Document of
The World Bank

Report No. T-6411-GUA

TECHNICAL ANNEX

GUYANA

FINANCIAL SECTOR AND BUSINESS ENVIRONMENT PROJECT

NOVEMBER 22, 1994
CURRENCY AND EQUIVALENTS

Currency Unit - Guyana Dollar (G$)
Exchange Rate Effective November 22, 1994

US$1.00 = G$142.5
G$ 1.00 = US$0.0071

GOVERNMENT OF GUYANA FISCAL YEAR

January 1 to December 31

GLOSSARY OF ABBREVIATIONS

BOG - Bank of Guyana (Central Bank)
BSD - Banking Supervision Department
CAMEL - Capital Adequacy/Asset Quality/Management/Earnings/Liquidity
CAS - Country Assistance Strategy
CIF - Cost, Insurance and Freight
COFA - Cooperative Financial Institutions Act
ERP - Economic Recovery Program
ESAF - Enhanced Structural Adjustment Facility
FIA - Financial Institutions Act
FIAS - Foreign Investment Advisory Service
FISBEC - Financial Sector and Business Environment Credit
GAIBANK - Guyana Agricultural and Industrial Development Bank
GCIS - Guyana Cooperative Insurance Service
GDP - Gross Domestic Product
GBTI - Guyana Bank for Trade and Industry
GNCB - Guyana National Cooperative Bank
GOG - Government of Guyana
GUYMIDA - Guyana Business Promotion Agency (disbanded December 1993)
ICB - International Competitive Bidding
IDA - International Development Association
IDB - Inter-American Development Bank
IMF - International Monetary Fund
LATEN - LAC Technical Department: Environment Division
LCB - Local Competitive Bidding
LDP - Letter of Development Policy
MOF - Ministry of Finance
NBIC - National Bank for Industry and Commerce
PCRs - Project Completion Report
PFP - Policy Framework Paper
PPARs - Project Performance Audit Reports
PSDAC - Private Sector Development Adjustment Credit
SDR - Special Drawing Rights
UNDP - United Nations Development Programme
USAID - United States Agency for International Development
Introduction

1. The objective of the Financial Sector and Business Environment (FISBEC) Project is to establish an appropriate regulatory framework in the financial sector, and to encourage private sector development, through assistance in (a) the strengthening of banking supervision and monetary management functions, (b) privatization of public enterprises, and (c) facilitating foreign and domestic investment in Guyana. The total project cost is estimated at US$ 4.0 million, of which, up to US$ 3.5 million would be financed through an IDA Credit and US$ 0.5 million would be funded by the Government of Guyana. Based on discussions with other cofinancing sources during appraisal, some of the project costs would likely be financed from other sources, namely the IMF and the U.K. The figures shown in the cost tables below are therefore provisional and will be confirmed once the availability of cofinanced funding is firmed up. The project would cover a three-year period, and would be completed by end-1997.

Strengthening Banking Supervision

Background and Sector Strategy

2. Supervision of the financial system had been very limited until an institutional strengthening program in the Banking Supervision Department (BSD) of the Bank of Guyana (BOG) was initiated with IMF support in 1991. Inspection had been infrequent, reporting limited, scrutiny of information provided and account reconciliation limited, and staff largely untrained. Moreover, the supervisory capacity via the Cooperative Financial Institutions Act (COFA) has been limited to exercising some input through positions in the management of individual institutions. Accomplishments since 1991 include: (a) development of improved information submission from commercial banks to the BOG for purposes of tracking prudential variables; (b) development of a performance tracking system for offsite analysis; (c) review of the 20 largest borrowers in each institution; (d) initiation of one round of credit portfolio examinations in each institution, with loan classification in accordance with the criteria proposed by the Center for Economic Studies in Latin America and the Caribbean; (e) completion of 3 full-scope inspections; (f) recruitment of approximately half of the staff needed for the BSD, and (g) on-the-job and external training of staff.

3. The draft Financial Institutions Act (FIA) to be presented to Parliament would broaden BOG authority to include all deposit-taking institutions, strengthen BOG’s regulatory authority, mandate minimum capital requirements and impose prudential standards including, \textit{inter alia}, capital adequacy requirements, limits on lending concentration, and limits on lending to related parties. Two fundamental effects of the implementation of the Act would be the expansion in the scope of prudential regulations applied and a similar expansion in the scope of institutions subject to BOG authority. The Government has agreed to pass and begin implementation of the FIA prior to negotiations of the Private Sector Development Adjustment Credit (PSDAC). In the draft Letter of Development Policy (LDP) of the PSDAC, the Government would agree to strengthen the institutional capacity of the BOG.

4. In order to ensure public confidence in the financial system and encourage efficient financial intermediation, the program for institutional strengthening of the BOG’s supervisory capacity will be continued and expanded, including expansion of supervision to select non-bank financial institutions in accordance with the revised FIA. To strengthen banking supervision on a sustainable basis,
mechanisms for retaining qualified staff are under consideration, such as salary enhancement. In addition, the continuity of this function would also need to be strengthened and eventually be made self-sustainable via the establishment of banking supervision fees charged to financial institutions. These fees are aimed at compensating the Government for the considerable oversight and risk identification/amelioration responsibilities benefiting the banking sector as a whole, and would also be used to cover credit risk information services provided to banks, as would be available once the central credit risk system was established under the project. In the meantime, BOG has set out a long term budget plan for implementation in BSD, with a substantial staffing complement of 18 individuals.

Technical Assistance Requirements

5. Technical Assistance for the BSD will support a three-year program to strengthen supervision, including the following:

- **A Banking Supervision Policy Advisor** would continue to provide guidance in the development of prudential norms through implementing regulations and circulars, develop prudential criteria for a surveillance system with reports based on CAMEL indicators and industry and sectoral analyses; assist in strengthening the management of BSD; and assist in the specific responsibilities of the BSD including licensing of new institutions.
- **An Operational Advisor and Inspector/Trainer** would train staff in on-site and off-site examination techniques including credit evaluation, account reconciliation, risk concentration and collateral assessment. Such individual would lead and provide guidance in general and specific on-site examinations and in off-site operating procedures;
- **A Legal Advisor** would be engaged on a short-term basis to assist in the drafting of implementing regulations;
- **Overseas Courses** would be used to supplement on-the-job training provided to staff by the two advisors above, including the course program offered by the Federal Reserve of the U.S. and the Center for Economic Studies of Latin America and the Caribbean;
- Select financing would be available for *office equipment*—desktop computers for offsite analysis, laptop computers for onsite analysis, a laser printer and a fax machine; and
- **The BSD will install a Credit Risk qualification system**, whereby the outstanding credits by individual exposure (individuals and companies) would be centralized across the financial system. Such information would not only greatly assist in prudential control of the financial system -- select dissemination of the exposure of individual clients would also assist banks in managing their own prudential risks. A specialized consultant and a desktop computer with significant capacity, application software and specialized training would be financed for this purpose.

Cost Estimate

6. The total estimated cost of the program outlined below is US$ 996,800 of which US$ 966,800 would be financed under the Credit. Potential IMF financing would likely fund about US$ 200,000 of these costs.

Support to Strengthen Monetary Management

Background and Sector Strategy

7. The IMF has to date provided significant support to the BOG in monetary management. In April, 1993 a Technical Assistance Mission of the Monetary and Exchange Affairs Department conducted an in-depth assessment of these specific needs and carried out a follow-up mission in January-
Table 1 - Estimated Cost of Strengthening the Banking Supervision Department of the Bank of Guyana (US$)

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
<th>Counterpart Financed</th>
<th>Proposed for IDA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Supervision Advisor</td>
<td>363,600</td>
<td>363,600</td>
<td></td>
</tr>
<tr>
<td>Inspector/Trainer/Advisor</td>
<td>363,600</td>
<td>30,000</td>
<td>333,600</td>
</tr>
<tr>
<td>Legal Advisor</td>
<td>12,000</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Overseas Courses</td>
<td>125,000</td>
<td></td>
<td>125,000</td>
</tr>
<tr>
<td>Credit Risk Sys. &amp; Advisor</td>
<td>70,500</td>
<td></td>
<td>70,500</td>
</tr>
<tr>
<td>Computers/Equip./Sys.</td>
<td>62,100</td>
<td></td>
<td>62,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>996,800</strong></td>
<td><strong>30,000</strong></td>
<td><strong>966,800</strong></td>
</tr>
</tbody>
</table>

February, 1994. Further, the IMF provided support for an advisor to the Research Department from 1990-1993, is currently supporting a macroeconomic advisor to the Governor, and expects shortly, to fund an advisor on the organization and methods of BOG. The IMF assessment establishes a program of measures to improve the monetary management functions of BOG. It also includes measures to improve the tender process and to improve the overall treasury management through the introduction of longer-term instruments. Most important, the report indicates a process for initiating fluid and transparent open-market operations and strengthening foreign exchange market integration through the establishment of a foreign exchange trading unit.

**Technical Assistance Requirements**

8. The Project would support assistance by two short term consultants with experience in monetary management to work with the Central Bank’s Research Department according to the strategy developed with IMF assistance. The individuals' Terms of Reference would be to:

- Develop open market operations within a monetary programming framework, and establish a money market unit with front office (dealer) functions and back office support; develop systems and procedures for Treasury Bill tenders, as well as secondary markets in T-Bills and other money market instruments, and communication of such procedures to market participants;
- Develop and implement a schedule for the use of a separated portfolio of Treasury Bills for monetary policy objectives, and develop improved monetary forecasting and reserve money programming techniques; and
- Develop improved procedures, and train BOG staff in money and capital markets, and foreign exchange trading.

9. Consultant advice and training would be carried out through visits by experts on short-term contracts. Selected office and computer equipment would be financed to enhance the execution and analytical support for the above functions. The expected outcomes would include training of staff, operationalizing the afore-mentioned processes, and preparing detailed manuals and technical guidelines delineating implementation steps for carrying out and sustaining the above procedures.

**Cost Estimate**

10. The estimated cost of the program outlined below is US$ 102,000 which would be financed under the Credit. Potential identified IMF financing would likely cover about $30,000 of these costs.
Restructuring State-owned Financial Institutions

Background and Sector Strategy

11. Guyana’s banking system has until recently been dominated by State-owned institutions. The Guyana National Cooperative Bank (GNCB), established by the Government in 1970, holds 55% of the deposit accounts in the country. GNCB has faced significant difficulties including large portfolio losses despite repeated recapitalization. Most important, GNCB has suffered from a small level of earning assets when compared to its large and increasing deposit base. In 1990 the Government installed new management at GNCB and took measures to financially and operationally restructure the institution. The institution has suffered from weak credit control procedures, information systems and a potentially overdimensioned infrastructure. While GNCB again faced severe losses in 1992, it returned to profitability in late 1993. The tightening of credit procedures addressed many of the worst abuses. While the Government has initiated measures to improve loan recovery, GNCB requires further financial and operational restructuring in order to place it on a viable footing while seeking to minimize the fiscal exposure which the Government faces to cover depositors and maintain depositor confidence.

12. The Guyana Agricultural and Industrial Development Bank (GAIBANK) was established as a development bank to provide credit and related advisory services for agricultural and industrial projects. The institution has been prohibited from taking public deposits, and funded its lending from donor funds, and more recently from Government resources and loan recoveries. Loan conditions generally reflected the specified conditions mandated by the agency lending funds to GAIBANK. It has had seven branches and 277 employees. GAIBANK has experienced severe financial difficulties, owing primarily to the poor quality of its loan portfolio. The latter has reflected fluctuations in the spread between its borrowing and lending rates, sharp changes in the valuation of assets and liabilities from exchange rate depreciation, and problem loans.

13. While GAIBANK has not suffered from high administrative costs, it has been very inefficient. It reduced its branch network in 1992 from eight to seven branches and reduced the size of selected branches. GAIBANK began a process of restructuring in 1990, including staff reductions and improvements in operating procedures. A capital injection of G$100 million was provided in 1991 to pull GAIBANK out of its negative equity position. However, the restructuring process did not go far enough. A team of consultants was scheduled to begin development of a restructuring plan in early 1992, but never started work. In early 1993, measures were adopted to monitor and improve loan recovery, including improved tracking of loan arrears.

14. The Government has agreed prior to negotiations of the PSDAC to announce the merger of GNCB and GAIBANK into a new institution. The institution would be commercially run and would undertake first-tier development banking only through a special window financed directly from the treasury and managed as an off-balance sheet agency account. An Action Plan for the merged institution has been agreed-to in the context of the PSDAC and progress has already been achieved in beginning the classification and segregation of the loan portfolios, and the completion of 1993 audits for both institutions. In addition, the capitalization and financial structure of the Loan Recovery Agency (see

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
<th>Counter-part Financed</th>
<th>Proposed for IDA Credit</th>
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</thead>
<tbody>
<tr>
<td>Dev. of Open</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Oper.</td>
<td>51,700</td>
<td>51,700</td>
<td></td>
</tr>
<tr>
<td>Foreign Exchg.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>43,300</td>
<td>43,300</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>7,000</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102,000</strong></td>
<td><strong>102,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
below) will need to take into account the level of non-performing loans which it can administer while simultaneously allowing the merged bank to function within a viable financial structure with positive net worth and net earnings.

15. **Loan Recovery Unit.** The Government has agreed to establish a *Loan Recovery Unit* which would be expected to pursue loan recovery measures including negotiation with client parties (according to guidelines to be established at start-up) and to initiate legal action for: (i) judgement against loan collateral; (ii) judgement against a business' or individual's cash flow; and/or (iii) judgement against other assets securing loan. Moreover, such Unit would be charged with tendering assets received in loan recoveries through a process to be established upon start-up. Finally, the Unit would be charged with maintaining up-to-date accounts and, where loans have been renegotiated, to maintain vigilance over collections.

16. For other public sector financial institutions, the Government intends to implement reform measures including privatizations where appropriate, as set out in its Policy Framework Paper for 1994-1996. For those institutions earmarked for privatization, technical assistance under the Privatization Unit component (described below) would be provided.

**Technical Assistance Requirements**

17. Under the Government's plan to merge GNCB and GAIBANK, and within the framework of policy measures specified under the PSDAC, the project would support advisors as follows:

- A *credit policy advisor* would assist the merged institution in: (i) adopting uniform credit policies; (ii) ensuring that such policies allow the effective control and management of portfolio risks; and (iii) developing loan review and approval procedures that ensure that the credit policies are effectively implemented.
- An *accounting and financial control advisor* would assist the merged institution in: (i) establishing a uniform accounting system for the merged entity; (ii) developing new accounts and procedures manuals for implementing the new accounting system; and (iii) developing existing, and purchasing new computer equipment to implement the accounting and financial control system.
- A *restructuring and rationalization advisor* would assist the merged institution in: (i) establishing and carrying out a strategy for staff rationalization; and (ii) establishing and carrying out a strategy for branch rationalization based on a cost-benefit assessment of each branch.

18. The Government would provide counterpart funding to fund an advisor to the *Loan Recovery Unit* to provide specialist advice in: (i) valuation of financial and fixed assets; (ii) investigatory mechanisms to locate borrowers and property, including collateral; (iii) legal procedures for initiating court proceedings; (iv) moral suasion recovery mechanisms; and (v) asset sale procedures for collateral seized in loan recoveries. Select financing would also be provided for *office equipment*—desktop computers, a laser printer and a fax machine.

**Table 3 - Estimated Cost of Technical Assistance to State-owned Financial Institutions (US$)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
<th>Counterpart Financed</th>
<th>Proposed for IDA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restructuring of GNCB-Gaibank</strong></td>
<td>428,600</td>
<td>428,600</td>
<td></td>
</tr>
<tr>
<td><strong>Dev. of Loan Recovery Unit</strong></td>
<td>201,700</td>
<td>194,600</td>
<td>7,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>630,300</td>
<td>194,600</td>
<td>435,700</td>
</tr>
</tbody>
</table>
Cost Estimate

19. The estimated cost of the program outlined in the Table above is US$ 630,300 of which US$ 435,700 would be financed under the Credit.

Strengthening the Privatization Process

Background and Sector Strategy

20. The State has dominated most aspects of economic life in Guyana, accounting for more than three-fourths of GDP. In addition to its presence in public infrastructure, the Government of Guyana (GOG) controls major industries such as sugar processing and bauxite mining as well as a myriad of other commercial enterprises across sectors. The former Government began under the Economic Recovery Program to privatize public corporations, privatizing or liquidating 14 enterprises between 1987 and October 1992. However, the lack of clarity of the transaction process contributed to considerable public dissatisfaction with privatization. The program was subsequently halted by the PPP/Civic administration in November 1992. The new government has moved cautiously; the first announcement on privatization was made in July 1993, when a policy framework for Privatization was passed by Parliament. This was followed in August with the setting up of a Privatization Board--a Cabinet-level Committee--that would oversee privatization and in January 1994 by a public announcement of the first entities to be privatized under the new policy.

21. The GOG, with the assistance of IDA, has adopted a framework which sets out the organization and procedures for continuing the privatization process. The objectives of the privatization policy are to transfer to the private sector the management, ownership and control of all commercially-oriented public enterprises. The GOG has put in place a special executing authority or “agent” to restart the program and to work on behalf of the Government. A Privatization Unit (PU) within the Ministry of Finance (MOF) has been set up for this purpose, which reports to the Privatization Board, chaired by the Minister of Finance. The PU has prepared operational guidelines to ensure that each privatization transaction adheres to a standard set of procedures that is transparent and subject to public scrutiny. Under the Privatization Policy, the entities to be privatized are decided by the GOG through the Privatization Board, supported by the PU. The aim of the first phase of the privatization program is to: (a) bring to point-of-sale a group of four or more wholly-owned state companies; (b) sell Government-owned minority shares in a further three companies; and (c) establish an action plan for bringing to the point-of-sale the remaining enterprises with intermediate targets that form the basis for the second and third tranches of the PSDAC. At this time, Government participation in one bank has been sold and work is nearing completion in the other entities slated for privatization this year.

22. The GOG has also decided on the selection and the sequencing of the enterprises to be privatized in the first phase of the privatization program. The GOG intends to explain the scope, goals, procedures and pace of the privatization program to the populace as one of the institutional safeguards necessary to generate consensus for the program and ensure its success. GOG is therefore taking steps to set up a public communication program. IDA has supported this effort through a grant from the Participation Fund to mobilize resources for the campaign. The public launch of the program was recently conducted and will provide an ongoing regular communication of privatization activities to the public. The publicity campaign is under the purview of the PU.

23. To date, the institutional results in the Privatization unit have been limited. While the Unit has followed the procedures established, limited resources and weak institutional capacity has resulted in a slow and cumbersome process. As a result of this process, the Government has decided to
request assistance under the FISBEC to draw upon the expertise of a firm to provide advisory support in this process. While IDA would provide guidance and supervision of the privatization component as part of the overall project, the bulk of the advisory services have been proposed to be funded by the U.K. Overseas Development Administration (ODA). In addition, Japanese Grant funds are currently being used to fund an Executive Secretary, Financial Analyst and Corporate Lawyer. This funding will be terminated once the FISBEC becomes effective.

**Technical Assistance Requirements**

24. The aim of the technical assistance program is to assist in the process of institutional support for the Privatization Unit. Support would consist of:

- **Assistance by a Privatization Advisory Team** who would be charged with guidance and technical support of the privatization process. The Team would be responsible for overseeing the preparation of initial audits of each company, expediting the legal process of preparation for privatization, overseeing the process of and tender documents, and undertaking financial analysis on behalf of the Privatization Board. The scope of work would include, for each of the 20+ enterprises: (i) legal due diligence; (ii) financial due diligence; (iii) indicative valuation; (iv) recommended privatization strategy; (v) preparation and mailing of bidding documents; and (vi) advice on implementation and conclusion of sale;

- **An Executive Secretary** would be supported under the Credit to manage the privatization process under the guidance of the Privatization Board. The Secretary would be responsible for meeting the PU’s work program objectives, including reviews of each enterprise;

- **A Financial Analyst** would be contracted for a period of 30 months and would analyze the financial position of public enterprises working under the guidance of the Advisory Team. This would include: financial valuation, preparation of pro-forma financial statements and preparation of pro-forma financial projections;

- A full time **Accountant** would assist in financial analysis and evaluate the valuation work undertaken;

- **A Corporate Lawyer** would be contracted for a period of 24 months to assist in the evaluation of legal liabilities, design tender contracts, draft Ministerial Orders as appropriate or other legal documents as needed. This lawyer would also review the legal position of each company to ensure that all legal and contingent liabilities have been remedied so as to ensure the institution is saleable and not compromised by contingent risks or obligations to the buyer; and

- Select financing would be available for **office equipment**—desktop computers a laser printer and a fax machine.

**Cost Estimate**

25. The total estimated cost of the program outlined below is US$ 785,100 of which US$ 765,100 would be financed under the Credit. Cofinanced funding for these costs is being sought from U.K. ODA, who have expressed an interest to contribute to this component of the project.

**Guyana Office of Investment (GO-INVEST)**

**Background and Sector Strategy**

26. The GOG disbanded the largely ineffective business promotion agency, GUYMIDA, in December 1993. A key role of GUYMIDA had been to decide on fiscal incentives on a firm by firm basis, a practice which the Government decided to eliminate. The 1994 Budget replaced tax holidays and other discretionary fiscal incentives with statutory tax and duty exemptions on specified capital goods available
to all firms operating in Guyana. The Government has recognized the importance of fostering both domestic and foreign investment in Guyana, and seeks to complement progress made in improving the investment climate through macroeconomic adjustments with measures to facilitate business start-up and operations. Recognizing that lack of information and standardized procedures for business start-up have discouraged potential investors interested in Guyana despite its infrastructure limitations, the Government resolved to establish an investor service agency.

27. In March 1994 the GOG established the Guyana Office of Investment (GO-INVEST) to speed private investors through government regulation and facilitate investment in Guyana. A blueprint for the Agency was adopted, the head for the Unit appointed and in place, and enabling legislation and a budget approved. A staffing structure has been established, and a schedule for operations in place. Funding for the GO-INVEST director has to date been provided by a Japanese Grant administered by IDA. The Unit also received approval for assistance from the Foreign Investment Advisory Service (FIAS). As of late September, 1994, GO-INVEST had progressed in its mandate to promote Guyana for foreign investment purposes. Various private investor contacts and official trade/investment promotion representatives have been contacted overseas, and the agency has been providing support to interested individual investors through assistance on investment opportunities and related regulations, and by liaising with other government agencies to expedite or resolve obstacles in the establishment of investment enterprises. In addition, pamphlets and briefs on domestic industry and sectoral developments have been produced, and GO-INVEST is now in the process of developing an investor procedures guide in coordination with the Ministry of Finance. An intensive training program is underway, covering a broad range of issues from customs and taxation regulations to industry-wide and sectoral developments.

28. The Government has agreed in the context of the PSDAC to strengthen the environment for private sector development, and provide support across the relevant ministries and agencies to facilitate GO-INVEST’s role in attracting foreign investment.

Technical Assistance Requirements

29. Assistance would be provided to GO-INVEST to establish staffing and institutional procedures, acquire equipment, and train Investment Service Officers. In coordination with IDA, FIAS is providing technical assistance to streamline investment procedures, as well as providing limited strategic guidance.

- Financing would be provided for the Advisor/Director of GO-INVEST who would develop institutional procedures, lead and manage the operation of the Unit, and coordinate with Cabinet-level officials;
• Four Investment Officers would be contracted for a period of 36 months each. Such individuals would guide potential investors through administrative procedures, develop and maintain informational and promotional materials, and investigate investment opportunities. A Specialist in Investment Promotion and Public Relations would also be contracted to provide guidance on the materials developed, GO-INVEST's strategy and its procedures;
• Staff Training would be provided, in the form of learning trips to effective regional one-stop shops and courses outside the country; and
• Select financing would be available for office equipment--desktop computers, a laser printer and a copy machine.

30. In order to expedite the execution of the overseas training component for the above (as well as under the Banking Supervision component), a commitment from the Government would be sought for one-year block approvals of training/travel requests which are financed under this project.

Cost Estimate

31. The total estimated cost of the program outlined in Table 5 below is approximately US$ 532,100 of which US$ 403,100 would be financed under the Credit:

Table 5 - Estimated Cost of Support to GO-INVEST (US$)

<table>
<thead>
<tr>
<th>Item</th>
<th>Total</th>
<th>Counterpart</th>
<th>Proposed for IDA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisors in Investment Promotion</td>
<td>158,400</td>
<td>158,400</td>
<td></td>
</tr>
<tr>
<td>Investment Officers-Other Consultants</td>
<td>252,000</td>
<td>36,000</td>
<td>216,000</td>
</tr>
<tr>
<td>Training - Field Visits to Other Territories</td>
<td>8,500</td>
<td>8,500</td>
<td></td>
</tr>
<tr>
<td>Other Training</td>
<td>11,000</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>9,200</td>
<td>9,200</td>
<td></td>
</tr>
<tr>
<td>Overhead &amp; Invest. Promotion Work</td>
<td>93,000</td>
<td>93,000</td>
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</tr>
<tr>
<td>Total</td>
<td>532,100</td>
<td>129,000</td>
<td>403,100</td>
</tr>
</tbody>
</table>

Environmental Assessment of Public Enterprises

Background and Sector Strategy

32. A preliminary environmental evaluation of the companies to be privatized was carried out by IDA, identifying whether environmental actions were needed during privatization, and if so, what form of action was necessary. The report has been shared with the Government agency responsible for environmental protection (in the Office of the President) and the Government has agreed to undertake more detailed environmental audits of the companies identified. Based on the preliminary evaluation, 11 public enterprises were recommended as requiring either an environmental audit or assessment for specified issues. The objective of each audit would be to evaluate the identified environmental issues. The objective of each environmental assessment would be to identify environmental liabilities of selected enterprises of the Government prior to their privatization. The Government of Guyana is also currently undertaking discussions in these areas with the ODA, which is prepared to provide funding for the afore-mentioned activities. Therefore, while the norms and procedures which would guide the progress of this component, would be based on IDA standards which are being used in the development of Guyana's own environmental guidelines, the financing and expenditures of this sub-component would be administered by the U.K. ODA.
Technical Assistance Requirements

33. The Government has agreed to contract with one or more environmental consulting firms to conduct the environmental audits and assessments needed for the 11 companies above. The consultants' work shall consist of (i) identifying mitigatory measures for environmental issues associated with current operating practices; (ii) environmental issues associated with past practices and inadequate design features which may result in environmental liabilities; and (iii) building-up institutional capacity in Guyana to supervise the implementation of agreed-upon clean-up or mitigatory measures. The contractor will visit each facility and assess current and future compliance with expected national environmental regulations, and IDA environmental guidelines which are being used in the formulation of Guyana's regulations. The contractor shall conduct the necessary environmental characterization to assess the scope of the environmental issue (e.g., size of the contaminated area), develop the cleanup criteria for the contaminated areas, and train local staff with documented procedures for supervision of a clean-up plan. The output shall be a work plan, field investigation plan, and, most important, field-specific reports. These field specific reports should contain a detailed strategy for clean-up of environmental liabilities, including an estimate of the costs of such a clean-up.

Cost Estimate

34. The estimated cost of the audits and assessments, and institutional capacity building above is US$ 470,000. Part of this would likely be financed by the U.K. ODA, as per discussions during appraisal:

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
<th>Counterpart Financed</th>
<th>Proposed for IDA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessments</td>
<td>400,000</td>
<td></td>
<td>400,000</td>
</tr>
<tr>
<td>Clean-up procedures/training</td>
<td>70,000</td>
<td></td>
<td>70,000</td>
</tr>
<tr>
<td>Total</td>
<td>470,000</td>
<td></td>
<td>470,000</td>
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</tbody>
</table>

35. Implementation of the Companies Act. To date, amendments to the Companies Act enacted in 1991 have been passed by Parliament but not promulgated owing to a lack of implementing regulations as well as a lack of the implementation capacity to enforce such regulations. The current Registry of Companies which is under the Deeds Registry, does maintain a registry of public and privately held corporations, and is also responsible for registering deeds. However, the Registry does not enforce the Companies Act and lacks organized cataloging and record-keeping systems. In accordance with the PSDAC, the Government has agreed to draft and issue the implementing regulations to the Companies Act (as amended in 1991) as well as to have the Act and such regulations under implementation. The Government has requested support in the development of these regulations and subsequent implementation capacity.

Technical Assistance Requirements

36. Support would be provided to assist in developing the regulations and implementation capacity for the Companies Act as follows:

- A Corporate Lawyer with experience in Companies Law in the Commonwealth will be contracted to draft the implementing regulations for the Companies Act.
• An Organizational Consultant will be contracted to develop a strengthening program for the functions and staffing of the Registry of Companies which will include a program for the implementation of the revised Companies Act, implementing regulations, and development of procedures.

37. A key requirement for financing the costs under this component, would be for the Government to first designate an adequately staffed Registry responsible for executing the required functions, and in addition, to put in place a sustainable budget and staffing complement to carry out the necessary institutional tasks and enforcement of regulations. The consultants funded under the component, would train such staff in operationalizing the regulations pertaining to the Companies Act, and in implementing institutional procedures, as well as record-keeping mechanisms and controls, to carry out the Registry's functions effectively.

Cost Estimate

38. The estimated cost of the program above is US$ 150,000, all of which would be financed under the Credit.

Credit Administration - Operation of the Ministry of Finance Project Unit

39. A Project Unit will be established in the Ministry of Finance with the responsibility for coordination and oversight of: (i) procurement of goods and services supported by the FISBEC; (ii) disbursement of funds under the FISBEC, and (iii) periodic auditing of the project accounts. The Unit may also take on similar responsibilities with respect to cofinanced funds under the project.

40. In order to support the Unit, US$ 77,800 of the Credit would be used to support the operation of this unit. This would include: US$ 36,000 to support the head of the unit for 36 months, US$ 18,000 for an assistant, US$ 20,000 to undertake external audits of the project, and US$ 3,800 for office equipment.

Table 8 - Estimated Cost of Technical Assistance to Support the Project Unit (US$)

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Cost</th>
<th>Counter-part Financed</th>
<th>Proposed for IDA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinator of Project</td>
<td>36,000</td>
<td>36,000</td>
<td></td>
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<tr>
<td>Assistant Coordinator</td>
<td>18,000</td>
<td>18,000</td>
<td></td>
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<tr>
<td>Project Audits</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>3,800</td>
<td>3,800</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>77,800</td>
<td>77,800</td>
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</tr>
</tbody>
</table>

Section B: Procurement and Disbursement

41. Procurement under the Project will be according to IDA guidelines and subject to normal IDA review procedures. The Credit would finance US$ 3.5 million equivalent (87% of total project costs of US$ 4.0 million), including 100% of foreign exchange costs and the remaining
US$ 0.5 million in local costs would be financed by Government counterpart resources. Consultant services would be procured according to IDA procedures and would be subject to prior review for contracts of US$25,000 equivalent and above. For consultant contracts, terms of reference for most of the major activities to be financed under the proposed Credit have been prepared and are available in the Project Files. IDA's standard forms of consultant contracts would be utilized, including a short-form letter for direct contracting of individual consultants for short-term assignments. Goods/equipment valued at less than US$25,000 would be procured through international shopping procedures acceptable to IDA. Goods costing over US$25,000 equivalent are not expected to be financed under the project. However, in the event that a contract package would exceed this amount, procurement procedures would be agreed in consultation with IDA. Prior review would be mandatory for the first contract procured through shopping.

42. Disbursements will be administered by the Project Unit in the Ministry of Finance. A Special Account would be established within the Bank of Guyana for the activities financed by this Credit. The Special Account will have an authorized allocation of US$300,000 (equivalent to four months of estimated disbursements). Disbursements would be made against Statement of Expenditures (SOEs) in the case of goods and consultant services below US$25,000 equivalent for which detailed documentation evidencing expenditures will be reviewed and kept by the Project Unit and made available for the required audits and to IDA as needed. Credit disbursements would be made against 100% of the net-of-tax costs of local and foreign consultants; 100% of training expenses; 100% of the CIF cost of imported goods and of the ex-factory cost of local goods; and 85% of the cost of locally-procured goods. No retroactive financing for consulting activities and related equipment is expected. The Project is expected to be completed by end-1997. The closing date would be June 30, 1998.

43. Project Implementation. The project would be a technical assistance facility managed through the Project Unit to be established in the Ministry of Finance. The Project Unit would be responsible for coordinating the requests from each of the counterpart agencies, ensuring that proper procurement procedures are followed and oversee the disbursement process. Consultant contracts would be directly procured and a procurement specialist would be contracted for the purchase of equipment. The project implementation period is expected to last for a period of three years—the same as that for the PSDAC. Project administration would be in close coordination with the proposed IMF, and U.K. ODA parallel financing.

44. Records and Auditing will be the responsibility of the Project Unit, which will establish separate accounts for each component and will monitor all expenditures financed by the project. The Ministry of Finance will maintain separate records and accounts for all transactions under the credit. The Government will carry out annual audits of the Project accounts, the special account and statement of expenditures and furnish the reports to the Association no later than three months after the close of the financial year. In addition to this financial reporting, a full progress report will be prepared and submitted to IDA every six months. This report will detail all project and related activities, report on progress in relation to agreed schedules, and identify any problems which may have been encountered and which could adversely affect the overall impact of the project.