards the consumers of their products and services."

For a while the telecommunication reform process went on with some momentum. In the last quarter of 1995, a new telecommunication law was approved, opening for breaking the monopoly of Hondutel, and in 1996, a regulatory institution, Conatel, was established. However, the privatization bill that was sent to the congress along with the telecommunication law was rejected. By this, already there were delays in the schedule agreed upon with the IFIs.

The opposition came from several directions, and it was also less than clear that Maldonado approved of privatization. Although claiming that he was appointed to conduct the privatization process, and only opposed Mario Agüero's "fast-track" privatization strategy, he was seen as an obstacle to privatization. In January 1996, he was removed and replaced with Arturo Morales Fúnez, a previous official of the commission for state modernization. In spite of this, and in spite of the fact that the privatization of Hondutel was a conditionality for the IFIs loans, it took time. Due to Congress' fear that the privatization would not be transparent, it required it to be governed by an implementation decree. However, this had not been sent to congress before the election campaigns started in 1997, and it was postponed again when the new president Carlos Roberto Flores Facussé took power in 1998. He was the former president of the Congress, and judging from his actions in this position, nothing indicated his conviction that Hondutel should be privatized. When he took position as the President of the Republic, he decided to review the whole process. In the fall of 1998, finally the decree was

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50 Maldonado is a veteran of the reformist branch of the Honduran military. He was the leader of the National Agrarian Institute during the second part of the Arellano Lopez regime (1972-1975) when he was leading the land reform campaign.

51 During the 1980s he was a leader of the social-democratic branch of the Liberal Party (M-LIDER) and he had been persecuted during the repressive governments of the early 1980s.

52 According to several reports, Bueso managed the economic policy largely as a "private business", holding meetings of the economic cabinet and negotiations with IFIs in the boardroom of Banco Atlantida.

53 After UNDP got involved, the mandate broadened to also include social policy, and the name was changed to UNAT (Unit for Technical Analysis).

54 El Heraldo, Honduras, 11/12/94.
ready to be sent to congress. Then came Mitch and turned the priorities of the IFIs and the government upside down—for a while.

In summary, the Honduran case is one of a mix between the ascendant of a new group to increasing power (the private sector), influence by various international institutions and changing interests of the state. The consequences of the Honduran process are still uncertain, as the sale of Hondutel now is announced for May 2000. However, before going into that, let us take a quick look at Costa Rica.

Wilson (1998) has pointed out the puzzle that the social democratic party that was responsible for state involvement in the Costa Rican economy, also has been the party that in the late 1980s and 1990s pushed the neo-liberal reform aimed to diminish the role of the state in the economy. Costa Rica underwent thorough structural adjustment programs (SAPs) in the 1980s and early 1990s. A third SAP was negotiated in 1992-1994, with a World Bank SAL III (US$100 million) as one of three inter-related loans supporting it. It had five components. One of them was a public sector reform, encompassing privatization, institutional restructuring, budgetary reforms and the break up of public monopolies. The IDB’s Sector Adjustment Reform co-financed the public sector part and an IDB Sector Investment Loan (US$170 million) supported financial and capital market reform. However, the PLN took power in 1994 on a platform in which rejection of many of the reforms of SAP III formed an important part. Thus, many of the conditionalities were never fulfilled, and, after many postponements, the World Bank SAL III was finally canceled in 1995.

The early attempts to reform the telecommunication sector were made by two PLN governments. No Costa Rican government has ever proposed privatization of ICE. Rather the issue has been to open the sector for competition and to strengthen ICE in order to enable it to compete with private firms in the open market. The various proposals that have been presented have involved different degrees of autonomy for ICE and different degrees of openness in the market. The authors of the first proposals were high-ranking personnel in ICE. However, faced with opposition from the opponent party PUSC (Party for Social Democratic Unity) and a fraction of the PLN, only one change had been introduced to ICE before Miguel Angel Rodriguez took power in May 1998. This was a division of the company into one with responsibility for telecommunications (ICETEL) and one for electricity (ICELEC).

In the election campaign leading up to the February 1998 elections, telecommunication reform entered the stage both directly and indirectly. The candidate of the incumbent party José Miguel Corrales (PLN) positioned himself as a fierce anti-privatization candidate, but he also committed to the strengthening of ICE. Rodriguez on the other hand took a more moderate line. He did not advocate that he was in favor of privatization. However, neither did he oppose it, and most commentators agreed that his unspoken goal was to privatize. Indirectly, privatization was discussed in connection to finding a solution to the Costa Rican internal debt problem.\(^{55}\)

By this time, the IFIs had changed strategy. The emphasis had shifted from structural adjustment programs to technical cooperation and transfer of knowledge. In order to encourage the new government to continue reforms and prevent an impasse as a result of the

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\(^{55}\) Costa Rica has a comparably modest problem of external debt, but through the last decade the state has acquired as serious internal debt. In 1997 it was 1,000,000 million Costa Rican colones (US$ 3,436.4 million), whereas the external debt was US $ 2,654.8 (US $ 827.6 per capita). While the external debt during the last 10 years has decreased by 32 % (from US $ 3,914.0 million or US $1,501.7 per capita in 1987), the internal debt has increased by 1956 % within the same time period (from Colones 48,633.7 million in 1987). (Based on data from Proyecto Estado de la Nación, PNUD/Defensoría de los Habitantes/European Union/CONARE). Moreover, the burden of the internal debt on the governmental budget is higher due to its generally higher interest rates.
change of government, an IDB loan of US$12.7 million and a MIF grant of US$4 million for "technical cooperation for deepening state reform and opening up the finance and infrastructure sector to private enterprise" was approved in July 1997. The World Bank involvement is limited to a Trust Grant (PHRD) for technical cooperation for assisting in the preparation of a proposed Public Sector Modernization Project. As a part of this project, a team of consultants prepared a report on the possibilities for partial privatization of ICE. Later, IDB supported a program to reduce the internal debt, in which telecommunication reform entered as a conditionality.

Rodriguez had centered out reform of the telecommunication sector as a priority area, and his strategy to push the changes through was consensus building. A few days after he took power in May 1998, he created a special commission to study core problems of the Costa Rican society, among them telecommunications. This was the start of the process of "national consensus building" or "reconciliation" (concertación) launched by Rodriguez to resolve issues of main national interest.

A commission for analysis of telecommunications was established in August, and a month later the government presented to them the initial plan for reform of the telecommunication sector. However, by October 3, the deadline for submitting the reports from the commissions, telecommunication was one of three topics on which no consensus was achieved. However, after mediation, an agreement with dissent was reached on the gradual opening of the telecommunication sector towards 2002, the Law of Strengthening the ICE and the General Law of Telecommunications. The proposal was then sent to congress.

Rodriguez had launched the consensus process as a gesture similar to that of "Pepe" Figueres when he abolished the military in 1948. However, it soon became evident that in the area of telecommunications, it had not produced the desired results. During the first months of 1999, Rodriguez focused his actions on the Congress. He struggled to convince a majority of the 38 members of the central importance of the passage of the law for the future of the country, but by April it became evident that he would not succeed with that goal. On April 15 the government announced that it would change strategy and focus its attention on gaining public support for the proposals. Rodriguez launched a major campaign in television, newspapers and radio. However, according to a survey published in June 1999, also this failed as more than half of the population did not know of the reform proposals, and a majority of the population opposed liberalization of telecommunications.

The other main part of the strategy of the government was to meet with opinion leaders inside and outside of the legislative assembly, and to continue the close contact with the

56 The others were reforms of the national insurance institute and unemployment compensation, La Nación, October 3, 1998.
57 The package of law proposals that the government sent to the Legislative Assembly during the spring of 1999 (the first on January 17), had three main elements. First, The General Law of the Telecommunication Sector would ensure a gradual opening for competition towards the year 2002, and a new autonomous regulatory institution for the telecommunication sector, IRETEL, would be set up. (Proyecto Ley general de Telecommunicaciones, Exp. N° 12.694) In broad lines, this proposal was very similar to the one presented in 1996 by the Figueres government, that ICE itself had drafted (Proyecto de Ley de Fortalecimiento y Transformación del ICE, Comisión Especial ICE, Ex. N° 12753). Second, the law of institutional strengthening of ICE would give it full administrative, technical and financial freedom and subject it to the regime of private companies (Proyecto de Ley de Fortalecimiento y Transformación del ICE, Comisión Especial ICE, Ex. N° 12753). The third element was a constitutional reform required in order to be able to transform ICE from an autonomous institution, to a public enterprise required for submitting it to a regime of private law. A constitutional reform was also needed in order to open the sector for competition, as ICE had a constitutional monopoly on all services (except from value-added).
management of ICE. On August 26, Rodriguez met with the three most recent ex-presidents, Oscar Arias, Rafael Angel Calderón and José Maria Figueres and high on the agenda was the telecommunication reform. On the other hand, the director of ICE and high level advisors repeatedly reassured their support for the proposals publicly, and they emphasized the measures they would have to take if the reform proposals were not approved. Also this strategy bore little fruit. By September 1999 it was clear that the process had reached another stalemate.

In summary, in the case of Costa Rica, IFIs have been relatively less important than in the other cases both in terms of actual economic involvement, and learning. Elite learning has been important, but not easy in a system in which the SOT has had an important role in national cohesion, as the diamond among the family jewels, and as extending Costa Rican egalitarianism and democratic institutionalism. Although as of February 2000, there are signs that the telecommunication reforms will move forward, it is too early to talk about "reinterpretation" of the telecommunications norms in Costa Rica. Thus the following section will be focused on Guatemala and Honduras.

The process of reinterpreting "privatization": decision making and the post-privatization game

In Guatemala, the CIEN-PAN team, supported by USAID, took actions to move the telecommunication reform agenda fast. A nine-month plan was elaborated for reforming the telecommunication sector and selling a majority of the stocks of Guatel. Pablo Spiller supervised the technical team established to work on the reforms. However, during the process, several changes were made to the initially liberal model.

One of the first things that happened was that the World Bank got largely excluded from the process. Shortly after taking office, governmental representatives went to the World Bank and presented their plans for reform of telecommunications. They were met with disbelief. Disappointed by lack of progress with respect to other reforms, of the 20-25 people present only a couple had any faith in the plans presented, and the proposal to provide a telecommunication loan was not accepted. Instead a "Christmas-three-loan" was proposed with various components included. Later during the winter of 1996, a meeting was held in Guatemala where the World Bank representatives offered technical assistance and a loan to pay for the workers' severance compensation related to privatization. However, at this point the Guatemalans had lost patience and rejected the offer. The justification given was that they wanted a fast process. If they had to do at the World Bank's pace, the process would take at least two years.

However, it took considerably longer than anticipated by the team, and in the process both the goals and ideas of the telecommunication sector changed. The first problem was that as Guatel was an autonomous institution, a 2/3 majority in the congress was required to dissolve it. Initially, PAN had assumed support from the main opposition party, the

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60 La Nación, Costa Rica, 27/8/99.
61 One example is the argument made by president of ICE, Rafael Sequeira in March 1999 that if the reform was not passed, he could not rule out the possibility of tariff increase in order to acquire the US $ 1.000 million estimated to be required for new investments (La Nación, Costa Rica,17/3/99). Another example is the declaration by special advisor to ICE Juan Manuel Campos on April 21 1999 that unless reforms were passed, ICE could not fulfill the requirements of the presidential decreee of December 14 1998, demanding that the ICE resolved the problem of unsatisfied demand within one year. At that point, 40,025 applicants were on a waiting list for getting a new phone line (La Nación, Costa Rica, 4/22/99).
62 Interviews with three of the people present at the meeting.
conservative Guatemalan Republican Front (FRG) that had promoted privatization strongly during the election campaign. However, it became clear that FRG for political reasons would reject the privatization bill. Thus PAN decided to pass the telecommunication law, and in consequence open the sector for competition before privatization. The telecommunication law passed in October 1996.

However, the opposition from FRG could not have come as a complete surprise to PAN. Earlier in 1996, Alfredo Guzmán contacted Eduardo Mayora, a well-known lawyer that had assisted Manuel Ayau in his short period as a “privatizor” under the Ramiro de León government. The goal was to come up with juridical solutions if a 2/3 majority for privatization could not be obtained. Mayora worked out a model for transferring the assets of Guatel to a stock holding company Telgua, of which majority of stocks would later be sold to a private investor. In June 1997, the decree opening for the establishment of Telgua was issued. A public auction of TELGUA was planned for September 1997. However, it was postponed three times before it finally was to take place on December 15. When it did, it was within a revised framework. An amendment to the telecommunication law was approved in November 1997, making a number of changes to the original law. First, it extended TELGUA’s monopoly until at least January 1999, and possibly July 1999 if conditions warranted. Second, it required international service providers to pay an unusually high and discriminatory accounting rate of 70% to TELGUA allowing TELGUA to discriminate among international carriers and local service providers. Third, it removed the requirement for number portability from the 1996 law (Cohen 1998). In short, it would make the telecommunication sector less competitive than would the 1996 law.

There are three explanations for these changes. First, fiscal considerations, which had been downplayed in the initial phases, entered onto the agenda. Whereas competition and efficiency had been emphasized originally, now the government wanted to kill two birds with one stone and use the proceeds from the sale of Guatel also to alleviate the increasing fiscal problems. By decreasing competition, one hoped to increase the price obtained for the company. The increasing concern for the price was not only based on a concern for the fiscal situation. The government was also worried that if it sold Telgua too cheaply, it would be criticized for giving away the family jewels. Moreover, the investment bank that was hired to prepare for the sale, J.P. Morgan, pressed for a higher price. A third motivation for decreasing competition was that the Guatemalan private sector were turning their interest to the telecommunication sector, and PAN was increasingly split on the issue.

At the auction day, it still came as a surprise when the government declined from accepting the only offer it received of US $ 529 million from TELMEX for 95% of the stocks. The auction was rescheduled for April 1998 with the rules reconfigured to allow a consortia without an experienced operator to bid. It was postponed until July 1998 and again until September 1998. Seven companies or consortia had pre-qualified. However, on

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63 Interview, Alfredo Guzmán, 12/19/99.
64 Interview, Eduardo Mayora, 11/11/99. Guatel still exists as a governmental company with responsibility for rural infrastructure. The model used the Lay de Converción to transform Guatel into a “unitary patrimony” a type of institution new to the Guatemalan law. This legal procedure has been widely criticized and subject to legal inquiries, one of which is still ongoing (see FDNG 1999 and Rodas 1999).
65 Instead of marginal, current costs, it was set to be historical, average costs. In short, this would mean that the cost of interconnection that the incumbent carrier was allowed to charge would be significantly higher.
66 Interview Edmundo Urrutia, the Presidential Secretary for Social Communication, 11/17/99.
67 One observer put it as follows: “The problem was that the PAN members did not want to sell Guatel, they wanted to buy it”.
68 Also Southwestern Bell, MCI, GTE, and France Telecommunications had pre-qualified.
69 Among the companies or consortia that expressed interest in the second attempt to sell the company were
September 29, shortly after an announcement that the bidding was suspended, the government unexpectedly reopened the auction process and awarded 95% of the shares to Luca, S.A for US $ 700.1 million on October 1, 1998. Luca, S.A. is a consortium comprised of Guatemalan and Honduran investors. It is 75% Guatemalan and 25% Honduran, and none of the investors had experience from the telecommunication industry. Luca, S.A. failed to fulfill the requirement set by the government to have an agreement with an international telecommunication carrier for the provider of international services. However, shortly after the sale it reached an agreement with TELMEX that it would be the company's operator for five years, running TELGUA's long distance service and investing in the company's cellular and data services operations.

Another change that had been made in the process was that SIT that was originally planned as an autonomous institution was placed under the Ministry of Transport and Communication. This was also due to the failure of getting the 2/3 majority in congress needed for establishing or dissolving autonomous institutions. However, during the first years of its operation another dependency seemed more detrimental to its operation than the formal dependency of the Ministry: the first superintendent was a member of PAN, but had a lower position than Guzmán in the party hierarchy. Few believed he would ever seriously interfere with Telgua's affairs. The first test on the viability of the liberal framework in the Guatemalan context came in late 1998. Telgua had signed a contract for interconnection to its infrastructure with 14 operators before the sale, but refused to effectuate it due to alleged "technical problems". The operators turned to the IDB and USAID to get backing for their claims. SIT could only intervene upon formal complaints from the companies, and according to the superintendent, he did not receive any such complaints. The companies, he argued, "did not want to fight with the chef". However, when José Toledo took over as SIT he announced that his main job was to solve the problem with interconnection. With support from the USAID, he arranged for a telecommunications expert to examine the technical problems. Upon confirming that there were no technical reasons for denying interconnection, he announced that Telgua would be fined and by the summer of 1999, the problems were largely resolved.

In summary, what happened in Guatemala may be argued to be a reinterpretation and readaptation of the norms and ideas initially pushed by the IFIs and the USAID, in order to accommodate fiscal interests, economic interests of the national private sector, and political motives of PAN. The outcome in terms of telecommunications services is unclear. One has succeeded in terms of attracting foreign companies to the telecommunication sector, and of expanding the number of lines. Currently, there are 7 companies offering basic services and 4 offering cellular services in Guatemala. The number of cellular lines in operation has increased from 40,000 in 1995 to 250,000 in 1999, and the total number of lines has increased to 7/100 inhabitants (Segeplan 1999). However, the development is highly concentrated in urban areas, and the price adjustment has increased the price of the monthly subscription (by 400%) and local calls hurting primarily the lower middle classes. However, the most negative effect of the sale has been on regime support. The sale of Telgua was questioned for being corrupt, lacking transparency and violating the constitution, and it became a big problem for PAN in the elections of December 1999. According to an inquiry of January 1999, there was support for privatization in the general population, but little confidence that the politicians would manage privatization in a transparent way. In the end it turned out that the democratic reach that

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70 Grupo Bancrere; Centrans international; Optimal Investment Financial; and Grupo Finsa Banco Americano.
71 Various interviews, a.o. with Silvia de Cordoba, former USAID project manager, 12/6/99.
72 Interview, 11/10/99.
73 Prensa Libre, Guatemala, 1/31/99.
never had included operations of telecommunications when it was state owned, would fail to so also as Telgua became a private company.

In Honduras, the model that was promoted was from the start different than the Guatemalan model. Initially the idea was to sell 47% (later increased to 49%) to a strategic investor that nevertheless would get control over the company through majority on the board (Agüero 1995). The second major difference from the Guatemalan model was that the incumbent carrier would get a seven years exclusivity on basic telephone services. Furthermore, the SIT would get a strong and autonomous role, and specific goals for extension of services to rural areas were set up (although the development plans would be discussed with the investor).

In the immediate aftermath of Mitch, the new privatization decree was passed. The amount of shares to be sold to the strategic investor was set to 51%, and the executive was given full autonomy to conduct the process. However, these changes were not the most important for the process. It may be argued that what affected the process most profoundly was not a result of active actions, but rather of non-actions. Due to technological developments, the model with 7 years monopoly promoted in Honduras was seen an obsolete by the late 1990s. It was viewed as placing unnecessary obstacles on competition and thus decrease efficiency. Yet, no changes were made to the model before bids were issued in late 1999. In order to understand how the Honduran telecommunication sector was affected by changes made in this phase, two issues need to be explained. First, why the process took so long. Second, why no attempts were made to change the model to make it more up to date, when facing that the sale of the company would happen four years later than originally planned.

First, why did it take so long? Several factors contributed to this. One was the difficult negotiation with the labor unions. Another one was "feet-dragging" by congress members and government representatives accustomed to tapping Hondutel resources to cover up budget deficits, or raising support through initiation of telecommunication projects in various communities.

Second, why did nobody try to change the model due to the delay? There are two answers to this. First, the private sector, which had been among the main proponents of privatization saw the whole process as too fragile to be touched. Their main concern was to ensure the sale of Hondutel. If the model was not perfect, it would have to be tolerated because anything was better than the current situation in which the telecommunication sector operated on the mercy of Hondutel's will.

However, one should believe that the IFIs had the power to change the premises of the process. After Mitch, the country was in a desperate economic situation. The damages to infrastructure and productive capacity added to the huge need for capital. In spite of the debt relief initiatives in the early 1990s, Honduras had a US$ 4 billion debt burden and debt service/GDP ratio was between 5.4% and 8%. Several bilateral donors talked about debt relief, but Honduras did not fulfill the requirements for getting the benefits of the multilateral Highly Indebted Poor Countries (HIPC) debt relief initiative. However, after modifications of the requirements for access to the debt relief mechanism were approved in mid 1999, Honduras had a chance to enter and in December 1999, the World Bank gave final approval. In

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74 This accords with Scultz and Scultz' (1994) description of the Honduran strategy in resisting following up the US foreign policy interests in the 1980s: "obedezco pero no cumplo" (I obey but I don't comply).

75 Interviews Antonio Tavel Otero, Chairman of the Board, Celtel, 11/24/99, and and Ramón Medina Luna, General Manager, Celtel, 11/25/99.

76 The former is numbers from Secretaría de Finanzas, Honduras (1999), the latter is based on IDB (1998) and World Bank (2000).
order to be eligible, Honduras was asked to comply with the conditionalities of the current ESAF. There were several elements involved, but privatization of Hondutel was seen as a pivotal issue. It was not only one of several conditionalities, but came to be seen as a major test on the willingness of the government to proceed with reforms. Eligibility for HIPC would mean that approximately 40% of Honduras US$ 4 billion debt (some US$ 2.8 billion or more than four times Honduras' GDP) would be cancelled.

With this leverage one would think that the IFIs could dictate the terms if they wanted. However, there was little willingness to do so. This was due to a mix of factors, where internal dynamics of the IFIs have to be taken into account. The World Bank and the IDB differ with respect to their style of management of adjustment policies. IDB has large country offices with a relatively low rate of turnover. Policy makers in the borrowing countries know IDB for going into more detail than the World Bank with respect to conditionalities. The World Bank is more concerned with the big picture macro economic management. This lack of interest for details were in the Hondutel case coupled with a desire to execute the loan with no further delays. Thus, due to a split between the IDB and the World Bank, no objections were made to the current model of privatization that was promoted.

However, although the model of privatization that will be implemented may seem obsolete, the prospect for an improved telecommunication sector is far from gloomy. A major achievement of the reform has been to establish Conatel. The only private company currently operating the telecommunication sector, the cellular company Celtel, views the existence of an institution to which private operators can complain as a blessing. Although its capacity is still viewed as insufficient, its existence is viewed as a good beginning to establish a framework for more efficient production of telecommunication services.

**Conclusion: Facilitating the leap into the information age or perpetuating structures from the past?**

Telecommunication reform is not an easy case if we want to argue for the virtues of learning and socialization an neither is the influence from IFIs. Most studies of the power of ideas focus on issues that are less imbued with material interests than the telecommunication sector. Moreover, they are concerned with issues in which the material kick-offs are limited or non-existent. Sticks (conditionalities) and carrots (loans and grants) often parallel the transfer of ideas from IFIs. Thus it may be difficult to disentangle the learning process from various forms of domestic and international pressure. In this paper I have attempted to do so through a detailed study of the process of placing telecommunication privatization on the agenda.

The conclusion is that in Guatemala, where you have autonomous elites although not an autonomous state, elite learning was important in the agenda setting phase. Through the transfer of ideas from international organizations (partly through their domestic funding recipient, CIEN) the interests and ideas of state elites, and private sector elites with later came to power were changed. However, part of the elites had material interests in the telecommunication sector and this affected the implementation of the privatization policy. The fact that Guatel has never been public in the sense that there has been an effective popular

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77 Interviews with representatives for the IDB, the World Bank and the American Embassy.

78 From the policy maker perspective, according to my research, this has both negative and positive consequences. On the one hand, policy makers appreciate the knowledge of the specific country context. On the other hand, the IDB's interest in often viewed as undue interference with internal matters.

79 Interview, Ramón Medina Luna, general Manager, 11/25/99.

80 The issues studied most frequently are humanitarian issues such as respect for human rights, rejection of use of landmines or forms of weapons.
control of its actions and dispositions affected the process as well as the outcome. With respect to outcome, privatization of Guatel has had favorable impact on efficiency and extension of services in urban areas. However, it has not improved access for the majority of poor Guatemalans significantly. Moreover, the process has had a negative impact on the legitimacy of the Arzú government, and possibly also on the long-term legitimacy of the state. Thus, the Guatemalan government has not been successful in shifting the platform of legitimacy in which telecommunications play a part from coercion and patrimonialism to service production and democratic reach.

In Honduras, elite learning has been less important, and the shift in policy towards privatization may rather be interpreted as a combination of the increasing strength of the private sector and pressure from a united donor community. However, parts of the donor community has been more concerned with privatizing Hondutel and thus avoiding further delays in their projects, than with ensuring a real change of norms in the telecommunication sector. It remains to be seen whether the Honduran state is able to shift support base from coercion and patrimonialism to service provision and democratic reach, through a transparent policy and improved services for a majority of the population.

In Costa Rica, the process has come too short to draw conclusions. The starting point here has been a SOT that has played a role in democratic reach, service provision, egalitarianism and national cohesion. In the Costa Rican case, elite learning is necessary if change is to come about, and this has been a difficult process. The IFIs have been less important in this case, but tried to cave out a role in transfer of knowledge and ideas.

The main conclusion with respect to IFI policies is that more emphasis should be placed on following up the policy changes that they promote. It is not enough to ensure that the decision to privatize is made. It is crucial to ensure that "the public" is established along with privatization. In Guatemala and Honduras, the telecommunication companies have never been public in the sense that the population has had access to information and that their opinions as consumers and citizens have been taken into account in the operation of the SOTs. IFIs have a responsibility to ensure that the same will not be the case after the companies are privatized. If they do not succeed in this, they risk perpetuating the power structures from the past rather than facilitating the leap into the information age.

In order to do so, they need to place more emphasis on the implementation phase. Currently, the incentive structure of the IFIs does not encourage this to happen. However, that is a topic for a different paper.
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