

11-16-2000

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Recommended Citation

LADB Staff. "Honduras Cancels Telephone Company Privatization Due to Lack of Bidders." (2000).
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Honduras Cancels Telephone Company Privatization Due to Lack of Bidders

by LADB Staff

Category/Department: Honduras

Published: 2000-11-16

The Honduran government failed in its efforts to privatize the telecommunications company Empresa Hondurena de Telecomunicaciones (HONDUTEL) in October and will have to start the bidding process all over next year. The only bidder, Telefonos de Mexico (TELMEX), offered US \$106 million, far below the government's target of US\$300 million. The sale had been postponed four times this year.

HONDUTEL has been a profitable company, earning US\$28 million per year, but the International Monetary Fund (IMF) has been pressing Honduras to privatize it since 1994 (see Chronicle, 1994-05-26). The government's privatization commission is attempting to sell 51% of HONDUTEL. The government is to retain 46% and 3% is earmarked for HONDUTEL workers and for investment in various social projects. The concession would be for 25 years (see NotiCen, 2000-02-24).

Under legislation governing the sale, 60% of the income from the concession would go into a special trust account in the Banco Central de Honduras (BCH). Interest earned by the fund over the next 20 years would be invested in a plan for improving public education.

Explanations for the relative lack of interest in HONDUTEL vary. Mario Canahuati, former president of the Camara de Comercio e Industrias de Corte (CCIC), said the failure to find a buyer at a price attractive to the government shows that Honduras has a poor image among foreign investors.

Companies in the US and Europe were expected to bid but did not do so. He recommended chopping up HONDUTEL and selling its components separately. Others suggested the terms of the sale were too daunting to investors. Bidders had to show their companies had annual sales of at least US\$1.25 billion and operate at least one million telephone lines. The winning bidder would also have to absorb HONDUTEL's US\$124 million debt, invest US\$600 million to modernize the system, and extend telephone service to underserved rural areas.

At present, HONDUTEL operates 240,000 lines with a backlog of demand for 300,000 more. Honduras has less than four lines per 100 inhabitants, while 3,000 communities with populations of more than 500 have no telephone service. HONDUTEL manager Rodolfo Breve said he had already sent out feelers to Telefonica de Espana and France Telecom for the next round of bidding. The two firms participated in the preliminary stages of bidding this year but backed out at the last minute. Breve said the asking price is still US\$300 million.

To sweeten the privatization offer, the government could invest US\$1.5 billion to modernize HONDUTEL. But Minister of the Presidency Gustavo Alfaro rejected the idea, saying that to use international credit on telecommunications would take away funds badly needed to improve the

social infrastructure. As an alternative, Breve suggested that the legislature change the rules of bidding to permit Honduran firms to participate. Under current legislation, bidding is open only to foreign firms. [Sources: CNN, 10/16/00; La Prensa (Honduras), 06/18/00, 09/15/00, 10/16/00, 10/17/00, 10/19/00; Notimex, 05/22/00, 07/14/00, 07/30/00, 10/17/00, 11/06/00; Spanish News Service EFE, 11/13/00]

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