Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 17999

IMPLEMENTATION COMPLETION REPORT

GUYANA

PRIVATE SECTOR DEVELOPMENT ADJUSTMENT CREDIT

(Credit 1746-GUA)

June 11, 1998

Finance, Private Sector & Infrastructure Unit
Caribbean Country Management Unit
Latin American and the Caribbean Regional Office

CURRENCY EQUIVALENTS
(June 1, 1998)

Currency Unit: Guyana Dollar (G$)

1US$ = G$145.5

Fiscal Year of Borrower

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

CARICOM	Caribbean Community
CET	Common External Tariff
FIAHS	Fund for Innovative Approaches to Human and Social Development
FISBEC	Financial Sector and Business Environment Credit
GAIBANK	Guyana Cooperative Agricultural and Industrial Development Bank
GBTI	Guyana Bank for Trade and Industry
GEC	Guyana Electric Corporation
GNCB	Guyana National Cooperative Bank
GOG	Government of Guyana
GO-INVEST	Guyana Office of Investment
GUYMIDA	Guyana Manufacturing and Industrial Development Agency
HIPC	Heavily Indebted Poor Countries
IDA	Internatiional Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MOF	Ministry of Finance
MOP	Memorandum of the President (IDA Project Report)
NBIC	National Bank for Industry and Commerce
PFP	Policy Framework Paper
PSDAC	Private Sector Development Adjustment Credit
SIMAP	Social Impact Amelioration Program
TA	Technical Assistance

Vice President:	S. Javed Burki
Country Director:	O. Kalantzopoulos
Sector Director:	Danny Leipziger
Task Team Leader:	John Pollner

FOR OFFICIAL USE ONLY

TABLE OF CONTENTS

IMPLEMENTATION COMPLETION REPORT

GUYANA

PRIVATE SECTOR DEVELOPMENT ADJUSTMENT CREDIT
Credit 2746-0 GUA

Preface

1. This is the Implementation Completion Report (ICR) for the Private Sector Development Adjustment Credit in Guyana, for which Credit 2746-0-GUA in the amount of SDR 10 million (equivalent to US$ 15.5 million), was approved on June 20, 1995 and made effective on July 13, 1995. Additional IDA Reflows amounting cumulatively to US$ 9.43 million were added as supplementary credits and disbursed in tandem with each tranche release.

2. The credit was closed on December 31, 1997. As of December 31, 1997, 100% of the credit was disbursed. A final withdrawal of US$ 4.6 million from the Credit was disbursed on November 26, 1997, and the last supplementary IDA reflow of US$ 1.5 million was disbursed on December 31, 1997.

3. The ICR was prepared by John Pollner (Task Manager, LCSFP) and Adrienne Taptich (Consultant). The ICR was reviewed by Max Pulgar-Vidal (Sector Leader), Orville Grimes (LCODR) and Maria Victoria Lister (LCSFP). Preparation of this ICR was begun during the final supervision/ICR mission which took place in October, 1997. The ICR is based on materials in the project files, interviews with IDA staff involved in project preparation and implementation, interviews with the Borrower's staff in Guyana, and additional information requested of the Borrower to facilitate IDA's review of the project. The Ministry of Finance prepared the Project Review from the Borrower's perspective (Annex A). Comments on the draft ICR received from the Ministry of Finance have been largely incorporated into this final version.

4. Given the similar financial sector conditionality and support of related objectives, the IDB Financial Sector Loan is listed in this report as part of the overall project's financing (Annex 8B) even though it is does not strictly represent 'cofinanced' funding since both the IDA and IDB operations used policy lending instruments. Nevertheless, given the complementarity of both projects and their parallel implementation, the IDB facility is listed as supporting the overall program, albeit, not in the traditional sense of parallel cofinancing.

5. The Aide Memoire for this task is not included in this ICR since it contained elements of another project's supervision work as well as discussion of a new project under preparation. Given that some of these items would be inappropriate for disclosure within this ICR, and given that the PSDAC's reference in that Aide Memoire was brief, it is thus not included as an Appendix to this report but is available in the project files.

IMPLEMENTATION COMPLETION REPORT

GUYANA

PRIVATE SECTOR DEVELOPMENT ADJUSTMENT CREDIT
Credit 2746-GUA

Evaluation Summary

Introduction

From the late 1960s to the late 1980s, Guyana followed socialist economic policies that led to public sector domination of the economy and distorted incentives for the residual private sector. The Government reversed course in mid-1988, and embarked on an Economic Recovery Program. Liberalization measures included: floating the exchange rate, liberalizing interest rates, eliminating price controls, reducing import tariffs, introducing private sector management into the sugar industry, and launching a privatization program. IDA and the IMF provided support to the Government's Economic Recovery Program through the Second Structural Adjustment Credit and an Enhanced Structural Adjustment Facility, respectively. By end-1992, inflation had declined, and the budget and balance of payments deficits had stabilized. In October 1992, the new democratically elected Government committed itself to continue and accelerate the ongoing reforms. In addition, the Government put increased emphasis on the reduction of poverty, human resource development and the reduction of the external debt. Greater emphasis was also placed on the rehabilitation of the seriously dilapidated infrastructure and transparency and the accountability of the public sector operations.

Project Objectives

The objective of the Private Sector Development Adjustment Credit was to help spur progress in improving the environment for the private sector as a means to stimulate economic growth through: (i) reduction of the direct role of the state in economic activities, (ii) improvement in the regulation and supervision of the financial system and restructuring key financial institutions, (iii) reduction in the burden of bureaucratic impediments to investment and international trade, and (iv) revision in the corporate tax policy to improve transparency and reduce distortions. To this end, the PSDAC supported privatization, financial sector reform, trade liberalization, rationalization of incentives, corporate tax reform, and improvement of the business environment.

The macroeconomic and sector objectives, strategies, and policy conditionality of IDA's PSDAC, the IMF's second Enhanced Structural Adjustment Facility, and the IDB's Financial Sector Adjustment Operation were all consistent with the Government's second PFP and with each other. The staff teams of IDA, the IMF, and the IDB worked closely during the preparation of their respective Guyana operations, resulting in a well-coordinated and coherent plan for multilateral assistance to the Government of Guyana.

Although the project did not have any direct poverty alleviation efforts, policies beneficial to lower income households were implemented. The consumption tax reform included a rationalization of tax rates and the establishment of a basket of basic needs goods, based on the household surveys undertaken by Guyana's Bureau of Statistics with Bank support, that was assigned a zero tax rate. Larger privatizations included employee stock option programs. While the PSDAC was under preparation and early implementation, a program established to alleviate the effects on the poor from the prior macroeconomic adjustment, was still in place (the SIMAP: Social Impact Amelioration Program).

Implementation Experience and Results

The conditions for the privatization, financial sector, and most trade and tax reforms were readily monitored. Quantitative targets for privatization of real and financial sector entities were clear and outcome-oriented, while leaving the Government of Guyana the ability to make decisions about selection of entities for privatization and sequencing. The use of quantitative targets, rather than specifying timetables for defined entities to be privatized, also allowed for adapting to changes in government priorities and to unforeseen hindrances in individual transactions. Tariff reduction criteria were clear. Incentive reforms were largely undertaken up front, such that conditionality entailed mainly non-reversal of policies enacted.

Wavering commitment on the part of the Government, particularly regarding privatization, prior to second tranche identified in back to office memoranda, suggest that project conditionality at times pushed the limits of political feasibility. Nevertheless, the government met all of the conditionality under the Private Sector Development Adjustment Credit, with one minor waiver granted -- the final sale of the Dairy Complex which was impeded by a legal claim regarding property ownership, and the sale of shares in Guyana Stores which did not reach a majority subscription. A critical factor that initially led to difficulties in the early implementation period was the unwillingness of the Government to hire external consultants at international salary levels to provide expertise lacking in the Government, even with grant funds.

The Government exceeded its PSDAC privatization targets, completing the sale or liquidation of a total of 15 enterprises representing approximately 60% of the government's total net asset holdings prior to the PSDAC. Under the financial sector reform, legislation and regulation were vastly improved. A new financial institutions act and conforming regulations, revised prudential regulations, and a central bank act were passed, all of which were found to be satisfactory by qualified financial sector experts and in line with Basle international standards. At the same time, banking supervision capacity of the Central Bank was strengthened with financing from a parallel technical assistance credit, and the IMF. Public ownership of financial institutions was divested or liquidated, except the "new GNCB bank", formed via merger and restructuring of Guyana National Cooperative Bank and GAIBANK. Although a part of the conditionality, progress in improving operations and efficiency of the new GNCB has been slow.

The main achievement in incentives reform was the elimination of discretionary incentives. The Government ceased to issue tax holidays from corporate income and indirect taxes, and allowed outstanding holidays to expire. A significant shortcoming of the incentives reform was the failure of the Government to reduce the corporate income tax rate, from 45% for commercial firms and 35% for "non-commercial" (e.g., manufacturing) firms in conjunction with a minimum tax. This was due to the cyclical revenue streams of manufacturing firms which could not afford payment of minimum tax rates during non-cash flow (i.e., loss making) periods, as well as fiscal pressures on the government which necessitated maintaining a minimum revenue base in the short run. While such reforms were listed as part of the overall economic program, they did not represent strict conditionality targets under the project's covenants.

Conditions regarding improvement in the business environment were met. A new Companies Law and regulations were promulgated. A critical factor that led to difficulties in implementation in the preparation and early implementation period was the unwillingness of the Government to hire external consultants at international salary levels to provide expertise lacking in the Government, even with grant funds. Although understandable, given the low salaries paid to civil servants at all levels, this policy hampered progress in privatization and financial sector reform.

IDA's performance during implementation reflected strong commitment to project goals, and continuous interaction with the Government to follow-up on needed actions for ensuring conditionality compliance at each tranche. Review and verification of project accomplishments was rigorous and demanded the requisite transaction and legal proofs, while at the same a quick response processing capability given the Government's meeting of targets very close to tranche disbursement deadlines.

Summary of Findings, Future Operations, and Key Lessons Learned

The outcome of the PSDAC was satisfactory. The operation helped lay the cornerstones and a significant part of the foundation for private sector development in Guyana, particularly in the privatization and financial sector areas. The project achieved satisfactory success despite weak government capacity of a low income country, at a time when failure to consolidate macroeconomic adjustment gains may have led to economic disintegration that would have been difficult to reverse.

The sustainability of gains in private sector development achieved under the PSDAC is likely. The Government of Guyana has committed to privatization of nearly all remaining state-owned entities and to financial and business environment reforms under a HIPC debt relief arrangement approved in December 1997. The privatization of state owned enterprises, and the successful transfer of key industries to the private sector was executed as planned. Modernized financial sector regulations and supervisory procedures were implemented, and a significant number of state owned financial institutions were privatized as well. Non-reversible tariff reductions will also have a sustainable impact on promoting the export and import markets.

However, despite significant gains in privatization, financial sector strengthening, and policy reform, the environment for the private sector in Guyana is still far from ideal. Guyana suffers from the severe infrastructure deficiencies and weakness of institutions responsible for functions affecting the private sector that are typical of low income countries. Institutional weaknesses continue to discourage new investment and frustrate private sector initiative. While the project tackled some of the major impediments to private sector development by reducing the role of the state in industry, the Government will need to promote further change in the public sector to accelerate the momentum achieved. This should include improving business regulations and procedures related to domestic and foreign investment promotion, as well as improving the efficiency of public judicial/legal procedures and putting in place more effective property registries.

Additional reforms to support institutional strengthening and continue the private sector development effort, are currently being discussed between IDA and the Government, under a potential follow-up program which would also dovetail with the HIPC structural benchmark reforms. It is anticipated that such a program would continue support of the privatization effort and further improve the regulatory environment for private investment. This would include (i) strengthening of the insurance and securities laws, (ii) reforming the land ownership / leasing system, (iii) enacting new regulations in the energy and utilities sectors, (iv) reforming and strengthening the civil service system, (v) restructuring the sugar industry, and (vi) strengthening the deeds, properties, and companies registries.

The main lessons to be learned from this project are:

- In setting conditionality for trade reform liberalization, particularly in the Caribbean region, consideration of regional trade initiatives needs to be taken into account -- any change in negotiations under such initiatives can affect project conditionality and perceived performance, even if compliance under regional reforms remains on track.

- Fiscal reform, particularly lowering of corporate or other taxes, needs careful design in highly indebted low income countries having modest revenue efforts. For this purpose, any such tax reforms might in the future be better indexed to economic indicators, to ensure that their effect will support rather than constrain the overall macroeconomic environment.

- Financial restructuring of state-owned banks should from the outset, utilize international expertise to improve the financial condition and avoid politicization of the on-going lending process. If such a bank is not in optimal financial health, any management contract arrangement should be designed to bring the institution to a significantly acceptable condition so that it can be offered for sale to the private sector.

- For large scale public enterprise privatization programs, the preparation of draft contract documents for the benefit of private investors, and the offer of company shares to minority local interests, would greatly assist in the speed of processing and public acceptability of such programs.

- Technical assistance can be designed so as to improve local institutional capacity while utilizing foreign expertise in a politically acceptable manner. The privatization work under the project (complemented with grant funds) demonstrated this, by twinning foreign expertise as advisory staff, under the management of competent local privatization specialists.

IMPLEMENTATION COMPLETION REPORT

GUYANA
PRIVATE SECTOR DEVELOPMENT ADJUSTMENT CREDIT
(Credit 2746-GUA)

PART I: PROJECT IMPLEMENTATION ASSESSMENT

Introduction

1. From the late 1960s to the late 1980s, Guyana followed socialist economic policies that led to public sector domination of the economy and distorted incentives for the residual private sector. Government control was extended to most economic activities, including financial intermediation, consumer goods marketing and pricing, and foreign exchange management. Critical industries, such as sugar and bauxite, were nationalized. Following the collapse of sugar and bauxite prices in the mid-1970's, a secular decline in output led to large budget and balance of payments deficits, accelerating inflation, and increased external borrowing. By 1988, output had declined to about two-thirds of its 1976 level and external debt had risen to over 600% of GDP. Economic and social infrastructure had deteriorated badly. Real wages and the standard of living had declined, causing large numbers of Guyanese to emigrate. Efforts were made to address these problems in the mid-1980's that were not sufficient to reverse the trends. Eventually, external debt servicing was suspended and arrears accumulated.

2. The Government reversed course in mid-1988, and embarked on an Economic Recovery Program. Liberalization measures included: floating the exchange rate, liberalizing interest rates, eliminating price controls, reducing import tariffs, introducing private sector management into the sugar industry, and launching a privatization program. To improve its fiscal situation, the Government took steps to reduce public sector employment, rationalize taxes, and reduce the government's reliance on domestic credit to finance deficit spending. Arrears to international lending agencies were paid and an agreement was reached with bilateral donors to reschedule debt. The opening of forestry and mineral resource development to foreign investment led to inflows of private capital. Official flows resumed, contributing to a public sector investment program for infrastructure rehabilitation. IDA and the IMF provided support to the Government's Economic Recovery Program through the Second Structural Adjustment Credit and an Enhanced Structural Adjustment Facility, respectively. By end-1992, inflation had declined, and the budget and balance of payments deficits had stabilized. The improved macroeconomic environment, coupled with recoveries in the sugar and rice industries, led to real growth of 6% in 1991 and 8% in 1992.

3. As the completion of IDA's Second Structural Adjustment Credit neared, IDA dispatched teams to undertake a Public Sector Review and a Private Sector Assessment in order to develop recommendations for the consolidation and advancement of economic gains. The latter team carried out a broad review of the business environment, the role of the private sector, the financial sector, and the regulatory structures of major commercial sectors. (Report No.11705-GUA, 6/93) That study found that the ongoing domination of economic activity by the public sector was hindering private sector development. The heavily indebted government did not have resources to make the extensive investments needed in infrastructure and in public sector industrial enterprises. The government decided to privatize public entities and, from 1988 to 1992, divested 14 public corporations identified as drains on the treasury. Ad hoc procedures, lack of transparency, and

questionable outcomes led to public dissatisfaction and suspicion of privatization, such that the newly elected government in 1992 halted the process.

4. A review of the financial sector showed that the State owned approximately 70% of the assets in the financial sector and continued to restrict entry. Liberalization of the financial system under the Economic Recovery Plan had overcome near total disintermediation, and reforms had improved the regulatory framework governing the financial sector. However, the lack of competitive pressure, risk taking, or financial innovation continued to restrict availability of credit to the private sector. In 1993, commercial banks held 46-67% of their assets in treasury bills and special deposits in the Bank of Guyana, making loans or advances equivalent to only 8-29% of their assets.

5. Although Guyana was found to be less encumbered by unnecessary bureaucratic requirements than most Latin American and Caribbean countries and relatively free of policies distorting the labor market, its fiscal incentives regime was considered a source of bias in investment allocation and a burden on investors. High rates of corporate direct and indirect taxes meant that private firms were compelled to seek relief by obtaining incentives, avoiding taxes, or operating outside the formal economy. The complex system of discretionary and nondiscretionary incentives in place resulted in the government's foregoing of a high amount of tax and tariff revenue, which, in turn, inhibited the government's ability to lower tax rates. In 1993, collection of tariffs on imports from outside the CARICOM free trade area represented only one third of the revenue that would have been obtained if nominal tariff rates had been uniformly applied.

A. Statement/Evaluation of Objectives

6. The stated objective of the Private Sector Development Adjustment Credit was "to help spur progress in improving the environment for the private sector as a means to stimulate economic growth by: (i) reducing the direct role of the state in economic activities, (ii) improving the regulation and supervision of the financial system and restructuring key financial institutions, (iii) reducing the burden of bureaucratic impediments to investment and international trade, and (iv) revising corporate tax policy to improve transparency and reduce distortions." To this end, the PSDAC supported privatization, financial sector reform, trade liberalization, rationalization of incentives, corporate tax reform, and improvement of the business environment.

7. The objectives and policy conditionality were clear, of central importance for the Country Assistance Strategy, and concordant with the Government of Guyana's economic growth strategy and objectives. The Government's 1992-94 and 1994-96 Policy Framework Papers expressed commitment to the fundamental principles of private sector led growth, including the pursuit of a sound macroeconomic framework and market-oriented policies. The macroeconomic and sector objectives, strategies, and policy conditionality of IDA's PSDAC, the IMF's second Enhanced Structural Adjustment Facility, and the IDB's Financial Sector Adjustment Operation were all consistent with the Government's second PFP and with each other. The staff teams of IDA, the IMF, and the IDB worked closely during the preparation of their respective Guyana operations, resulting in a well-coordinated and coherent plan for multilateral assistance to the Government of Guyana. While the IDB project was not strictly a 'cofinanced' operation since it is was an autonomous project in itself, it nevertheless is listed in this report as a parallel supporting operation, given its similar targets pertaining to the financial sector component.

8. The objectives of the Guyana PSDAC in terms of focus, scope, and sequencing are largely in line with recent statements regarding good practice in such adjustment operations. The project objectives reflect the need following macroeconomic adjustment for governments to address institutional and regulatory issues affecting the private sector in order to elicit a sustainable supply response.[1] The design and policy conditionality for each of the components reflect lessons of experience. The ***privatization component*** was intended to improve the efficiency and productivity of enterprises, rather than as a means to reduce the fiscal burden, and designed accordingly. This proceeded according to the 3-tranche schedule whereby an initial set of public enterprises were offered for sale in the first year; then during the second year these entities were to be fully sold, and a new set offered, for sale -- the latter would then be sold off before the third tranche, at which point a third new set would be simultaneously offered for sale. The need for a transparent divestment process and one that would permit broad participation was fully reflected in the project.[2] Incentive reforms, particularly the elimination of tax holidays and modifications in the tax structure to reduce distortions in factor and products markets, were instituted early in the program, before the slower processes of privatization and financial sector liberalization, thereby reducing the chances of causing allocative inefficiencies. Nevertheless, ***financial sector*** reforms were also instituted relatively early: a modernized banking legislation was put in place prior to the first tranche and related specific regulations implemented prior to second tranche. In addition, implementation of new regulations for real sector firms (in the form of a new Companies Act) was to be carried out in tandem with trade liberalization and privatization.[3] ***Tax reforms***, including the lowering of corporate taxes, sought to broaden the tax base and increase equity, efficiency, and simplicity.[4] Elimination of poorly targeted exemptions from tariffs and indirect taxes took place at the same time as ***reductions in tariff rates*** in order to protect fiscal revenues.[5]

9. The project, however, did not cover a number of "second generation" issues. This was justified, however, since these issues only emerged towards the end of the program following the completion of the key sectoral reforms. Property rights, legal systems, and competition policy were not fully addressed. In addition, the inadequacy of sector-specific regulations and natural resource taxation raised in the Private Sector Assessment were not included in the PSDAC. Given the severely limited institutional capacity of the Government of Guyana, the decision to focus on selected barriers to private sector development seemed warranted. The main risk identified in the MOP was the failure of the Government to carry through with its commitments due to extremely weak administrative capacity and limited resources.

10. The level of risk of the operation, given the Government's capacity weaknesses, was substantial. IDA's advocacy and approval of a parallel technical assistance credit that would make available resources to obtain technical advisory or implementation support, helped reduce this risk. Despite initial concerns about using credit funds for technical assistance, the Government finally began relying on the IDA Financial Sector and Business Environment Credit to support in particular, the privatization and financial sector reform components.

---

[1] Unshackling the Private Sector: a Latin American Story, World Bank, 1995.

[2] The Privatization Experience in Latin America, World Bank, 1994.

[3] Adjustment Lending: Lessons of Experience, World Bank, 1995.

[4] Lessons of Tax Reform, World Bank, 1991.

[5] Fiscal Management in Adjustment Lending, World Bank, April 1997.

11. The conditions for the privatization, financial sector, and most trade and tax reforms were readily monitored. Quantitative targets for privatization of real and financial sector entities were clear and outcome-oriented (see Policy Matrix, Annex 1A), while leaving the Government of Guyana the ability to make decisions about selection of entities for privatization and their sequencing. While first tranche conditions required the privatization of seven specified entities (see Annex 1A), in the subsequent two tranches, five new entities (not defined specifically) per tranche were to be privatized, with IDA and the Government agreeing on the set of entities during the course of the program but usually not less than six months prior to the scheduled tranche disbursement date. The use of quantitative targets, rather than defining specific entities to be privatized, also allowed for adapting to changes in government priorities and to unforeseen hindrances in individual transactions. For example, the privatization of the Guyana Electricity Corporation, a step not considered politically feasible at the start of the PSDAC, was included in the third tranche as conditions and perceptions changed. Tariff reduction criteria were clear and consistent with the region-wide Caribbean External Tariff reductions. Incentive reforms such as elimination of discretionary tax holidays and statutory exemptions, were largely undertaken up front, such that conditionality entailed mainly non-reversal of policies. The lack of specificity of conditionality regarding import and export licenses, consumption tax and corporate income tax rate reforms, and performance of the Guyana Office of Investment meant leverage was lost over the degree and effectiveness of reforms under these areas. However, given the already heavy burden of conditionality performance in other sectors, this seemed appropriate so as to reduce the risk of overwhelming the Government's already stretched capacity to implement other binding targets (see Annex 1A, Policy Matrix).

12. The conditionality and objectives, particularly in privatization and financial sector reform and privatization, were challenging for the Government of Guyana. Heavy up front conditionality required for Guyana to establish a track record convincing to IDA's Board of Directors, forced the Government's Cabinet and agencies to make the PSDAC a top priority and generated a reform momentum that enabled approval of a substantial set of actions. The initial privatization target prior to Board Presentation, however, was found to be somewhat overwhelming for government administrative capacity, as certain Board members' comments on the MOP had predicted, and was adjusted to reflect more realistic estimates for the second and third tranche targets. Over the course of the project, the PSDAC body of conditionality continued to demand concerted effort by the understaffed Ministry of Finance, Ministry of Trade, Central Bank, Customs and Inland Revenue, and the Attorney General's office during a stage of development in which virtually all sectors required urgent attention. Thus, imposing additional inflexible targets in the tax and business environment components may have threatened the PSDAC program. Wavering commitment on the part of the Government, particularly regarding privatization, prior to second tranche identified in back to office memoranda, suggest that project conditionality was already pushing the limits of political feasibility. Although cabinet consensus (or lack of) played a large part in decision delays, constraints were also due to the lack of local market response, as in the case of the offer for sale of Guyana Stores (a government department store), which did not garner sufficient investor interest despite the fact that it was a viable business with significant local business presence.

13. The design of the PSDAC as a three tranche operation, rather than the originally envisaged two tranche operation, enabled the Government to progress in increments that were manageable. The learning by doing process of the first and second tranches, moreover, led to increased Government ability to prepare new entities for privatization without extensive IDA involvement. The only exception was during the privatization and offer for sale of the National

Bank of Industry and Commerce (NBIC). In that instance, an issue outside of the government's control occurred whereby a court injunction was filed by one of the bank's customers to prevent the due diligence process from being undertaken by the selected investor. This delayed the transaction by a number of months, but was finally resolved satisfactorily, and the sale was completed at the originally negotiated price.

14. Although the project did not have any direct poverty alleviation efforts, policies beneficial to lower income households were implemented. The consumption tax reform included a rationalization of tax rates from a set of fifteen rates down to five rates, and the establishment of a basket of basic needs goods, based on the household surveys undertaken by Guyana's Bureau of Statistics with Bank support, that was assigned a zero tax rate. Some privatizations included Employee Stock Ownership Programs. While the PSDAC was under preparation and early implementation, a program established to alleviate the effects on the poor from the prior macroeconomic adjustment, SIMAP, was still in place.

B. Implementation Record and Achievement of Objectives

15. The Government of Guyana met all of the conditionality under the Private Sector Development Adjustment Credit, with one minor waiver granted.[6] The Government exceeded its PSDAC privatization targets, completing the sale or liquidation of a total of 15 enterprises representing approximately 60% of the government's total net asset holdings prior to the PSDAC. Under the financial sector reform, legislation and regulation were vastly improved. A new financial institutions act, conforming regulations, and revised prudential regulations were passed, and a central bank act (to promote central bank autonomy) was tabled in Parliament -- all these were found to be satisfactory by qualified financial sector and legal experts, and in line with Basle international standards (e.g.: loan loss provisioning requirements, minimum risk weighted capital, non-accrual standards, etc.). At the same time, banking supervision capacity of the Central Bank was strengthened with financing from the IMF and IDA's FISBEC Credit which also supported computerization of the on and off-site bank inspection process. Public ownership of financial institutions was divested or liquidated, except the "new Guyana National Cooperative Bank" (GNCB), formed via merger and restructuring of the old GNCB and GAIBANK. This entity in the end, did not require privatization since the Government met the financial sector ownership reduction targets through the sale of a number of other financial institutions (two commercial banks, a mortgage bank, an insurance company, and a trust company). Although a part of the conditionality, progress in improving operations and efficiency of the new GNCB has been slow. Progress in terms of strengthening the bank's equity, however, was accomplished through the write-off of bad loans, and the removal of foreign debt liabilities from its balance sheet. Nevertheless, by the end of the program, the institutional capacity for operating the bank in a financially sustainable manner, remained weak and additional loan defaults in the rice sector (due to the drought situation presumably impacted by the El Niño phenomenon) further eroded the bank's usable capital.

16. The Government has continued to liberalize trade -- maximum tariff rates were reduced to 20% down from 45%, in accordance with the CARICOM Common External Tariff agreement.[7]

---

[6] The final sale of the Dairy Complex was impeded by a legal claim regarding property ownership, and the sale of shares in Guyana Stores did not reach a majority subscription.

[7] The final step of CARICOM CET reductions, to 0-20% however, was postponed by one year by CARICOM agreement. Hence, the Government effectively met its condition of implementing CARICOM CET fast track tariff reductions.

The number of goods requiring import and export licenses was decreased substantially and the time required to obtain a license from the Ministry of Trade was reduced from almost one week to under one day. Additional approvals by other government ministries or agencies for certain import and export goods are still required, however, causing delays and hassles for business.

17. The main achievement in incentives reform was the elimination of discretionary incentives. The Government ceased to issue tax holidays on corporate income and indirect taxes, and allowed outstanding holidays to expire. The agency responsible for issuing discretionary incentives (GUYMIDA) was disbanded. Also, incentives in the form of statutory exemptions from tariffs and consumption taxes for favored categories of producers or associations were largely eliminated. Statutory exemptions remaining, affect only imports for government, public health, or charitable purposes, or as required by international conventions. In lieu of firm-by-firm incentives, the Government assigned a zero tariff and consumption tax rate to capital goods and raw materials.[8] Since fiscal constraints did not permit the foregoing of tariffs and taxes on all capital goods and raw materials all at once, at the start of each budget cycle 1994-97, additional capital goods and raw materials were moved into the zero rate category. This non-discretionary form of incentive reduced the bias against small and local enterprises that would not have gained access to tax holidays or favored treatment, and against new entrants, who previously had to expend significant time and resources to seek exemptions.

18. A significant shortcoming of the incentives reform was the failure of the Government to reduce the corporate income tax rate, from 45% for commercial firms and 35% for "non-commercial" (e.g., manufacturing) firms. The original tax reform package prepared by the Ministry of Finance, Inland Revenue Service, and IDA stipulated that the corporate tax rate would be lowered at the same time as elimination of corporate tax holidays. The Government of Guyana was able to defer lowering the tax rate by invoking the clause on the corporate income tax reduction conditionality, that the corporate tax rate would be reduced "as fiscal conditions permitted." The Government, with the support of the IMF, asserted that fiscal conditions and ensuing revenues did not permit such a reduction.

19. Hence, the project objective regarding adoption of tax policy reforms that would broaden the tax base and remove disincentives to long term investment in the economy met with mixed results. The instituting of tax reforms equalizing taxation across financial instruments, eliminating double taxation of dividends, and integrating personal and corporate taxes all increased incentives for equity investment. The tax base was broadened by eliminating tax holidays, instituting a minimum tax on gross revenues, reducing statutory exemptions from consumption tax and tariffs, and expanding the consumption tax to cover services. The high corporate tax rate, however, continues to discourage foreign investment in sectors other than those that are natural resource-based. Marginal effective tax rates remain non-competitively high compared to other Caribbean and Latin American countries.

20. Conditions regarding improvement in the business environment were met. A new Companies Law and regulations were promulgated. The law represents a major improvement over the 1913 law it replaced and included minimum corporate capital requirements, and audit and disclosure standards for financial reporting. A small investment facilitation agency, the Guyana Office of Investment (GO-Invest), was established to serve as a source of information for

---

[8] This was accomplished by a blanket remission letter regarding these items issued by the Secretary of the Treasury since the CARICOM Harmonized Incentives Agreement did not permit directly zero-rating them.

potential investors and to help entrepreneurs meet the challenges of investing in Guyana. GO-Invest has remained operational, but suffered from weak leadership and staffing, and lack of progress in streamlining the investment process.

C. Major Factors Affecting the Project

21. The PSDAC benefited from stable regional economic growth over the project period, which also supported its export market. Major exports --rice, sugar and timber, performed well due to favorable market conditions and increased domestic output. Mining (bauxite, gold) suffered setback, however, due to lower prices and output in the case of bauxite, and lower gold production due to the catastrophic spill which occurred at the OMAI mine. In 1996, the collapse of a retaining wall for effluents from the operations of the largest gold excavation company, OMAI, forced operations to shut down for several months and caused the poisoning of rivers serving as primary food and water sources for Guyanese indigenous communities. The 1996-7 gold export figures reflect this downturn.

22. A critical factor that initially led to difficulties in implementation was the unwillingness of the Government to hire external consultants at international salary levels to provide expertise lacking in the Government, even with grant funds. Although understandable, given the low salaries paid to civil servants at all levels, this policy initially hampered progress in privatization and financial sector reform. A year elapsed between appraisal and loan signing because the Privatization Board and Privatization Implementation Unit did not have the capacity to meet pre-effectiveness privatization targets. The establishment of the Guyana Office of Investment as a government agency (rather than quasi-public) meant the agency could not hire individuals at competitive salaries, as is the case in successful investment promotion agencies. Further, political considerations led to the hiring and subsequent delays in firing of ineffectual individuals in certain positions critical to PSDAC implementation.

23. A factor that positively affected the pace of implementation was the availability of IDA reflows to Guyana for attachment to each tranche as long as the Government met its PSDAC program targets by the end of the fiscal year. The Government made extraordinary efforts prior to each June 30 deadline to meet PSDAC conditionality targets in order to access its IDA reflows. The reflows proved a powerful incentive to act that helped to maintain the reform momentum.

D. Project Sustainability

24. The sustainability of gains in private sector development achieved under the PSDAC is likely. The Government of Guyana has committed to privatization of nearly all remaining state-owned entities and to financial sector and business environment reforms under a Heavily Indebted Poor Country debt relief arrangement approved in December 1997. In the short run, the need to obtain HIPC completion points will ensure not only sustainability of the PSDAC program, but further private sector development progress. In the long run, the reduction in debt overhang, which has been shown to threaten sustainability of adjustment gains, will help protect the sustainability of private sector development reforms.

25. The commitment of the Government of Guyana to privatize additional state-owned enterprises under HIPC, including some of the largest, suggests that it intends to continue the transition of the public sector from economic agent to regulator. Further, the Government has announced its intention to prepare GNCB, the only remaining publicly held bank, for privatization in 1999. For an interim period, it will hire an international management team to prepare the bank

for sale. Financial sector strengthening achieved through PSDAC-supported privatizations and legislative reforms are likely to persist given increased independence of the Central Bank and improved supervision capacity. With privatization and new entry, moreover, competitive pressure in the sector has increased. Increased efficiency of the financial sector following privatization is evident (e.g.: the high current profitability of one of the largest banks: GBTI), and the process has spurred new entrants into the industry, thus further reducing the current government share of the sector's assets down to 15% by end-1997 (the program's minimum target based on end-1993 values was 25%). The non-reversible tariff reductions will also help spur the import and export sectors. Export volume increased by over 10% in the last two years of the program (with overall export values increasing despite price drops), and a reversal in earlier declines in import volume was achieved, with import values increasing by almost 10% in the last two years of the program.

26. However, while the major objectives related to the financial sector, privatization, and tariff reform were achieved, a few areas remain where sustainability may be less certain, namely, incentives and business environment reform. As a result of the continuing high level of corporate taxation, potential new entrants and existing firms are likely to continue to seek further incentives and may generate pressure to reinstitute discretionary incentives that the Government may find difficult to resist. In addition, the barriers to entry, particularly in terms of lengthy legal/judicial processes and obtaining clearances to buy land or property through the deeds registry, remain significant, which may discourage new investment[9]. Nevertheless during 1998, the Government has begun crafting land reform policies which should allow additional private usage (through sale or leasing) of Government lands. Modernization of the deeds registry is also high on the priority agenda and is also being supported by the IDB.

E. IDA Performance

27. IDA performance during identification and preparation was highly satisfactory. A Private Sector Assessment provided a strong base of information for project identification. During preparation, IDA was proactive in assisting the Government of Guyana to define and choose among policy options. A Japanese Grant was obtained by IDA to support preparation technical assistance and was transferred to Guyana for management. Aide Memoires from preparation missions include as annexes a series of papers containing policy analysis and Government action matrices regarding PSDAC reform components produced by mission members. IDA preparation work and background studies are reflected in the Ministry of Finance's annual Budget Presentations, legislation and regulations presented to Congress, Ministerial orders by the Ministry of Finance and Ministry of Trade, and actions taken by the Government. IDA reviewed and provided comments on all drafts of legislation and regulations.

28. IDA made notable efforts to encourage participation in preparation and implementation. IDA met with representatives from various Guyanese interest groups during preparation -- including labor unions, consumers groups, and business associations -- to engage these in discussions on policies whose reform would be supported by the PSDAC. Despite a highly partisan atmosphere, the Government acceded to these interactions and eventually appointed some of these representatives to the Privatization Board. Preparation mission Back to Office reports also reflect efforts to share information and seek involvement of a broad base within government, including key cabinet members and parliamentarians. In addition, IDA obtained

[9] See "The Environment for Investment in Guyana", FIAS, 1995.

funds from the FIAHS to finance a public information campaign regarding privatization, that included town hall meetings in which IDA participated.

29. Coordination within IDA country team and among multilaterals was unusually close during preparation, due to recognition of the inability of the Government to manage a multiplicity of relationships and the precariousness of Guyana's economic situation. IDA provided leadership with the IDB and maintained a productive working relationship with the IMF throughout the preparation process and the life of the operation. Conditionality of respective operations were either the same or complementary (e.g.: as in the IDB Financial Sector Program). Following appraisal, however, delays occurred in the government's meeting of pre-negotiation conditions pertaining to minimum privatization targets and legislative actions -- this raised the cost of post-appraisal follow-up significantly, resulting in higher-than-planned project preparation costs.

30. IDA supervision was satisfactory. Progress toward meeting conditionality was assessed through bi-annual missions and frequent written and verbal exchanges both directly with the implementing agents in the Privatization Unit, Central Bank, and GNCB, and with the Ministries of Finance and Trade. Substantive assistance was provided by IDA to overcome difficulties encountered by the Government, particularly in the financial sector component relating to the strengthening of the remaining state-owned bank (GNCB).

31. IDA performance with regard to processing tranche releases was good. Although IDA encouraged the Government to meet conditionality ahead of the end of fiscal year deadline for obtaining IDA reflows, the Government completed its program of conditionality and submitted evidence at the last minute for each tranche release. IDA prepared for these tight deadlines and expeditiously processed tranche release documents and requests to enable Guyana access to IDA reflows. The only waiver granted was for a second tranche conditionality with regard to the completion of the sale of one entity which had been blocked by a legal claim by a third party.

32. On the negative side, IDA did not adjust its investment operations in the country's largest state-owned enterprise in the sugar sector in a way that accommodated these to the Government's PSDAC policies. In fact, in the sugar sector this failed to resolve critical issues that would have permitted eventual privatization of the relevant entity(ies).

F. Borrower Performance

33. Given the context of scarce administrative resources and shortage of skilled personnel, the Government of Guyana's performance in preparation was satisfactory. Japanese Grant funds were invaluable in helping the Guyanese Government carry out its preparation of the program, although delays in meeting pre-Board targets (privatizations, legislative approvals) extended the effectiveness date substantially following project appraisal. In addition, the Government took advantage of IDA technical expertise. With this support, the Government succeeded in developing a private sector development program that IDA could endorse without reservation. The process was slowed by the need for Cabinet to approve even the technical details for every individual policy proposal or privatization scheme. In addition, Government counterpart efforts to build broad-based support for the PSDAC program were initially limited due to reluctance to share information with the opposition.

34. The Government's performance in implementation was satisfactory. The Government was effective and timely in meeting the letter of the conditionality although during the latter stages of

the program, the pace of Government action under the PSDAC was stepped up with increased efficiency on the part of the Ministry of Finance. During implementation up to second tranche release, however, a degree of ambivalence on the part of the Government regarding relinquishing control over the economy to the private sector was reflected in forms of implementation that did not achieve optimal results. The methods and high pricing for some first and second tranche privatizations (in large part to maximize revenue proceeds) were not in line with recommendations of outside experts and led to a disappointing level of interest on the part of potential investors or shareholders. Certain enterprises had to be repackaged and reoffered (e.g.: Guyana Stores, National Printers, and to some extent the National Bank of Industry and Commerce). The initial hiring of weak individuals hindered implementation of privatization and business environment actions -- towards the middle of the program, however, international advisors and more qualified local consultants helped accelerate the work pace. The delay in hiring of key staff for the new GNCB caused serious delays in achieving results in strengthening the bank. By the end of the PSDAC program, however, these individuals had been replaced or plans were in place to do so. In particular, the privatization unit reached a very competent level of expertise and effectiveness by the end of the program.

G. Assessment of Outcome

35. The outcome of the PSDAC is satisfactory. The operation helped lay the cornerstones and a significant part of the foundation for private sector development in Guyana. The project achieved satisfactory success despite weak government capacity of a low income country, at a time when failure to consolidate macroeconomic adjustment gains may have led to economic disintegration that would have been difficult to reverse. Through its progress under the PSDAC, the Government developed a track record of commitment to achieving growth through efficient, private-sector oriented policies that enabled IDA, the IMF, the IDB to consider and approve relief for Guyana's high level of indebtedness through a HIPC arrangement. Hence, the PSDAC indirectly helped lead to addressing perhaps the most serious threat to private sector-led economic growth in Guyana -- the country's level of indebtedness.

36. The adjustment credit provided encouragement and support to the Government of Guyana that did spur necessary and significant improvements in the framework for private business activity and in the financial sector. New business start up is now possible, although still difficult. A few expatriate Guyanese and CARICOM nationals have opened new enterprises and invested in former state-owned enterprises. Two new commercial banks have initiated operations in Guyana. Local Guyanese have undertaken new business initiatives, such as obtaining franchises and entering new product areas. By the end of the program, the government had divested itself of ownership in 75% of the financial sector.

37. Despite significant gains in privatization, financial sector strengthening, and policy reform, the environment for the private sector in Guyana is still far from ideal. Guyana suffers from the severe infrastructure deficiencies and weakness of institutions responsible for functions affecting the private sector that are typical of low income countries. Institutional weaknesses continue to discourage new investment and frustrate private sector initiative. Investors report procedures for obtaining approvals to purchase land and hook up basic infrastructure services (electricity, water, phones), are still lengthy. The Guyana Office of Investment established under the PSDAC is weakened by low salaries and a lack of support from the highest levels. Customs remains corruption-ridden and inept. Although discretionary incentives have been eliminated, public officials continue to exert discretionary power by helping some investors overcome obstacles and

delays caused by institutional weaknesses. Moreover, attitudes of public officials are discouraging to private entrepreneurs, especially expatriates returning out of national loyalty.

38. Even with these ongoing challenges to private sector development, improvements supported by the PSDAC helped Guyana to sustain the real economic growth stimulated by the Economic Recovery Program. Over the course of PSDAC implementation, economic activity by the private sector continued to increase. Real GDP growth rates averaged an annual 6.3% over the period and nontraditional exports increased by 14%. Private investment increased on average by 11.5% annually. While the effect on the poor has not yet been directly determined (a poverty and household income survey is expected to be completed in mid-1998), GDP per capita in dollar terms increased from $604 to $780 during the program period. This was spurred primarily by the high growth in the economy coupled with increased private investment and positive overall export performance.

H. Future Operations

39. To complete the laying of the foundations for private sector development, certain inadequacies in legislation and regulation need to be addressed. These include:

i) corporate income tax reduction;
ii) natural resource taxation and policies;
iii) land management and government land policy; and
iv) sectoral regulation (telecom, electricity, energy)

40. In addition, to address institutional weaknesses impeding private sector development, programs of action in the following areas are needed:

i) civil service wage reform;
ii) land deed and property registration system overhaul;
iii) customs efficiency and oversight;
iv) regulatory training and assistance for government officials; and
v) strengthening business and vocational education.

41. Various of these issues, including the development of regulations for the insurance, securities, land reform, sugar, and energy/electric sectors are already being tackled as part of the preparation of an upcoming project which would seek to reinforce the process of private sector growth, strengthen public institutions and the civil service system. These will constitute part of a sectoral adjustment operation which will also support many of the policy reforms mandated under the HIPC debt reduction initiative, and which reflect second generation issues emanating from the initial private sector reform program.

I. Key Lessons Learned

42. The above analysis of project implementation suggests that the main lessons to be learned from the project are:

- In setting conditions related to trade tariff reforms, fuller consideration of regional initiatives (particularly in the Caribbean) need to be taken into account to avoid setting conditions which may not parallel on-going regional negotiations during the course of the project. The trade reform plan under the project proceeded satisfactorily, but due to changes in the implementation schedule for the CARICOM-wide regional tariff reductions (the C.E.T.), this, among other factors, created timing problems in the release of the last tranche, even though Guyana was in compliance with the re-negotiated regional agreement. Future operations of this type should specify conformance with regional schedules (including allowances for minor variations in these), and avoid setting date-specific targets. These may not always match ongoing regional trade negotiations and/or changes in their targeted implementation dates, as can occur during multi-year negotiating agreements.

- In the fiscal reform area, the implementation of tax reductions and minimum corporate taxes needs to more carefully take into account the effects on fiscal revenues, and the tax base, particularly for debt-ridden countries. The corporate tax reduction under the project, while meant to spur development and investment by the private sector, could only be implemented as long as the economy was growing at a rapid pace, and the government's fiscal position was improving. Following an IMF recommendation mid-way through the project, that the country's fiscal situation necessitated an additional revenue effort, the continued reduction in corporate taxes (which did not specify quantitative targets) was halted in order to maintain the fiscal accounts in check. On the private sector side, the implementation of the minimum tax had to be waived, given that many manufacturing companies who were operating on credit, did not have the cash flow to pay any tax at all (i.e.: they were operating at a loss). Thus, in future operations which target fiscal incentives for improving private investment, these reforms should be linked to underlying economic conditions with appropriate benchmark indicators. This will allow for realistic adjustments in policy targets of this type -- these can be indexed to revenue ratios (e.g.: versus GDP), especially when they are largely impacted by exogenous economic factors.

- In the banking sector, the attempted turnaround of GNCB suffered from numerous setbacks including the lack of efficacy of the national management team contracted to improve the bank's financial condition. While it was not always clear if the political environment or the technical experience of the appointed management had a greater adverse impact on their performance, in retrospect, IDA's insistence on an internationally qualified management team would have been preferable for moving this component forward more quickly. In addition, given the financial condition of the bank, the pressure to privatize (even though not required by the project's targets) would have been a more optimal policy to put the bank on a more commercial footing (following the closure of the PSDAC, the government is considering this option anyway). Privatization of such a bank would not only have improved the soundness of the financial sector (the bank's deposits represented 20%), but also spurred better lending decisions which would have supported private sector investment. In future operations of this kind, unless a state bank is showing obvious successes in the quality of its management and portfolio, a restructuring effort with the objective of privatization should be considered the priority option.

- For the privatization program, with a few exceptions, most sales proceeded smoothly. However, those few exceptions included one large enterprises such as the NBIC bank whose deal became stalled following a trivial court injunction by one of the employees, against the buyer's due diligence process prior to the ownership transfer. While such incidents which are outside the government's control, are unpredictable, a shorter privatization process could have helped to mitigate the opportunity for such incidents to occur. In this regard, the preparation of sample legal contracts prior to privatization negotiations, and the completion of the valuation audits prior to this stage, could save much time during negotiations and minimize the risks of long, drawn out processes. Another factor which could help mitigate individual or community protests against sales of state property to strategic investors (particularly foreign investors) would be for each sale, to set aside a minority (5%-10%) share of the enterprise for purchase by domestic individual investors. In this way, the sale of what might be considered part of the 'national estate' would accrue to the citizens, while the strategic owners would still, through majority control, ensure that future operations were carried out on a commercially viable basis.

- In terms of institutional capacity building, the project was supported by the Financial Sector and Business Environment T.A. Credit (FISBEC) which provided funding along with some U.K. grant money, to strengthen the public sector institutions which promoted and implemented private sector policy reforms. In this regard, the privatization unit was a rather successful endeavor (in contrast to the GNCB restructuring) since national consultants were financed under the related T.A. project to manage the unit, while international consultants were hired to assist in the technical work which was necessary to ensure an effective privatization program with requisite international standards in the legal, financial, and procurement areas. The formula of nationals managing the overall process while they work in tandem with technical international consultants appears to be an effective structure which avoids the sometimes political problem of having foreigners manage a sensitive national program. This also creates a conducive joint environment where a sufficient transfer of knowledge is achieved to ensure sustainability of the process and of skills in the long run.

PART II: STATISTICAL ANNEXES

Table 1: Summary of Assessments

A. Achievement of Objectives	Substantial (✓)	Partial (✓)	Negligible (✓)	Not applicable (✓)
Macro Policies	[X]	[ ]	[ ]	[ ]
Sector Policies	[X]	[ ]	[ ]	
Financial Objectives	[ ]	[X]	[ ]	[ ]
Institutional Development	[ ]	[X]	[ ]	[ ]
Physical Objectives	[ ]	[ ]	[ ]	[X]
Poverty Reduction	[ ]	[X]	[ ]	[ ]
Gender Issues	[ ]	[ ]	[ ]	[X]
Other Social Objectives	[ ]	[ ]	[ ]	[X]
Environmental Objectives	[ ]	[ ]	[ ]	[X]
Public Sector Management	[ ]	[X]	[ ]	[ ]
Private Sector Development	[X]	[ ]	[ ]	[ ]
Other (specify)	[ ]	[ ]	[ ]	[ ]

B. Project Sustainability	Likely (✓)	Unlikely (✓)	Uncertain (✓)
	[X]	[ ]	[ ]

C. IDA Performance	Highly satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Identification	[X]	[ ]	[ ]
Preparation Assistance	[X]	[ ]	[ ]
Appraisal	[ ]	[X]	[ ]
Supervision	[X]	[ ]	[ ]

D. Borrower Performance

	Highly satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Preparation	☐	☒	☐
Implementation	☒	☐	☐
Covenant Compliance	☒	☐	☐
Operation (if applicable)	☐	☐	☐

E. Assessment of Outcome

Highly satisfactory (✓)	Satisfactory (✓)	Unsatisfactory (✓)	Highly unsatisfactory (✓)
☐	☒	☐	☐

Guyana: Private Sector Development Adjustment Credit

Policy Matrix

Sector/Policy Area	Current Situation Actions Taken *	Before Second Tranche	Before Third Tranche
1. Macroeconomic Policy			
	The Government has adopted a medium-term macroeconomic framework under the PFP to be monitored by the PSDAC. Maintenance of tight fiscal policy and adherence to program targets is the centerpiece of the macroeconomic framework. Satisfactory macroeconomic , exchange rate, and pricing policies in line with the agreed PFP and ESAF arrangements. ESAF approved by IMF Board. External financing plan in place for 1996.	Satisfactory macroeconomic , exchange rate, and pricing policies in line with the agreed PFP and ESAF arrangements. External financing plan in place for the following year.	Satisfactory macroeconomic , exchange rate, and pricing policies in line with the agreed PFP and ESAF arrangements. External financing plan in place for the following year.

* including Board presentation conditions

Table 1A

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
2. Privatization Program			
(i) Reducing state-ownership in commercial entities	The Government has put in place its Privatization Policy Framework. The Policy establishes the Privatization Unit (PU) and the Privatization Board. Both bodies are fully operational. Preliminary privatization studies are in progress or completed for the 24 entities eligible for privatization under the policy A public awareness campaign of privatization has been launched, and a 'privatization' booklet issued. A bank has been sold (see below), and four commercial entities (Guyana Stores, GNEC, Guyana Glassworks, Guysuco Dairy Complex) and the Government's shares in two other entities (Demerara Distillers, and Guyana Pegasus Hotel) have been brought to the point of sale.	Satisfactory progress, as judged by IDA, toward: (a) completing the privatization of Guyana Stores, GNEC, Guyana Glassworks, Guysuco Dairy Complex, Demerara Distillers, and Guyana Pegasus Hotel; and (b) bringing to POS at least five further entities acceptable to IDA.	Satisfactory progress, as judged by IDA, toward: (a) completing the privatization of entities brought to the point of sale by second tranche; and (b) bringing to POS at least five further entities acceptable to IDA. No purchases by the Government of shares of any other financial institution.
(ii) Reducing the role of the State in Commercial Banking, Trust and Insurance Activities	The State had ownership in seven entities. Government share of Guyana Bank for Trade and Industry (GBTI) was recently sold, reducing by 20% (in terms of assets) the share of financial institutions with government ownership. The others are: the Guyana National Cooperative Bank (GNCB-97%), National Bank for Industry and Commerce (NBIC-30% direct, and 17% indirect control), the largest trust company (GNCB Trust-100%), the Guyana Cooperative Insurance Corporation (GCIS) and the Guyana Cooperative Mortgage Finance Bank (GCMFB). Guyana Cooperative Industrial and Agricultural Development Bank (GAIBANK) is being merged with GNCB.	Bring to the point of sale government ownership of banks representing a further 40% (in terms of assets) of the 7 entities.	Ensure that no more than 25% (in terms of assets) of the 7 entities remains under government ownership, and no shares of any other financial institutions are purchased.

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
3. Financial Sector Reform			
(i) Regulatory Framework for deposit-taking institutions	The former Banking Act contained inadequate enforcement provisions, archaic capital adequacy provisions, and inadequate specification of prudential requirements. Bank of Guyana (BOG) Act needs revisions to increase independence of central bank. Parliament has passed, and the Government has put in effect, the Financial Institutions Act (along with conforming amendments of other legislation) which would *inter alia*: (a) strengthen the regulatory authority of the Bank of Guyana (BOG); (b) establish BOG regulation of all deposit-taking institutions, except credit unions; (c) mandate satisfactory minimum capital and capital adequacy requirements; and (d) establish prudential standards including lending concentration and related party lending limits. Ministerial Order issued revising minimum capital requirements for new commercial banks has been promulgated. The BOG has published an action plan for the issuance of regulations for the FIA. Legislation to repeal the repeal the Rate of Interest Act and amend the Capital Issues (Control) Act has been presented in Parliament.	Issuance of all relevant regulations for the FIA. Approval by Cabinet of revised BOG Act to increase independence of the BOG.	Presentation of revised BOG Act to Parliament.
(ii) Reduction of the State's role in financial entities	See item (ii) under privatization above.	Adhere to privatization targets in financial sector.	Adhere to privatization targets in financial sector.

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
(iii) Modernize the State's Role in Commercial and Development Banking	GNCB has shown signs of a turnaround after several years of losses. Nonetheless, significant restructuring is needed bring it into line with FIA requirements. GAIBANK, a first-tier development bank, has serious financial difficulties and has proven unable to fulfill its mandate. Government has agreed with IDA/IDB on an action plan to merge useful assets of GAIBANK into GNCB, and restructure the resulting institution. Bad loans are being assigned to a loan recovery agency. Actions taken: (a) Ministerial order issued establishing the loan recovery unit, and initiating the merger; and (b) Interim advisers for GNCB are being appointed.	Completion of full financial and operational merger.	Bring New GNCB to POS to the extent required under privatization targets in financial sector.
4. Business Environment and Trade Regime			
(i) Promotion of Private Sector Investment in the Economy	GUYMIDA, an ineffectual business development agency, was disbanded. The Government has established Go-INVEST -an Agency to stimulate and assist private investment. Agency objective and operational mandate agreed with IDA. Staffing of agency completed, and training/operations begun.	Agency fully operational.	Agree on mandate and strategy of Agency for the future and 2-year operating plan based on initial experience.
(ii) Modernize Corporate Law	In 1991, Parliament passed a new Companies Act to replace the old statute of 1913. However regulations have not yet been drafted. In May 1995, the Companies Act was promulgated with interim regulations, and work on drafting new regulations initiated.	Progress satisfactory to IDA on drafting new regulations.	Ministerial Order promulgating new regulations for 1991 Companies Act.

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
(iii) Tariffs	Guyana has agreed to adopt the CARICOM CET structure. Parliament approved the first stage of tariff reductions. First phase of CET "fast track" conditions have been implemented.	Implementation of second phase of CARICOM timetable for tariff reduction.	Implementation of third and final phase of CARICOM agreement.
(iv) Tariff Exemptions (see also Fiscal Incentives below)	Significant amount of revenues were foregone, either through exemptions or remissions. Statutory exemptions have been drastically reduced to broaden the tax base and rationalize consumption taxes. Currently, exemption are only provided for goods related to international agreements, health and safety, and charity.	Continued implementation of policy of not granting statutory exemptions.	Continued implementation of policy of not granting statutory exemptions.
(v) Quantitative Restrictions	Import and export prohibitions apply to a limited list of goods. Until recently, all non-CARICOM imports required an import license, which added administrative complexity and inconvenience to importers. Import licenses have been removed except for a limited list of products for health, safety, and environmental reasons.	Maintenance of speedy procedures for the granting of the required limited licenses (for health, safety and environmental reasons). Reduce export licenses.	Maintenance of speedy procedures for the granting of the required limited licenses (for health, safety and environmental reasons).

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
5. Tax Reform			
(i) Corporate and Personal Income Tax.	Income taxes were narrowly based. Because corporate and personal taxes were not integrated, taxation of financial instruments was not consistent. In the 1994 budget, the Government announced a tax reform package that broadened the tax base and integrated corporate and personal income taxes by: o establishing protection for the tax base by assigning a minimum corporate tax. o standardizing taxation across financial instruments by (i) the elimination of deduction for dividends on preferred shares, (ii) continues, and extends to bonds, the application of withholding tax on interest and qualifying dividends received; and (iii) subjects all forms of interest received by residents to income tax, with a credit for withholding taxes paid. o integrating corporate and personal taxes by exempting dividends and capital gains on shares from personal taxes.. In the 1995 budget, withholding tax were further extended to more bonds and debt instruments, including Treasury bills)	Reduce corporate tax rate and commercial/non-commercial rate differential as appropriate, contingent upon fiscal situation. Procedures in place and fully operational for minimum tax.	Further reduce corporate tax rate and eliminate commercial/non-commercial rate differential contingent upon fiscal situation.

Sector/Policy Area	Current Situation Actions Taken	Before Second Tranche	Before Third Tranche
(ii) Consumption Tax	Consumption, excise and purchase taxes were poorly integrated. Differential rates were applied to some similar products, causing distortions. A high rate was applied to manufacturing sales. Tax base was eroded by exemptions and remissions. The 1994 budget announced reform of consumption and excise taxes that: (a) extends the tax to all goods except for basic needs and plant & equipment; (b) limits the number of tax rates and exemptions; and (c) combines consumption and excise taxes and recalibrates purchase tax In the 1995 budget, reforms were continued. The consumption tax was broadened to some services, and further adjustments were made to the schedule including reduction to zero rate on a further set of capital goods, and goods necessary for tourism sector.	Continue implementation of consumption tax reform. Evaluate proposals for broadening consumption tax base further.	Continue implementation of consumption tax reform.
(iii) Fiscal Incentives	Discretionary fiscal incentives (consisting of income tax holidays and waivers of import duties and consumption taxes) were widespread until recently. Criteria for granting discretionary incentives were unclear. Government has (i) disbanded GUYMIDA, the agency charged with deciding on discretionary incentives (ii) ceased issuance of tax holidays and discretionary incentives, and (iii) has announced new incentives that are non-discretionary, and administered through the tax code.	Maintain non-renewal policy for discretionary incentives. Complete reduction of statutory exemptions. Determine adjustments, if necessary, to investment incentive scheme to meet fiscal requirements, stimulate investment.	Maintain non-renewal policy for discretionary incentives. Implement the adjustments to investment incentive scheme, determined at second tranche.

Table 2: Related Bank Loans/Credits

Loan/credit title	Purpose	Year of approval	Status
Preceding operations			
1. Second Structural Adjustment Credit	Macroeconomic stabilization and adjustment	1990	Closed (1994)
2. Financial Sector and Business Environment Technical Assistance Credit	Finance technical assistance required to support PSDAC	1995	Active until June 30, 1999
Following operations			
1. Secondary Towns Infrastructure Development	Policy reform and financing infrastructure and roads	expected 1999	Under preparation
2. Private Sector Development and Public Sector Adjustment	Improving central government institutional capacity, and improving regulatory environment for private sector development	expected 1999	Under preparation

Table 3: Project Timetable

Steps in Project Cycle	Date Planned	Date Actual/ Latest Estimate
Identification (Executive Project Summary)	July 1993	July 1993
Preparation	October 1993	October 1993
Appraisal	January 1994	January 1994
Negotiations	June 1994	April 1995
Letter of Development Policy (if applicable)	na	April 1995
Board Presentation	December 1994	June 1995
Signing	January 1995	June 1995
Effectiveness	March 1995	July 1995
First Tranche Release	June 1995	July 1995
Second Tranche Release	June 1996	June 1996
Third Tranche Release	June 1997	November 1997
Project Completion	June 1997	December 1997
Loan Closing	December 1997	December 1997

Table 4: Loan/Credit Disbursements: Cumulative Estimated and Actual
(US$ '000)

	FY95	FY96	FY97	FY98
Appraisal Estimate	5,170	10,340	15,500	15,500
Actual Credit Disbursements	-	4,963	9,837	14,420
Actual IDA Reflows	2,969	5,880	7,937	9,427
TOTAL (Credit + IDA Reflows)	8,139	10,843	17,774	23,847
Actual Credit Disbursements as % of Estimate [a/]	-	48%	63%	93%
Actual TOTAL Disbursements as % of Estimate [b/]		105%	115%	154%
Date of Final Disbursement:	November 1997 (Credit Disbursement) December 1997 (IDA Reflows Disbursement)			

[a/] Does not add up to 100% due to Dollar appreciation against the SDR.

[b/] Amounts above 100% reflect supplementary IDA Reflows added to the Credit prior to each tranche year.

Table 5: Key Indicators for Project Implementation

Key Implementation Indicators in MOP	Estimated	Actual
1. Privatization of public or majority government-owned enterprises	• 15 SOEs and minority shares in 2 entities brought to the point of sale • completed sales of 10 SOEs plus minority shares	• 19 SOEs and minority shares in 2 entities brought to the point of sale • completed sale of 12 SOEs plus minority shares[1]
2. Reduction in public sector ownership of financial institution assets	• government ownership of a maximum of 25% of financial system assets using end-1993 values	• government ownership reduced to 23% of financial system assets using end-1993 values; to 15% using 1996 asset values (including new entry).
3. Strengthening the regulatory framework for the financial system	• issuance of new legislation and conforming regulations for financial institutions • Cabinet approval of a new central bank act	• Financial Institutions Act, conforming regulations, and prudential regulations implemented • Bank of Guyana Act presented to parliament
4. Improvement of the business environment	• establish an investor service agency • implement modern corporate law and regulations	• Guyana Office of Investment established • Companies Law and regulations implemented
5. Liberalization of trade regime	• tariff reductions in line with CARICOM CET agreement fast track schedule • reduction of import and export licensing to minimum required by international agreement, health, safety, and environmental reasons	• tariff reductions in line with amended CARICOM CET agreement • import licensing requirement reduced from all non-CARICOM to 18 tariff headings • export licensing requirement reduced to 26 items
5. Improvement in efficiency of corporate direct and indirect taxes	• reduction of tariff exemptions • standardization of taxes across financial instruments to reduce bias against equity • replacement of discretionary incentives with automatic nondiscretionary system • integration of corporate and personal taxes • reduction of indirect tax diversity and rate inconsistency	• statutory taroff exemptions reduced from 189 to 40 for government, health, charity, int'l convention • standard tax on equity, debt financing • discretionary tax holidays eliminated; capital goods,raw materials given zero tariff, tax rates • equal tax on capital gains, interest income, dividends • consumption tax rates rationalized; excise tax eliminated

[1] Real sector entities sold: *Demerara Distilleries, Forte Crest Hotel, Guyana National Engineering Company, Guyana Glassworks, National Edible Oil Company Ltd, Guyana Stockfeeds Ltd., SANATA Textiles, Bel-lu Claybrick Factory, Linden Wharf, East Demerara Property.*
Financial sector entities sold: *Guyana Bank for Industry and Trade, Guyana Cooperative Insurance Service, National Bank for Industry and Commerce, Guyana Cooperative Mortgage Finance Bank.*
Entities brought to point of sale and to be sold in 1998: *GNCB Trust, Guyana Electic Corporation, the Linden Mining Enterprise, Guyana Stores Ltd, Guysuco Versailles Dairy Complex, Guyana National Printers, and the Guyana Pharmaceutical Company.*

Table 6: Key Economic Indicators

Indicator	1994	1995	1996	1997
Real GDP % change	8.6	5.0	7.9	6.2
Gross Investment / GDP	31.6	36.9	31.1	32.5
Private Investment / GDP	20.8	20.6	12.0	14.3
FDI / GDP	11.7	12.4	7.5	7.0
Gross Savings / GDP	12.6	17.8	21.9	18.2
Private Savings / GDP	6.7	5.5	6.0	9.0
Public sector - Overall balance as % of GDP	-5.7	-4.0	-3.2	-8.8
Exports / GDP	108.1	100.0	102.0	99.0
Imports / GDP	-121.5	-110.7	-109.0	-111.0
Export Value - % change	10.7	10.8	16.1	3.0
Export Unit Value - % change	-1.4	12.8	3.5	-10.5
Export Volume - % change	12.3	-1.7	11.5	15.1
CPI (urban e.o.p.) % change	16.1	8.1	4.5	4.2
Tax revenue % change	8.5	24.0	17.0	-0.9
Tax revenue / GDP	29.8	31.6	31.7	29.8
Overall surplus (def.) of public enterprise operations / GDP	2.6	3.6	2.7	-0.2
Private sector credit / M2	10.7	18.7	30.8	...
Private sector credit % change	34.9	53.0	75.7	23.6

Table 7: Studies Included in Project

NOT APPLICABLE The Guyana PSDAC supported only policy reforms. Studies to support the adjustment project were financed under a Japanese PHRD Grant (TF-20286) which supported the development of a framework for streamlining the tax regime; and the parallel operation, the Guyana Financial Sector and Business Environment Technical Assistance Credit (Cr. 2669-0), scheduled to close on June 30, 1999, which supported studies for preparing the privatization program as well as environmental assessment of public entities earmarked for privatization.

Table 8: Project Financing and Tranche Disbursements

	Appraisal Estimate (Millions)	Actual/Latest Estimate (Millions)
Source		
IDA Private Sector Development Adjustment Program		
Credit		
Tranche #1		
SDRs	3.33	3.33
$US Equivalent	5.17	4.96
Tranche #2		
SDRs	3.33	3.33
$US Equivalent	5.17	4.88
Tranche #3		
SDRs	3.33	3.33
$US Equivalent	5.17	4.57
Sub-total Credit		
SDRs	10.00	10.00
$US Equivalent	15.5	14.41
Reflows		
Reflow #1		
SDRs	2.00	2.00
$US Equivalent	3.10	2.97
Reflow #2		
SDRs		2.00
$US Equivalent		2.91
Reflow #3		
SDRs		1.50
$US Equivalent		2.06
Reflow #4		
SDRs		1.10
$US Equivalent		1.49
Sub-total Reflows		
SDRs		6.60
$US Equivalent		9.43
IDB Financial Sector Reform Program	35.0	35.0
TOTAL	53.60	58.84

Table 8A: Project Costs

Item	Appraisal Estimate (US$M) Local Costs	Foreign Costs	Total	Actual/Latest Estimate(US$M) Local Costs	Foreign Costs	Total
1. Privatization of Public Enterprises		18.8	18.8		20.6	20.6
2. Regulation of Financial System		18.8	18.8		20.6	20.6
3. International Trade and Investment		8.0	8.0		8.8	8.8
4. Tax Reform		8.0	8.0		8.8	8.8
TOTAL		53.6	53.6		58.8	58.8

Table 8B: Project Financing

Source	Appraisal Estimate (US$M) Local Costs	Foreign Costs	Total	Actual/Latest Estimate(US$M) Local Costs	Foreign Costs	Total
IDA		18.6	18.6		23.8	23.8
IDB Fin. Sector Loan		35.0	35.0		35.0	35.0
Other External Sources						
Domestic Contribution						
TOTAL		53.6	53.6		58.8	58.8

Table 9: Economic Costs and Benefits

For all projects, this table identifies the major costs and/or benefits that enter into the calculation of a re-estimated net present value (or economic rate of return) or, where the net present value (or economic rate of return) was not estimated, of cost-effectiveness in achieving project objectives.

As an adjustment operation with b.o.p. related financing, the project was not structured to reflect a *direct* cost-benefit relationship with the credit's proceeds, and therefore a conventional present value analysis would not apply to such an operation. Nevertheless, given that such structural and sectoral adjustment programs are meant to improve overall economic welfare and economic management, some indications of the benefits of the policies undertaken (while not all directly attributable to the PSDAC operation itself) can be mentioned. These include in particular, the accrued proceeds from the divestment of public enterprises as well as reforms in the tax structure which helped increase the overall revenue effort substantially. While all these developments cannot be purely attributable to the project given the existence of exogenous independent macroeconomic effects; the project itself along with parallel IMF assistance, directly impacted on the government's fiscal and private sector enhancement measures. Indicators of these measures are as follows (for the 1994-97 project implementation period):

Gross increase in tax revenue proceeds during project execution period:	$66 mn.[1]
Proceeds from project defined privatization and divestment of public enterprises:	$57 mn.[2]
Total estimated PV cost of Credit, reflows, and IDA service charges:	$26 mn.

The increase in gross revenues, however, is counteracted by expenditure increases (a large part of which are dedicated to debt service payments, some of which will be ameliorated via the HIPC debt reduction initiative), and the overall public sector deficit showed an increase towards the end of 1997 partially on account of large declines in export prices (and related tax revenues), as well as slower economic growth due to heat waves associated with the El Niño effect, and political unrest during the election period.

[1]US Dollar equivalents.

[2]Includes cash, and future accrued proceeds. Full payment on some transactions are made on an installment basis, and some entities recently offered for sale have only accrued a 10% deposit installment.

Table 10: Status of Legal Covenants

Guuyana - Private Sector Development Adjustment Credit
Development Credit Agreement Legal Covenants

Section	Covenant type	Present status	Date Fulfilled	Description of covenant	Comments
2.02(a)	1	C	11/95	before first request for withdrawal from Credit Account, Borrower must open and threafter maintain in Central Bank a US$ Deposit Account	
2.02 (d)(i) (A)	12	C	6/96	satisfactory progress in carrying out the Program in the government's Letter of Development Policy	
(B)	12	C	6/96	no reversal of Program objectives or actions taken	
(C)	12	C	6/96	take actions described in Schedule 2: 1. progress in implementing Privatization Plan as described in pp 3(e)(ii), 3(f)(i), 3(f)(ii) 2. (a) maintained in full force and effect the Financial Institutions Act (b) put in full force and effect the Prudential Regulations 3. Cabinet approval of a bill amending Bank of Guyana Act that confers on the Central Bank greater independence 4. completed financial and operational merger of GAIBANK and GNCB 5. maintain GO-Invest in operation 6. furnish to IDA draft regulations for the Borrowers Companies Act of 1991 7. put into effect the Trade Reform Plan 8. put into effect the Tax Reform Plan	See Annex 1: Policy Matrix for detail *Partial waiver of 1. -- final privatization of 1 of 7 govt owned entities brought to point of sale 6/95 not sold due to unforseen legal issue* *Amendment of 1. -- final privatization of 1 of 7 govt owned entities brought to point of sale 6/95 postponed to third tranche due to poor demand for shares*
(D)	12	C	6/96	Macroeconomic policy framework consistent with Program objectives	
2.02 (d)(ii) (A)	12	C	11/97	satisfactory progress in carrying out the Program in the government's Letter of Development Policy	
(B)	12	C	11/97	no reversal of Program objectives or actions taken	
(C)	12	C	11/97	take actions described in Schedule 3: 1. progress in implementing Privatization Plan as described in pp 3(e)(iii) and 3(f)(iii) 2. new Bank of Guyana Act submitted to Parliament 3. define Go-Invest mandate, strategy, and operating plan for next two years 4. issue draft regulations for the Borrowers Companies Act of 1991 5. maintain measures in Trade Reform Plan 6. maintain measures in Tax Reform Plan	See Annex 1: Policy Matrix for detail
(D)	12	C	11/97	macroeconomic policy framework consistent with Program objectives	

Covenant types:

1. Accounts/audits
2. Financial perf./revenue generation from beneficiaries
3. Flow and utilization of project funds
4. Counterpart funding
5. Management aspects of the project or exec. agency
6. = Environmental covenants
7. Involuntary resettlement
8. Indigenous people
9. Monitoring, review, and reporting
10. Project implementation not covered by categories 1-9
11. Sectoral or cross-sectoral budgetary / other resource alloc.
12. Sectoral or cross-sectoral policy/ regulatory/instit. action

Present Status: C = complied with; CD = complied with after delay; CP = complied with partially; NC = not complied with..

Table 11: Compliance with Operational Manual Statements

No lack of compliance with operational manual statements is evidenced.

Table 12: IDA Resources: Staff Inputs

Stage of Project Cycle	Planned		Revised		Actual	
	Weeks	$ 000	Weeks	$ 000	Weeks	$ 000
Preparation to Appraisal	76	305	--	--	99	397
Appraisal to Board	25	101	--	--	41	165
Negotiations through Board Approval	10	41	--	--	29	118
Supervision	50	165	--	--	42	139
Completion	6	17	--	--	4	11
TOTAL	167	629	--	--	222	830

Table 13: IDA Resources: Missions

Stage of Project Cycle	Month/ Year	Number of Persons	Days in Field	Specialized Staff Skills Represented	Performance Rating: Implementation Status	Performance Rating: Development Objectives	Types of Problems
Through Appraisal	4/93	4	10	TM, F, P, Econ	—	—	Delays in 'a priori' actions: passage of trade and financial legislation
	5/93	1	10	F			
	7/93	6	8	TM, F, P-3, T-2			
	10/93	3	7	TM, T-2			
	11/93	1	10	Environment			
Appraisal through Board Approval	1/94	6	21	TM, F, P-3,T, L	—	—	Delays in meeting pre-negotiation privatization targets
	9/94	3	11	TM/P, F-2			
Supervision	11/95	3	6	TM/P, F, T	S	S	Delays in third tranche privatizations
	3/96	4	4	TM/P, F-2, T	S	S	
	11/96	2	5	TM/P, F, T	S	S	
	4/97	2	5	TM/F, F	S	S	Completion of bank restructuring
	9/97	2	9	TM/F, Econ	S	S	
Completion	2/98	1	5	TM/F	—	—	—

TM = Task Manager; F = Financial Specialist; P = Private Sector Specialist; T = Trade Specialist; Econ = Economist; 2,3 = # specialists.

GOVERNMENT OF GUYANA EVALUATION

IMPLEMENTATION COMPLETION REPORT

PRIVATE SECTOR DEVELOPMENT ADJUSTMENT CREDIT

Introduction/Background

This implementation Completion Report (ICR) is an evaluation of the Guyana Private Sector Development Adjustment Credit (PSDAC). The SDR 10 million credit was approved by IDA on June 21, 1995. The purpose of the credit was to support a set of reforms including (i) maintenance of coherent macroeconomic policy, (ii) financial sector reforms, (iii) merging and restructuring of key public sector banks, (iv) privatization of public enterprises, (v) streamlining of trade procedures, (vi) introduction of updated laws and regulations governing corporations, and (vii) elimination of discretionary investment incentives.

Decades of long neglect of the economy coupled with economic policies based primarily on socialist doctrine had led to the public sector domination of the economy. This severely distorted incentives for the private sector. Critical industries such as sugar and bauxite were nationalized and government control extended to most economic activities including financial intermediation, consumer goods marketing and pricing, and foreign exchange management. After the collapse of sugar and bauxite prices in the mid-1970s, a secular decline of output set in, leading to large budget and balance of payments deficits, accelerating inflation and increased external borrowing.

In order to reverse Guyana's economic decline and create the basis for sustained economic growth and viable external position, the Government of Guyana designed a medium term economic recovery program (ERP) in June 1988. This involved a fundamental change of economic policy and shift towards a market-oriented economy. The key elements of the ERP was the unification of the exchange rate system, liberalization of the external trade, increase in the primary current account surplus of the public sector, tightening of credit policy, pursuit of a flexible interest rate policy, and major structural reforms including the divestment of a number of public enterprises.

In October 1992, the new democratically elected Government committed itself to continue and accelerate the ongoing reforms. In addition, the Government put increased emphasis on the reduction of poverty, human resource development and the reduction of the external debt. Greater emphasis was also placed on the rehabilitation of the seriously dilapidated infrastructure and transparency and the accountability of the public sector operations. Another key objective of the Government was the redefinition of the state and the creation of the economic environment for rapid development of the private sector.

Project Objectives

To achieve its objectives of creating an enabling environment for the private sector, the Government and the donor community developed a comprehensive program to remove the bottlenecks that had stifled the development of the private sector over the last decades. The PSDAC that was approved in June 1995 set out to (i) reduce the share of production and commerce that was carried out by the public sector; (ii) improve the regulation and supervision of the financial system and restructuring of key financial institutions; (iv) reduce the burden of bureaucratic impediments to investment and international trade; and (v) revise corporate tax policy.

Project Components

In order to achieve its broad objectives of improving the private sector framework, the following components were identified under the PSDAC: (i) privatization of public enterprises; (ii) financial sector reform; (iii) improvement in trade regime and the business environment; and (iv) tax reform.

Overview of Project Achievements

The Government achieved all the key components of the reforms envisaged under the PSDAC. Except for a minor waiver, conditionalities associated with the credit were met. Specifically, PSDAC privatization targets were exceeded, legislation and regulations for financial sector reforms were substantially improved and new financial institutions act and conforming regulations, and a central bank act was passed. In addition, prudential regulations were enhanced while the capacity for banking supervision at the Bank of Guyana was strengthened. Furthermore, public ownership of financial institutions was divested or liquidated although progress was slow in the restructuring of the "new" GNCB. Trade liberalization also continued apace. Tariff rates were reduced to a band of 0-25 percent in accordance with the CARICOM common external tariff agreement. To further strengthen trade reforms, discretionary incentives were eliminated, tax holidays removed and statutory exemptions from tariffs and consumption taxes for favored categories and associations were eliminated.

Assessment of the Privatization Program

As part of the economic recovery program (ERP) that was put in place in June 1989, the Government committed itself to privatize and or divest several public enterprises that laid claims on public sector resources. Between 1992 and 1997, more than 28 public enterprises were privatized and 36 were brought to the point of sale.

Indeed, significant efforts and achievements are evident in the Government's privatization program, with over 20 public enterprises having been offered for sale since 1994. Most targets for completion of sales were met with a few exceptions in which unanticipated factors delayed the closure of sales. Such factors included disputes over land title ownership, (Versalles Dairy Complex), a court injunction by a customer/staff of the National Bank of Industry and Commerce against the due diligence procedure, and a lack of market response to some entities offered for sale (National Printers, Guyana Stores). Nevertheless, by end-1997, the Government had divested itself of enterprises that constituted approximately 60 percent of total net assets of entities originally owned by the public sector. In terms of revenues, those entities constituted about 45 percent of total proceeds that accrued to the Government.

Specifically, the following key enterprises were divested, privatized or brought to the point of sale:

Guyana Stockfeeds Limited

The mode of privatization of this enterprise was the divestment of the 35 percent issued share capital to a strategic investor.

- entity was brought to the point of sale in 1996;
- strategic investor for this entity was identified in 1997;
- negotiations on the sale of the 35 percent share are completed;
- investor has paid a 10 percent deposit of the share price of US$900,000;
- sale agreement was executed in October 1997 and closing in November 1997.

National Edible Oil Company Limited (NEOCOL)

The privatization of this entity involved the outright sale of assets and equipment at the main factory operation located at Farm, East Bank Demerara.

a. NEOCOL Farm Operation
Of the estimated US$800,000 expected from this transactions,
- ten percent deposit has been paid;
- forty-six percent was paid in November 1997 following closing; and
- forty-six percent will be deposited when transport of titles are transferred.

Guyana Co-operative Insurance Service (GCIS)

The privatisation of this entity involved sale of 67 percent of the issued share capital belonging to GOG and the National Insurance Scheme (NIS).
- entity was brought to the point of sale in 1996;
- strategic investor was identified in 1997;
- ten percent deposit out of US$1 million has been paid; and
- final sales agreement was concluded by end-November 1997.

Guyana National Bank of Commerce and Industry

The sale of NBIC involved divestment of 47 percent of GOG and NIS shares to the Republic Bank of Trinidad, a strategic investor. The deal was completed in October 1997.

Guyana Electricity Corporation

Privatization of the GEC also involved fundamental reforms in the energy sector which were initiated by the Government and went beyond the planned program agreed under the PSDAC and the ESAF.
- GEC was brought to the point of sale in 1996;
- strategic investor was identified and a letter of intent signed;
- negotiations for sale was almost completed when political disturbances deriving out of the December 15 elections caused the withdrawal of the strategic investor from negotiations; and
- preparations are far advanced to privatize GEC by end-June 1998.

GNEC Property at Providence, East Bank Demerara

This entity is sub-divided into 6 components:

Lombard Street Complex
This involved the outright sale of land and building to Machinery Corporation of Guyana Limited. This transaction which is expected to yield US$1.5 million was concluded in December 1997.

Bel-Lu Clay Brick Factory
This complex is leased to China Taian International Economic and Technical Co-operation (TIETC) a Chineese firm for a period of 10 years. The project is expected to commence operations in early 1998. The transaction will amount to US$465,000 over the term of the lease.

Wharf at Wismar, Linden
This complex will be leased to a local investor (Wrays' Enterprise Inc.) for a period of 25 years. The company is setting up cement bagging and Polly Bag factories at Linden. The rental will be G$700,000 per annum for the first five years and thereafter the rent is to be mutually agreed upon by the parties. The agreement should be signed in the first quarter of 1998.

Alproguy
In January 1996, the inventory and equipment were sold to National Hardware Limited for sum of

G$20 million. The property is also being leased for G$165,000 per month to the same investor. This property was subsequently sold to Macorp and the right of this lease was transferred.

Mards
This entity was re-advertised in 1996 and as in previous cases, no bids were received. In November 1997, the complex was leased for 10 years for the establishment of a machine shop and canning factory.

Coverden Clayworks
In 1995 this entity was advertised for sale of property, plant and equipment and leasing of 85 acres of land covering clay deposits. Three bids were received with the highest being G$24.8 million. The selected investor, however, failed to meet the stipulated deadline agreed by both parties to conclude the deal and the negotiations were terminated. In 1997, this enterprise was re-advertised and sale agreement for the land, buildings, plant and equipment were signed in the last quarter of 1997.

<u>Guyana Stores Limited</u>

In 1995, 60 million shares which represented 60 percent of the share capital were offered to the public at $12 per share. Only 19 percent of shares were sold. This entity was advertised again in July 1996 without any success and preparations are being made to re-advertise it again in 1998.

<u>GUYSUCO -Versailles Dairy Complex</u>
This facility involved the outright sale of moveable assets, machinery, and lease of buildings and land. No tenders were received from the first advertisement in 1996 and three tenders that were received in a 1997 re-advertisement were deemed unacceptable. There are unresolved legal problems in relation to the land ownership.

<u>Guyana Pharmaceutical Corporation</u>
Valuations of assets were completed and the Government made the decision to:
- consolidate GPC operations at Farm;
- sell separately GPC La Penitence property;
- transfer GAIBANK debt and Techno Bago debt to the Government
- transfer Sijan Plaza to Government in lieu of the former GAIBANK debt obligations; and
- sell separately GPC optical business.

A draft Information Memorandum is being prepared and the entity will be advertised for sale in 1998.

<u>Guyana National Printers Limited</u>

This entity was advertised in May 1996. However, the two bids that were received were considered too low. The entity will be re-advertised in 1998.

<u>Guyana Co-operative Mortgage Finance Bank</u>

Valuation of assets was completed in 1996. The legislation passed in Parliament approving the conversion of COFA institutions to public companies clears the way for GCMFB to be converted and liquidated in accordance with the Companies Act. The legal work has commenced to convert GCMFB to a public company which will be liquidated soon after.

Demerara Distillers Limited

In 1995 the Government sold its 18 percent share holding to over 4,200 applicants and 30 institutions with broad-based ownership. Total proceeds amounted to $500 million.

Shares in Forte Crest

Government sold its 4 percent share holding in Forte Crest to the NIS for the sum of $45.5 million.

BERMINE

This entity will be advertised by the end of the second quarter 1998.

Sanata Textiles Limited

This entity is made up of three components: the Printing and Dyeing Section; Finished Materials Bond; and Spinning and Weaving Section.

Printing and Dyeing Section
A lease agreement was signed in December 1997 for this section.

Finished Materials Bond
The bond will be leased to an identified investor for the establishment of a bicycle factory.

Spinning and Weaving Section
This section has not yet been advertised.

Linden Mining Enterprises Limited
This entity was broken into three components for divestment.

The Core Bauxite Mine
Request for proposal will be issued in 1998 with bids closing in the last quarter

Workshops
Request for proposals will be issued after the bids for core bauxite mine is closed

The Electricity Generating Facility
Lease agreement was signed in December 1997 for the divestment of the electricity generating facility at Linden.

In addition to these achievements, the Government took the following measures in 1997 that went beyond the targets agreed with the World Bank under the PSDAC:

- post-privatization audits of 15 entities privatized between 1982 and 1992; legal actions for unpaid balances instituted against Paint Company and possible litigation for two rice mills with outstanding balances in excess of US$1.8 million;
- advertisement of 4 BIDCO (bauxite holding company) properties in 1998;
- preparation of Ruimveldt Industrial Estate for sale to occupants;
- preparation of BV Industrial Estate for sale to occupants;
- preparation and sale of 100 percent of shares in Surapana Farm to workers of Linmine and Surapana;
- agreement of sale for 7 GDL properties; and
- sale of land associated with former Quality Foods Ham and Bacon factory.

The Government also established a regulatory framework for the energy sector. The Parliament in 1997 enacted the electricity sector reform bill; the public utilities amendment bill and the energy sector bill.

In spite of these achievements, problems still remain. Lower bids and in some cases no bids have caused delays in the implementation of privatization program, often leading to re-tendering of enterprises. In addition, institutional constraints, poor documentation of public enterprise files, and intertwining public enterprise arrangements significantly slowed the pace of the divestment process. Although worker participation was an important objective of the program, the level of participation so far has been weak. This, in part, may be attributable to low levels of income and poor information dissemination. In other cases, delays in procurement of consultants slowed down technical analyses and the pace of the program. Nevertheless, the gains made so far are sustainable.

Assessment of Financial Sector Reforms

As part of the ERP, the Government took significant measures to liberalize the financial system including the freeing of interest rates, establishment of market-based exchange rate mechanism, strengthening prudential regulation of banks and allowing new banks to enter the system. The Government in 1995 under the PSDAC committed itself to (i) improve the financial institutions' regulation and supervision; (ii) reduce the state's ownership in the commercial financial sector; (iii) modernize commercial and development banking; and (iv) capital markets development.

Improving Regulation and Supervision in the Financial Sector

The key issues for reforms under financial sector regulation and supervision were (i) establishing and implementing regulations under the revised Financial Institutions Act (FIA); (ii) continued implementation of prudential regulations; and (iii) the presentation of the Bank of Guyana (BOG) Act to Parliament.

(i) Establishing and Implementing Regulations under the Revised Financial Institutions Act

The Financial Institutions Act 1995 took effect on May 29, 1995. This Act gave the Bank of Guyana full authority to regulate and supervise financial institutions licensed under the Act. In order to implement the provisions of the FIA, an initial set of seven supervision guidelines on Inspection Fees and Costs; License of Financial of Financial Institutions; Branching and Acquisition of Control of Financial Institutions were issued on June 19, 1997. Regulations made under the FIA along with notices published in the Official Gazette provided added guidance for the conduct of non-depository financial business.

In addition, Section 9 of the FIA was amended in 1996 to restrict the acquisition of control of another depository licensed financial institution by anyone who already owns or controls one such institution, and to prohibit the acquisition of shares directly or indirectly in excess of 20 percent of the total paid-up capital of all depository licensed financial institutions incorporated in Guyana. This latter prohibition does not obtain where any person has already acquired control of a depository licensed financial institution. Regulations are still to be drafted to implement other aspects of the FIA.

(ii) Continued Implementation of Prudential Regulation

The revised Financial Institutions Act that was passed by Parliament in 1995 has strengthened the regulatory authority of the BOG, mandated capital requirements and imposed prudential standards including capital adequacy, lending concentration and related party lending limits.

Assessment of Tariff Exemptions

In addition, the Government agreed with IDA under the PSDAC to initiate a program to reduce import duty exemptions. The enabling legislation was passed in 1995. Through assistance from IDA, Government designed and timely implemented a program of duty exemptions.

Assessment of Tax Reforms

Under the PSDAC, the Government committed itself to (i) rationalize the consumption tax; (ii) rationalize fiscal incentives; (iii) reduce corporate taxes; and (iv) integrate corporate and personal taxes. Consistent with these commitments:

- discretionary incentives were removed
- the issuing of tax holidays was stopped and ongoing ones allowed to expire;
- statutory exemptions from tariffs and consumption taxes for favored categories of producers were largely eliminated;
- introduction of zero tariff and consumption tax rate to capital goods and raw materials.

Nevertheless, the Government was not able to equalize the corporate tax rate for commercial and non-commercial firms. Although the Government was keen in reducing the company tax rate on commercial companies, continuing tight fiscal conditions did not permit this to be accomplished. Still, the equalization of taxes across financial instruments, elimination of double taxation and integration of personal and corporate taxes has reduced disincentives to equity investment.

Lessons Learned and Recommendations for Future Assistance

In privatisation, the process encountered several problems. Inter-agency arrangements both financial and institutional and in particular the absence of documentation delayed the privatisation process. Although resistance of management of public enterprises somewhat delayed the sale of few enterprises, strong resolve from the Government continued to push the process through. There was also the issue of valuation of enterprises. In several instances, wide disparity in the value of the same asset base presented a dilemma to the Privatisation Unit in arriving at the true value of assets.

Worker participation was one of the key objectives of the privatisation programme. In spite of this, the financial status of many workers and the large asset base of most enterprises made this difficult to happen, except in GNEC where workers bought about 10 percent of the enterprise.

In the area of the trade regime and the business environment, the establishment of Go-Invest has been positive. Nevertheless, the agency has not been as effective as was envisaged due to several changes at the leadership thereby delaying capacity building. Government is considering several options in strengthening this agency. In the area of the incentive regime, reduction of the import duties in the context of the CET, tax reforms, and elimination of quantitative and other non-trade barriers have been positive. Trade volumes have increased, level of revenue is higher, and the investment framework enhanced.

Government's View of the Project

This IDA intervention provided critical assistance necessary to improve the environment for private sector development. Result deriving out of this project is already apparent. Implementation was smooth, staff of the World Bank directly with the project was responsive and project objectives were generally accomplished.