INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GUYANA

Final Document on the Initiative for Heavily Indebted Poor Countries (HIPC)

Prepared by the staffs of the Fund and the IDA[1]
(In collaboration with the staff of the IDB)

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EXECUTIVE SUMMARY

- Guyana has established an impressive track record of performance under six successive annual Fund-supported programs and under IDA and IDB structural adjustment credits which led to three Paris Club rescheduling operations (1991–95) and a stock-of-debt operation on Naples terms in May 1996.

- Despite the relief from past debt operations, the fiscal burden of Guyana's external debt remains onerous, with a net present value of debt-to-government revenues of 469 percent in 1996. In this regard, debt relief potentially available for Guyana under the HIPC Initiative would free up fiscal resources that would help accelerate the process of reform and support the strengthening of social expenditure in the critical areas of education, health, and poverty alleviation.

- During the discussions of the preliminary HIPC documents by the IDA and Fund Boards in September 1997, Executive Directors agreed on a preliminary basis that Guyana should be eligible for assistance under the HIPC Initiative and a decision point could be reached by November 1997 at the time of completion of the midterm review under the third annual program under the ESAF. Directors generally felt that an exceptional shortening of the second stage was justified. While the views of Directors in the IDA Board were diverse, the majority supported a completion point in late 1998. In the IMF Board, views on the completion point were closely divided; many Directors supported a completion point in November 1998 conditional upon the accelerated implementation of key reforms but a number of other Directors preferred a two-year interim period, given the time needed to complete the critical structural and social reforms identified in the preliminary HIPC document.

- In recognition of Guyana's strong policy track record and the authorities' firm commitment to accelerate the implementation of key structural reform measures in the areas of privatization, the public sector, civil service, budgetary and debt management, and social sectors and poverty alleviation, the staffs and managements of the Fund and the Bank regard the policy objectives and measures incorporated in this report as appropriately ambitious and constitute bold and decisive steps to bring Guyana to a sustainable growth path. Thus, it is recommended for Executive Boards' approval: (i) a decision point in December 1997 in conjunction with the completion of the midterm review under the third-year annual ESAF arrangement; and (ii) a shortening of the second stage to one year after the decision point for a completion point in December 1998, conditional on the successful implementation of the reform program.

- In addition, Executive Directors' approval is sought on an NPV of debt-to-exports target consistent with an NPV of debt-to-revenues target of 280 percent at the completion point.

I. Introduction

1. This paper presents the final assessment of Guyana's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC). It summarizes the debt-sustainability analysis (DSA) discussed earlier by the Fund and IDA Executive Boards, describes the policy reforms to be pursued under Fund- and IDA-supported programs—including structural and social development targets that would be monitored during the interim period between the decision and completion points, and reports on the consultations with Guyana's creditors and their commitment to deliver on the intended assistance by the completion point.

2. In the discussions in the IDA and Fund Executive Boards on the preliminary HIPC Initiative documents,[1] Executive Directors agreed that Guyana should be eligible for assistance under the HIPC Initiative given its strong adjustment record over an extended period of time, its receipt of Paris Club relief in a stock-of-debt operations on Naples terms, its highly open economy (with an exports-to-GDP ratio of more than 40 percent), and still heavy fiscal burden of debt despite strong revenue efforts (indicated by a revenue-to-GDP ratio of more than 20 percent), and its status as an ESAF eligible and IDA only country; and that a decision point could be reached by November 1997. Directors of both institutions expected the completion of the midterm review under the third year ESAF and an agreement reached on the structural and social reform agenda by the decision point. Regarding the possible completion point, Directors generally felt that an exceptional shortening of the interim period was justified given Guyana's long record of adjustment and reform. While the views of the IDA Board were diverse, the majority supported a completion point in late 1998 and insisted on continued strong policy performance. In the IMF Board, views on the completion point were closely divided, many Directors favored a shortening of the interval between the decision and completion points by two years to November 1998, conditional upon the accelerated implementation of key reforms by then, but a number of Directors preferred a two-year period between the decision and completion points, given the time needed to complete critical structural and social reforms. As Guyana is requesting assistance under the fiscal/openness criteria, Directors of both institutions supported on a preliminary basis the staff recommendation of a target of 105 percent for the net present value (NPV) of debt-to-exports ratio—consistent with a target of 280 percent for the NPV of debt-to-government revenues at the completion point.

3. In November 1997, the Board of the IDB agreed to provide assistance to Guyana under the HIPC Initiative. At that time, a majority of the IDB Executive Board members supported a completion point of one year after the decision point and a target of 280 percent

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[1]The preliminary documents were issued on August 12, 1997 in the Fund as EBS/97/145, and on August 13, 1997 in the IDA as IDA/SecM97–401. Executive Board discussions on Guyana's case were held in the IDA on September 2, 1997 and in the Fund on September 3, 1997.

for the ratio of the NPV of debt to central government revenues. The IDB is still considering the modalities of financing its participation in the HIPC Initiative.

II. SUMMARY OF DEBT-SUSTAINABILITY ANALYSIS

4. The long-term macroeconomic and balance of payments prospects for Guyana, as discussed in detail in the preliminary HIPC Initiative documents for Guyana (EBS/97/145 and IDA/SecM97–401), have been updated in line with the recent developments and latest WEO assumptions, and the results remain broadly unchanged. This section summarizes the key assumptions and conclusions of the DSA (Box 1).

Box 1. Assumptions Used in the Debt-Sustainability Analysis (DSA)

- Average real GDP growth rate is projected at about 6 percent a year in 1997–2000, and about 4½ percent a year thereafter. Growth in the production of traditional crops is expected to slow down after 2000 due to the closing of some sugar estates and reduced access to preferential marketing arrangements from the EU. Growth in the nontraditional sectors—especially light manufacturing—and expansion in gold and timber production would provide the impetus for continued high growth in the outer years.

- Investment by the private sector is projected to increase sharply in the outer years, principally in connection with new mining and timber projects to replace existing ones that are to be completed in the next three to four years. As these projects are very capital intensive, especially in the initial years, the improvement in the overall GDP growth rate is expected to lag somewhat.

- Inflation is projected to decline to about 3 percent by the year 2000 and to be maintained thereafter at the rate prevailing in partner countries. As a result, per capita GNP at 1996 prices would increase from US$710 in 1997 to about US$1,200 by the year 2016.

- Real export growth would be at an average of about 5 percent a year during the projection period reflecting strong growth in the primary sectors of gold, timber, and nontraditional exports, notwithstanding the closing of some sugar estates and reduced preferential access to the EU market.

- Import growth is projected to be slightly below that of real GDP, reflecting initial significant gains in efficient import substitution with the composition shifting in favor of imports of capital and intermediate goods and away from consumer goods. The income elasticity of imports would increase from 0.62 in 2002 to 0.73 in 2006 and would reach 0.97 by 2016.

- Net private transfers are projected to remain constant in real terms, while services are projected to benefit from lower interest payments and from expansion in travel and communications services arising from ecotourism activities.

5. The long-term framework agreed with the authorities is based on the continuation of sound macroeconomic policies, deepened structural reforms, the pursuit of an ambitious social development agenda (especially in education and health), and the fostering of an environmentally sustainable development that provides for the prudent use of Guyana’s natural resources.

6. Based on the above assumptions, the external current account deficit (excluding official transfers) would decline from about 10 percent of GDP a year in 1997–2000 to 4½ percent of GDP a year in 2007–16 (Appendix I). Regarding the capital account, the macroeconomic scenario envisages less reliance on official external financing, but higher levels of private direct investment, including in new gold and timber concessions. Gross international reserves relative to imports of goods and nonfactor services are projected to decline from the equivalent of five months in 1997 to about two months in 2006 and to about three months thereafter. This pattern would in part reflect the sizeable amortization of external debt that would use some of the accumulated international reserves.[2]

7. Under this scenario, the NPV of external public and publicly guaranteed debt to exports of goods and nonfactor services would fall from 180 percent at end-1996 to 143 percent in 1997 and 46 percent by the end of the projection period in 2016 (Table 1). The decline in the NPV ratio over the medium term would reflect the sizeable amortization payments mentioned above, robust export growth, and highly concessional financing. The ratio of external debt service to exports of goods and nonfactor services over the period is projected to decline from 17 percent in 1997 to 12 percent by 2000, and to 5 percent by 2016. The NPV of debt-to-government revenues ratio, which stood at 469 percent in 1996, is estimated to have declined to 374 percent in 1997 and is projected to remain above 280 percent until 2002. Public external debt service, which was 42 percent of government revenues (excluding grants) in 1996, is estimated at 48 percent in 1997 and would decline to 32 percent by 2000 and to less than 20 percent by 2008 (Appendix II).

[2] Including the maturing of some US$30 million in commercial bonds which arose from the restructuring of long-standing suppliers' arrears in 1992.

Table 1. Guyana: Key Public Debt Ratios Under the Baseline Scenario, 1996–2016

(In percent)

	1996	1997	1998	1999	2000	2010	2016	Average 1997-2016
Debt service								
As a percent of exports 1/	14.6	16.7	13.2	12.1	11.8	5.1	4.6	8.4
As a percent of revenues 2/	42.4	47.7	36.4	32.8	31.7	14.6	13.5	23.1
NPV debt/exports ratio 3/	180.4	143.0	134.6	128.7	120.1	62.8	45.5	84.6
NPV debt/GDP	160.5	127.3	115.3	108.6	100.4	50.5	34.0	70.1
NPV debt /revenues 2/	469.4	373.9	348.0	326.4	301.6	170.0	126.5	220.7
Exports/GDP 3/ 4/	102.1	98.8	95.7	92.5	90.1	85.7	80.1	87.4
Revenues/GDP 2/ 4/	33.2	33.6	33.0	32.3	31.7	28.9	25.6	29.8
Memorandum items:								
NPV debt/exports								
Excluding enclave sector 5/	210.5	161.9	152.8	149.2	140.5	77.6	56.6	101.1
Including private sector debt 6/	208.5	169.4	159.9	153.4	144.1	78.2	52.6	102.7
Workers remittances/exports	4.0	3.9	4.0	4.0	4.0	4.2	4.5	4.2

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Exports are defined as current year exports of goods and nonfactor services excluding workers' remittances.
2/ Based on central government revenues (without grants), valued at end-1996 exchange rate.
3/ Exports are defined as simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances.
4/ Simple historical three-year averages.
5/ With exports defined to include only the net inflows to Guyana from the gold and timber operations of the foreign companies.
6/ Private sector debt excluding debt of foreign subsidiaries to their parent companies.

8. The vulnerability analysis undertaken in the preliminary HIPC document for Guyana remains valid (Table 2). The analysis concluded that Guyana could be considered as faced with greater vulnerability than its comparators in relation to the fiscal burden of its debt and its debt relative to GDP (as would be expected for a country that is eligible for assistance under the fiscal/openness criteria). However, Guyana is less vulnerable under other indicators, including those of its external position.

Table 2. Guyana: Summary of Key Vulnerability Factors, 1995

		Mean For	
	Guyana	Group A 1/	HIPCs
Debt service/government revenues 2/	64.8	27.3	57.2
Debt service/government expenditure 3/	43.0	20.1	35.9
NPV public debt/GDP	317.0	92.8	125.2
Government revenues/GDP	31.6	15.3	13.4
Percent share in exports			
Main product (sugar for Guyana)	20.6	37.0	35.4
Three main products 4/	49.6	54.0	52.4
Variability of exports	17.5	21.9	20.2
Noninterest current account/GDP	-4.6	-8.1	-8.3
Reserve coverage (months of imports) 5/	4.5	4.5	3.0
Tax revenue/GDP	31.6	12.4	13.4
Official grants/GDP	1.9	4.8	4.7
Primary balance/GDP 6/	4.4	-2.7	-2.9
Memorandum item:			
Interest payments/GDP	10.2	5.1	5.2

Sources: EBS/97/59 (4/1/97); and Fund and Bank staffs estimates.

1/ This group include countries that have a track record of good policy implementation and have received a stock-of-debt reduction on Naples terms from the Paris Club. They are Benin, Bolivia, Burkina Faso, Mali, and Uganda.
2/ Central government revenues (excluding grants).
3/ Central government.
4/ Sugar, rice, and gold for Guyana.
5/ Imports of goods and nonfactor services.
6/ Overall balance excluding interest payments.

III. Guyana's Track Record

9. To be eligible for assistance under the HIPC Initiative, a country has to establish a strong track record under Fund and IDA-supported programs. Guyana's track record was described in detail in the preliminary HIPC documents for Guyana (EBS/97/145 and IDA/SecM97–401). In assessing Guyana's performance, Directors acknowledged its strong

track record in implementing macroeconomic and structural reforms since 1988. In particular, Guyana has successfully implemented an economic stabilization and restructuring program based on sound financial policies and far-reaching structural reforms that were designed to reduce the severe macroeconomic imbalances that had emerged in the 1980s and to promote economic growth that would alleviate the widespread poverty. The Fund supported Guyana with technical assistance at the beginning of the stabilization and structural adjustment efforts and with financial assistance through a one-year stand-by arrangement in 1990, and arrangements under the ESAF that covered the period 1990–93, followed by ESAF successor arrangements that covers 1994–98.[3]

10. The World Bank supported Guyana's efforts through a series of financial and technical assistance programs beginning with a structural adjustment credit in 1990. At present, IDA has seven projects, including the quick disbursing Private Sector Development Adjustment Credit, and an Institutional Development Fund grant under implementation. The Inter-American Development Bank (IDB) also supported Guyana's stabilization and structural adjustment programs over the years, focusing on the rehabilitation of the social and physical infrastructure, the improvement of the policy environment, and the strengthening of key institutions. The Caribbean Development Bank (CDB), the European Union (EU), and bilateral donors also provided technical and financial assistance.

11. The program for 1997 was designed in line with the government's medium-term economic strategy that seeks to foster the conditions for sustained growth, higher employment, and the alleviation of poverty. Accordingly, the macroeconomic objectives for 1997 were: (i) a real GDP growth of 7 percent; (ii) a reduction in inflation to 4 percent; (iii) an increase in the primary current balance of the public sector to about 24 percent of GDP; and (iv) the maintenance of gross official international reserves at the equivalent of about five months of imports of goods and nonfactor services. To achieve these objectives, the program emphasized the strengthening of the overall public sector position in large part through the implementation of measures to improve tax administration, contain expenditure, and intensify reforms in the key public enterprises and the financial sector.

12. Macroeconomic performance in 1997 was broadly in line with the program (Table 3). All the quantitative and structural performance criteria and benchmarks for the first half of the year were observed, except for the completion of the regulatory framework for the state-owned sugar company (GUYSUCO) and the sale of the National Bank for Industry and Commerce (NBIC). The delay in the preparation of the regulatory framework for GUYSUCO was due to the unavailability of external consultants acceptable to both the authorities and the IDA. The regulatory framework has now been defined satisfactorily to the IDA and its adoption by the government is expected in early 1998. The delay in the sale of the NBIC was due to a private sector court injunction but the sale was completed in October 1997.

[3]The Executive Board approved the third annual arrangement under the current ESAF on April 16, 1997 (EBM/97/39)—staff report (EBS/97/56, 4/2/97) and associated Policy Framework Paper (EBD/97/33, 4/2/97; or SecM97–251, 4/9/97).

Table 3. Guyana: Indicators of Performance Under the Program 1/

	1994		1995		1996		1997	
	Prog.	Act.	Prog.	Act.	Prog. 2/	Act. 2/	Prog.	Est.
	(Annual percent changes, unless otherwise specified)							
National income and prices								
Real GDP	6.0	8.6	5.5	5.0	6.7	7.9	7.0	6.1
Consumer price index								
Annual average	10.4	13.6	12.0	12.3	7.7	7.1	5.5	5.5
End of period	10.1	16.1	7.5	8.1	5.6	4.5	4.0	4.0
External sector								
Export volume	-1.0	12.3	6.9	-1.7	6.4	12.1	13.8	16.4
Import volume	6.0	-7.1	18.2	-3.6	14.3	0.5	9.6	23.2
Terms of trade	3.5	-12.4	-0.7	2.5	-8.2	-5.1	-6.9	2.3
Money and credit								
Net domestic assets of the banking system 3/	19.2	7.5	17.4	25.1	-77.7	-80.0	-45.2	-35.1
Credit to the public sector (net)	0.6	-19.8	-0.5	1.0	-8.5	-16.9	-14.1	-13.0
Credit to the private sector	7.5	10.7	11.0	18.7	9.4	30.8	11.4	9.8
Broad money	16.5	17.2	11.3	26.1	10.3	16.7	10.5	6.2
	(In percent of GDP)							
Public finances 4/								
Primary current balance 5/	18.2	16.0	19.0	22.6	22.2	23.2	23.8	23.7
Overall balance	-8.4	-5.7	-6.8	-4.0	-4.7	-3.1	-4.4	-4.4
Nonfinancial public sector 6/								
Interest obligations	9.6	10.1	10.2	10.2	9.0	7.6	10.4	9.2
Current balance	10.8	10.5	12.7	14.2	15.0	16.5	13.0	14.4
Capital expenditure	17.0	11.6	15.6	16.4	17.9	18.7	17.8	18.9
Overall balance	-6.2	-1.1	-2.9	-2.2	-2.9	-2.2	-4.8	-4.4
Central government 7/								
Revenue	31.5	32.0	33.4	33.5	32.6	34.1	34.2	33.4
Current expenditure	25.7	25.6	25.3	25.3	25.8	23.4	27.7	26.2
Current balance	5.8	6.3	8.1	8.2	6.8	10.6	6.5	7.3
Capital expenditure 8/	14.1	10.1	14.2	14.0	13.4	15.5	14.9	15.5
Overall balance	-8.3	-3.8	-6.1	-5.8	-6.6	-4.9	-8.4	-8.3
Central bank losses (-)	-2.2	-4.6	-3.9	-1.8	-1.8	-0.9	0.4	0.0
External sector								
Current account balance	-33.8	-19.5	-28.8	-19.1	-16.7	-9.2	-11.7	-12.2
Actual debt service 9/	...	18.9	...	17.2	17.0	14.6	15.2	17.4
External public debt outstanding 9/	378.0	392.0	320.0	318.3	310.0	218.9	190.7	185.1

Table 3. Guyana: Indicators of Performance Under the Program (Concluded) 1/

	1994		1995		1996		1997	
	Prog.	Act.	Prog.	Act.	Prog. 2/	Act. 2/	Prog.	Est.
(In percent of exports of goods and services)								
External sector								
Scheduled debt service 9/	40.0	29.6	37.0	26.7	33.0	22.9	16.1	16.7
Actual debt service 9/	...	17.5	...	17.1	...	14.6	15.2	17.9
(In millions of U.S. dollars, unless otherwise indicated)								
External current account balance	-170.0	-102.0	-139.0	-120.0	-114.0	-66.0	-91.0	-97.0
Overall balance of payments 10/	-59.0	-35.0	-70.0	-44.0	-15.0	60.0	33.0	32.0
Gross international reserves								
End of period	238.0	269.0	254.0	269.0	298.0	331.6	336.0	338.3
Equivalent months of imports 11/	4.5	5.1	4.3	4.6	4.5	5.2	4.8	4.8
External debt outstanding 9/	1,983.0	2,058.0	2,042.0	2,001.0	2,159.0	1,568.0	1,478.0	1,463.0

Sources: Bureau of Statistics; Ministry of Finance; Bank of Guyana; and Fund staff estimates.

1/ The program numbers have been reformatted to correspond with the revised presentation of the balance of payments and public finance.
2/ Adjusted for Paris Club stock-of-debt reduction granted in May 1996.
3/ In percent of stock of broad money outstanding at the beginning of the period; net of valuation changes.
4/ Central government, nonfinancial public enterprises, and Bank of Guyana.
5/ Current balance excluding interest payments.
6/ Central government and nonfinancial public enterprises.
7/ Including transactions with the public enterprises and the National Insurance Scheme (NIS).
8/ Including capital transfers to public enterprises.
9/ Public debt, including Bank of Guyana.
10/ After non-Fund balance of payments support (including adjustment for Paris Club stock-of-debt operation in 1996).
11/ Imports of goods and nonfactor services.

13. As Directors had noted during the discussions of the preliminary HIPC document, Guyana is still faced with a pervasive poverty problem. Nonetheless, the situation has improved somewhat in recent years because of economic growth and intensified operations to reduce poverty by the Social Impact Amelioration Program (SIMAP), the Basic Needs Trust Fund, and the NGOs. During 1997, the government was broadly on track with the executions of its social investment program, with expenditure in the main areas of education, health, water supply, and rural infrastructure as budgeted.

IV. POLICY REFORM AND CONDITIONALITY

14. In the attached letter from the Finance Minister of Guyana (Annex I), the government sets out its intentions regarding structural reforms and social sector measures that are considered crucial in helping to put the economy on a sustainable path and to address the poverty situation of the country on a permanent basis. The policy reforms cover the areas of civil service, public enterprises, social sectors, financial and business environment, and budgetary and debt management. The agenda includes measures to be implemented before and the steps after the proposed completion point, which are presented below and in Annex II.

15. The policy reform and conditionality will be monitored under a new three-year ESAF arrangement and its respective three annual arrangements. The authorities are convinced that new arrangements under the ESAF—together with financial and technical support from the IDA and the IDB—would provide an appropriate framework for pursuing the government's objectives.[4] For a completion point in December 1998, Guyana would need to (i) obtain Board approval of a new three-year ESAF arrangement from the Fund; (ii) complete the midterm review under the first annual arrangement under the new three-year ESAF arrangement; and (iii) satisfy the structural reform and the social development policy conditions described herein which are targeted for completion by December 1998 as envisaged under the Initiative. In the event of a completion point in December 1999, the conditionality additional to the above would constitute (i) Board approval of the second annual ESAF arrangement; (ii) completion of the midterm review of the second annual ESAF arrangement; and (iii) satisfy the structural reform and social development policy described herein which are targeted for completion by December 1999 (Table 4).

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[4]The measures envisaged in the interim period between the decision and completion points would elicit increased private sector financing for the economy. However, the up-front costs of these reform measures are estimated to be significant and the response from the private sector is likely to be weak in the initial years as these measures take hold and new investment gradually starts to enhance growth. In the meantime, the medium- to long-term projections indicate a financial gap that is expected to be filled in the next three years by resources from the Fund and new IDA and IDB credits, if the broad macroeconomic objectives are to be maintained.

Table 4. Guyana: Timetable for Selected Structural Reforms 1/

		Policy Measures	Timing
1.	Financial reforms		
	a.	Complete financial and operational plan of the new GNCB.	June 1998
	b.	Complete the reorganization and recapitalization of the Bank of Guyana.	June 1998
	c.	Revise 1996 circulars on reserve requirement and liquid assets ratios.	March 1998
	d.	Comply fully by all licensed financial institutions with the required minimum paid-up capital under the Financial Institutions Act.	June 1999
2.	Business environment		
	a.	Establish a securities trading regulatory framework.	October 1998
	b.	Introduce a regulatory framework for the insurance industry.	October 1998
	c.	Undertake institutional strengthening and modernization of deeds registry.	September 1998
	d.	Start land reform.	June 1998
3.	Public sector reform		
	a.	Energy sector	
	(i)	Put into effect and start implementation of the Electricity Sector Reform Act; the Public Utilities Amendment Act; and the Energy Sector Act.	February 1998
	b.	Privatization	
	(i)	Readvertise and bring to the point of sale Guyana Stores Ltd, Guyana National Printers, Guyana Pharmaceutical Company, Wanna Estate, LINMINE, and BERMINE.	September 1998
	c.	GUYSUCO	
	(i)	Complete legislative and administrative measures to establish regulatory framework.	February 1998
	(ii)	Revise sugar levy to make it more transparent.	January 1998
	(iii)	Subject GUYSUCO to corporation tax at the normal rate.	January 1998
	(iv)	Bring import regime for inputs to GUYSUCO in line with other enterprises.	January 1998

Table 4. Guyana: Timetable for Selected Structural Reforms 1/

		Policy Measures	Timing
	(v)	Introduce semiannual performance benchmarks related to reducing unit costs of production into the management contract for GUYSUCO.	March 1998
	(vi)	Maintain management contract for GUYSUCO until restructuring is completed.	Continuous
	(vii)	Complete revision of medium-term strategic plan for GUYSUCO to reduce costs to competitive levels.	1998
	(viii)	Begin to implement strategic plan.	March 1998
4.	Civil service reform		
	a.	Carry out a survey of private sector remuneration to establish benchmarks to be used in improving remuneration of comparable positions in public service. Establish mechanisms to carry out such surveys regularly.	June 1998
	b.	Develop a new remuneration structure for managerial, professional, and technical positions in the civil service to bring the remuneration to such levels, relative to the private sector, as would enable the civil service to attract and retain skilled persons for these positions.	September 1998
	c.	Develop norms and mechanisms for periodic adjustment of the remuneration structure vis-à-vis the private sector.	September 1998
	d.	Review and streamline the public service rules (including the pension scheme) in order to facilitate public service management, enhance transparency in key personnel decisions, improve incentives for performance, and strengthen accountability.	September 1998
	e.	Complete the restructuring of the Ministry of Finance and use that as a prototype to restructure the Ministries of Health and Education.	December 1998
	f.	Implement the remuneration structure for managerial, professional, and technical positions in the public service.	January 1999
5.	Improvements in tax administration		
	a.	Make the Revenue Authority fully operational.	September 1998
6.	Statistics		
	a.	Complete compilation of historical balance of payments statistics based on survey returns on private sector investment.	March 1998

1/ The timing represents in most cases an acceleration of structural reforms envisaged in the current PFP that covers 1997–99.

A. Structural Reform Policies

16. In the discussions, the authorities emphasized that the structural reforms must yield an environment in which the private sector takes the lead in economic activity, supported by a consistent macroeconomic framework as well as conducive judicial and corporate systems. While agreeing with the staffs that the government should shift to the private sector all activities that could be carried out more efficiently, the authorities stressed that such a shift should not be in a manner that would create destabilizing effects and jeopardize the significant gains in restructuring achieved so far.

17. Reflecting the emphasis on the private sector, the sections below describe recent measures and the government policy intentions regarding the financial sector and business environment; public enterprises and privatization; and the civil service. Discussions between the government and the Bank staff are ongoing for a possible IDA-supported adjustment program that would focus on reforms in these areas.

Financial sector and business environment

18. Considerable progress was achieved in recent years in bringing the financial sector to a sound footing. The necessary legal and regulatory framework was substantially strengthened with the enactment of a Financial Institutions Act and issuance of the accompanying regulations in 1996, the sale of substantial government ownership of entities in the financial sector during 1995–97, the merger of two government banks for better operations, and the passage in November 1997 of a Bank of Guyana (BOG) Act that strengthens its supervisory role and enhances its independent authority in the conduct of monetary policy. These reforms contributed to increase the competitiveness of the financial sector and the development of a substantial nationwide branch network. The authorities intend to continue their financial reform efforts in the period ahead. In 1998, the government intends to complete the following steps: (i) the recapitalization of the Bank of Guyana; (ii) a revision of the 1996 circulars on reserve requirements and liquid assets ratios; and (iii) the restructuring of the Guyana National Cooperative Bank (GNCB), particularly with regard to its management and credit control.

19. It is expected that the steps above are essential to lay the foundation for increased competition in the financial sector that would in turn yield gains in efficiency and reduce the current large spread between deposit and lending interest rates. By the time of the midterm review of the first annual arrangement under a possible new three-year ESAF arrangement, these reforms with an accelerated timetable would be substantially completed. In addition, the World Bank staff will be working with the authorities to reduce the level of nonperforming loans in the banking system—mostly in the portfolio of the GNCB—in the context of a possible IDA-supported adjustment credit.

20. In addition to the government financial reform and privatization efforts, numerous actions have been taken in the recent past to improve the business environment, including liberalization of the trade and exchange systems, new financial and central bank legislation, consumption and corporate tax reforms, and companies' tax legislation. In 1998, the authorities will intensify their efforts to foster private sector participation in economic activity, including the introduction of an investor guide and strengthening of the one-stop office (Go-Invest) by September 1998. Additional measures to improve the business environment are being considered with the assistance of IDA, but as a minimum, the government is committed to establish a securities trading regulatory framework; introduce a regulatory framework for the insurance industry; undertake institutional strengthening and modernization of the deeds registry; and start land reform in 1998. Although the authorities regard all these measures as important, they pointed out that the most difficult would be land reform. However, they expressed confidence that once started and the benefits seen, progress in land reform would be easier.

Public enterprises and privatization

21. Regarding public enterprises and privatization, the authorities recalled that by the late 1980s, nearly all major economic activity was in the public domain. The first phase of privatization/liquidation of public enterprises started in 1989 and involved the privatization of 14 enterprises. The second phase started in 1993 under the IDA/PSDAC credit and involved 20 enterprises, with all but one being brought to the point of sale and 15 already privatized.[5] As indicated earlier, significant progress was made on several fronts in 1997 and the scope of the privatization program went beyond the plan under the third-year ESAF supported program and IDA credit with the sale in November of 50 percent of the electricity company (GEC) to Sask Power of Canada.[6] By end-1997, the government would have divested itself of enterprises that constituted more than 60 percent of the total net assets originally owned by the public sector at the beginning of the second phase of the privatization program in 1993 (Box 2).

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[5]Most targets for the completion of sale were met with a few exceptions in which unanticipated factors delayed the closure of sales.

[6]The government will initially retain the remaining 50 percent of the shares. However, as the company's performance improves, both partners will offer 10 percent each to the public—resulting in the private sector having a 60 percent share.

Box 2. Guyana: Restructuring of Nonfinancial Public Enterprises

	Asset Value in Millions of Guyana Dollars 1/	Relative Asset Value
Privatized in 1989–92 2/	**21,306**	**41.6**
Privatized in 1993–96 3/	**676**	**1.3**
Privatized in 1997	**6,930**	**13.5**
National Edible Oil (NEOCOL)	87	0.2
Guyana Stockfeeds Limited	149	0.3
Guyana Glassworks Limited	431	0.8
SANATA Textiles	593	1.2
Guyana Electricity Corporation	5,670	**11.1**
To be privatized in 1998	**7,779**	**15.2**
GUYSUCO Versailles Dairy Complex	46	0.1
BERMINE	532	1.0
Linden Mining Enterprise (LINMINE)	5,241	10.2
Guyana Pharmaceutical Company (GPC)	706	1.4
Guyana Stores Limited (GSL)	1,114	2.2
Guyana National Printers Limited (GNPL)	139	0.3
To be privatized/restructured in 1999	**2,412**	**4.7**
Hope Coconut Industries	10	0.0
Guyana National Shipping Corporation (GNSC)	325	0.6
Guyana Airways Corporation (GAC)	1,554	3.0
Guyana Oil Company	523	1.0
Enterprises in the public sector at end-1999 4/	**12,160**	**23.7**
Total	51,263	**100.0**

1/ 1993 asset values. Because of data limitations, the 1993 asset value of enterprises privatized in 1989–1992 is proxied by their sale value adjusted for exchange rate changes. For enterprises privatized after 1992, the asset value is as provided by Guyanese authorities to the World Bank.

2/ Guyana Timbers Guyana Telecom, Guyana Nichimo Ltd., Guyana National Trading Co., Guyana Leather Craft Ltd., Livestock Development Co Ltd., National Paint Co Ltd., Demarara Woods Ltd., Guyana Transport Services Ltd., Quality Foods Ltd., Sijan Place Restaurant, Guyana Fisheries Ltd., Guy Rice Milling & Marketing, Soap and Detergent Ltd..

3/ Guyana National Engineering Corporation.

4/ GUYSUCO.

22. The government intends to take further steps in 1998 to complete the privatization program and the regulatory framework for the energy sector in parallel with the privatization of the GEC. Privatization efforts will include the readvertising of enterprises that have been brought to the point of sale but remain unsold at end-1997; inviting bids for the bauxite companies (LINMINE and BERMINE); and selling industrial estates to current occupants. It

is estimated that by end-1998, only 28½ percent of the original total net assets of nonfinancial public enterprises would be in the public sector with only GUYSUCO and Guyana Airways being of economic significance. Other actions will include (on an accelerated schedule) putting into effect the Electricity Sector Reform Act, the Public Utilities Amendment Act, and the Energy Sector Act.[7]

23. Regarding GUYSUCO, the preparation of the regulatory framework for the sugar company will now be completed by end-1997 as indicated earlier and expectations are that all necessary legislative and administrative steps to fully establish the framework will be taken by February 1998. Nonetheless, the government remains firmly committed to the restructuring of GUYSUCO so that it is competitive at world market prices by 2002. To reinforce the restructuring plan, the government decided in October 1997 to implement the following measures outlined in Box 3 with effect from January 1998 (while it works in parallel with IDA and the consultants to establish the regulatory framework).

Box 3. Restructuring Plan of GUYSUCO

- Revise the sugar levy to make it more transparent and to ensure necessary funding for the rehabilitation and investment. At present, the levy is determined through ad hoc negotiation with the government at the beginning of the year, and reviewed during the course of the year in light of the actual cash-flow situation of the company.

- Implement the corporation tax on the company at the normal rate—after appropriate provisioning is made for depreciation. Although some element of corporation tax is currently included in the levy, it is not transparent. This measure would put the company in the framework of a private business.

- Bring the import regime for inputs to GUYSUCO in line with other enterprises. At present, the special regime for GUYSUCO may be providing it with some relief not available to other companies. Again, this measure would make operations more transparent and put GUYSUCO on equal footing with private companies.

- Introduce performance benchmarks related to reducing unit costs of production at the time of the extension of the management contract. Currently, the performance of the management team is based narrowly on overall profit without a clear path for achieving international competitiveness. This measure will present standards by which performance could be gauged.

24. In addition to these measures, GUYSUCO will begin to implement a revised five-year strategic plan in March 1998 aimed at reaching a production level of 275,000–300,000 tons annually, compared with average annual production of about 260,000 tons a year during 1994–97. This would be achieved by expanding cultivation in low cost areas, combining the administration of contiguous estates, merging of factory operations and cogeneration of power from Bagasse.

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[7]The authorities passed the Electricity Sector Reform Act, the Public Utilities Amendment Act, and the Energy Sector Act subsequent to the mission in an effort to accelerate the reforms.

Civil service reform

25. A major phase of the civil service reform was completed beginning in the early 1990s with the size of the civil service cut by one third and the number of ministries reduced from 18 to 11. However, only limited progress was made in moving toward a competitive wage for skilled civil servants and improving the efficiency in the public sector. The current focus of civil service reform is to improve its efficiency and strengthen its service delivery through rationalization and improvement of its remuneration structure to attract and retain skilled personnel. The government recognizes that the reform of the civil service has two important elements—vertical reforms in individual public sector entities that focus on strengthening organization and management; and horizontal reforms that cut across institutional boundaries and improve the environment in which public sector entities function. However, with the assistance of the IDA and the IDB, the government is committed to take major steps to (i) bring public service wages gradually over the medium term to within 10 percent of the median for comparable jobs in the private sector to ensure adequate staffing of the public service; and (ii) revise public service rules (including a review of the pension scheme) so as to foster the conditions for a merit-based salary adjustment system and a professional civil service that is results oriented and accountable for its performance. Implementation of these policies will be monitored prior to the completion point as a condition for possible assistance under the HIPC Initiative. The specific actions to be monitored prior to the completion are outlined in Box 4.

Box 4. Civil Service Reform

- conducting a survey of private sector remuneration to establish benchmarks to be used in improving remuneration of comparable positions in the public service and to establish mechanisms for carrying out such surveys on a regular basis;
- developing a new remuneration structure for managerial, professional and technical positions in the public service to bring the remuneration to such levels, relative to the private sector, as would enable the public service to attract and retain skilled persons for these positions;
- developing norms and mechanisms for the periodic adjustment of civil service remuneration structure vis-à-vis the private sector;
- reviewing and streamlining public service rules to facilitate public service management, enhance transparency in personnel decisions, improve incentives for performance and strengthen accountability; and
- making the Revenue Authority fully operational.

B. Social Policies

26. In the social sectors, long periods of economic decline and limited budgetary resources led to rising poverty and deterioration of both physical infrastructure and social services in Guyana. The situation has been ameliorated somewhat by high growth in recent years and by

the poverty alleviation operations of the Government's Social Impact Amelioration Program (SIMAP), the Basic Needs Trust Fund, and the activities of NGOs. Central government expenditure in the social sectors has increased noticeably in recent years with priority given to basic education, primary health care, and the rehabilitation of infrastructure as important steps toward reducing poverty on a permanent basis (Table 5). Although Guyana compares favorably with the other HIPCs in many respects, the situation remains one of concern with more than 43 percent of the population below the poverty line (officially defined as the equivalent of an annual income of US$110)—most of whom like in the rural areas, with the heaviest incidence amongst the Amerindian population.

Table 5. Guyana: Social Sector Indicators, 1995

	Guyana	Latin American/ Caribbean	HIPCs
Infant mortality (per 1000 births)	43	43	93
Life expectancy (years)	66	69	52
Population with access to safe water (in percent)	73	80	48
Population per physician (1993) 1/	8,956	5,336	16,288
Urbanization (percent of population)	36	65	33
GNP per capita in U.S. dollars 2/	710	3,287	346
Income distribution			
Percent of income or expenditure share in highest quintile 3/	55	54	49
Percent of income or expenditure share in lowest quintile 3/	4	4	6
Unemployment rate 4/	14	...	...
Overall illiteracy rate	2	15	44
Female overall illiteracy rate	5	18	54

Sources: Data provided by the Guyanese authorities; World Bank; and UNDP.

1/ Comparison group consists of ten Caribbean countries.
2/ Figure corresponds to 1996 for Guyana.
3/ Years vary for different countries ranging from 1989 to 1995. The data source is "World Development Indicators", World Bank, February 1997.
4/ Based on tentative official estimates; indications are that there is widespread underemployment, particularly in urban and farming areas.

27. Substantial outlays would be required to bring the social conditions and the physical infrastructure to minimum acceptable standards. It is expected that continued donor support, and the release of budgetary resources from debt service as a result of the possible assistance under the HIPC Initiative, would allow for a sustained increase and reallocation of public spending toward non-salary inputs and maintenance, and would support the institutional and policy reform of the education and health ministries.[8] In this regard, the government agreed on a program of actions with the IDA and the IDB (Tables 6–9). The implementation of these policies will be monitored prior to the completion point as a condition for possible assistance under the HIPC Initiative. To ensure satisfactory and timely implementation of reform measures, the government has established mechanisms to monitor progress in the areas of structural and social sector reforms, including the appointment of a coordinator funded by IDB and the preparation of biweekly progress reports.

28. In the area of **education**, the government will continue with its policy to improve the efficiency and effectiveness of expenditure and service delivery at the early childhood, primary, and secondary school levels. Measures will be adopted to raise pre-primary enrollment, increase secondary education coverage, expand teacher training, and improve the access and quality of basic education for the population, especially Amerindians and poor rural communities. Also, the government will establish mechanisms for a wider participation in the provision, management and financing of technical and vocational education, and will strengthen cost recovery at the tertiary education level. In addition, resources to cover basic recurrent cost items—such as textbooks, materials, and school maintenance—will be increased significantly. Consistent with these objectives, budgetary allocations to the education sector would increase from 4 percent of GDP in 1996 to about 5 percent of GDP in 1998 and about 5½ percent of GDP by 2000, with concentration on the early childhood, primary, and secondary levels (see Tables 6 and 7).

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[8] Improvement in output indicators were specified in Table 7 of the preliminary document (EBS/97/145 and IDA/SecM97–401).

Table 6. Guyana: Indicators of Public Sector Social and Poverty Alleviation Expenditures, 1992–2002

	Actuals					Est.	Projection Targets				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	(Expenditure in percent of GDP)										
Education 1/	3.1	3.2	3.5	3.4	4.0	4.6	4.9	5.3	5.6	5.9	6.2
Health 1/	3.5	3.6	3.6	4.0	3.0	2.9	3.2	3.5	3.8	4.1	4.5
Poverty alleviation 2/	0.1	0.2	0.6	0.8	1.3	0.7	0.9	1.2	1.5	1.7	2.0
Total social sector 3/	6.7	7.0	7.6	8.2	8.4	8.2	9.0	10.0	10.9	11.7	12.7
	(In percent of total expenditure in each social sector)										
Education 1/	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Current expenditure	80.6	86.0	76.9	79.4	71.4	66.6	66.6	66.6	66.6	66.6	66.6
Teaching supplies	2.3	2.7	2.7	3.0	2.7	2.7	7.0	9.7	12.3	12.3	12.3
Maintenance	1.8	4.1	3.5	4.0	3.9	3.3	10.0	11.0	12.0	12.0	12.0
Capital expenditure 4/	19.4	14.0	23.1	20.6	28.6	33.4	33.4	33.4	33.4	33.4	33.4
Health 1/	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Current expenditure	58.5	57.9	58.3	46.0	74.6	85.9	88.3	89.1	88.7	89.7	90.6
Drugs, materials, and supplies	22.6	30.0	29.8	28.6	26.2	26.3	27.3	28.9	30.5	30.5	30.5
Maintenance	1.4	2.8	2.9	3.9	4.4	3.6	10.0	11.0	12.0	12.0	12.0
Capital expenditure 5/	41.5	41.8	41.5	49.9	29.5	14.3	11.7	10.9	11.3	10.3	9.4
Poverty alleviation programs 2/	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Education	18.9	35.9	30.2	37.4	38.4	42.8	39.6	36.8	36.7	36.4	37.6
Health	26.8	37.4	42.0	23.3	20.8	21.0	22.9	27.6	27.5	28.0	29.3
Water supply	...	3.4	10.9	5.0	11.0	16.6	17.6	17.2	22.9	21.8	20.0
Infrastructure 5/	54.3	23.2	16.9	34.4	29.8	19.6	19.9	18.5	12.9	13.8	13.1

Sources: Guyanese authorities; and Fund, World Bank, and IDB staffs estimates and projections.

1/ Central government.
2/ SIMAP and Basic Needs Trust Fund.
3/ Central government and poverty alleviation.
4/ The decline in capital expenditure after 1995 reflects the completion of large projects that were started in 1994.
5/ Major projects started in 1992 and completed in 1995.

Table 7. Guyana: Social Development Policy Matrix for Education 1/

Objectives	Actions Required	Verifiable Indicators
Strengthen institutional capacity of MOE	Implement restructuring/reorganization of MOE and upgrade human resources	• Plan completion in collaboration with the Public Service Commission by September 1998 • Plan approval by Cabinet by September 1998 • Implementation begins October 1998 and to be completed by December 1998
	Develop and implement training plan for MOE personnel	• Plan completion by October 1998 • Allocate resources in 1999 budget
Increase resources and improve allocation in the education sector	Review sector needs and prepare action plan	• Completion date for action plan: June 1998
	Increase budgetary allocation on education	• Total expenditure (current and capital) to reach 4.9 percent of GDP in 1998 • Total expenditure (current and capital) to reach 5.6 percent of GDP by 2000 (of which primary and secondary: 5.3 percent of GDP)
	Increase proportion of budget spent on the supply of educational materials	• Expenditure on educational materials to reach 7 percent of current education spending in 1998 • Expenditure on educational materials to reach 12.3 percent of current education spending by 2000
	Increase proportion of budget spent on school maintenance	• Expenditure on school maintenance to reach 10 percent of current education spending in 1998 • Expenditure on school maintenance to reach 12 percent of current education spending by 2000
	Increase number of trained nursery, primary, and secondary school teachers	• Train 375 teachers by October 1998 • Train 1,400 teachers by 2000
Improve management information system and educational statistics	Develop a plan to strengthen the management information system and database of educational statistics (coverage should include generally accepted education and expenditure statistics following internationally standardized definitions)	• Plan completion date: September 1998 • Implementation begins October 1998
Enhance technical skills of youth	Develop a training and placement program in association with potential employers	• Completion date for plan: March 1998 • Begin training 1,000 youths by mid-1998 and complete by December 1998

1/ This table was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

Table 8. Guyana: Social Development Policy Matrix for Health 1/

Objectives	Actions Required	Verifiable Indicators
Strengthen institutional capacity of MOH and upgrade human resources	Implement restructuring/reorganization of MOH	• Plan completion in collaboration with the Public Service Commission by September 1998 • Plan approval by Cabinet by September 1998 • Implementation begins October 1998 and to be completed by December 1998
	Develop and implement training plan for MOH personnel	• Plan completion by October 1998 • Allocate resources in 1999 budget
Improve health services	Increase budgetary allocation on health	• Total expenditure (current and capital) to reach 3.2 percent of GDP in 1998 • Total expenditure (current and capital) to reach 3.8 percent of GDP by 2000
	Increase proportion of budget spent on drugs and medical supplies	• Expenditure on drugs and medical supplies to reach 27.3 percent of current health spending in 1998
	Increase proportion of budget spent on maintenance	• Expenditure on maintenance to reach 10 percent of current health spending in 1998 • Expenditure on maintenance to reach 12 percent of current health spending by 2000
	Increase spending on primary and preventive services to increase health impact, improve access to basic services, and increase targeting to the poor	• 80 percent of the increase in expenditures will be devoted to high priority preventive services and primary care, especially at health centers, clinics, aide posts
	Evaluate the role of selective user charges and public/private collaboration to improve targeting of pubic health spending	• Prepare evaluation report by August 1998

1/ This table was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

Table 9. Guyana: Social Development Policy Matrix for Poverty Alleviation 1/

Objectives	Actions Required	Verifiable Indicators
Strengthen statistics system to monitor poverty impact of economic growth and public expenditure policies	Plan a follow up to the 1993 LSMS/HIES household survey as part of development of a poverty monitoring capacity	• Specify by August 1998 the date of next survey
Improve the targeting of public subsidies	Develop a poverty map of Guyana to better target subsidies	• Completed
	Target Amerindian population (85 percent of whom fall below the poverty line) with community development projects	• Identify at least 25 Amerindian community projects for appraisal by SIMAP by October 1998
	Target community development projects to other poor communities as determined by the poverty map	• Identify at least 20 projects in other poor communities for appraisal by SIMAP by October 1998

1/ This table was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

29. In the **health** area, the government's objectives are to improve both the access to and quality of basic care. In addition to increasing the budgetary allocation from 3 percent of GDP in 1996 to about 3¼ percent in 1998 and about 4 percent of GDP by 2000, emphasis will be placed on disease-control programs, health education and awareness campaigns, and measures to improve nutritional standards. Special attention will be given to improving the access and delivery of primary health services in the hinterland, targeting the health needs of children, adolescents, and pregnant and lactating women (see Tables 6 and 8).

30. With regard to **poverty alleviation**, the government's strategy is to achieve high quality economic growth through prudent macroeconomic policies and structural reforms. Under the HIPC Initiative, the government is committed to conduct a follow-up survey of the 1993 LSMS/HIES household survey designed to strengthen the capability to monitor income distribution, the impact of adjustment and economic growth on the poor, and the incidence of government taxes and expenditures. Beyond its growth strategy, the government has

developed a poverty map of the country and has targeted investment to support community-driven programs in education, health, water supply and sanitation, and other local social and economic infrastructure in Amerindian and low-income communities. These initiatives would be continued with specific implementation targets as described in Tables 6 and 9.

V. Consultations With Creditors

31. IDA and Fund staff initiated consultations with Guyana's multilateral creditors and with the Paris Club regarding the action these creditors would take under the HIPC Initiative. On September 15–16, the IDA organized the fourth meeting of Multilateral Development Banks to update participants on the methodology, data, and recommendations in the debt-sustainability analysis for the early cases of HIPCs, including Guyana. All of Guyana's multilateral creditors—including the CARICOM Multilateral Clearing Facility (CMCF) represented by the Central Bank of Trinidad and Tobago—were present.[9] The Fund and IDA staff worked in close consultation with the staff of the IDB, including on the preparation of the debt-sustainability analysis. Debtor and creditor records have been fully reconciled and there are no outstanding data issues.

32. Debt to multilateral creditors amounted to US$624 million or 54 percent of Guyana's total external public and publicly guaranteed debt in NPV terms at end-1996, with the IDB as the largest multilateral creditor, accounting for close to one-third of the total. Another major multilateral creditor is CMCF, originally a scheme for settling short-term trade payments among a group of member central banks of the Caribbean Community. As of end-1996, the total stock of this debt amounted to US$113 million in NPV terms. At a meeting of senior technicians from member states of the CMCF in November 1997, it was agreed to recommend to the Board that the CMCF agrees to participate in the HIPC Initiative and that modalities and financing options of assistance be developed to ensure that Guyana's economic program is appropriately financed.

33. With respect to its arrears to the OPEC Fund, the authorities have accepted the creditor's terms of settlement including a US$7.1 million down payment and sought to refinance the remaining arrears estimated at US$16.6 million as of September 2, 1997. Guyana also undertook to remain current on its debt obligations to the OPEC Fund arising after September 2, 1997.

34. Paris Club creditors have agreed in principle to provide additional assistance to Guyana subject to fair burden sharing between bilateral and multilateral creditors and comparable action by other bilateral creditors. They are waiting for confirmation from Trinidad and Tobago (which signed the 1996 Paris Club agreement) that it is willing to provide such treatment.The staff hopes to receive confirmation from the Paris Club of its willingness to take additional action soon and will inform the Boards as soon as possible.

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[9] See IDA/SecM97–440 (September 10, 1997).

35. After implementing the 1996 stock-of-debt operation, Guyana's debt to Paris Club creditors was estimated at US$291 million in NPV terms at end-1996, representing close to a quarter of the total debt, or over half of total bilateral debt. As Guyana's largest bilateral creditor, Trinidad and Tobago participated in the Paris Club stock-of-debt operation and provided the bulk of the debt relief in 1996—in addition to previous bilateral debt reliefs in 1988 and 1989. After implementing the stock-of-debt operation in May 1996, Trinidad and Tobago accounted for 56 percent of total Paris Club debt.

36. At end-1996, Guyana's debt to non-Paris Club bilateral creditors stood at US$116 million, equivalent to 10 percent of total debt in NPV terms. The NPV of this debt, assuming treatment comparable to the 1996 Paris Club stock-of-debt operation on Naples terms, was estimated at US$50 million at end-1997. Guyana has written to all non-Paris Club creditors and has begun negotiations with Kuwait and Argentina.

37. Debt to commercial creditors accounted for the remaining 10 percent of total debt, including US$31 million bonds resulting from a 1992 restructuring agreement and US$57 million arrears on short-term debt under the External Payments Deposit Scheme (EPDS). Guyana has recently retained the service of a Canadian consulting firm—funded by the Canadian International Development Agency—to start legal and accounting work in preparation for the second commercial debt-buyback operation expected to take place soon, supported by a grant from the Debt Reduction Facility for IDA-only countries. Potentially eligible debts for the operation are obligations under the EPDS and the buyback price has been set at 15 cents to a dollar.

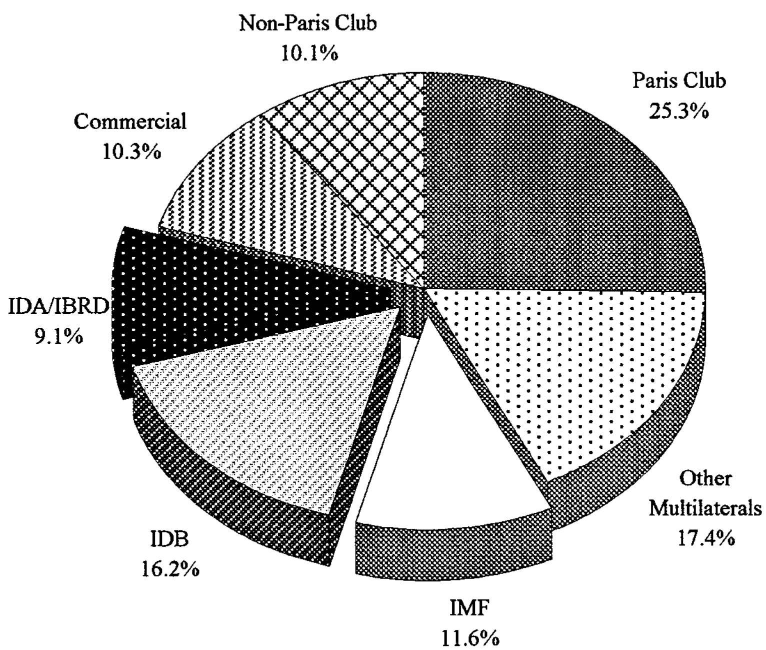
VI. Debt-Sustainability Targets and Debt Relief

38. Guyana's NPV of external public and publicly guaranteed debt amounted to about US$1¼ billion at end-1996 after reconciliation, and is projected at US$1 billion for end-1997 and end-1998. At end-1996, multilateral institutions accounted for 54 percent of this debt, while bilateral and commercial creditors accounted for 46 percent (Figure 1 and Table 10).

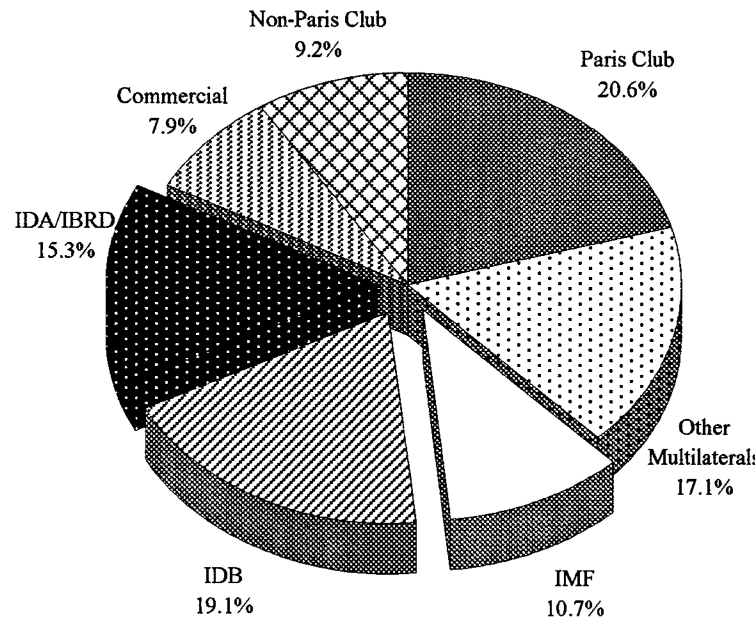
39. As indicated earlier, the IDA and Fund Boards supported on a preliminary basis the staff recommendation of a target of 105 percent for the NPV of debt-to-exports ratio—consistent with a target of 280 percent for the NPV of debt-to-government revenues at the completion point. This target was determined in light of Guyana's highly open economy and heavy fiscal debt burden—despite strong revenue efforts—and was in line with the Boards' discussion on the paper on the HIPC Initiative—Guidelines for Implementation (EBS/97/75; and IDA/R97–35). Directors were of the view that assistance with this target would provide assurances that Guyana will not require further debt-rescheduling operations.

Figure 1. Guyana: External Debt Outstanding, end-1996

In percent of totals as indicated



Present value of debt: US$1,150 million



Nominal value of debt: US$1,568 million

Sources: Ministry of Finance of Guyana; and Fund and Bank staffs estimates.

Table 10. Guyana: Structure of Public External Debt by Creditor, 1996

(In millions of U.S. dollars; unless otherwise indicated)

	Total Debt (Including Arrears)	Percent of Total 1/	Arrears	NPV	Percent of Total NPV	Grant Element
Total outstanding debt	1,568	100	212	1,150	100	27
Medium- and long-term debt	1,509	96	153	1,090	95	28
Multilateral	976	62	23	624	54	36
Of which:						
IDB	300	19	0	186	16	38
IDA	213	14	0	79	7	63
IBRD	27	2	0	26	2	3
IMF	168	11	0	133	12	21
OPEC	24	2	23	24	2	0
CMCF	130	8	0	113	10	13
Official bilateral	468	30	101	407	35	13
Paris Club	323	21	0	291	25	10
Pre-cutoff date debt	284	18	0	271	24	4
Of which: ODA	0	0	0	0	0	...
Trinidad and Tobago	177	11	0	164	14	7
United Kingdom	72	5	0	72	6	0
Others	35	2	0	35	3	0
Post-cutoff date debt	39	3	0	20	2	50
Of which: ODA	39	3	0	20	2	50
Non-Paris Club	145	9	101	116	10	20
Of which:						
Kuwait	32	2	32	32	3	0
Libya	32	2	32	32	3	0
China	32	2	0	5	0	83
Private creditors	65	4	29	60	5	9
Short-term debt 2/	59	4	59	59	5	0

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates.

1/ In percent of face value, including arrears.
2/ Consists primarily of long-standing deposits in the central bank for which the foreign exchange counterpart needed to effect the external debt payment was never made available to the depositor.

40. In this context, the staff and managements believe that Guyana's strong policy track record (described in detail in the preliminary document) and the government's firm commitment to accelerate the implementation of the key structural reform measures—in the areas of privatization, the public sector, civil service, budgetary and debt management, and social sector and poverty alleviation[10]—justifies a shortening of the interim period to one year, implying a completion point in December 1998. As noted in the preliminary document, Guyana successfully implemented six successive annual Fund-supported programs and IDA and IDB structural adjustment credits, with all disbursements made and program reviews completed. Under these programs, macroeconomic stability was achieved and sustained, while far reaching structural reform measures were implemented. Although there have been occasional delays in implementing the desired policy measures, such delays stemmed more from inadequate capacity than from lack of commitment.

41. Furthermore, in the staff's view, the structural reform agenda committed to by the government and to be supported by the envisaged new ESAF arrangements is appropriately ambitious and constitutes bold and decisive steps to bring Guyana to a sustainable growth path. As indicated in the forwarding letter from the Minister of Finance, the government is determined to ensure satisfactory and timely implementation of these reform measures. In this regard, the authorities have established a mechanism to monitor the progress in structural policy commitments under the HIPC Initiative, including the appointment of a coordinator funded by IDB and the preparation of regular progress reports. In the medium term, implementation capacity will be further strengthened through the ongoing civil service reform.

42. With regard to the debt-sustainability target, staff and management's recommendation remains broadly the same as in the preliminary document—a target of 107 percent for the NPV of debt-to-exports ratio—consistent with a target of 280 percent for the NPV of debt-to-government revenues at the completion point of December 1998 which would suffice to ensure debt sustainability.

43. To achieve the NPV target of 107 percent at end-1998, total debt relief is now projected at US$253 million in NPV terms, equivalent to an overall 25 percent NPV reduction for multilateral and bilateral creditors (Table 11). The estimate included in the costing paper (EBS/97/127 and IDA/SecM97–306) and in the preliminary document for Guyana (EBS/97/145 and IDA/SecM97–401) was US$292 million. Since then, the completion of the reconciliation exercise and the refinement in DSA have contributed to lower the projected debt relief under the Initiative (see Annex III for details). Based on proportional burden sharing, multilateral creditors will provide 64 percent of the total assistance (US$161 million), reflecting their projected share of Guyana's external public and publicly guaranteed debt at end-1997. Similarly, bilateral creditors will provide the remaining 36 percent (US$91 million). This would be achievable through debt relief on eligible debt from Paris Club creditors by

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[10]Described in detail in the attached **Memorandum on Structural and Social Sector Policies** by the government.

topping up the Naples terms debt reduction (granted in May 1996) to 77 percent, with comparable treatment from non-Paris Club creditors. Each multilateral creditor will be expected to provide assistance to Guyana according to their NPV share of Guyana's multilateral debt at end-1996, amounting to an NPV reduction of about 26 percent of their claims at end-1996. Expressed in NPV terms, the IDA's contribution would be US$27 million, the Fund contribution would be US$35 million, the IDB contribution would be US$48 million, and the CMCF contribution would be US$29 million.

Table 11. Estimated Assistance for Alternative Completion Points 1/

	Completion Points		
	1998	1999	2000
	(In millions of U.S. dollars)		
Possible assistance	252.7	201.7	150.0
	(Proportional burden sharing)		
Bilateral contributions	91.3	70.0	50.6
Paris Club	79.0	60.7	44.0
Other official bilateral	10.2	7.9	5.8
Commercial	2.1	1.4	0.8
Multilateral contributions	161.4	131.8	99.5
Of which: IDA	27.1	22.1	16.7
IMF	34.5	28.2	21.3
IDB	48.1	39.3	29.7
CMCF	29.1	23.8	17.9
CDB	7.4	6.1	4.6
OPEC	6.2	5.0	3.8
Memorandum items:			
NPV of debt in the base year 2/	1,006.2	1, 031.9	1,055.5
Revenue in the base year	269.1	296.5	323.4
Exports of goods and nonfactor services in the base year 3/	703.9	766.7	819.9
NPV of debt target	753.5	830.2	905.4
	(In percent)		
NPV reduction for Paris Club creditors on eligible debt	77.3	74.9	72.7
Overall NPV reduction after Naples Terms	25.1	19.5	14.2
NPV of debt to export ratio target 2/	107.1	108.3	110.4
Action by multilaterals on their NPV of debt at end-1996	25.9	21.1	15.9

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Based on the central government revenues (excluding grants) valued at end-1996 exchange rate.
2/ Reflects May 1996 Paris Club (including Trinidad and Tobago) stock-of-debt operation on Naples terms (67 percent), and assumes at least comparable treatment in 1997 from other bilateral creditors.
3/ Simple historical three-year average of exports of goods and nonfactor services, (excludes worker's remittances).

44. In the case of Guyana, the fiscal burden of external debt service over the next few years will follow a downward trend, but would remain high at over one third of revenue in 2000. In addition, the acceleration of structural reforms, notably in the civil service, and the strengthening of the social sectors (education and health) and poverty alleviation efforts will entail substantial additional fiscal expenditures starting from 1998. It is expected that additional expenditure in social sectors and civil service reform amounting to about 1 percent of GDP in 1998 will be accommodated through fiscal adjustment and expenditure prioritization. For the latter years, these expenditures would be financed partly by the possible debt relief available under the HIPC Initiative. Thus, the fiscal resources released from debt service will be channeled into priority areas, facilitating the implementation of the structural reform measures while maintaining macroeconomic stability.

45. It is proposed that the Fund disburse its assistance, in the form of a grant, into an escrow account at the completion point to be used to meet debt service to the Fund on a schedule to be agreed with the Guyanese authorities. Since Guyana's debt service both to the Fund and overall is relatively smooth[11], it is proposed that (as in other comparable cases where there are no pronounced debt-service humps), the schedule of drawdown of the Fund assistance should be slightly front-loaded and spread over the life of the country's current obligations to the Fund. A graduated schedule for the drawdown of this assistance for Guyana, which meets this proposal, will be agreed with the Guyanese authorities and proposed for approval by the Fund Board in due course, on a lapse-of-time basis.

46. Assistance provided by the World Bank will help address the high fiscal debt-service burden in the coming years while reducing the NPV debt burden. The HIPC Trust Fund will be utilized to provide the required assistance on debt owed to IDA—amounting to US$27 million in NPV terms. The HIPC Trust Fund will set aside, at the decision point, an amount equal to the NPV reduction required on IDA debt from resources transferred from IBRD to the World Bank component of the HIPC Trust Fund. With these resources the HIPC Trust Fund is expected, at the completion point, to purchase IDA credits with a nominal value of approximately US$62 million. The nominal amount of the credits to be purchased will be determined on the basis of the principles agreed upon for calculating the NPV of debt in the DSA and by selecting for purchase the oldest IDA credits. The HIPC Trust Fund will then cancel these IDA credits and inform the debtor that the debt is no longer due. Total savings in debt service on these credits would amount to US$70 million over their remaining life (up to the year 2036 for some of the more recent ones), when relief on both principal and charges is included.

[11]Except in 2006, some US$30 million in commercial bonds which arose from the restructuring of long-standing suppliers' arrears in 1992 will mature.

Table 12. Guyana: Profile of Possible Assistance Under the HIPC Initiative 1/

(In millions of U.S. Dollars)

	1999	2000	2001	2002	2003	Beyond	Total
Total	**29.6**	**27.5**	**26.9**	**26.9**	**27.2**	**304.3**	**442.4**
Interest	12.7	12.3	12.0	11.6	11.2	103.8	163.6
Principal	16.9	15.1	15.0	15.3	16.1	200.5	278.9
Paris Club Creditors 2/	7.8	7.8	7.8	8.0	8.3	106.3	145.9
Trinidad and Tobago	5.6	5.6	5.6	5.6	5.6	61.3	89.3
Interest	5.6	5.6	5.6	5.6	5.6	61.3	89.3
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.2	2.2	2.2	2.4	2.7	45.0	56.7
Interest	2.2	2.2	2.2	2.2	2.1	16.0	26.9
Principal	0.0	0.0	0.0	0.2	0.6	29.0	29.8
Multilateral	21.8	19.7	19.2	18.9	18.9	198.0	296.5
Interest	4.9	4.6	4.2	3.8	3.5	26.4	47.4
Principal	16.9	15.1	15.0	15.0	15.5	171.6	249.1
IDA 3/	1.3	1.5	1.9	1.9	1.9	61.7	70.1
Interest	0.5	0.5	0.4	0.4	0.4	6.0	8.2
Principal	0.9	1.1	1.4	1.4	1.5	55.6	61.9
IMF 4/	8.1	5.9	5.4	5.3	5.2	14.7	44.6
Interest	0.3	0.2	0.2	0.2	0.2	0.3	1.3
Principal	7.8	5.7	5.2	5.1	5.0	14.4	43.3
Others 5/	12.4	12.3	11.9	11.7	11.9	121.7	181.7
Interest	4.2	3.9	3.5	3.2	2.9	20.2	37.9
Principal	8.2	8.4	8.3	8.5	9.0	101.5	143.9
Memorandum items:							
Debt-service scheduled	106.2	110.4	98.6	96.8	105.0	...	...
In percent of revenue	32.8	31.7	26.5	25.0	25.6	...	...
In percent of exports	12.1	11.8	9.9	9.3	9.8	...	...
Debt service after HIPC assistance	76.6	82.9	71.7	69.9	77.7	...	...
In percent of revenue	23.7	23.8	19.3	18.0	19.0	...	...
In percent of exports	8.8	8.9	7.2	6.7	7.2	...	...
Possible assistance in percent of GDP	3.0	2.6	2.4	2.3	2.2	...	...
In percent of revenue	9.2	7.9	7.2	6.9	6.7	...	...
In percent of exports	3.4	2.9	2.7	2.6	2.5	...	...

Source: Fund and Bank staffs estimates.

1/ Assuming completion point in December 1998 and includes only Paris Club and multilateral creditors for illustrative purpose.
2/ Assuming debt-service reduction option for Trinidad and Tobago with repayment profile under the Naples terms, implying an interest rate of 3.44 percent and debt-reduction option for others.
3/ Assuming IDA will buy back its debt, starting from the oldest ones to achieve the necessary NPV reduction.
4/ Assuming IMF will deliver its assistance through debt-service reduction over nine years.
5/ Including IDB, CMCF, CDB, OPEC, EDF, EIB, IFAgD and assuming flat debt-service reduction over the life of their current loans.

47. Based on the above and the assumptions on the flow of assistance from other multilateral creditors, a possible scenario for the flow of relief to Guyana is estimated in Table 12. Estimated assistance for 1999–2003 would average about 27½ million a year of which assistance from Paris Club creditors will average US$8 million, while assistance from multilateral creditors would average about US$20 million. Annual assistance beyond 2003 is estimated to average about US$9 million.

VII. Role of potential debt relief

48. Fiscal policy over the medium term would seek to generate further public savings and improve the composition of expenditure in order to permit larger outlays in the social sectors and essential infrastructure, cover the initial costs of structural reforms, and allow a net reduction in public debt. The government deficit (excluding additional costs of reforms under the HIPC) would decline from about 8½ percent of GDP in 1997 to 3 percent of GDP a year in 1998–2003. Government revenues are projected to remain high at about 32 percent of GDP as a result of further improvements in tax administration and new revenue measures expected over the medium term. The government will also pursue firm control over noninterest outlays, curtailing expenditure in nonpriority areas to ensure that the fiscal objectives are met.

49. Potential relief available under the HIPC Initiative starting in 1999 would support the planned expansion in social programs and the costs of structural reforms—including expenditure to reform and modernize the civil service—while allowing a gradual decline in domestic financing (Table 13). Without HIPC relief, the government would need to generate more domestic debt; raise taxes to even higher levels; slow spending on social programs and structural reforms; and loosen monetary policy. This would have a negative impact on growth, given the resultant crowding out in the private sector and inflationary pressures.

VIII. The Authorities' Views

50. During the discussions of the DSA and policy intentions under the HIPC Initiative, the authorities reiterated their belief that Guyana's stock of external debt and debt service remained high. In addition, they view the fiscal burden of external debt service as extremely heavy, preventing the allocation of additional resources to priority sectors (including social and basic infrastructure) and constraining further the restructuring of the income tax regime toward lower personal and corporate taxes. Moreover, the authorities believe that the high level of domestic debt adds to the heavy external debt burden on the budget.[12] Accordingly,

[12]The stock of domestic debt including noninterest-bearing debentures held by the central bank was equivalent to 131 percent of GDP at end-1996 (37 percent of GDP, excluding the noninterest-bearing debentures). In 1996, debt service on domestic debt was equivalent to 14 percent of revenues.

Table 13. Guyana: Fiscal Financing Requirements under the HIPC

	1999	2000	2001	2002
	(In million of U.S. dollars)			
Central government overall balance 1/	-51	-44	-23	-6
Additional social expenditure	29	27	26	26
Of which:				
Education	4	3	3	4
Health	3	3	3	5
Poverty alleviation	3	3	2	4
Civil service reform	19	17	17	15
Central government overall balance 2/	-80	-70	-50	-33
Less interest relief under HIPC	13	12	12	12
Central government overall balance after interest debt relief	-67	-58	-38	-21
Financed by principal debt relief under HIPC	17	15	15	15
Central government overall balance 1/	-50	-43	-23	-6
	(In percent of GDP)			
Central government overall balance 1/	-5.3	-4.2	-2.1	-0.5
Additional social expenditure	3.1	2.7	2.5	2.4
Of which:				
Education	0.4	0.3	0.3	0.3
Health	0.3	0.3	0.3	0.4
Poverty alleviation	0.3	0.3	0.2	0.3
Civil service reform	2.1	1.8	1.7	1.4
Central government overall balance 2/	-8.2	-6.7	-4.5	-2.8
Less interest relief under HIPC	1.3	1.2	1.1	1.0
Central government overall balance after interest debt relief	-6.9	-5.5	-3.4	-1.8
Financed by principal debt relief under HIPC	1.7	1.4	1.3	1.3
Central government overall balance 1/	-5.1	-4.1	-2.0	-0.5
Memorandum items:				
Debt relief available from HIPC (In percent of GDP)	3.0	2.6	2.4	2.3
Revenues (million U.S. dollars) 3/	323.0	349.0	373.0	388.0
Revenues (in percent of GDP)	31.7	31.5	31.4	31.3
GDP (million U.S. dollars)	972.3	1,047.1	1,119.5	1,169.8

Sources: Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Before interest debt relief.
2/ After interest debt relief.
3/ Central government revenues valued at end-1996 exchange rate.

the authorities welcomed the HIPC Initiative as a concrete response by the international community.

51. The authorities express their appreciation to all creditors for their assistance in the past in support of Guyana's stabilization and structural adjustment policies, which contributed importantly to the economic recovery experienced in the last few years. They noted with gratitude the constructive engagement of the creditors in the context of the HIPC Initiative. The government of Guyana found particularly heartening the strong efforts of Trinidad and Tobago—the largest bilateral creditor but also a developing country—to participate in the Initiative.

52. The authorities noted that assistance obtained under the Initiative would provide for a robust exit from the rescheduling process and significant room to enhance resources available for the key social sectors and to accelerate structural reforms without compromising the goal of maintaining macroeconomic stability and promoting economic growth. The authorities are committed to continue their policy of maintaining a prudent debt-management strategy; but they noted that Guyana has little scope for borrowing on purely commercial terms, and emphasized the importance of maintaining access to external financing on concessional terms. In particular, they stressed that the assistance potentially available under the Initiative would help Guyana only if the volume of other external financing flows were maintained.

53. The authorities are concerned that the NPV of external public debt-to-exports ratio does not adequately reflect the resources that are available to the economy because of the large size of the export enclave sector in Guyana. For this reason and in view of the potential threat to Guyana's access to traditional preferential markets and the adverse effects of weather on rice and sugar production, they believe that the risks faced by Guyana were substantial.

54. In the discussions, the authorities expressed concern that any delay in establishing a decision point and a long lag between the decision point and the completion point would reduce the effective relief to Guyana from the Initiative. As the government plans to embark on an accelerated and wide-ranging program of social infrastructure reforms, the additional relief to help finance these efforts would be crucial. Moreover, the authorities argued that a long period between the decision and completion points could generate uncertainty and defer new capital inflows for important private sector investment. For these reasons, the authorities continue to perceive clear advantages for a completion point as soon as possible and no later than December 1998. In this connection, they expressed confidence that the mechanisms they have established would ensure that all the key reforms are fully implemented by the completion point.

IX. Issues for Discussion

Executive Directors may wish to focus on the following issues and questions:

55. **Eligibility and Decision Point**: The staff and management believe that Guyana is eligible for relief under the HIPC Initiative and recommend approval in principle of a decision point in December 1997. The staff and management recommend that Executive Directors make a positive final determination on this matter.

56. **Completion point:** In light of Guyana's past record and the authorities' commitment to substantive additional structural reforms in the period ahead, the staff and management recommend a "completion point" of December 1998. Executive Directors' consideration of this recommendation is requested.

57. **Debt-sustainability target**: The staff and management recommend that creditors agree to provide assistance sufficient to meet a target NPV of debt to exports of 107 percent (or the equivalent of NPV of debt of 280 percent of revenues) at the completion point, and encourage continued and preferably increased concessional aid flows. Do Executive Directors agree?

58. **Next steps:** The following steps are envisaged: (i) this document will be made available to Guyana's bilateral and multilateral creditors at the same time it is circulated to Executive Directors; (ii) the staff will inform Directors of any major new developments regarding debt reconciliation or commitments by creditors by way of a supplement or an oral statement at the time of the discussions of this document, and; (iii) assuming agreement on the proposed decision, a final decision on the amount of assistance to be committed will be circulated once assurances of commitments by other creditors are confirmed.

Addendum: The Boards of the IMF and World Bank in December 1997 approved Guyana's request for assistance under the HIPC Initiative which is to be delivered at the completion point in December 1998, subject to satisfactory assurances of the necessary support from other creditors and continued strong policy implementation. The debt sustainability target for the NPV of debt-to-exports ratio was set at 107 percent, providing total assistance of US$253 million in present value terms at the completion point.

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Guyana: Balance of Payments, 1996-2016

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current account (excluding official transfers)	-66	-97	-95	-89	-84	-76	-81	-98	-98	-97	-97	-93	-86	-82	-82	-87	-91	-91	-88	-88	-88
Merchandise trade (net)	-13	-37	-47	-44	-42	-37	-45	-59	-56	-55	-54	-54	-49	-48	-48	-53	-59	-58	-55	-52	-46
Exports (f.o.b.)	575	624	664	712	764	818	848	876	923	972	1,025	1,082	1,148	1,216	1,289	1,362	1,440	1,524	1,613	1,708	1,809
Bauxite	86	86	91	99	108	111	114	117	120	123	127	130	134	138	142	146	150	154	158	163	167
Sugar	151	140	144	150	156	164	146	130	136	141	146	152	165	175	185	194	203	214	224	236	248
Rice	95	91	93	96	100	104	111	118	125	133	141	149	159	168	178	189	201	213	226	239	254
Gold	104	146	157	170	184	199	215	228	237	246	256	267	277	288	300	312	325	338	351	366	380
Timber	10	11	14	16	19	21	24	26	28	30	32	34	37	40	42	45	48	51	55	58	62
Re-exports	22	24	25	27	29	32	34	36	38	41	43	46	49	52	56	60	64	68	72	77	82
Others	108	127	139	153	168	188	205	221	239	258	279	303	328	355	385	416	450	486	526	569	615
Imports (c.i.f)	589	661	712	757	806	855	893	935	979	1,027	1,080	1,136	1,197	1,264	1,337	1,415	1,499	1,582	1,668	1,760	1,855
Services (net)	-87	-100	-93	-93	-94	-95	-95	-102	-106	-109	-112	-113	-115	-117	-119	-123	-127	-133	-140	-150	-162
Of which:																					
Net interest	-45	-52	-42	-39	-38	-37	-33	-37	-37	-37	-37	-35	-33	-30	-29	-29	-29	-31	-34	-40	-49
Net private transfers	34	40	45	48	52	56	60	63	64	67	69	74	78	83	85	89	95	101	108	113	120
Capital and financial account	124	128	124	122	91	89	92	87	96	103	80	126	133	140	147	148	152	134	118	119	120
Capital account 1/ 2/	524	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt forgiveness	524	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	-400	128	124	122	91	89	92	87	96	103	80	126	133	140	147	148	152	134	118	119	120
Nonfinancial public sector (net)1/	-458	83	75	71	41	24	27	17	15	15	-14	16	20	21	15	12	10	6	3	-1	-5
Net official transfers	17	20	11	10	8	7	7	3	3	4	4	4	4	4	2	2	2	2	2	2	2
Net official borrowing	-475	63	64	61	33	18	20	14	12	11	-18	12	15	17	14	10	8	5	1	-3	-7
Project loans	40	47	55	60	58	44	45	47	48	50	51	53	54	56	58	59	61	63	65	67	69
Program loans	46	50	37	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restructured stock	274																				
Amortization 3/	-835	-34	-28	-23	-25	-26	-26	-33	-37	-38	-69	-40	-39	-39	-44	-49	-53	-58	-64	-70	-76
Private sector (net)	59	46	49	51	51	64	65	70	81	89	94	110	114	119	132	136	143	128	116	120	125
Errors and omissions	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance 2/	60	32	29	33	7	13	11	-11	-2	6	-17	33	47	58	65	61	61	43	30	31	32

Guyana: Balance of Payments, 1996-2016 (Concluded)

(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Financing 2/	-60	-32	-29	-33	-7	-13	-11	11	2	-6	17	-33	-47	-58	-65	-61	-61	-43	-30	-31	-32
Bank of Guyana net foreign assets	-73	-18	-64	-60	-32	-13	-11	11	2	-6	17	-33	-47	-58	-65	-61	-61	-43	-31	-31	-32
Of which:																					
Use of IMF credit (net)	1	-1	-23	-24	-28	-18	-22	-18	-16	-12	-9	-1	0	0	0	0	0	0	0	0	0
Change in NFPS arrears	13	-210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/ 2/	0	197	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt-stock restructuring	0	57	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt forgiveness	0	139	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	36	27	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:																					
Gross international reserves	332	338	370	392	383	365	342	301	271	253	215	236	270	328	393	454	515	559	589	620	652
(months of imports) 4/	5	5	5	5	5	4	4	3	3	2	2	2	2	2	3	3	3	3	3	3	3
Exports of goods and nonfactor services	714	768	817	874	934	998	1,036	1,074	1,131	1,190	1,254	1,323	1,401	1,482	1,567	1,654	1,747	1,846	1,952	2,064	2,183
Current account (in percent of GDP)	-9	-12	-11	-9	-8	-7	-7	-8	-8	-7	-7	-6	-5	-5	-4	-4	-4	-4	-4	-3	-3

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ In 1996, Guyana recieved a debt-stock reduction on Naples terms from Paris Club Creditors, including Trinidad and Tobago. 1997 assumes comparable treatment from Non-Paris Club bilateral creditors.
2/ Debt forgiveness of future maturities is presented as a capital transfer and debt forgiveness of arrears and current maturities is captured under exceptional financing.
3/ In 1996, this includes the effect of the 1996 Paris Club stock restructuring of future principal maturities.
4/ Imports of goods and nonfactor services.

Guyana: Medium- and Long-Term External Debt, 1996-2016

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(In millions of U.S. dollars)																					
Total debt service 1/	104	128	108	106	110	99	97	105	110	113	143	107	93	81	80	80	84	88	92	96	100
Amortization	72	71	61	61	66	56	55	64	70	73	105	71	59	48	48	49	53	58	64	70	76
Interest	32	57	46	45	44	43	41	41	40	39	37	35	34	33	32	32	31	29	28	26	25
Scheduled service on existing debt 2/																					
Amortization	72	71	61	61	66	56	54	55	53	49	77	44	37	30	33	37	40	43	47	51	56
Multilateral	56	61	53	56	62	54	52	51	48	42	38	34	25	16	18	19	19	19	20	20	20
Of which:																					
IMF	25	27	23	23	27	18	17	13	10	6	4	0	0	0	0	0	0	0	0	0	0
IDA and IBRD	7	6	6	4	6	6	6	6	6	5	5	5	5	5	6	7	7	8	8	8	8
IDB	11	13	13	13	14	11	11	12	12	12	11	11	11	9	9	9	9	9	9	9	9
Official bilateral	9	7	6	5	4	2	2	4	6	7	8	9	11	13	15	18	21	24	27	31	36
Paris Club 3/	4	1	0	0	1	1	1	3	4	5	6	8	9	11	13	15	18	21	24	28	32
Pre-cutoff	4	1	0	0	0	0	0	1	2	4	5	6	8	10	12	14	17	19	23	26	30
Post-cutoff	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Non-Paris Club 4/	5	6	6	5	4	2	0	1	2	2	1	2	2	2	2	2	3	3	3	4	4
Pre-cutoff	0	1	1	1	0	0	0	0	0	0	0	1	1	1	1	1	2	3	3	4	4
Post-cutoff	5	5	5	4	4	2	0	1	1	1	1	1	1	1	1	1	1	0	0	0	0
Commercial debt	6	3	3	0	0	0	0	0	0	0	31	0	0	0	0	0	0	0	0	0	1
Interest	32	57	45	42	41	39	37	36	34	33	30	28	26	25	24	23	21	19	18	15	13
Multilateral	25	22	20	18	17	15	13	12	10	9	8	7	6	5	5	5	4	4	4	3	3
Of which:																					
IMF 5/	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IDA and IBRD	4	4	3	3	3	2	2	2	2	1	1	1	1	1	1	1	1	1	1	1	1
IDB	11	8	8	7	7	6	6	5	5	4	4	4	3	3	3	2	2	2	2	2	2
Official bilateral	5	32	23	22	22	22	22	22	22	22	21	21	20	19	19	18	17	15	14	12	10
Paris Club 3/	3	29	19	20	19	19	20	20	19	19	19	18	18	17	17	16	15	13	12	10	8
Pre-cutoff	3	28	19	19	19	19	19	19	19	18	18	18	17	17	16	15	14	13	12	10	8
Post-cutoff	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	0
Non-Paris Club 4/	2	4	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1
Pre-cutoff	0	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1
Post-cutoff	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commercial debt	2	2	2	2	2	2	2	2	2	2	1	0	0	0	0	0	0	0	0	0	0

Guyana: Medium- and Long-Term External Debt, 1996-2016 (Continued)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(In millions of U.S. dollars)																					
Scheduled service on new debt 6/																					
Principal	0	0	0	0	0	0	1	9	17	24	29	28	23	19	15	12	13	15	17	18	20
Interest	0	1	2	3	3	4	4	5	6	7	7	7	8	8	9	9	10	10	11	11	12
(In percent)																					
Memorandum items:																					
Debt-service ratio 7/	15	17	13	12	12	10	9	10	10	9	11	8	7	5	5	5	5	5	5	5	5
Of which:																					
Multilaterals and new money	11	11	9	9	9	7	7	7	7	7	7	6	4	3	3	3	3	3	3	3	2
NPV of debt-to-export ratio 8/	180	143	135	129	120	112	105	99	94	88	79	74	69	66	63	60	57	54	51	49	46
Of which:																					
Multilaterals and new money	98	92	89	86	80	74	70	66	62	57	53	49	47	46	45	44	43	42	41	40	39
NPV of debt-to-export ratio 9/	210	162	153	149	141	132	125	119	113	106	96	89	84	81	78	74	71	68	64	60	57
Of which:																					
Multilaterals and new money	114	104	101	100	94	88	83	79	74	69	64	60	57	56	55	54	53	52	51	50	49
Debt service to revenue 10/	42	48	36	33	32	27	25	26	26	25	31	22	18	15	15	14	14	14	14	14	13
Of which:																					
Multilaterals and new money	33	31	25	24	24	19	18	19	19	19	18	16	12	9	8	8	8	8	8	8	7
NPV of debt-to-revenue ratio 10/	469	374	348	326	302	281	269	252	237	223	202	191	181	173	170	162	162	153	145	136	127
Of which:																					
Multilaterals and new money	255	241	229	218	201	187	178	166	156	146	136	128	123	120	121	118	122	119	116	113	109
NPV of debt-to-GDP ratio	161	127	115	109	100	93	89	84	78	73	65	61	57	53	51	48	45	42	40	37	34
Debt-to-GDP ratio	219	185	170	161	151	141	134	126	118	110	100	94	88	83	78	74	70	65	61	57	53
Exports-to-GDP ratio 7/	100	97	91	90	89	89	89	87	87	87	87	87	86	86	85	84	83	82	81	80	79
Revenue-to-GDP ratio 10/	34	33	32	32	32	31	31	31	31	31	30	30	29	29	28	28	26	26	26	26	25

Guyana: Medium- and Long-Term External Debt, 1996-2016 (Concluded)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(In percent)																					
Total debt stock	1,569	1,463	1,519	1,568	1,586	1,574	1,564	1,547	1,525	1,502	1,448	1,429	1,424	1,431	1,441	1,452	1,460	1,464	1,465	1,462	1,455
Of which:																					
Multilaterals and new money	976	1,032	1,096	1,150	1,172	1,163	1,155	1,142	1,126	1,109	1,094	1,084	1,091	1,112	1,137	1,166	1,195	1,223	1,252	1,281	1,310
NPV of debt	1,150	1,006	1,032	1,055	1,051	1,046	1,042	1,031	1,014	993	942	924	918	924	932	941	948	952	952	948	941
Of which:																					
Multilaterals and new money	624	647	679	705	702	696	691	681	666	650	633	621	624	641	662	686	711	736	761	787	813
(In millions of U.S. dollars)																					
Revenue of the central government 10/	245	269	296	323	349	373	388	409	427	445	466	484	506	534	548	581	584	621	658	699	743
Exports of goods and nonfactor services 11/	637	704	767	820	875	935	989	1,036	1,080	1,132	1,192	1,256	1,326	1,402	1,483	1,568	1,656	1,749	1,849	1,954	2,066

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Reflects May 1996 Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction), and assumes at least comparable treatment in 1997 from other bilateral creditors.
2/ On disbursements through end-1996.
3/ All pre-cutoff date Paris Club debt is nonconcessional; all post-cutoff date Paris Club debt is concessional.
4/ There are five outstanding debts of a concessional nature owed to non-Paris Club bilateral creditors.
5/ Includes projected charges.
6/ Starting with disbursements in 1997 and assuming an average weighted grant element in new money over the projection period of approximately 60 percent.
7/ In terms of current year exports of goods and nonfactor services, excluding workers' remittances.
8/ In terms of a simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances.
9/ In terms of a simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances and the net exports of enclave sectors.
10/ Revenue is defined as the central government revenue valued at end-1996 exchange rate.
11/ Simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances.

Georgetown, Guyana
December 2, 1997

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Mr. James D. Wolfensohn
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Sirs:

1. The attached memorandum on structural and social sector policies of the Government of Guyana describes briefly the progress made in recent years and sets out the intentions of the government regarding reforms in the key areas of civil service, public enterprises restructuring/privatization, and the social sector. These reform measures, where appropriate, will be incorporated into a possible new three-year arrangement under the ESAF—which is expected to be negotiated in early 1998—and would provide the basis for loans from the World Bank and the Inter-American Development Bank that are under discussions.

2. The Government of Guyana believes that the structural policies set forth in the attached memorandum constitute a significant acceleration and deepening of structural reforms. Cognizant of its limited managerial capacity, the government has made special arrangements for the implementation of these reforms to be of the highest priority and I am confident that the measures scheduled for 1998 will be completed on time. However, I will not hesitate to apprise you of any development that may jeopardize the schedule so that corrective measures could be designed and implemented in a timely manner.

3. In the meantime, the government will continue to pursue prudent economic and financial policies to maintain macroeconomic stability and create conditions conducive to sustained economic growth and poverty alleviation.

4. In light of Guyana's heavy fiscal burden of external debt and given its strong revenue efforts, highly open economy, firm commitment to accelerating structural and social sector reforms; the government would like to request the Fund and IDA Boards to decide favorably on Guyana's eligibility for assistance under the HIPC Initiative with a completion point in late 1998.

Sincerely yours,

/s/

Bharrat Jagdeo
Minister of Finance

Attachment: Memorandum on Structural and Social Sector Policies

Memorandum on Structural and Social Sector Policies

I. INTRODUCTION

3. Following two decades of declining investment and negative growth, the Government of Guyana began implementing a program of macroeconomic adjustment and structural reforms in 1988 aimed at reducing inflation and creating conditions for sustained economic growth and poverty alleviation. Considerable progress has been made with the restoration of macroeconomic stability and the liberalization of the economy. However, Guyana's prospects for sustainable high-quality growth over the medium term depend crucially on a deepening of structural reforms to further improve the efficiency of the economy and foster economic diversification, while taking decisive steps to strengthen social sector policies to alleviate poverty and develop the human capital.

4. This memorandum sets out the policy intentions of the government under the Initiative for Heavily Indebted Poor Countries (HIPCs) and beyond in the key areas of civil service, public enterprises restructuring/privatization, and the social sector (including poverty alleviation). The reform measures, where appropriate, will be incorporated into a possible new three-year arrangement under the ESAF—which is expected to be negotiated in early 1998—and will form the basis for program/project loans from the World Bank and the Inter-American Development Bank.

II. CIVIL SERVICE REFORM

5. Between 1993 and 1996, the number of staff at the skilled levels in the government declined by about 900 (one third) and that at the unskilled level by about 4,800 (also about one third). This reduction, together with unfilled positions, resulted in the number of vacancies at all levels of the civil service rising to about 45 percent. While the vacancies at the lower levels are due partly to a conscious effort to streamline the civil service, vacancies at the middle and higher levels are due mainly to the unattractiveness of civil service salaries.

6. Following the establishment of a new 14-band salary structure in 1993 and the mapping of all existing posts into the new structure based on job evaluation—with the assistance of the World Bank and UK ODA—salary increases have been made across-the-board to improve the attractiveness of compensation in the civil service. In addition, a three-year scheme (1997–99) was adopted to supplement the salaries of 1,800 key and critical positions in the civil service. Also, a performance review scheme was designed and implemented this year to enable the civil service to shift away from across-the-board salary adjustments to merit-based increases.

7. Despite the above efforts, the civil service remains weak and the government's ability to attract and retain high quality personnel is extremely limited. As was noted in earlier

communications in connection with the ESAF program, the situation in the civil service has impaired Guyana's ability to design and implement appropriate economic and financial policies to a significant extent. It was for this reason that the government had undertaken—under the current third annual program of the ESAF—to continue the civil service reform by making its salary structure more competitive while further streamlining its size. However, in view of possible resources to be released from debt service under the HIPC Initiative, the government intends to accelerate and deepen the reforms in these areas.

8. The objective of the civil service reform is to improve its efficiency and strengthen its service delivery through the rationalization and improvement of its structure and remuneration to facilitate the recruitment and retention of skilled personnel. In this regard, a concept paper has been prepared that outlines the measures to be taken. Apart from accelerating privatization, these measures include contracting out certain services that could be more efficiently undertaken by the private sector; establishing and implementing a civil service wage policy; setting up semi-autonomous agencies outside the civil services, such as the Revenue Authority, to discharge certain functions in a private sector-like manner; and improving revenue generation and expenditure management. The government intends to seek IDA and other donor support in implementing these measures.

9. The government recognizes that the reform of the civil service has two important aspects: vertical reforms in individual ministries (departments) that would focus on strengthening organization and management; and horizontal reforms that would cut across ministries and improve the environment in which public sector entities function. Concerning vertical reforms, the government has initiated the reorganization of the Ministry of Finance, which will guide the restructuring of the ministries of health and education by end-1998. The reorganization of the Ministry of Finance includes administrative reforms to address ineffective management and decision-making processes, unclear lines of authority, and inadequate personnel and staff development policies. In addition, renovation and rehabilitation of the physical facilities are ongoing, the management information system is being upgraded, operations are being computerized, and the implementation of program budgeting has started.

10. As indicated earlier, the principal constraint facing the civil service is inadequate salaries. Therefore, the government is committed to bringing the salary structure of the civil service, particularly for key and critical positions, to a level that would ensure adequate staffing. For this purpose, the government would develop a new salary structure for managerial, professional and technical employees, taking comparable positions in the private sector as benchmarks. The aim would be to bring civil service wages gradually to within 10 percent of the median rates in the private sector over a period of time. To this end, a survey of the private sector remuneration structure is to be conducted.

11. Besides the reorganization of the civil service, the government is committed to introducing guidelines for the civil service with a view to ensure good governance and transparency. In this regard, the Cabinet authorized recently the creation of a committee—comprising representatives of the public service unions, the private sector, and

the government—to review the rules relating to conditions of service in the public sector. In addition, the government recently signed into law the Integrity Commission Bill which sets out a code of conduct for public officials and procedures for a commission to hear complaints. Under the law, public officials above a certain level are required to make full disclosure of assets, liabilities and income annually.

12. Specifically, the government will implement the following measures by the dates indicated:

(i) Carry out a survey of private sector remuneration (salary and benefits) to establish benchmarks to be used in adjusting remuneration of comparable positions in the public service. Establish mechanisms for carrying out such surveys on a regular basis.

June 1998

(ii) Develop a new remuneration structure for managerial, professional, and technical positions in the public service to bring the remuneration to such levels, relative to the private sector, as would enable the public service to attract and retain skilled persons for these positions.

September 1998

(iii) Develop norms and mechanisms for periodic adjustment of the remuneration structure vis-à-vis the private sector.

September 1998

(iv) Implement the new remuneration structure for managerial, professional and technical positions in the public service.

January 1999

(v) Review and streamline public service rules in order to facilitate public service management, enhance transparency in personnel decisions, improve incentives for performance, and strengthen accountability.

September 1998

(vi) Make the Revenue Authority fully operational.

September 1998

(vii) Complete the restructuring of the Ministry of Finance and use that as a prototype to complete the restructuring of the ministries of health and education.

December 1998

III. Public Enterprises

13. As part of the government's economic restructuring efforts, a decision was made to privatize most of the activities that could be more efficiently undertaken in the private sector within the socio-political constraints facing Guyana. It was in this context that a further 20 public enterprises were identified for privatization in 1993, following the privatization of 14 enterprises during 1989–92. In 1997, the privatization program was accelerated, with most of the targets for completion of sale being met. However, the privatization of a few enterprises encountered delays due to unanticipated factors, including disputes over land title ownership, court injunctions against sale, and lack of interest by investors. Nevertheless, by end-1997 the government would have privatized nonfinancial enterprises accounting for about 60 percent of the total net assets of entities originally owned by the public sector.

14. Among the public enterprises privatized in 1997, the National Bank of Industry and Commerce (NBIC) and the Guyana Electricity Corporation (GEC) were of significant importance to the economy as a whole. The privatization of NBIC involved the sale of the 47 percent share held by the government and the National Insurance Scheme to the Republic Bank of Trinidad and Tobago. This entity was brought to the point of sale in 1996 and was targeted to be sold by August 1997 under the third annual ESAF arrangement (a performance criterion). A legal injunction by a customer of the bank delayed the sale, which was completed in October 1997. In the case of GEC, the government completed in November 1997 the sale of 50 percent of the company's shares to a strategic partner and adopted, ahead of schedule, an appropriate regulatory framework for the energy sector. In addition, the government initiated the privatization of the two bauxite companies—LINMINE and BERMINE—and discussions are ongoing with two foreign investors.

15. In 1998 the government will take further steps to accelerate and deepen the privatization program. These steps will include readvertising and bringing to the point of sale Guyana Stores Ltd. and Guyana National Printers Ltd. The government will put out the bidding documents for the bauxite companies, and will advertise for the sale of the Wanna Estate, four BIDCO properties, and the Coverdeen Claybrick factory. Also, the Ruimveldt and BV Industrial Estates will be prepared for sale to the current tenants. It is expected that by the end of 1998 the asset value of nonfinancial public enterprises sold by the public sector will be about 72 percent of those originally owned by the public sector; the only nonfinancial public enterprises of economic significance remaining in the public sector will be the Guyana Sugar Company (GUYSUCO) and Guyana Airways.

16. Also, the government intends to continue the privatization program with the following actions in 1998:

(i) establish a regulatory framework for securities trading to support the insurance and trading of privatized shares;

(ii) establish a regulatory framework for insurance; and

(iii) strengthen and modernize the Deeds Registry.

IV. GUYANA SUGAR COMPANY

17. During the late 1980s, Guyana was unable to meet its sugar export quota to the European Union (EU) and GUYSUCO was experiencing financial difficulties. However, initial attempts to sell the company failed. The government re-stated its intention to restructure the sugar industry for eventual privatization in 1993. Since then, the industry has recovered financially due to favorable market conditions and sound management by Booker-Tate (a foreign private management team) with increased production at reduced unit costs. Also, GUYSUCO began generating adequate resources to finance its rehabilitation program. In light of the improved financial situation and given the sensitive issues involved in the divestment of sugar lands, the government and IDA agreed that there was no immediate compelling need to privatize GUYSUCO. However, it is important to improve the competitiveness of the industry as realized sugar prices are expected to decline because of the likelihood that the preferential access to the EU market would cease by the year 2002. The government and the World Bank share the view that, irrespective of the mode of restructuring/privatization, a regulatory framework for GUYSUCO should be established so as to further enhance and clarify the rules of operation of the company as necessary for reducing the costs of production. In this regard, the government will establish a regulatory framework soon after the conclusion of a consultant's study now expected by end-November 1997.

18. The regulatory framework was to have been agreed with IDA by June 1997 and established by September 1997 and constituted a benchmark for the completion of the midterm review of the third-year program under the ESAF. However, consultants acceptable to both the government and IDA were identified with a long delay after the terms of reference were approved only in November 1996.

19. Even in the absence of a regulatory framework, GUYSUCO has set for itself a target for its unit cost of production of US$0.13 per pound (excluding depreciation) to be achieved by the year 2000. Toward this end, GUYSUCO took the following measures during 1992–96:

(i) Reduced full-time employees by 7,500 while simultaneously mechanizing field operations. These actions raised agricultural yields from 2.46 tons per acre in 1992 to 2.62 tons per acre in 1996. During the same period, productivity of cane harvesters rose from 2.5 tons per worker-day to 4 tons per worker-day.

(ii) Invested selectively in new machines/technology to improve sugar extraction recovery from 76.42 percent in 1992 to 79.67 percent in 1996. Also, invested in loading facilities at the Demerara Terminal and increased the size of ocean freighters during 1996–97, which contributed to reducing unit costs.

(iii) Restructured operations by reducing some layers in management and supervisory structure, closing down several inefficient engineering workshops and equipment departments, outsourcing services (such as transportation of sugar and molasses, purchase of chemicals, and manufacturing tools required for regular use). These measures resulted in savings of over G$430 million (about US$3 million or about US$0.005 per pound of sugar) a year.

20. Effective January 1998, the government will:

(i) introduce a formula determining the sugar levy to make transparent transfers to government more predictable and—also the rate would be set such as to ensure that adequate funding is available for GUYSUCO to undertake necessary investments to reduce production costs;

(ii) require GUYSUCO to pay the same corporate tax as any other company (35 percent);

(iii) bring the import regime for inputs for GUYSUCO in line with that for other enterprises; and

(iv) introduce in the next management contract for GUYSUCO (to start in March 1998) semiannual cost-reduction benchmarks.

21. Beginning in early 1998, GUYSUCO expects to implement a new five-year strategic plan that would aim at a sugar production in the range of 275,000 to 300,000 tons a year. This is to be achieved by expanding field cultivation in the low-cost area of East Skeldon, combining the administration of contiguous estates (e.g., L.B.I. with Enmore; Albion with Rode Hall), and merging factory operations.

V. SOCIAL SECTORS

22. Long-term economic decline in the late 1970s and through the 1980s and limited budgetary resources resulted in rising poverty and deteriorating social services. The situation has improved somewhat in recent years because of economic growth and intensified operations to reduce poverty by the Social Impact Amelioration Program (SIMAP), the Basic Needs Trust Fund, and the NGOs.

23. Expenditure outlays in the social sectors have increased noticeably in recent years with priority given to basic education, primary health care, and the rehabilitation of the infrastructure as important steps toward raising human capital investment and reducing poverty on a permanent basis. Nonetheless, the social situation remains one of concern and is in need of substantial additional outlays to bring living standards to minimum acceptable levels. It is expected that continued donor support, release of budgetary resources from debt

service as a result of the possible assistance under the HIPC Initiative, and the rationalization of other budgetary expenses would facilitate a sustained increase and reallocation of public spending to the social sector. This approach will be supported by institutional and policy reforms to enhance the efficacy of public spending in the area.

24. In education, the government intends to continue with its policy to improve the efficiency and effectiveness of expenditure and service delivery at the early childhood, primary, and secondary school levels. In this regard, the government will establish mechanisms for wider private sector participation in the provision, management, and finance of technical and vocational education, and will strengthen cost-recovery mechanisms at the tertiary education level. Measures will be adopted to increase pre-primary enrollment and secondary education coverage, expand teacher training, and improve the access and quality of basic education—especially for the Amerindians and poor rural communities. It is expected that resources to cover basic recurrent cost items such as textbooks, materials, and school maintenance would be significantly increased over the medium term. Consistent with these objectives, budgetary allocations to the education sector would increase from 4 percent of GDP in 1996 to about 5 percent of GDP in 1998 and to about 5½ percent of GDP by 2000, with the bulk of the expenditure targeted at the early childhood, primary, and secondary levels.

25. In the health sector, the government's objectives are to improve both the population's access to and the quality of basic care. In addition to increasing the budgetary allocation from 3 percent of GDP in 1996 to at least 3¼ percent of GDP in 1998 and about 4 percent of GDP by 2000, emphasis will be placed on disease-control programs, health education and awareness campaigns, and measures to improve the nutritional status. Special attention will be given to improving the access and delivery of primary health services in the hinterland, particularly targeting the health needs of children, adolescents, and pregnant and lactating women.

26. With respect to poverty alleviation, the government will conduct a follow-up survey to the 1993 household survey in order to strengthen the ability to monitor income distribution and the impact of adjustment measures on the poor, and to track the incidence of government taxes and expenditures. This will provide the basis for focusing the various poverty alleviation programs and identifying appropriate areas for expansion.

27. Also, the government has developed a poverty map of the country and has targeted investment to support community driven programs in education, health, water supply and sanitation, and other local social and economic infrastructure in Amerindian and other low income communities. These initiatives will be continued with specific performance targets.

28. Specifically, the government—working with the staffs of the World Bank, the Inter-American Development Bank, and the International Monetary Fund—has developed comprehensive matrices covering the policy actions and expenditure targets outlined above for inclusion in the final document on the HIPC Initiative for Guyana.

External Debt-Management Capacity

1. In view of the importance of debt management in the context of the HIPC Initiative, the staff discussed with the authorities in details a medium-term work program for strengthening the local capacity of debt management.

A. Recent Developments

2. The Ministry of Finance (MOF) is undergoing a comprehensive restructuring supported by a USAID grant project, Building Equity and Economic Participation (BEEP). Its Debt-Management Division will be upgraded to a Debt-Management Department (DMD), comprising an External Debt Division and an Internal Debt Division. The DMD will be fully integrated with other functional departments in formulating consistent macroeconomic policies through better coordination. Remodeling of office spaces including rewiring for network connection began in July/August 1997 and is expected to be completed by early next year.

3. The DMD has recently acquired state of the art office equipment: (a) an HP Laser Jet V printer and two Pentium 166 desktop computers with CD-ROM drivers, funded by a grant from the Bank s Institutional Development Fund (IDF); and (b) a Pentium 166 desktop computer funded from the Ministry of Finance's own resources. The BEEP project plans to purchase another desktop computer and a laser printer in the near future.

4. Progress was also made in upgrading the Commonwealth Secretariat s Debt Recording and Management System (CS-DRMS) to the window-based version 7.1. The new version of CS-DRMS has expanded management tools for analysis.

5. In June 1997, two DMD staff members participated in a regional workshop on CS-DRMS version 7.1 software in St. Kitts and Nevis sponsored by the Commonwealth Secretariat and the Eastern Caribbean Central Bank. The Head of DMD also participated in an IMF Institute course on External Sector Policies recently.

B. Medium-Term Objectives

6. In the next two years, DMD plans to strengthen its debt-management capacity by implementing the following work program to improve both data recording and analysis:

- Automation of existing loan records and rescheduling agreements by October 1998, with periodic updating of the database thereafter;

- Biweekly updating of key financial information in the database, including exchange rates and interest rates;

- Monthly updating of information on new loan contract and disbursements;

- Projection of debt-service payments over a 40-year period on a loan-by-loan and currency-specific basis;

- Reconciliation of records with creditors on projected debt-service payments on an annual basis, and loan terms on semester basis;

- Monthly projection of debt-service payments as operational input to the Bank of Guyana s foreign exchange budgeting;

- Quarterly and annual projections of debt-service payments in the medium term as input to central government's budget programming as well as the formulation of macroeconomic policies in consultation with concerned agencies;

- Simulation of rescheduling terms for debt restructuring with individual creditors, in particular non-Paris Club bilateral creditors, to provide the basis of policy advice on negotiations; and

- Analysis of overall debt-service projections in light of key macroeconomic variables (exports and fiscal revenues in particular); as well as assessment of the impact of rescheduling, changes of exchange and interest rates, addition of new debt (both volume and terms), and HIPC debt relief.

C. Measures To Achieve the Medium-Term Objectives

7. In order to achieve the above objectives and deliver the work program, DMD is planning to take the following actions:

- Implementing BEEP's recommendation on human resource restructuring (once approved by the government), in particular the recruitment of two division heads, three more economists, two more data entry operators and an administrative aide, with professional staff organized by their responsibilities for various categories of debt;

- Upgrading staff s technical and analytical skills through external training, including attending courses, workshops, a study tour of debt-management offices in the Caribbean and Latin American regions and possibly overseas post-graduate (master's level) training;

- Installing CS-DRMS version 7.1 software upon the completion of the remodeling of office space and rewiring for the computer server; and providing internal training on the use of the system to the staff;

- Acquiring of sufficient file cabinets to organize files; and

- Setting up an information center for major international financial publications, e.g., Financial Times, World Bank Global Development Finance, IMF International Financial Statistics (both on CD-ROM), and relevant materials on debt issues.

D. Other Donor Support

8. The World Bank is providing part of the US$400,000 technical assistance grant under the Institutional Development Fund for DMD. One of the main benefits to be derived from this project is the development of a comprehensive user-friendly database. In particular, it will enhance DMD's ability to produce custom-made reports for policy purposes.

9. Debt Relief International, a NGO with donor support from Denmark, Finland, Sweden, and Switzerland, recently sent a mission to Georgetown at the authorities request for advice on ways of strengthening Guyana's debt-management capacity. Assistance is also expected from the Commonwealth Secretariat both in training and on-line support of the CS-DRMS version 7.1 software.

Guyana: Estimated Assistance Under the HIPC Initiative

This annex documents factors underlying the changes in the estimated amount of assistance for Guyana from what was presented in the preliminary HIPC document for different completion points under the HIPC Initiative. These changes mainly reflect the reconciliation of creditors and debtor records, and the refinement of debt-sustainability analysis (Tables 1 and 2).

Changes in Assistance

(In millions of U.S. dollars)

Completion Points	1998	1999	2000
Changes in assistance	-39.5	-37.0	-44.5
Due to: NPV of debt in base year	-27.5	-10.9	5.6
Changes in revenue[1]	-12.0	-26.1	-50.1

Refinement of debt-sustainability analysis

In addition to the reconciliation of creditors and debtor records and the updating of disbursements in 1997, refinements were made to the DSA with respect to the following creditors:

- **IDB**: The discount rates used for calculating NPV of IDB's debt are changed to reflect currency composition of each loan disbursements, instead of the uniform SDR discount rate used in the preliminary document. This reduced NPV of IDB's debt by about US$10 million.
- **IMF**: The prospective ESAF disbursements during 1998-2000 are now included in the new money.
- **OPEC**: Arrears to be cleared are included in the NPV of debt at the completion points, which will count toward assistance under the Initiative.
- **Russia**: Is now classified as a Paris Club creditor and treatment under Naples terms after 70 percent up-front discount is assumed.
- **Commercial bonds**: All of the bonds issued in 1992 to restructure long standing suppliers' arrears are treated as nonreschedulable debt, which increases the NPV of debt by about US$2 million.

[1]Valued at end-1996 exchange rate.

Table 1. Guyana: Changes in NPV of Debt between Preliminary and Final HIPC Document 1/ 2/

(In millions of U.S. dollars)

	1996			1997			1998			1999		
	Prel.	Final	Changes	Prel.	Final	Changes	Prel.	Final	Changes	Prel.	Final	Changes
NPV of total debt	1,187	1,150	-38	1,034	1,006	-28	1,043	1,032	-11	1,050	1,055	6
NPV of old debt	1,187	1,150	-38	973	942	-30	935	904	-30	897	866	-32
Bilateral	523	526	2	359	359	0	353	353	0	351	351	0
Paris Club 3/	281	291	11	273	274	1	274	275	1	275	276	1
Post-cutoff	20	20	0	21	21	0	21	21	0	22	22	0
Of which: ODA	20	20	0	21	21	0	21	21	0	22	22	0
Pre-cutoff	261	271	11	252	253	1	253	254	1	253	254	1
Of which: ODA	0	0	0	0	0	0	0	0	0	0	0	0
Of which: non-ODA	261	271	11	252	253	1	253	254	1	253	254	1
Other official bilateral	126	116	-10	53	50	-3	50	47	-3	47	44	-3
Of which: Russia 3/	11	0	-11	3	0	-3	3	0	-3	3	0	-3
Other	126	116	-10	53	50	-3	50	47	-3	47	44	-3
Post-cutoff (nonreschedulable) 4/	22	22	0	18	18	0	14	14	0	11	11	0
Pre-cutoff (rescheduled on Naples terms)	104	94	-10	36	33	-3	36	33	-3	36	33	-3
Commercial	117	119	2	33	35	2	29	32	2	29	31	2
Post-cutoff (nonreschedulable) 4/	30	35	5	25	28	4	22	26	4	22	26	4
Pre-cutoff (rescheduled on Naples terms)	86	84	-2	8	7	-2	7	6	-2	7	5	-2
Multilateral	664	624	-40	614	583	-30	582	551	-31	547	515	-32
IDA/IBRD	116	105	-11	113	102	-11	110	102	-8	109	101	-8
Fund	136	133	-2	114	114	0	98	98	0	81	81	0
IDB 5/	210	186	-24	203	178	-26	197	170	-28	191	162	-30
CDB	28	29	1	26	27	1	24	26	1	23	25	1
EDF	22	22	0	22	23	0	23	23	0	24	24	0
EIB	12	9	-3	11	8	-3	10	7	-2	9	6	-2
IFAgD	4	3	0	3	3	0	3	3	0	3	2	0
OPEC 6/	24	24	0	12	24	12	13	24	11	13	24	11
CMCF	113	113	-1	108	104	-4	103	99	-4	94	89	-5

Table 1. Guyana: Changes in NPV of Debt between Preliminary and Final HIPC Document 1/ 2/ (Concluded)

(In millions of U.S. dollars)

	1996			1997			1998			1999		
	Prel.	Final	Changes	Prel.	Final	Changes	Prel.	Final	Changes	Prel.	Final	Changes
NPV of new debt	0	0	0	61	64	3	108	128	20	152	190	37
Multilateral 7/	0	0	0	56	59	3	103	123	20	148	185	37
Of which: Fund	0	0	0	18	17	-1	19	34	16	20	53	33
Bilateral	0	0	0	5	5	0	5	5	0	5	5	0
Memorandum items:												
Exports of goods and services 8/	724	714	-10	773	768	-5	822	817	-5	880	874	-6
Three-year averages 9/	640	637	-3	709	704	-5	773	767	-6	825	820	-5
NPV debt-to-export ratio 8/	185	180	-5	146	143	-3	135	135	0	127	129	1
Central government revenue 10/	244	245	1	265	269	4	287	296	9	305	323	18
NPV debt-to-central government revenue ratio	486	469	-17	390	374	-16	363	348	-15	344	326	-17

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Reflects May 1996 Paris Club stock-of-debt operation on Naples terms (67 percent), and assumes at least comparable treatment in 1997 from other bilateral creditors.

2/ Changes mainly reflect the reconciliation of creditors and debtor records after the preparation of the prel. HIPC document.

3/ Russia now is reclassified as a Paris Club creditor and NPV reduction of 67 percent on Naple terms after 70 percent upfront discount is assumed. The loan was contracted in U.S. dollars.

4/ Includes all debt that is not assumed to be subject to (further) rescheduling/reduction in the context of the Initiative.

5/ The discount rate has been refined to reflect currency composition of each loan disbursements, instead of the SDR discount rate, which reduced the NPV of debt by US$10 million.

6/ Compared with the preliminary document, debt sctocks at the completion point are higher because they include arrears to be cleared which will count toward assistance under the Initiative.

7/ The prospective ESAF disbursements for 1998-2000 are now incorporated into the DSA and 1997 disbursements are updated.

8/ Based on the definition in the fifth edition of the BOP Manual, i.e., excluding factor income. Does not include workers' remittances.

9/ Backward-looking average (e.g., average over 1997-99 for entry in 1999).

10/ Valued at end-1996 exchange rate.

Table 2. Guyana: Changes in Estimated Assistance for Alternative Completion Points

	Completion Points								
	1998			1999			2000		
	Prel.	Final	Changes	Prel.	Final	Changes	Prel.	Final	Changes
	(In millions of U.S. dollars)								
Possible assistance	292.2	252.7	-39.5	238.7	201.7	-37.0	194.5	150.0	-44.5
	(Proportional burden sharing)								
Bilateral contributions	102.8	91.3	-11.4	81.9	70.0	-11.9	65.9	50.6	-15.3
Paris Club	87.4	79.0	-8.5	69.9	60.7	-9.2	56.3	44.0	-12.4
Other official bilateral	12.4	10.2	-2.2	10.0	7.9	-2.1	8.1	5.8	-2.3
Commercial	2.9	2.1	-0.8	2.1	1.4	-0.7	1.5	0.8	-0.6
Multilateral contributions	189.4	161.4	-28.1	156.8	131.8	-25.1	128.7	99.5	-29.2
IDA	33.0	27.1	-6.0	27.3	22.1	-5.2	22.4	16.7	-5.7
IMF	38.7	34.5	-4.2	32.1	28.2	-3.9	26.3	21.3	-5.0
IDB	59.9	48.1	-11.8	49.6	39.3	-10.3	40.7	29.7	-11.0
CDB	7.9	7.4	-0.5	6.5	6.1	-0.5	5.4	4.6	-0.8
OPEC	6.9	6.2	-0.7	5.7	5.0	-0.7	4.7	3.8	-0.9
CMCF	32.3	29.1	-3.2	26.7	23.8	-3.0	21.9	17.9	-4.0
Memorandum items:									
NPV of debt in the base year 1/	1,033.7	1,006.2	-27.5	1,042.8	1,031.9	-10.9	1,049.9	1,055.5	5.6
Revenue in the base year 2/	264.8	269.1	4.3	287.2	296.5	9.3	305.5	323.4	17.9
Exports of goods and nonfactor services in the base year 3/	708.7	703.9	-4.8	773.1	766.7	-6.4	825.0	819.9	-5.1
NPV of debt target	741.5	753.5	12.0	804.1	830.2	26.1	855.3	905.4	50.1
	(In percent)								
NPV reduction for Paris Club creditors on eligible debt	78.4	77.3	-1.2	76.1	74.9	-1.2	74.3	72.7	-1.6
Overall NPV reduction after Naples terms	28.3	25.1	-3.2	22.9	19.5	-3.3	18.5	14.2	-4.3
NPV of debt to export ratio target 3/	104.6	107.1	2.4	104.0	108.3	4.3	103.7	110.4	6.8

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs estimates and projections.

1/ Reflects May 1996 Paris Club (including Trinidad and Tobago) stock-of-debt operation on Naples terms (67 percent), and assumes at least comparable treatment in 1997 from other bilateral creditors.
2/ Central government revenues valued at end-1996 exchange rate.
3/ Simple historical three-year average of exports of goods and nonfactor services, excluding worker's remittances.