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M. QURESHI'S
OPERATIONS CMTE

September - November 1991

11/20 - RNCOH

OPERATIONS COMMITTEE

Minutes of the Operations Committee to Consider the
MOZAMBIQUE: Economic Recovery Credit
Held on Friday, November 8, 1991, in Room E-1243

A. Present

Committee	Others
Mr. E. Jaycox (Chairman)	Ms. J. Armitage (AF6CO)
Mr. R. Agarwala (ASIVP)	Mr. R. Armstrong (AFRCE)
Mr. D. Bock (OPNSV)	Mr. R. Bonnel (AF6CO)
Mr. D. de Tray (DECVP)	Mr. F. Chaudhri (EAS)
Mr. K. Kashiwaya (CFSVP)	Mr. S. Denning (AF6DR)
Mr. B. Kavalsky (FPRVP)	Ms. T. Genta-Fons (LEGAF)
Mr. M. Selowsky (LACVP)	Ms. O. Kalantzopoulos (PRD)
Mr. H. Scott (LEGVP)	Ms. N. Sirur (AF6PH)

B. Issues

The discussion of the proposed proposed followed the Agenda prepared by the Economic Advisory Staff. Some other issues covering the financing plan, the external debt, the policy and investment environment for promoting the private sector were also addressed.

C. Discussion

Responding to the Chairman's question on the current security situation in the country, the Region highlighted several recent developments. For example, an agreement between the government and the Mozambique National Resistance (RENAMO) has been reached and an agenda for negotiations has been drawn up. It is also expected that the cease-fire will occur soon, perhaps within six months even though the winding down process is likely to be "messy". More importantly, the Government is preparing a demobilization plan to reduce the armed forces by about a third of the present level. On a follow up question from a Committee member on the nature of the security situation on the ground, the Region pointed out that while the people were not "bottled up" in security areas, there were some areas of the country where risks were still considerable.

Referring to the problem of the large macro imbalances that seemed to exist (and persist over time), the Region pointed out that the National Income accounts in Mozambique were extremely weak. Very few reliable indicators of production, especially agricultural output, were available. The result was a substantial under-estimation of GDP. Even population figures were highly uncertain. Traditional ratios were therefore difficult to interpret. Notwithstanding these weaknesses, the economy seemed to be turning around and inflation substantially decelerating despite considerable devaluation of the currency. Nevertheless, Mozambique remains one of the most debt-ridden countries in the world. Consequently, most of the OECD countries, except Portugal, have canceled debts.

The Region also pointed out that, at the consumer level, only 25 goods and services remain under price controls. All consumer subsidies have been eliminated, except small ones for a few food items. The general policy is to liberalize prices while maintaining guaranteed minimum prices for a small number of crops in agriculture to ensure adequate producers' incentives. In subsequent discussions, one Committee member stressed the importance of making the price formulation mechanism more transparent and less discretionary.

One Committee member enquired about the exchange rate management and raised the question of tying unification of the exchange rate to the flow of donor funds. The Region pointed out that unification between the secondary and official markets will take place by March 1992. While the secondary market is free and aid funds are being channelled to that market to expand its operations, the aim is to further liberalize the official market. The old list of 15 large importers has been rapidly expanded to some 800 in recent months. On a separate question from the Chairman regarding the use of counterpart funds, the Region informed the Committee that about one-half of the counterpart funds were channelled through the budget and the other half remained outside it. However, unified reporting system is being instituted with respect to the commodity aid and earmarking of counterpart funds is being minimized.

Responding to a question on the risks of devaluation-inflation spiral in the economy, the Region pointed out that despite a rapid nominal devaluation of the currency, relative price stability (or deceleration in prices) has been maintained. Consequently, such a risk did not appear to be present.

The Chairman enquired about the debts of the country's big state enterprises. The Region informed the Committee that the Government has agreed to repay the Bank of Mozambique for the non-performing loans that enterprises incurred to finance pre-1981 losses. The problem is a serious one even though its magnitude is not yet fully known because of data deficiencies. A group of the relatively larger state enterprises has been identified for privatization, and negotiation of the debt.

Following a query about the sources of direct foreign investment, the Committee was informed that substantial interest in tourism, mining and telecommunications has been expressed by South Africa and Portugal.

As to the issue of the commercial banks' debt buyback, the Region stated that following the issuance of invitations, response of the key banks involved in the proposed transaction is being awaited. The offer is for 10 cents to a dollar. The Bank of Brazil might not participate and the process may be somewhat dead-locked.

One Committee member raised two questions: whether the country was adequately adjusting or not, and how long would the outside donors continue to provide funds on the scale of recent years. The Region felt that Mozambique has attracted strong donor support and that this support is likely to continue. With the emergence of peace, many investment opportunities will appear. Also, given that the donor group is diversified and almost all donors are actively participating, the risk of reduced donor support in Mozambique is quite small. At the same time there are indications that direct foreign private investment is rapidly picking up.

One Committee member expressed concern with respect to the availability and future development of human resources of Mozambique. The Region responded that human resource development was a central piece of the country assistance strategy. This problem is addressed not only in the Public Expenditure Reviews but also figures prominently in the Poverty Reduction Framework Paper, Capacity Building Programs and investment lending of the Bank.

Referring to the degree of realism in projections, the Region felt the projections were realistic and conservative. It was suggested that given the weakness in GDP statistics discussed earlier, (i) certain traditional and classic indicators were not relevant to Mozambique, and (ii) the progress could not be observed in the short run but only in the medium and long-run. For example, since exports were only 16 percent of the level of imports, it needed exports to grow 6 times faster than imports to keep the current account constant. Similarly, in a country of $80 per capita, it would be virtually impossible to switch consumption to investment.

Responding to the Agenda questions on the proposed reform in the Banking system, the Region recognized the need to keep the Central and Commercial banking components "clean" and create a trust fund to handle the unreconciled problem accounts. The Region also recognized the role and importance of foreign commercial banks in Mozambique's financial sector.

On the question of the country's heavy reliance on external financing and its possible adverse effect on the national priorities, the Region was confident that the mechanism was already in place to avoid that phenomenon.

Referring to another question on the issue of income transfer and targeting of assistance, one Committee member warned that in a country of $80 per capita the poverty incidence would be so pervasive that targeting of assistance would make little sense. Also the targeting programs are usually both expensive and difficult to administer. The Region replied that the issue of income transfer was important in Mozambique; the groups were identified on the basis of income and nutritional indicators and that the initial program in 1990 was small and cautious.

Finally, one Committee member expressed concern on the matrix appended to the IM and urged to Regional staff to have another critical look at it. He found its format unusual and hard to understand, its linkages to previous operations weak and unclear and its conditionality somewhat fragmented.

D. Conclusion

The Region was authorized to appraise the operations, taking into account the remarks and suggestions made during the course of the meeting.

November 18, 1991
FChaudhri:eg

THE WORLD BANK

Operations Committee

CONFIDENTIAL

Minutes of the Operations Committee to Consider the COTE D'IVOIRE - Competitiveness and Regulatory Reform Adjustment Program and Human Resources Development Program

Held on Wednesday, November 6, 1991, at 3:00 p. m. in Room E1243

A. Present

Committee

Messrs. E. V. K. Jaycox, Acting Chairman
I. F. I Shihata, LEGVP
J. F. Linn, DEC
F. Kilby, FIN
D. R. Bock, OPNSV
R. Agarwala, ASI
W. Grais, EMN

Others

Messrs./Mmes M. J. Gillette, AF1DR
R. M. Westebbe, AF1DR
R. P. Armstrong, AFRVP
L. E. Hinkle, AF1DR
R. S. Drysdale, AF1CO
I. T. Christie, AF1IE
M. Palein, AF1PH
R. W. Crown, AF1PH
F. H. Kaps, AF1CO
B. Horton, AF1IE
B. Salome, AFTED
P. Callier, AF1CO
A. Ray, EAS
J.-F. R. Dupuy, LEGAF
L. P. Hamilton, PRSCG
J. D. Shilling, CFSFA
F. J. Earwaker, PRDRA
M. Wormser, AF1IE
C. A. François, IMF
J. T. Reitmaier, IMF
G. P. Sicat, EAS

B. Issues

1. The Operations Committee met to discuss the Green Cover documents for two sector adjustment operations in Cote d'Ivoire, in support of reforms to improve competitiveness and regulations (PASCO) and to develop human resources (HRDP). The Committee followed the EAS agenda prepared for the meeting.

Macroeconomic Situation and Arrears

2. The Region provided an update on the macroeconomic situation. The Government continued to have difficult cash flow problems as a consequence of the recession. In the short run, these difficulties would continue, but if the steps outlined in the medium term economic program were pursued, it was

expected that the economy would return to growth, thereby improving ability to service current loan obligations. It also noted that although Côte d'Ivoire was declared in suspension by the Bank for its arrears in July 1991, suspension was lifted in September. As of October, arrears remained within the allowable limit, and it was expected that Côte d'Ivoire would be able to remain within acceptable limits on its obligations in view of bridge financing from other sources and the first tranche from the Financial SECAL. The short term picture was difficult, but the cash flow difficulties would be met. In the medium-term, however, it was critical that the adjustment process be managed so as to achieve the measures called for in the economic program. If the medium term program were to achieve a return to growth, competitiveness, and creditworthiness, then the capacity to service debt obligations would improve.

Budgetary Impact of the Two SECALs in Relation to the Macroeconomic Adjustment

3. The Committee was concerned that the two operations would have an adverse impact on the size of the budgetary deficit. The PASCO would involve tax reductions and some new taxes and improved collections on existing ones, but the net effects were uncertain. In response to this concern, the Region said that the budgetary impact of the PASCO was dependent on the combined effects of tax reductions (mainly from the labor tax) and the increases in coverage and rates of indirect (the VAT) and company income taxes. If an export subsidy were retained, there was a possibility that budgetary spending on that account would be costly, but the impact would depend on its duration, since the subsidy was proposed only as a transitory measure prior to the second tranche release, and on the exact components of the subsidy. This issue would be settled at negotiation. With respect to the HRDP, overall levels of recurrent expenditure would grow at a modest rate in absolute terms, but remain constant in relative terms, thus protecting critical social expenditures. This would be achieved through the process of budgetary reallocations of the expenditure within the overall human resources development budget and within the social sector, as well as through cost recovery, so as to enhance the program components in health and in education that have the highest returns. Thus, the Region summarized that the two SECALs were consistent with the major program of reducing the overall fiscal deficit as required in the medium term economic framework.

Tranche Release Sequencing and Speed of Economic Reforms

4. A member said that he could only support these two operations on the understanding that the release of the second tranches would be strictly conditional upon satisfactory resolution of the competitiveness issue. The Region and the Chairman confirmed that measures to achieve the required adjustment in the country's real exchange rate would indeed have had to be taken before the second tranche release for both operations as well as the Financial SECAL. With respect to the timing of the tranche releases, the Region emphasized that the issue of second tranche release was not dependent on calender time. In addition to complying with the specific sector conditions, it depended on the actions to be taken by the Government in accordance with the medium term economic program. The Chairman stated that in this connection, the indicators of performance for the second tranche were already agreed upon and that the actions depended on what the Government would undertake at the critical time prior to second tranche release. Should the Government not act on them, the second tranche of any of the operations would

not be released. Therefore, the speed of reforms in the Ivoirian economy would depend on achieving those performance indicators.

5. In response to the invitation of the Chairman to comment on the economic program being pursued, the staff representative of the IMF stated that the Bank and the Fund were working closely together and in parallel to achieve the similar broad objectives.

COMPETITIVENESS AND REGULATORY REFORMS (PASCO)

Labor Market Reforms

6. The Committee commended the program to remove the rigidities that thwarted the smoother functioning of the labor market, especially in the formal sector. These reforms in the labor market were considered essential to the success of other reforms, especially those affecting relative prices. If these labor reforms were not carried out, the overall reform program was doomed to fail. The Region explained that the area of labor market reforms had been of high priority. The problem of inflexibility in the labor market was not unique to Côte d'Ivoire. It was also a problem in the other neighboring countries. Therefore, the measures to be taken were similar to those in other countries. The proposed amendments to the Labor Code and the reduction of the employment tax were discussed widely in consultation with many groups - the private sector, the labor unions, and, of course, the Government. The Region therefore believed that these reforms would be accepted and would stay rather than be reversed. In reply to a question on whether the export industries would be competitive if the labor reforms were adopted, the Region stressed that provided relative prices were to be geared to the level of 1985, the present agricultural industries would be competitive with those of the other comparator countries, whether in Asia, Latin America or Africa. From past experience, labor productivity in the agricultural exports was not significantly different from that found in the competing countries provided that relative prices were correct.

Trade Reform Issues: Export Subsidies, Tariffs and Nontariff Barriers

7. The Committee wanted to be fully clarified on the nature of the trade reform issues. With respect to the export subsidies, the main issue, apart from their impact on the Government's expenditure and the fiscal deficit, was whether they would still be needed after the release of the second tranche when competitiveness was presumed to have been restored. As to the tariff reform, the Committee stressed the need to be specific in terms of the objectives regarding average rate of tariffs and their dispersion. The Committee also stressed the importance of being more specific on the objectives about the removal of quantitative restrictions. Thus, the Committee felt it was necessary to be clear, firstly, about the exact nature of the present nontariff barriers, what they exactly consisted of, and what would be removed at each tranche release stage. Secondly, it wanted to be certain on the sequencing of these actions with respect to tariff reform and the removal of quantitative restrictions in relation to reforms on relative prices.

8. In response to these points, the Region said that the main objective was to prepare the trade regime so that by the time of second tranche release,

a significant part of the trade reform program should have been put in place. The objective was to achieve a competitive economic structure at a specific real exchange rate. Therefore, priority was to be given to tariff reforms. At negotiation, they would insist on requiring that a definite objective be set on the average tariff rates and on their range. The current average rate of tariffs was 30%. The Region expected that these could be brought to 15% ad valorem, with the rate structure being in the range of 5%, 20% and 25% at second tranche. As to the export subsidy, the Region stated that the objective was to phase it out totally, at second tranche. The Region also stressed that it did not favor any export subsidies based on the reimbursement of the high cost of utilities to the export enterprises. They would prefer that that the cost of utilities be brought down as an economy- wide measure, so as to favor all productive sectors, including existing and potential exporters.

9. A member expressed concern about the apparently slow and uncertain pace of removal of nontariff barriers and requested that a clearer statement of what proportion of non-tariff barriers were to be removed by the time of second tranche release. In response, the Region stated that most of them would be removed by second tranche release when the targets with respect to competitiveness of the real exchange rate had been met. More specifically and as stated in the policy matrix, imports would be liberalized at the inception of the program for inputs, intermediates, packaging materials, and spare parts used by exporters. Imports of a further list of agreed goods would be liberalized in 1992. At second tranche, reference prices, market sharing arrangements and prior administrative licensing would be eliminated; and the few remaining non-tariff barriers would be eliminated over the following three years. The Committee stressed that this delay be shortened. The Region agreed with the Committee that, with respect to sequencing of reforms in tariffs and non-tariff barriers, initially top priority should be given to eliminating the non-tariff barriers rather than reducing tariffs. The Chairman agreed that the documentation would clearly lay out the goal of substantially removing non-tariff barriers by second tranche release and that during negotiations quantitive targets would be established to that goal.

HUMAN RESOURCES DEVELOPMENT PROGRAM (HRDP)

Government Commitment to the Human Resources Reforms

10. In response to the Committee's concern about the level of commitment to the program under HRDP, the Region pointed out that the Government recognized the need for consultations with various interest groups which were likely to be affected. As part of the strategy of promoting greater acceptance of the contents of the program, a series of participatory consultations had been organized with affected parties. The Region believed that the Government showed commitment to the reforms, as it had facilitated these consultative discussions on the program of action, and had already adopted important measures, such as reducing textbook prices by 25%, cancelling the construction of a new tertiary level health facility, modifying the 1991 budget to correspond to the program, and organizing a large public debate, in particular on the sensitive issues linked to the future of the education system.

11. In connection with the absence of a Letter of Development Policy in the Green Cover document, the Region said that they had a draft of this Letter, but that it was inadvertently not included in the document that was circulated. They assured the Committee that the formal Letter of Development Policy had been received and would be presented in the Grey Cover version of the document, together with the budget and action plans used in developing the program. These budget and other performance objectives of the human resources development program could be monitored through the loan conditionality and a set of technical indicators which would be adequate for judging program success.

12. The Committee noted that the HRDP contained major reforms in the human resources sector in Côte d'Ivoire, but that the program was ambitious. The process of getting program acceptance through participatory workshops and meetings and of transforming this program into detailed action plans and budgets served as an innovative model that could be followed by similar operations in the future. Although the program succeeded in having the population planning dimension within the human resources sector, the Committee noted that there was "no teeth" in the program. The rate of 3.8% growth of the population per year was too high, and that the means needed to deal with reducing the population growth rate were not provided.

13. The Region agreed with the Committee that the present population program was mainly in the form of declaration of intent in the area of family planning. Population growth was a very touchy issue in Côte d'Ivoire, and the Government statement in this regard represented a major break from the past. The Region further noted that the process necessary to design an effective population program was now in place and that such a program would be ready for technical discussions by mid-1992.

C. Decision

14. The Chairman said that the Region could proceed with the negotiation of the two sector adjustment operations.

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November 19, 1991

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THE WORLD BANK
Operations Committee

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Minutes of the Operations Committee meeting to consider ALGERIA - Second Economic Reform Support Loan: Initiating Memorandum
Held on Wednesday, October 30, 1991 in Room E-1243

A. Present

Committee

Messrs. S. Husain, Chairman
I. Shihata, LEGVP
E. Jaycox, AFRVP
P. Hasan, EMNVP
R. Agarwala, ASIVP
J. Linn, DECVP
J. Shilling, CFSVP
F. Kilby, FPRVP

Others

Messrs. M. Ayub, EM2CO
P. Bottelier, EM2DR
F. Earwaker, PRDRA
M. El-Erian, LEGEM
S. El Serafy, EAS
E. Grilli, EASDR
P. Hansen, FRSCR
M. Khadr, EM2CO
J. Parks, EM2CO
K. Yurukoglu, EM2DR
E.L. Bornemann, IMF

A. Issues

1. The Operations Committee (OC) met on October 30, 1991 to consider the Initiating Memorandum (IM) for a $250 million second Economic Reform Support Loan (ERSL II) to Algeria. The discussion followed broadly the EAS agenda which raised the issues of country strategy; political uncertainties and program ownership; the IMF program; privatization and public enterprise reform; macroeconomic balance and public investment; loan conditionality; creditworthiness; measures to protect vulnerable groups; fiscal reforms; and whether appraisal should be delayed until after the December elections.

B. Discussion

2. The Chairman invited the Region to make an introductory statement. The Region said it was working on a CSP which should be ready in a few months. The proposed loan was part of an international financing package including the current IMF Stand-by which was likely to evolve into an EFF next year. Other contributions would come from renewal of French and Italian lines of credit, and from the European Community with 400 million ecu. In addition there was some $1.5 billion of syndicated refinancing of commercial debt at stake.

3. Structural reforms in Algeria were pervasive, the Region added, and proceeding at various levels, including political and social changes. The majority of public enterprises had already moved out of the budgetary framework and were now financially on their own. Elections, based on a multi-party system, were scheduled for December 26. A major issue in economic reform was the corporatization of public enterprises rather than their privatization. Although much debate was taking place in Algeria over this issue, a consensus on privatization had not yet emerged. The Government remained inclined to attract foreign investment through allowing public enterprises to engage in joint ventures with private investors. The Region intended to seek stronger government endorsement of the privatization option before Board presentation, and if successful that would be a break-through.

4. The Chairman said he missed in the IM and in the Region's presentation a strategic view of program objectives. This would be the third adjustment operation, bringing Bank's lending for adjustment to close to $1 billion, and all he could see were piecemeal reforms without a clear vision of where Algeria would be ending, or whether a dynamic growth process would be engendered, generating a strong supply response.

5. One member expressed concern that IMF conditions would be duplicated. He observed that conditions that had appeared in the IMs for the first two adjustment loans tended to vanish or get diluted when the legal conditionality was finally agreed. He recalled that the proposed commercial code, for instance, had appeared twice before, and expected that this time such a condition would be retained, together with regulations for implementation, without which the code would not succeed. Another member drew attention to the apparently slow pace of adjustment in Algeria, and wanted the earlier loans to be fitted in a long-term strategy for adjustment. He asked if we were not rushing in with a third adjustment operation before we ascertained whether the two earlier ones had been, firstly, implemented and, secondly, the reforms they supported had actually "taken." He thought that a condition of effectiveness for this loan should be that the second tranche of EFSAL would have been released.

6. The Chairman came back to the ultimate outcome: after this loan the size of the public sector would remain undiminished. While some improvement would have occurred in public enterprise management, there was no mention of subjecting these to competition from private sector entrants. Even if the private sector were to be permitted entry, what would its sources of finances be? A 60% maximum tariff as a target after reform compared with that level in Latin American countries before reform. Besides, there was no free market for foreign exchange, and the proposal for tax reform indicated complexities, with a large number of brackets in the income tax and several rates for the proposed value added tax. With the prospects of a new government in January, the Chairman asked with whom the Region was conducting the dialogue. Even if agreement were to be reached, he asked, what were the chances of its being implemented?

7. The Region reiterated its view that it had considered practically all the points raised in the discussion. It did not anticipate Board presentation before March or April 1992, well after the new government was installed. The forthcoming elections were parliamentary and not

presidential elections. Because of Algeria's strong presidential system the expectation was that many key Bank interlocutors in the present government would continue in the new government. This operation was also important as part of international efforts to mobilize external financing for Algeria, which had been endorsed both by the Canadians and by Mr. Preston. If it were dropped, we would lose credibility and also miss the chance of putting key reform legislation in place before the elections in order to provide a context for negotiations with the new government which would implement the program.

8. A member agreed and asked rhetorically why the Bank found itself in that position. The banking system was not yet reformed and the corporatization of the economy was proceeding apace. The Region stressed that Algeria was quite different from Latin America. As to Fund conditionality, there was division of labor with the Bank, albeit with some overlap. While the IMF were involved with technical assistance for tax reforms, the trade issues, financial reforms and strengthening the private sector were priority concerns for the Bank at this stage. As to repetition of previous loan conditions, the Region reminded the OC that EFSAL, approved by the Board in June, dealt inter alia with the 22 largest loss-making public enterprises, with the explicit objective of putting a cap on their borrowing requirements, restructuring them and undertaking diagnostic studies for their improvement. IMF's quest for fiscal balance naturally extended beyond the 22 enterprises. True, the commercial code had originally been proposed as a condition of Board presentation of EFSAL, but this had been dropped with the approval of senior management. The Region was now determined that the proposed loan would not go to the Board without it. Already a climate of competition prevailed among public enterprises which were now allowed to participate in joint ventures. As to financing private initiatives, two private foreign banks had recently opened for business in Algeria, and there were now no longer any legal impediments to competition either between public and private enterprises, or among the public enterprises themselves.

9. The Chairman then asked if the proposed set of reforms were worth the extra debt to be created for Algeria by this loan, and what would happen to the growth prospects. The Region responded that there had been economic stagnation since 1986 and that supply response was expected to come from private sector investments; that was why reforming the incentive structure was so crucial whether or not there was consensus on the privatization issue. The Region stressed that it was not true that a long-term strategic view on the Algerian reform effort was lacking. The Government had articulated such a view on the basis of the advice of a Council of 40 prominent citizens some years ago. This view had been explained and endorsed in the 1989 CSP and supported by two earlier adjustment loans. The approach toward reform was not piecemeal, but sequential. The Region did admit, however, that one could indeed raise the question whether Algeria's reform model was realistic and viable. The Region believed that the model would have to be modified over time to permit a greater role for the private sector, but, while maintaining an active dialogue, it viewed it as counterproductive to push the Algerians in this regard beyond their own intellectual convictions and current political tolerances. The weakest aspect of the Algerian reform model was probably the expectation that state-owned banks would be able to force market

discipline on inefficient state enterprises. The Region judged, however, that it was best to be part of the process in order to be able to support later reforms. It was on this basis that the Region recommended proceeding with appraisal provided agreement could be reached in principle on the issue of privatization.

10. The Chairman reiterated his question as to whether the strategic view of the reforms was viable, and where would adequate financing for private sector development come from, considering the continuing high levels of public investment and the fact that the banking system was state-owned. The Region responded that it clearly saw the necessity of an element of privatization in the reform process, and agreed with the Chairman that adequate financing of private sector initiatives was indeed essential; hence the emphasis on banking sector reforms as supported by EFSAL. Public enterprises had begun to shed off some employment, and as their access to credit receded, the banks' financing of the private sector would grow. There was also the possibility of direct foreign private investment which was potentially very important, particularly in the petroleum sector.

11. The Region added that the doubts expressed by some members of the OC about the viability of the Algerian approach were well taken, but one aspect that needed emphasis was that the Algerian economy did not exhibit the fundamental macroeconomic imbalance that characterized some Latin American economies prior to reform. Certain progress had been made: consumption had been compressed by 20%; Algeria had not heavily borrowed from the Bank; drastic adjustments in the exchange rate had been effected; and high inflation had been avoided. It was necessary to address the loss-makers in the public sector before adjustment got underway. The nature of the economic problem was, in important respects, different from that of Latin America. Together with the IMF the Bank would now proceed with support for the realignment of prices.

12. The IMF representative said that the Fund Board's consideration of the Stand-by's implementation, scheduled for Friday (November 1) had been deferred by a week at the request of the Government because of major political difficulties with progress over price changes. He confirmed the Region's statement that there was little duplication of conditionality between the Bank and the Fund, though he expected some overlap when the conditions for the proposed EFF arrangement were negotiated. The political situation did, however, present a problem. A Fund mission was planned shortly, with negotiations to be held only after the new government was installed. There had been progress on the exchange rate, with the latest adjustment made in early October, and market rates were expected to prevail in 1993.

13. The Region came back to the ultimate goals of the reform. It stated that it was pursuing a two-pronged approach. The first sought public sector reform by causing it to be more market-based. In this part of the strategy, the private sector was not in the program. The second prong was the removal of major distortions. Big improvement had already taken place in the trade regime with the removal of QRs and the expected reduction of maximum tariffs to 40-45%. The official exchange rate had moved from being 50% out of line with the free market rate to being within

20% or even less. At the end of the next stage, 90% of prices would be liberalized and competition would be on a scale large enough, in the Region's judgment, to render privatization inevitable. Replying to a question from the Chairman, the Region reiterated that growth would come principally from the private sector, and that public investment, though still high, had been reduced from yet higher levels in the early 1980s. Algeria was carefully watching the experience of Eastern Europe, anxious to avoid the disruption resulting from sudden change. The Region added that debt service was onerous, and while Algeria's resource balance was not uncomfortable, it was the heavy concentration of amortization payments falling due in the next few years that cast a shadow on the balance of payments, with Algeria attempting to avoid formal debt rescheduling.

14. The Region added that it had difficulty establishing the facts about the investment rates both in the public and private sectors, though it attached more reliability to information indicating sharp declines in public investment rates as the government was clearly moving away from large public investments. Private investment, by contrast, had remained at about 20% of industrial output over the past ten years, but a major change was expected since private investment would in future be free to enter the petroleum sector once pending legislation, recently submitted to Parliament, was approved.

15. The Chairman raised the agenda item of public investment, and whether Algeria was in fact implementing reform conditions under the first adjustment loan (ERSL). The Region responded that public investment was being cut down considerably and that no white elephants remained in the program. But the Chairman wanted to probe the efficiency of public investment, and why despite its high level, no growth was being generated. A member agreed, saying that public investment should be a central area in the program. The Region responded that it was the public enterprises, not the central government, that now decided on their investments, and the enterprises had now to go to the banks for finance. Savings would increasingly be moving through the banking system, and thus would fall under credit limits agreed with the IMF. In answer to a question by the Chairman, the Region said that the banks did not employ government-imposed rate-of-return criteria for the assessment of new investments. Such government directives were in fact not needed since the banks, along with autonomous state enterprises, were supposed to make their own business decisions.

16. A member said he was surprised that private investment should remain stagnant over the past ten years, and asked if there were institutional barriers against its expansion. Could such barriers be identified and removed? At this point the Chairman said that the policy matrix should be reviewed, and asked the Region to explain its program for consumer subsidy reform: was there a strategic view for subsidy reform of which this loan represented but one stage? And to what extent would actions under this loan pave the way for better factor mobility and enhanced growth prospects? The Region said that all Algerians would be eligible to receive entitlements to compensate them for price increases as a first step before the subsidies were targeted to the really needy at a later stage. Since most of the current subsidies accrued in fact to the better off, a food stamp program, initially available to all on an equal

footing, would result in greater equity and reduce the fiscal burden of the program. An OC member expressed agreement, referring to Bank experience in some African countries.

17. The Chairman then asked if in the opinion of the Committee the operation needed further work; whether a deeper dialogue with Algeria was necessary before we could proceed, particularly on future directions for the reforms; whether greater coherence was needed in regard to the prospective size and composition of the public sector; private sector entry, and financing of its activities; and the future of non-petroleum exports.

18. A member then said that the whole pace of reform being pursued appeared to him to be leisurely, and the series of adjustment operations fell too closely together. The balance of payments could change drastically to the better with the possibility that contingent acceleration of repayments might become necessary. Since the macroeconomic imbalance was not all that great, we should allow time for a financing strategy.

19. The Chairman then solicited members' individual views, some advocating delaying appraisal, and several supporting going ahead, but only after ensuring that previous reforms were being implemented and working, and that an acceptable public investment program (especially by the Central Government) was in place.

D. Decision

20. In the light of the views expressed the Chairman summed up as follows. The strategic context in which the proposed loan must be placed was missing from the IM. If appraisal should proceed as planned -- and the Region was the best judge of its timing -- his advice to the mission was to develop a five-year time framework, with an indication of what was to be expected at the end of the process, including the size and composition of the public sector, and the level and quality of public investment. Steps to strengthen the private sector and ensure its access to financing should be indicated. The speed of the transformation to a market economy should also be spelled out. Meanwhile the complex proposals for targeting subsidies to the poor and for tax changes should be reconsidered with the objective of rationalizing and simplifying them. Introducing eligibility criteria in the subsidy reform proposals should also be considered. Lastly he instructed that prior to negotiations the Green Cover package, including a revised policy matrix, should be submitted to the Loan Committee for its consideration.

November 7, 1991

SESerafy/lcn

The World Bank
Operations Committee

CONFIDENTIAL

BRAZIL

COUNTRY STRATEGY PAPER

Postscript

110. The Operations Committee met on September 25, 1991, to discuss the Brazil CSP, on the basis of an agenda prepared by EAS. The discussion focussed on the difficulties being faced by Brazil and the likely future developments, linkages between proposed lending volumes and progress in policy reforms, and the priorities within the lending program.

111. The Region explained that the current situation in Brazil continues to be difficult; it is possible that Collor will fail to get the constitutional amendments he is seeking or that he will be replaced by someone else or the military. He is not another Salinas, although when he began there were similar expectations. Moreover, the Brazilian situation differs from the Mexican one in that the newly established processes in Brazil are far more democratic and decentralized.

112. A continuation of lending around current levels (about $1 billion per annum) would only be defensible if the progress in structural adjustment, for example in trade, is at least maintained, and if Brazil can continue to live with the degree of macroeconomic instability experienced in recent years. However, the longer this "muddling-through" approach continues the less credible it will become. The Chairman suggested that the lending volume should be adjusted downward as soon as any signs of unravelling can be detected.

113. Increasing lending levels to around $1.5 billion would only be warranted if sound credible macroeconomic policies are established. Agreements with the IMF and satisfactory progress with the commercial banks are preconditions. However, care would be taken not to be drawn into adjustment lending or providing enhancements to commercial banks because of pressures from the Fund and the commercial creditors, which would build up if, for example, there are IMF and commercial bank agreements. The Government is currently progressing toward an agreement with the private creditors. We should decline to make adjustment loans, however, pending a formal and independent assessment of macroeconomic policies.

114. Lending will drop down to $500 million per annum or even less if there is a major reversal of the structural adjustment program. The Region emphasized that there will be no defensive lending in the low case. There was a suggestion that sectoral composition of lending be rigidly tied to policy reforms in all sectors: if there is no progress in a sector and therefore no lending, the overall volume of lending would not be kept intact by increasing lending in sectors where satisfactory reforms are undertaken. The Region did not agree with such a rigid approach, stating that sectoral allocations would depend on the extent to which the objectives of private sector development, poverty alleviation and environmental protection could be furthered by our assistance.

115. Regarding the composition of lending, several speakers suggested greater weight on the social sectors, especially on basic education in the Northeast, because of both high rates of return and the comparative advantage of the Bank in these areas. The Region pointed out that the low case lending program was largely for these purposes and agreed that as the lending program moves towards the higher ranges, we should emphasize human resources development and poverty-redressal. In fact the Region is making an intensive effort to develop the human resources pipeline, both in the Northeast and elsewhere.

116. The Chairman expressed support for the strategy of graduated response and recommended that the CSP be forwarded to the President; he also recommended additional information on the evolution of the fiscal deficits (see the new tables in Annex B6).

Brazil: Nominal, Operational and Primary balance
of the Public Sector
(% of GDP)

	1986	1987	1988	1989	1990
Total borrowing requirement	11.3	31.6	50.1	73.0	29.2
Federal Government	5.1	13.9	10.9	24.0	13.0
Treasury 1/	5.1	13.9	55.6	76.5	39.5
Central Bank	...	...	-44.7	-52.5	-26.5
States and Municipalities	2.7	7.9	12.9	18.6	7.9
Public enterprises	3.5	9.8	26.3	30.4	8.3
Monetary correction	7.6	25.9	45.3	66.1	30.5
Operational balance (deficit -)	-3.7	-5.7	-4.8	-5.7	-1.2
Federal Government	-1.3	-3.2	-3.4	-2.7	-0.2
Treasury	-1.3	-3.2	-3.5	-3.9	2.3
Central Bank	...	...	0.1	1.2	-2.5
States and Municipalities	-1.0	-1.6	-0.4	-0.6	-0.4
Public enterprises	-1.4	-0.9	-1.0	-2.4	-0.6
Interest payments (net) 2/	3.8	2.9	4.4	6.4	0.9
Federal Government	1.7	1.0	2.0	3.2	-0.9
States and Municipalities	1.0	1.0	0.9	0.9	0.7
Public enterprises	1.1	0.9	1.5	2.3	1.1
Primary balance (defict -)	0.1	-2.8	-0.4	-0.5	2.2
Federal Government	0.4	-2.2	-1.5	-0.7	1.5
States and Municipalities	--	-0.6	0.5	0.3	0.3
Public enterprises	-0.3	0.0	0.6	-0.1	0.4

1/ Includes Decentralized Agencies and Social Security System.

2/ Comprises interest payments on external debt, plus the real portion of interest payments on domestic debt.

Brazil: Public Sector Operations 1/

(% of GDP)

	1986	1987	1988	1989	1990
Nonfinancial Revenue	27.2	27.1	28.3	26.1	31.7
Tax revenue	20.4	18.2	17.8	18.2	23.9
Direct taxes	4.7	3.9	4.3	4.2	4.4
VAT-IPI	2.1	2.3	2.0	2.0	2.3
VAT-ICM	6.1	5.3	5.0	6.1	7.5
IOF	0.6	0.6	0.3	0.1	1.3
Trade taxes	0.6	0.6	0.6	0.4	0.4
Earmarked social taxes	0.8	0.7	1.1	1.8	3.4
Social security contributions	5.0	4.6	4.2	4.2	5.0
Other taxes	2.4	2.4	2.5	1.5	1.6
Minus: Federal enterprise taxes	-1.9	-2.2	-2.2	-2.1	-2.0
Nontax revenue	6.8	8.9	10.5	7.9	7.8
Federal enterprises value added	5.3	5.7	5.9	5.6	6.0
Federal enterprises other revenue	1.4	1.9	4.0	1.9	1.1
Other nontax revenue	0.1	1.3	0.6	0.4	0.7
Nonfinancial expenditure	29.3	31.9	30.7	34.9	32.8
Current expenditure	20.7	23.1	22.6	27.2	26.4
Wages	11.4	12.9	13.2	16.9	16.4
Transfers	5.9	6.5	5.3	5.4	5.9
Social security benefits	4.1	3.7	3.7	3.8	4.9
Subsidies	1.8	2.8	1.6	1.6	1.0
Other	3.4	3.7	4.1	4.9	4.1
Capital expenditure	8.2	7.5	7.3	6.2	6.3
Investment	4.0	4.3	3.9	3.0	2.2
Other	4.2	3.2	3.4	3.2	4.1
Primary deficit, State and Municipal enterprises	0.4	1.3	0.8	1.5	0.1
Float and adjustment	1.9	0.9	1.1	6.7	3.4
Primary balance (deficit -)	0.1	-2.8	-0.4	-0.5	2.2
Interest payments (net) 2/	3.7	2.9	4.3	6.4	0.9
Domestic	1.0	0.5	1.9	4.5	-1.0
Foreign	2.7	2.4	2.4	1.9	1.9
Operational balance (deficit -)	-3.7	-5.7	-4.8	-6.9	1.3

1/ Comprises Federal Government, State and Municipal Governments, and public sector enterprises.

2/ Comprises interest payments on external debt, plus the real portion of interest payments on domestic debt.

List of persons attending the Operations Committee Meeting

Brazil - Country Strategy Paper

Wednesday, September 25, 1991, at 3:30 p.m.

Operations Committee

Messrs. M. Qureshi, Chairman
D. Bock, OPNSV
P. Hasan, EMNVP
I. Husain, AFRVP
K. Kashiwaya, CFSVP
P. Loh, LACVP
I. Shihata, LEGVP
L. Summers, DECVP
V. Thomas, ASIVP
J. Wood, FPRVP

Other Attendees

Messrs. J. Carvalho, LEGLA
A. Choksi, LA1DR
P. Crevier, SEC
B. Fitzgerald, LA1
E. Grilli, EAS
T. Hutcheson, PRDRA
A. Khanna, EXC
M. Michaely, LA1
G. Nankani, LA1
Ms. N. Okonjo-Iweala
D. Papageorgiou, LA1
A. Ray, EAS
C. Robless, OPNSV
E. Santos, IFC
Ms. H. Saxenian, LA1
M. Selowsky, LACCE
E. Stoutjesdijk, FRS
M. Walton, DECVP

September 27, 1991

ARay:pl

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 25, 1991

TO: Operations Committee

FROM: Enzo Grilli, Director, EAS

EXTENSION: 81934/5

SUBJECT: GUYANA: Country Strategy Paper - **Agenda**

1. The Operations Committee will meet on Friday, September 27, 1991, at 4:00 p.m. in Room E-1243 to consider the Country Strategy Paper for Guyana. The following represents a proposed agenda for the meeting.

Introduction

2. Guyana has suffered a serious deterioration of its economy. Income has fallen almost continuously during the past decade, despite extremely high investment rates of 35-40 percent of GDP, as attempts at central controls failed in their objectives. In response to the falling levels of welfare, there has been a substantial emigration, particularly of skilled manpower.

3. During the last two years, a serious attempt has been made to reverse the decline, and substantial improvements in policy have been achieved. But the task remains daunting. Skilled manpower is scarce. A huge debt overhang reduces growth prospects. Infrastructure has seriously deteriorated. And the political situation, and, therefore, the will to proceed with the reform, is tenuous with elections scheduled for end-1991, the outcome of which is difficult to predict. Therefore, it is also difficult at this stage to predict the prospects for continued reform.

4. Nevertheless, Guyana is proceeding to implement an IMF Standby Arrangement and a structural adjustment program supported by a SAC. While all targets of the SBA where not met, it was determined that this was due to exogenous factors, and Guyana remains in good standing with the IMF. The SAC is being implemented on schedule, with the second tranche having been released last May, with good progress reported on implementing third tranche conditions in keeping with the expectation of third tranche late in 1991.

5. The Region proposes a "base case" and a "low case" lending program. Both the CSP and Mr. S. Shahid Husain's covering memorandum dated September 10, 1991, propose three conditions for proceeding with a low case ($40 million for FY92-96) rather than the base case lending program ($121 million): a switch back to a fixed exchange regime, resumption of net Central Bank borrowing by the public sector, and resumption of price controls and restrictions on imports.

Issues

6. Macroeconomic Scenario. In the past, Guyana has wasted a good deal of investment, suffering declining income despite investment

levels of 35 to 40 percent of GDP. The future economy is projected to continue to require high levels of investment, nearly twice as high as many countries in Guyana's income range, which would yield GDP growth rates of 4 to 4.6%. The case is made that high investment through the 1990's is required to repair deteriorated capital in infrastructure and industry, as well as to implant a new and more efficient pattern of production.

* The high investment rates imply incremental capital output ratios between 7 and 10 until 1996. Would it not be reasonable to project some greater improvement during that time towards levels found in most other "adjustment" countries? Perhaps some growth in excess of that projected would be feasible, as alluded to in the CSP, but, on a sustained perspective, would not lower levels of investment be plausible which could still support rapid growth?

7. Size of Lending Program. The high levels of investment projected in the CSP require substantial external support, since the foreign content of investment is estimated at 70 percent. However, for a national investment profile, both the size relative to GDP and the foreign content are unusually high. While other sources of aid are identified, the proposed scenario suggests that IDA would provide 24 percent of external capital requirements, other multilaterals, 42 percent, the IMF, 25 percent, and bilaterals, 7 percent, with private sources (suppliers credits) 2 percent. The proposed "base case" IDA program of $121 million over the next five years would be equivalent to $30 per capita per year. For FY 92-94, the CSP proposes $56 million in lending, and for FY 93-95, $75 million in lending, compared to the SDRs 30 million (approximately $41 million) in lending for FY 92-94 approved by the OPSNV last December, and a norm allocation of SDRs 9 million for those years. The "low case" scenario, to be pursued in case the three conditions mentioned in paragraph 5 occur, proposes a program of $26 million for FY 92-94, which is more than double the norm and comes to about $10 per capita per year. No "high case" is proposed.

* Given that a certain leeway is desirable because of Guyana's special circumstances and small size, has the case been made, taking into account the macroeconomic scenario, for such a substantial allocation over the norm, which would also represent a further 35 percent increase from last December's OPSNV decision?

* Concerning burdensharing, even given the described difficulties to increase bilateral assistance, is 7 percent of capital inflows an appropriate level of burdensharing for the bilaterals? If the economy is being managed in a satisfactory manner, would not more private capital, perhaps in a sector being rehabilitated such as the sugar sector, be forthcoming over the years?

8. Adjustment Lending and Private Sector Development Lending. The Region proposes to support infrastructure rehabilitation, human development, and sugar and bauxite rehabilitation and private sector development with one project per year for FY 92-95, and two projects per year for FY 94-95. The project to promote private sector development is

proposed for FY 95, although the FY 92 CEM would focus on this issue. There is no further adjustment lending proposed beyond the current SAC.

* Are there adequate vehicles in the operations program to keep adjustment on track in the absence of adjustment lending? To promote private sector growth through the decade, would it not make sense to schedule a Private Sector Development Loan earlier than FY 95, which could also be more efficient in terms of assisting implementation of the prescriptions expected for private sector development strategy from the FY 92 CEM ?

9. Sectoral Lending Strategies: Bauxite and Sugar. The CSP describes important initiatives recently taken in the bauxite and sugar industries. Concerning bauxite, a new joint venture with Reynolds has been agreed, and a number of other initiatives are now being pursued. A $25 million loan is proposed for FY 96 to support bauxite rehabilitation. Concerning sugar, a management contract has been awarded to a foreign firm, and the management team is also assisting the Government in formulating a joint venture operation which would provide for foreign equity participation and private management in the industry. A $25 million sugar rehabilitation loan is proposed for FY 94.

* Could the Region discuss the strategies for supporting rehabilitation of the bauxite and sugar sectors, including any ESW and the proposed rehabilitation loans for bauxite and sugar, for FY 96 and FY 94 respectively, and how our assistance would support the ongoing reforms in these sectors.

10. External Debt. The CSP make a clear case that Guyana's heavy external debt burden obviates a reasonable growth path, and that it is in both the donors' interest and the country's interest to find a new arrangement. Most of the debt is ODA, but the CSP also refers to efforts which have been initiated to process Guyana's commercial bank debt under the IDA Debt Reduction Facility.

* Given the importance of the issue and the need to work with both Guyana and the donors as well as the commercial banks to find a solution, should not the debt issue be a focus of the forthcoming CEM, or, alternatively, of another ESW task?

Operations Committee

Messrs. Qureshi, Husain, Jaycox, Karaosmanoglu, Wapenhans, Rajagopalan, Summers, Shihata, Kashiwaya, Wood, Bock.

cc: Messrs/Mss. Thahane/Burmester, SECGE; Picciotto, CPB; Goldberg, LEGOP; Wyss, COD; Sandstrom, EXC; Isenman, PRD; Linn, CEC; Stoutjesdijk, FRS; Okonjo-Iweala, OPNSV; Paul, CL1; El Serafy, EAS (o/r); Parmar, IFC-CIO; El Rifai, MIGPA; Rao, IEC; Kavalsky, FRM; Niehuss, CFSVP; Pfeffermann, IFC-CEI; Liebenthal, PRD; Kilby, FRS; Robless, OPNSV; Walton, DECVP; Khanna, EXC; Shakow EXT; Selowsky, Abe, Flood, Taylor-Lewis, LAC; ISC.

MLav:vl

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 19, 1991

TO: Operations Committee

FROM: EG Enzo Grilli, Director, EAS

EXTENSION: 81934/5

SUBJECT: GUYANA - Country Strategy Paper - Notice of Meeting

A meeting to discuss the Guyana Country Strategy Paper will take place on Friday, September 27, 1991 at 4:00 p.m. in Room E-1243. This document was circulated to you under Mr. Husain's signature on September 10, 1991. An agenda for the meeting will be issued next week.

Operations Committee

Messrs. Qureshi, Husain, Jaycox, Karaosmanoglu, Wapenhans, Rajagopalan, Summers, Shihata, Kashiwaya, Wood, Bock.

cc: Messrs/Mss. Thahane/Burmester, SECGE; Picciotto, CPB; Goldberg, LEGOP; Wyss, COD; Sandstrom, EXC; Isenman, PRD; Linn, CEC; Stoutjesdijk, FRS; Okonjo-Iweala, OPNSV; Paul, CL1; Parmar, IFC-CIO; El-Rifai, MIGPA; Rao, IEC; Kavalsky, FRM; Niehuss, CFSVP; Pfeffermann, IFC-CEI; Liebenthal, PRD; Kilby, FRS; Robless, OPNSV; Walton, DECVP; Shakow, EXT; Selowsky, Abe, Flood, Taylor-Lewis, LAC.

:vl

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 10, 1991

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: **GUYANA: Country Strategy Paper**

1. Please find attached for the consideration of the Operations Committee the Country Strategy Paper (CSP) for Guyana.

2. I agree with the proposed country assistance strategy and with the recommendations on key issues. The CSP provides for two alternative levels of Bank Group assistance: (a) a base case lending program of around US$121 million over the next five year period and (b) a core program in a reduced amount of around US$40 million for the same period.

3. The base case lending program is aimed at providing continued Bank Group support for the sound macroeconomic policies initiated in 1989 under the Government's economic recovery program (ERP) and the implementation of which has, so far, remained largely on track.

4. However, national elections for a new Government are expected to be held before the end of the current Calendar year, the likely outcome of which is unclear at this stage. In the event that there is a reversal of the market-oriented policies already in place, following the elections and appointment to office of a new administration, we would limit our assistance to the core program, focussing on the social sectors and critical infrastructure rehabilitation needs. The policy deviations which would trigger a move to the core program would be: (1) a switch back to a fixed exchange rate regime, (2) resumption of net Central Bank borrowing by the public sector, (3) resumption of price controls and restrictions on imports.

Distribution

Operations Committee Members

Messrs. Qureshi (SVPOP); Husain (o/r) (LACVP); Jaycox (AFRVP); Karaosmanoglu (ASIVP); Wapenhans (EMNVP); Rajagopalan (PRSVP); Summers (DECVP); Shihata (LEGVP); Kashiwaya (CFSV) 4 copies; Wood (FPRVP); and Bock (OPNSV).

Other Participants

Messrs. Thahane/Burmester (SEC); Picciotto (CPB); Goldberg (LEGOP); Grilli (EAS); Wyss (COD); Sandstrom (EC); Isenman (PRD); Linn (CEC); Stoutjesdijk (FRS); Okonjo-Iweala (OPNSV); Paul (CL1); Ray (EAS).

For Information

Messrs. Parmar (IFC); El-Rifai (MIGPA); Rao (IEC); Kavalsky (FRM); Niehuss (CFSVP); Pfeffermann (IFC-CEI); Liebenthal (PRD); Kilby (FRS); Robless (OPNSV); Walton (DECVP); Khanna (EXC); Selowsky (LACVP); Shakow (EXT); Institutional ISC (ITFIC).

Inside Region

Messrs./Mmes. Selowsky, Hicks (LACVP); Abe, Garcia-Zamor (LA3DR); Sokol, Taylor-Lewis, Codippily, Njomo, von Gersdorff (LA3C2); Challa (LA3TF); Forno (LA3AG); Smith (LA3IE); van der Gaag (LA3HR); Segura (LATDR); Rajapatirana (LATTF); Moscote (LATIE); Psacharopoulos (LATHR); Chaudhry (LATPS); Birdsall (LATEN); LAC Information Center.

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GUYANA

COUNTRY STRATEGY PAPER

September 5, 1991

GUYANA

COUNTRY STRATEGY PAPER

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GUYANA

COUNTRY STRATEGY PAPER

KEY ISSUES AND RECOMMENDATIONS

1. After almost ten years of continuous economic decline, Guyana embarked, in early 1988, upon the implementation of an economic reform program (ERP). The ERP represents a fundamental change in economic policy under which the Government is seeking to transform an economy hitherto dominated by state control into a market economy. In June 1990, after clearance of multilateral arrears arranged by the Support Group chaired by Canada, the IMF approved a Standby/ESAF arrangement and IDA approved a Structural Adjustment Credit (SAC) in support of the Government's ERP.

2. The US$78 million equivalent SAC, which marked the resumption of Bank Group lending after an eight-year hiatus, made a critically important contribution towards the success of the Support Group in normalizing Guyana's relations with the multilateral financial institutions. The Government has remained steadfast in its commitment to implement fully its ERP in spite of major setbacks experienced in 1990 -- extremely bad weather, the Gulf oil crisis, a disaffected population which continues to emigrate in large numbers -- and in spite of the fact that net capital inflows were very small, leaving the program very thinly financed. After a brief delay in taking the final steps towards exchange rate and price liberalization called for under the program, the Government moved forward with the agreed measures in February 1991 and actually surpassed program targets in a number of key policy areas.

3. While the implementation of the ERP appears to be making major progress in terms of stabilizing the economy and creating an appropriate incentive framework, much remains to be done to move Guyana to a path of sustained economic growth and poverty alleviation. The Government must make concerted efforts to rehabilitate dilapidated infrastructure, revitalize its social services, push ahead with the privatization process, tax and other fiscal reforms, and complete the adjustment process through addressing domestic regulatory and financial sector issues. Moving forward in these areas will be essential to stimulate the private sector response to the improved incentive framework and to create confidence in the population at large that opportunities exist for improved living standards. In order to address these issues, however, the Government will need continued external donor support in the form of highly concessional loans and grants as well as additional debt relief.

4. There are some encouraging signs, however tentative, that the economy is beginning to respond to the much improved incentive network. The exchange rate has stabilized in recent months, rice plantings are up dramatically and foreign investor interest is picking up, albeit with very limited investment of fresh funds so far. In a sense the program is at a crucial stage. Continued external support at adequate levels at this time could help the program to take a firm hold, but as such support is essential to its success, if it is not forthcoming the efforts so far expended could come to naught.

5. Based on our recent review of the Government's PSIP, there will be a need for about US$150 million a year in new external commitments for investments, over the next four years. The Bank, in its capacity as Chairman of the Caribbean Group for Cooperation in Economic Development (CGCED), has begun helping Guyana to mobilize these resources, through the special Sub-Group meeting held in Paris in July, 1991. It is nevertheless apparent, given the paucity of traditional bilateral donors to Guyana and the increasing competition for ODA resources, that only Canada, the U.K. and possibly the U.S. are likely to be significant donors.[1/] Thus, Guyana will have to rely primarily on multilaterals for external concessional assistance. IDB is expected to be the major lender, and CDB and the EEC should continue to be active, but a significant contribution will be required from IDA if Guyana is to approach the funding levels necessary for its program. IDA resource availabilities constrain the size of the Bank Group program, but in light of the needs and the expected contribution of other donors, we propose a lending level of US$24 million per annum, for a total of US$121 million for the five-year period FY92-96. This total does not include US$3-4 million proposed from the Debt Reduction Facility for commercial bank debt relief.

6. Parliamentary elections which will determine the next President are expected to take place before the end of the current calendar year. The outcome is highly uncertain. The opposition is led by long-time leftist Dr. Cheddie Jagan, and while some observers claim that he has moderated his views, the course he would follow, if elected, is difficult to predict. If there were some reversal of growth oriented policies already in place (whichever party wins the elections) combined with a lower level of external assistance , we would move to a core program of US$40 million (US$8 million a year) focusing on the social sectors and critical infrastructure rehabilitation. The policy deviations which would trigger a move to the core program would be (1) a switch back to a fixed exchange rate regime, (2) resumption of net Central Bank borrowing by the public sector, (3) resumption of price controls and restrictions on imports.

1/ The prospects for significant new assistance from any of these three donors will depend in the first instance upon whether the Parliamentary elections expected to take place later this year are judged to be "free and fair". The Government has adopted a number of electoral reform measures in cooperation with international observer teams and the major opposition party, so that the likelihood of "free and fair" elections looks good.

I. BACKGROUND AND HISTORICAL PERSPECTIVE

1. Social and Political Setting. Guyana's population, estimated at 800,000 in 1989, has been declining in recent years as a result of a low birth rate and a rapid pace of emigration. Guyana's population is split along racial lines, with those of African descent (mostly employed in government services and residing predominantly in the urban areas) and those East Indian descent (mainly engaged in farming and commerce) comprising the two principal ethnic groups. The ethnic make-up of the population is also reflected in the membership of the two main political parties of the country with the ruling Peoples National Congress (PNC) drawing its major following from those of African descent, while the People Progress Party under the leadership of the long-time leftist Dr. Cheddie Jagan consists predominantly of Guyanese of East Indian descent.

2. Apart from Dr. Jagan's brief term of office as Premier during the transitional period of indirect rule, Guyana has been ruled by the PNC since its independence from Britain in 1966 and was led for seventeen years by the late President Forbes Burnham who instituted the system of "Cooperative Socialism". On August 6, 1983, following the death of President Burnham, the Cabinet appointed Mr. Desmond Hoyte as President. Following national elections held on December 9, 1985, the PNC was reelected to office under the leadership of Mr. Hoyte who continues to hold office as President. General elections which were constitutionally due by December 1990 were postponed because of pressure from the opposition parties for the preparation of a new electoral list, as part of arrangements to ensure free and fair elections. The Government has eliminated absentee balloting, and is currently compiling a new electoral list but has yet to specify a date for the next elections.

3. The Economy. Guyana's economy is based mainly on the production and export of bauxite, sugar and rice. Agricultural activity is mainly concentrated along the coastal strip in which over 95% of the population resides, whereas the extensive mineral and timber resources, within the densely tropical hinterland remain -- with the exception of bauxite mining -- largely unexploited. Because of the country's topography and the uneven distribution of its small population, Guyana's infrastructural needs are, on a per capita basis, substantial.

4. The Burnham administration promoted greater public sector participation in the economy, including production and marketing activities. A number of state-owned enterprises were either expanded or created, and the country's bauxite/alumina and sugar industries were nationalized. The Government became the main employer and controlled over 80% of the recorded import and export trade. The growth of the public sector was reflected in its increased share of gross domestic capital formation which rose from 40% in 1968 to 85% in 1988.

5. Guyana's economic difficulties are attributable partly to a number of exogenous factors and partly to the failure, until recently, on the part of the Government to implement appropriate policy measures to address domestic and external imbalances in the economy. Since 1977, Guyana's terms of trade have deteriorated sharply and foreign demand for its main exports -- sugar and bauxite -- has been weak. In addition, output in the key sectors (bauxite, sugar and rice) has been adversely affected by poor weather conditions in some

years, weak domestic management, and periodic industrial unrest. Major production setbacks have also resulted from low capacity utilization and inadequate maintenance due mainly to the lack of foreign exchange to finance needed spares and essential inputs. The period was also characterized by expansionary demand policies, an appreciation of the real exchange rate, increased reliance on price controls and quantitative restrictions, and a rapidly growing fiscal deficit. These developments led to a depletion of international reserves, an accumulation of external arrears and inflationary pressures, and the emergence of a parallel economy. The dominance of an over-extended and inefficient public sector resulted in a major deterioration of the public finances, while the failure to clearly define a role for the private sector (both domestic and foreign) dampened the prospects for private investment.

6. In early 1988, the Government, with the assistance of Bank and IMF staff, formulated a comprehensive Economic Recovery Program (ERP). The main policy objectives of the Government's ERP are to promote medium-term economic growth above historical levels; eliminate domestic and external imbalances in the economy; incorporate the parallel economy into the official economy; and normalize Guyana's financial relations with its external creditors. These objectives were set out in the Policy Framework Paper (PFP) reviewed by the Committee of the Whole of the Bank in July 1988 and approved by the IMF Board during the same month. In April 1989 the IMF endorsed a Fund-monitored program and in June 1990, approved an ESAF/Standby arrangement. Also in June 1990, IDA approved a Structural Adjustment Credit.

7. The ERP represents a radical change in economic management from a system based on state intervention and controls to one based on a market economy, with greater emphasis on private sector participation. The Government has remained steadfast in its commitment to implement fully its ERP in spite of major set-backs experienced in 1990. Unusually heavy rains had a devastating effect on bauxite, sugar and rice production. The resulting flooding of the bauxite mining areas led to closure of the mines for protracted periods, while the inundation of agricultural lands severely impeded sugar and rice production. Agricultural production was further constrained by the intrusion of saline water into prime agricultural lands, following extensive breaches in the protective coastal sea wall. The performance of the key productive sectors was also adversely affected by an increasing shortage of skilled manpower, exacerbated by the continuing emigration of Guyanese nationals. In addition, Guyana was adversely affected by sharp increases in the international price of oil resulting from the recent Gulf Crisis. As a result, real GDP, which was projected to increase by 3 percent in 1990, instead declined by 2.5 percent.

8. The impact of the above developments resulted in a shortfall in net external receipts of around US$45 million, relative to the program's target. The shortage of foreign exchange caused, inter alia, the parallel (cambio) exchange rate to rise to over G$100 per US$ (more than twice the official rate of G$45 per US dollar). The pass-through effects of this exchange rate adjustment contributed to an inflation rate of 64% in 1990. The already severely strained public finances came under further pressure. However, to attain the program's fiscal targets the authorities compressed central government expenditures and also increased tax collections. As a result, the primary surplus of the Central Government current account exceeded the program's target by about 3% of GDP, offsetting part of the shortfalls that had occurred in the public enterprises. The primary current account surplus of the non-financial public sector stood at 17% of GDP, compared to a program

target of 22% of GDP. As public sector investment outlays attained only 90% of the amounts programmed, the overall deficit of the nonfinancial public sector rose to 59% of GDP, or slightly above the program limit of 55% of GDP. This high deficit largely reflected two factors. First, public investment amounted to 37% of GDP, reflecting in turn, a high foreign component of about 70% and thus a high value in local currency, following the two major devaluations in 1989 and 1990. Second, interest obligations on external debt amounted to 34% of GDP.

9. While the Government took corrective measures in the fiscal area, it deferred some actions expected by December 1990, including a narrowing of the spread between the official and cambio exchange rates and improvements in pricing policy. The deferral, however, was brief, as measures announced in the national budget presentation to the Parliament in February 1991 brought the program back on track. The reforms included: (a) unification of both exchange rates and the adoption thereafter of a floating exchange rate regime; (b) linking of sugar and petroleum price movements to market-related factors and the elimination of all other remaining commodity and transport price controls; (c) the adoption of fiscal measures amounting to about 8 percentage points of GDP; and (d) the tightening of credit policies and periodic adjustment of interest rates in line with price movements.

Table 1: GUYANA: SELECTED ECONOMIC AND FINANCIAL INDICATORS

	1985	1986	1987	1988	1989	PREL 1990
			(annual percentage changes)			
National Income and Prices						
Real GDP at Factor Cost 1/	2.4	-0.9	0.9	-2.6	-3.3	-2.5
Consumer Price Index (Av.) (Annual Average)	15.0	7.9	28.7	39.9	87.9	64.0
External Sector						
Export Volume	5.8	-9.1	-3.3	-9.6	-5.3	-4.4
Import Volume	21.4	6.0	-11.1	-23.8	-2.7	10.9
Terms of Trade	-5.4	9.0	17.4	-0.5	0.0	-0.9
			(in percent of GDP)			
Domestic Expenditure	116.1	113.1	111.3	110.5	112.8	128.1
Total Consumption	89.3	87.7	79.9	89.5	80.3	88.0
Private Consumption	56.1	58.5	52.2	61.7	57.9	64.9
General Government	33.2	29.2	27.7	27.9	22.3	23.1
Gross Domestic Investment	26.8	25.4	31.4	21.0	32.6	40.0
Gross Domestic Saving	10.7	12.3	20.1	10.5	19.7	12.5
Resource Balance	-16.1	-13.1	-11.3	-10.5	-12.8	-28.1
Exports of GNFS	51.0	45.1	80.4	88.2	85.7	84.0
Imports of GNFS	67.1	58.2	91.7	98.7	98.6	112.1

1/ At 1989 prices.

Source: Statistical Bureau of Guyana; World Bank staff estimates.

10. Status of IMF Program. An IMF mission which reviewed Guyana's performance under the ESAF/Stand-by arrangement in January 1991 noted that some of the performance criteria for September and December 1990 were not met. Considering, however, that the performance shortfalls were partly due to exogenous factors and that Guyana had taken corrective action, the IMF Executive Directors approved, in April 1991, a waiver of the nonobservance of performance criteria and the extension of the Stand-by arrangement through December 31, 1991. The ESAF arrangement, however, covers a three-year program and is expected to continue till end of calendar 1993.

11. Performance Under the IDA Program. The Government has fully liberalized transport fares and the domestic price of rice and petroleum products, linked imported sugar to external market prices at the unified exchange adopted in February 1991, and has introduced a new electricity tariff designed to cover operational and maintenance costs. Only meat and jellies remain on the list of prohibited items and import licenses for registration purposes are now processed automatically within two working days. Private sector investment procedures have been streamlined. The Government has sold two public enterprises, divested 80% of the equity of the national telecommunication company and is seeking to divest several other major public enterprises. All second tranche conditions were satisfactorily fulfilled, and in the areas of pricing, removal of quantitative restrictions and divestment, performance went significantly beyond the requirements of the SAC program. The second tranche, augmented by US$18 million equivalent under the Gulf Assistance Program was released on May 16, 1990.

12. Early Signs of Recovery. There are some signs that the Government's program is beginning to bear fruit. The exchange rate in the cambio market has remained stable and by end-August it stood at G$120 per US dollar. Rice plantings are up dramatically this year (one estimate puts the increase at 40%), and private farmers are bringing some abandoned sugar lands back into production, which suggests that the incentive framework for agriculture has improved. Also, foreign private investor interest appears to be picking up. Investors have bought or are considering investments in a wide variety of enterprises, including rice mills, forestry operations and gold mines, albeit with very limited investment of fresh funds in Guyana, so far. Also four multinational companies have begun exploration activities for petroleum.

13. Political Sustainability of Economic Policy Reforms. The signs of incipient recovery could help the current Administration in the upcoming elections expected to take place later in the year, but it is difficult to predict whether they would be enough to offset popular disaffection with the major increases in living costs experienced under the ERP. Also the Government's efforts to address the social costs of adjustment have been largely ineffective, partly because of administrative inadequacies but mainly because of lack of funds. Strikes occurred fairly regularly during 1989 and 1990, but the population has been relatively quiescent in recent months in spite of the major increases in prices of basic commodities and services following the February 1991 measures. This may be attributable to the fact that most people have become resigned to the current course in the hope that the ERP might prove successful. Since President Hoyte has pinned his political future on the ERP, he could be expected to push ahead vigorously with its implementation if reelected. If Dr. Jagan's party wins, one would

have to wait and see what policies would be followed. While some observers believe that Dr. Jagan has moderated his views, there is nevertheless no way of knowing whether he would continue the rigorous stabilization cum liberalization program being followed by the current Administration.

II. CENTRAL DEVELOPMENT ISSUES AND POLICY AGENDA

14. Guyana's macroeconomic policies have dramatically improved and major progress is being made in establishing an incentive environment conducive to a restoration of sustainable growth and to a pattern of growth that makes efficient use of labor and thus provides income-earning opportunities for the poor. Nevertheless, Guyana faces formidable obstacles which must be overcome if the imposed incentive framework is to result in sustainable upward growth and poverty alleviation. The existing power and water supply systems are badly run-down and severely constrain the prospects for economic growth. Social services, once among the best in the Caribbean, have deteriorated. Much of the machinery and equipment of the major productive sectors is either obsolete or in a state of disrepair because of lack of spares. Drainage canals are silted up, the majority of irrigation pumping stations are inoperable, and the breaches in the sea wall are threatening to cause inundation of valuable agricultural land. A demoralized population continues to emigrate in large numbers, thus depleting the country's professional, managerial and technically skilled manpower. The Government is seriously constrained in its efforts to address the above issues because of the prevailing tight fiscal situation stemming from the narrow tax base, the lack of adequate external support to assist in the rehabilitation of the productive sectors and related economies infrastructure, and, most importantly, Guyana's debt overhang for which external interest obligations alone amounted to 34% of GDP in 1990. While the Government's efforts to stabilize the economy have been largely successful, the fiscal constraint has not enabled the Government to pay competitive salaries needed to attract qualified staff, let alone generate public savings to finance badly needed investment.

15. Macroeconomic Viability. The continuation of market-oriented economic policies will be essential for the achievement of Guyana's development objectives. The adoption of a floating exchange rate regime and the liberalization of prices and trade reform should provide incentives to exporters and improve the allocative efficiency of imports. In particular, the maintenance of the fiscal deficit at a manageable level linked to an adequate net external inflow should help stabilize the exchange rate and would, therefore, be crucial for ensuring future growth and social development of the economy.

16. While the options for a substantial reduction of the fiscal deficit are rather limited, there is some scope for broadening the base and reducing the high incidence of consumption taxes, and for improving tax administration. Implementation of measures expected to emerge from the ongoing Bank-financed consumption tax study, along with the fiscal measures of the 1991 Budget as well as the sale of assets under the divestment program should impact positively on the fiscal situation.

17. As already noted, a major factor accounting for the prevailing fiscal situation is Guyana's massive external debt. This issue is particularly difficult in view of the fact that one-third of Guyana's debt is owed to the multilateral financial institutions and is, therefore, not subject to rescheduling. The next largest category (US$400 million), is owed to Trinidad and Tobago which was extremely generous in its recent debt rescheduling terms to Guyana, including a substantial reduction in the interest rate. It is possible, however, that because it would not have much to lose in terms of current cash inflow, Trinidad and Tobago might be willing to consider further debt relief. The largest remaining bilateral creditors are Canada, the U.S. and the U.K. Canada has already written off its CIDA debt and, therefore, the amount of additional relief that could be expected is limited. Guyana's current economic performance should qualify it for concessionary assistance under the Enterprise for the Americas Initiative, but a favorable assessment of the upcoming elections would be necessary for the U.S. to consider its eligibility. The U.K. has already written-off £2 million in old Exchequer debt owed by Guyana. Given the momentum that seems to be building in the Paris Club to a softening of the Toronto terms and the fact that the "Trinidad Terms" (including a write-off of 2/3s of ODA debt) is an idea put forward by the U.K., augurs well for the prospects further debt relief from the U.K. The balance of Guyana's bilateral debt is largely owed to non-Paris Club members. Efforts have also been initiated to process Guyana's stock of commercial bank debts (US$69 million) for assistance under the IDA Debt Reduction Facility.

Public Sector Management

18. An issue of major concern to Government is the continuing brain drain from the public sector. The Government is seeking to address this issue, in the short term through the divestment of public holdings and a major restructuring of the Central Administration. The number of Ministries has already been reduced from 18 to 11 and while the vacancy rate is expected to be reduced by half through the elimination of redundant positions, it will still remain at around 20%. Thus, there will be no positive fiscal impact from the reorganization in the short run, and a severe manpower shortage will remain. The experience to date suggest that it will be difficult for the Government to attract and retain suitably qualified personnel into the Public Service on the basis of currently depressed salary levels and poor living conditions. In view of existing budgetary constraints and as it will take some time for the Government to generate sufficient revenues through increased productivity and exports to enable it to offer competitive levels of remuneration with those of the private sector, the Government may have to rely, in the short-term, on technical assistance financed on concessionary terms for the successful implementation of its PSIP.

Private Sector Development

19. The climate for private sector investment has been greatly enhanced by recent improvements in the incentive framework and the Government's explicit decision to divest its holdings in the productive sectors of the economy. The prospects for private sector development could be further facilitated by addressing existing infrastructure bottlenecks (paras. 26-27 below), accelerating implementation of the divestment program and bringing

about improvements in supporting services, as well as in the performance of the financial sector.

20. In order to improve the performance of the productive sectors, agriculture, which currently accounts for about 30% of GDP and over 50% of total merchandise exports, would require special emphasis. Specific issues to be addressed within the sector include: (a) the need to attract private sector risk capital in the sugar sub-sector; and (b) measures to improve the availability of agricultural inputs and supporting services.

21. Since its nationalization in 1975, the sugar industry's production has declined from a peak level of 330,000 tons in 1976 to a present level of about 130,000 tons. In recent years, Guyana has had to import sugar in order to supplement domestic production. There is a risk that unless timely measures are taken to address the rehabilitation needs of the industry and to restore production to a level of around 215,000 tons (the level required to satisfy both domestic consumption and to take full advantage of Guyana's guaranteed export quotas with the EEC and the US), Guyana may lose a substantial portion of its EEC quota. As a first step towards improving the performance of the industry, the Government has awarded a management contract to a foreign firm. The Management team is also assisting the Government in working out arrangements for a possible joint-venture which would provide for foreign equity participation and private management of the industry. As a first step, the management firm has increased the extremely low wages of the more than 20,000 sugar workers by almost 100%. Even after this increase, production costs of around US$0.10 are among the lowest in the world.

22. Rice production, which is largely a private sector activity, is highly mechanized, capital intensive and is carried out on substantial holdings. Rice production has also been in a state of decline, with output in 1990 only about half the level achieved in the late 1970s. While rice plantings have increased following the recent improvements in price incentives, output continues to be constrained by deteriorated irrigation and drainage facilities. Four rice mills have been privatized and efficiency improvements are already apparent. Privatization of the two remaining mills needs to be pursued, and supporting research and extension services as well as water management systems and quality control need to be strengthened. Irrigation and drainage charges need to be adjusted to levels sufficient to cover at least operating and maintenance costs, and collection procedures need to be improved. Guyana has potential for the production of a wide range of fruits and vegetables, dairy, livestock and poultry products, and there are significant possibilities for achieving both self-sufficiency in domestic food production and increased exports. While the production of these nontraditional commodities which are particularly suitable for small holder development has increased in recent years, output has remained below potential because the techniques of production and marketing arrangements, including supporting facilities, are relatively undeveloped. The Government's support for nontraditional agriculture should focus on the provision of essential services (research, training, extension services, veterinary assistance, market intelligence and quality control). At present, their services in all these areas are minimal.

23. In the past, the bauxite industry accounted for about 40% of merchandise exports and about 8% of GDP. Guyana's bauxite deposits

(comprising mainly calcined bauxite) are of unusual quality, with a generally high alumina and relatively low impurity content. Guyana's calcined bauxite often commands prices of up to six times higher than that of metallurgical bauxite. Up to the 1970's Guyana enjoyed a monopolistic position in the supply of refractory bauxite. However, as a result of a major decline in world market prices for bauxite products, poor domestic management and the emergence of China as a supplier of cheaper, albeit lower quality calcined bauxite, Guyana's share of the market for bauxite products has declined since the early 1980's. This has resulted in a substantial loss of foreign exchange earnings and an erosion of the industry's financial position. It has also seriously constrained the industry's ability to carry out adequate maintenance of its plant and equipment and to finance essential inputs required to maintain production.

24. The Government entered into a joint venture agreement with Reynolds Aluminum in 1990 to develop a new bauxite mining area and is discussing a management contract with them for the Government's existing mining operations at Berbice. Preliminary discussions have been initiated by the Government with Alcan of Canada, and also with Billiton, a subsidiary of Royal Dutch Shell, aimed at establishing a possible joint-venture company for the management and operation, including marketing, of its main bauxite operations at Linden are still inconclusive. Accordingly, the Government is now considering the award of a management contract to a foreign firm for the operation of the industry, as an interim measure.

25. The <u>manufacturing sector</u>, including the processing of sugar and rice, is very small, accounting for less than 10% of GDP. The improved incentive environment should give a boost to the sector which has considerable potential, given Guyana's natural resource endowment and low cost of labor. Infrastructure bottlenecks, notably the lack of an adequate and reliable electricity supply, however, constitute a major constraint to the development of the sector. In addition, the development of a strong, efficient and responsive <u>financial sector</u>, with an effective banking system at its core, is required to reactivate private sector activity. Interest rates of commercial banks and nonbank financial institutions are market determined, and the Government is committed under the ERP to set the Central Bank lending and Treasury bill rates at levels which are positive, in real terms. In view of the recent hiatus in Bank Group lending to Guyana, not much is known about the workings of the banking system, although it appears to be hampered by staff shortages at all levels. Similarly, we lack information about the extent to which <u>domestic regulations</u> constrain business and investment activity. In the area of <u>trade reform</u>, Guyana has gone perhaps the farthest of any Caribbean country in liberalizing external trade, yet it is hampered by the limitations of the regional tariff arrangements which set the maximum common external tariff at 45% and still allow a relatively wide dispersion of tariff rates. This issue will receive special focus in the context of an economic and sector work program as it will take strong collective effort by Jamaica and the other larger countries, including Guyana to bring about improvements in the existing CARICOM trade arrangements.

Infrastructure

26. Guyana's existing infrastructure is in a state of chronic disrepair with almost every facility being dilapidated, subject to repeated breakdowns or overdue for replacement. The country's sea defenses are in need of urgent attention. Guyana's prime farming lands are located along its coastal strip, which lies below sea level at high tide. A system of canals, sea walls, dykes and sluice gates enables the water to be drained from the land at low tide and the encroachment of sea water to be prevented at high tide. The Government has been unable to keep the sea wall properly maintained in recent years. At present it is breached in some 28 locations. A major rice-growing area in which some US$130 million has been invested over the past decade is in serious risk of saline contamination, while other agricultural areas and some populated areas near Georgetown are frequently flooded. The amount of external assistance currently available for sea wall repair is far less than what is needed. In the power sector, the entire electricity system is worn out. Out of an installed capacity of 80 MW, only about 30 MW is currently operable. The Guyana Electricity Corporation (GEC), the national power company is financially weak. This partly reflects the failure, until recently, to adjust tariffs to take account of major adjustments in the exchange rate, and partly system losses which are currently estimated to be in the range of 30-35 per cent. In 1989, GECs revenues totalled about US$9 million, while its expenditures amounted to around US$26 million.

27. In the highway sector, while approximately 82% of the primary roads and 50% of the coastal area secondary roads are paved, the lack of effective maintenance, over an extended period, has left only about 20% of the total road network in good condition. Major rehabilitation works will be required if the road system is to provide adequate support for the reactivation of the economy. A number of ferries which provide the only communications link with agricultural producing areas as well as a number of internal airfields in areas that are only accessible by air are also in a state of disrepair. Similarly, port facilities are generally inadequate and in a poor state of disrepair. In the water supply and sanitation sector, drinking water is pumped from deep aquifers at 1,000 and 2,000 feet. In general, the quality is considered good and is therefore not treated. However, water from shallower aquifers is suspect. Coverage is almost complete in the urban areas but the service is subject to frequent interruptions because of pump failures. In general, most of the system's equipment is old, dilapidated and needs to be replaced. The sewerage system is seriously inadequate. Piped waste and waste collected periodically from pit latrines by tanker trucks are pumped into the sea without treatment. Part of the deficiencies in the sector derive from the ad hoc development of the institutional framework. Many institutions have emerged at national and regional levels with sometimes overlapping and potentially conflicting roles and responsibilities. In addition, the lack of resources in the sector and inadequate tariff levels (in most instances water rates cover only about 30% of operating expenditures) preclude the appropriate operation and maintenance of the water supply system.

Human Resource Development and Poverty Alleviation

28. The deterioration of the economy over the past decade has resulted in a substantial reduction in living standards and in the quality of social

services. Until the early 1980s, Guyana's social indicators compared very favorably with those of other countries in the Latin American region. However, between 1980 and 1987, the infant mortality rate (IMR) showed little improvement, and it is estimated to have increased from 44.5 to over 50 per 1,000 live births in the 1987-90 period. The maternal mortality rate (MMR) is also on the rise: between 1979 and 1984, the MMR increased from 0.4 to 0.6 per 1,000 per live births. The Government's failure to address the deteriorating health status is reflected in the low immunization rates: in 1989, less than 65% of all children were fully immunized. In addition, there has been a rise in the incidence of infectious diseases: in the 1983-88 period, the reported cases of infectious hepatitis and gastro-enteritis increased by 33% and 205%, respectively. The number of severely malnourished children under five almost quadrupled between 1982 and 1987. Malnutrition is likely to worsen as a result of the recent substantial increases in food prices. During the January 1990-March 1991 period, prices of basic food products more than doubled. Even though schooling and literacy rates are generally high (in 1985 the primary school enrollment rate was estimated at 90% and secondary school enrollment rate, at 55%), the available evidence indicates that in the past three years, enrollment has decreased and absenteeism has increased; for instance, at the primary school level, average attendance is now around 65%.

29. A major constraint in the development of the <u>health care</u> system has been the short supply of trained personnel, due primarily to the prevailing low salaries, lack of training facilities and poor working conditions which have resulted in high attrition rates and emigration. In 1990, nurses went on a three-month long strike in support of their demand for a 30% salary increase (currently US$13 per month) and to protest the existing poor working conditions.

30. In the <u>education sector</u> there is a dearth of qualified teachers at all levels, as trained staff continue to leave Guyana in substantial numbers in pursuit of more lucrative employment opportunities abroad. There is also a widespread shortage of textbooks, writing materials and teaching aids. Most of the existing school buildings are dilapidated, while available classroom spaces are poorly equipped and overcrowded. Guyana has maintained a tradition of free access to education, at all levels. With the recent decline of the economy, this policy has placed a heavy burden on the Government's limited budgetary resources. In order to improve the overall performance of the sector it will be important to include in any package of assistance measures to ensure some form of cost recovery, at least at the secondary and tertiary levels.

31. In an effort to address the social cost of adjustment, particularly on vulnerable groups of the population, the Government formulated, in 1988, a <u>Social Impact Amelioration Program (SIMAP)</u>. The Government was provided in 1989 with US$2 million by donors through the IMF-sponsored Support Group, which was used in offering short-term relief to pregnant and lactating mothers, children and old-age pensioners. In July 1989, the Bank organized a special Donors Meeting with a view to mobilizing external financial support for SIMAP. IDB and several UN agencies expressed interest in supporting the program. SIMAP has subsequently been organized as an autonomous entity, designed to circumvent the extreme weaknesses of central ministries by working with international and local NGOs, operating units of public sector agencies

and enterprises, local governments and communities, to channel resources into social service and employment-generating projects.

Environmental Issues

32. An environmental issues paper prepared in 1989 concluded that, with respect to basic environmental issues, Guyana had no major problems. More than 75% of the country is still under forest, with much of the forest lands being in a primary state; wildlife populations are well-developed and greatly protected by the expanse of undeveloped land; air and water quality are, for the most part, clean and clear. In terms of urban and coastal issues, the most immediate issues of concern identified are the lack of access to potable water and adequate sewage treatment which pose a major threat to public health. Of equal concern is the issue of solid waste disposal which is placing an increasing strain on the existing limited resources of local authorities. The report noted that, with the exception of the issues relating to bauxite and gold mining discussed in Annex E attached, there are hardly any resource-based environmental issues.

Women In Development

33. Upto the early 1970s, Guyana enjoyed one of the highest literacy rates (91%) in the LAC Region, with the female segment of the population performing as well as their male counterparts. Women also are fairly well represented in the professions and, on the whole, appeared to have faired well in comparison with those elsewhere in the LAC region. However, the erosion of real incomes over the past ten years, coupled with the social cost of the recent adjustment measures have had an adverse impact on women, particularly those who are heads of households, including teenage females of school-going age (see discussion in Annex E attached).

III. MACROECONOMIC PROSPECTS AND EXTERNAL CAPITAL REQUIREMENTS

34. The resumption of sustainable economic growth after years of severe economic decline will require the continued implementation of market-oriented policies, the rehabilitation of Guyana's basic infrastructure and social services and the promotion of non-traditional exports, notably gold and various agricultural products. The economic projections have been developed around two separate scenarios: (i) the base case of adjustment under crisis; and (ii) the alternative case of some reversal of growth-oriented policies already in place, combined with a lower level of external assistance. However, in both scenarios the availability of external finance would impinge upon the capacity to import, real GDP growth, the overall level of the fiscal deficit, payment of arrears on external debt, and provision of basic infrastructure.

35. Base Case of Adjustment Under Crisis. The key assumptions of this scenario are: (i) strict compliance with and continued implementation of the macroeconomic policies -- strong fiscal actions, market-determined exchange rate, appropriate agricultural pricing policies, divestment of public enterprises to generate efficiency gains and improve the fiscal balances, and appropriate infrastructure support and credit access for the private sector;

(ii) a marginally favorable terms of trade; (iii) sufficient external capital inflows to support the imports and investment necessary to achieve the projected growth in GDP and exports; (iv) improved capacity utilization in manufacturing, mining and infrastructure and more efficient operation and maintenance of plant and equipment; and (v) curtailment of public consumption.

36. Based on the above assumptions and the initial encouraging economic developments, it is projected that the economy will turn around during 1991 (4.3% growth of real GDP) after a decline of 2.5% in real GDP in 1990, and experience a slow but sustainable recovery thereafter. Projections show continuing growth in real GDP averaging 4.1% per year during 1992-95 and 4.6% per year during 1995-97. This would permit an improvement in private per capita consumption of about 1.7% per year during 1992-97, compared to a decline of 4.1% per year during 1986-89. The economic growth would result from maintaining investment at around 38% of GDP during 1992-95 (compared to 28% of GDP during 1986-90). This high level of investment reflects the amounts needed for the rehabilitation of the productive sector and related infrastructure for the promotion of the private sector, including gold mining and petroleum exploration by private sector companies; it also reflects the fact that it has a foreign component of about 70%. The projected rate of investment depends on raising the domestic savings rate from 9% of GDP in 1991 to an average of 15% of GDP during 1992-97, which should be feasible given the projected rate of GDP growth.

37. The sources of GDP growth during the 1990s are assumed to be an increase in volume in agriculture (rice, sugar, fresh fruit, and vegetables), mining (bauxite and gold), manufacturing (textiles), lumber and the informal sector. Guyana has considerable potential in agriculture. A more efficient management, supported by additional investments should enable production of rice and sugar to increase substantially. Sugar production is expected to stabilize at levels compatible with the combined export quota to the EEC and United States of around 180,000 mt. and domestic consumption of about 35,000 mt. The price incentives to rice producers are expected to yield positive results for rice production and exports. The provision of sufficient term finance and the gradual removal of power and transport constraints should engender further increases in output in the productive sectors in general. Privatization efforts in the mining sector, and foreign investments in gold mining should stimulate greater output in the mining sector. Calcined bauxite is projected to recover to the mid-1980s level, while that of dried bauxite is projected to increase to about 90% above the mid-1980s level. Given Guyana's vast timber resources, the lumber industry offers considerable potential, provided that adequate actions are taken to exploit such resources on a sustainable basis. The divestiture of public enterprises in the forestry sector together with new private initiatives are likely to contribute to GDP growth. On the whole, the liberalized foreign exchange system should facilitate the merging of the parallel market with the formal economy and result in a recorded GDP growth much higher than projected.

38. Total exports are projected to grow faster than the growth of total imports during most of the 1990s (Table 2). Total exports are projected to increase at an average rate of 10.2% per year during 1992-95 as a result of policies favoring non-traditional exports implemented during 1990-91, the recovery of bauxite, sugar and rice output, increased gold production, the expected increase in trade because of the unification of the exchange rate,

and continued access to preferential export markets. On this basis, exports are projected to total US$418 million in 1995, compared to US$204 million in 1990. Beyond 1995, the growth rate of exports is projected to be marginally slower. The export growth together with the envisaged external financing would permit a growth in total imports of about 6.6% per year during 1992-95. The narrow export base and the need to increase imports to address the country's infrastructure problems constrain the narrowing of the trade deficit. Consequently, it is projected to decline gradually to about US$53 million in 1997. The resulting external current account deficit would decline from US$175 million in 1990 to US$130 million in 1995 and to US$119 million in 1997.

Public Sector Finances

39. In 1990, the overall deficit of the public sector reached about G$6.7 billion or about 59% of GDP, up from 47% of GDP registered in 1989, mainly owing to significantly lower output and high operating costs in the bauxite and sugar industries, which led to a shortfall of about 8% of GDP in the primary current account surplus. Expenditures under the public sector investment program (PSIP) were kept in line as rising costs, occasioned by higher inflation, were offset by cut-backs in planned capital expenditures. The PSIP amounted to US$98 million or about 37% of recorded GDP. External sources financed slightly over three-fourths (US$74 million) of that total. The Central Government budget for 1991 projects a sharp reduction, in real terms, of the current and overall deficits. While a slight increase in current expenditures is likely because of the need to meet overdue salary adjustments which continue to remain depressed, public sector transfers will be kept to a minimum. This, together with increased capital revenues from divestment proceeds and the fact that investment outlays are not expected to grow should contain the size of the overall deficit at around G$11.8 billion (36% of projected GDP). The PSIP for 1991 is estimated to amount to US$96 million (about 36% of projected GDP), with external financing of US$71 million.

40. While fiscal performance is expected to continue to improve, it is unlikely that the revenue base will expand soon, as the impact of the proposed tax reform and the complete merging of the parallel market with the official economy will take time. The tax exemptions being granted under the divestment program will also affect revenue growth. Over the period 1991-97, therefore, Central Government revenues are projected to remain around 31% of GDP. Central Government expenditure, as a ratio of GDP, will decrease since the transfers to the rest of the public sector, which weighed heavily on current expenditure in the past, have been phased out except for the power company, which the Government is seeking to privatize and for maintenance expenditures of companies yet to be divested. Thus, Central Government current expenditure (excluding interest payments) is projected to fall gradually from 23.7% of GDP in 1991 to 20.5% of GDP by 1997. Public enterprise savings are projected to maintain an almost constant share of GDP (about 18%). The increase in savings that will result from improved cost recovery and management practices will be offset by the sale of enterprises under the divestment program. Proceeds from privatization have been included as capital revenues. In 1991, the sale of the telecommunications company alone has yielded over 7% of GDP. Public sector capital expenditures, as a share of GDP, are projected to decline gradually as the heavy infrastructure rehabilitation needs are taken care of and as the public sector's role in the economy is reduced.

41. A major constraint to be addressed in the area of public sector finances is Guyana's existing huge external interest payment obligation. The projections assume that with the maintenance of a stable exchange rate, the external interest obligations will decline, in domestic currency terms, from 34% of GDP in 1990 to about 26% in 1992 and subsequently to 13% by 1997, if strong economic performance, particularly in the fiscal and debt management areas continues. Under the base case assumptions, the overall deficit will decline markedly to about 4% of GDP, by 1997. Nevertheless, the projected external interest burden of 26% of GDP in 1992, is extremely high, leaving the Government virtually no room for maneuver in dealing with unexpected exogenous developments. To ensure that Guyana can maintain financial balance while achieving the projected growth rate, it needs debt and debt service relief beyond what it is currently receiving.

42. **External Capital Requirements, Debt Stock and Creditworthiness**. Guyana's stock of arrears to external creditors rose from US$100 million in 1985 to US$1031 million in 1988. Guyana has made significant progress over the last two years in reestablishing normal relations with its external creditors. By the end of 1989, its external payment arrears were reduced to US$434 million and with the assistance of the IMF-sponsored Support Group, Guyana successfully cleared, in June 1990, its overdue obligations to the IMF, World Bank, and CDB. Guyana's bilateral debt has been rescheduled through the Paris Club and its commercial bank debts are being processed for assistance under the IDA Debt Reduction Facility.

43. Gross external capital requirements, including amortization and changes in net reserves, are projected to total US$811 million during 1992-95 (Annex F). Disbursements from ongoing commitments are projected to amount to

Table 2: GUYANA - SELECTED ECONOMIC INDICATORS, 1989-97
(in percent)

	Actual			Projected	
	1989	1990	1991	1992-95	1995-97
				(--------average-------)	
GDP Growth	-3.3	-2.5	4.3	4.1	4.6
Gross Investment/GDP	32.6	40.0	40.0	38.3	34.0
Domestic Savings/GDP	19.7	12.5	9.2	14.7	15.1
Public Sector Primary Current Account/GDP	17.5	17.0	23.6	27.5	28.7
Public Sector Overall Balance/GDP	-46.7	-58.8	-35.9	-11.5	-4.5
Export Growth 1/	-5.3	-4.4	14.7	10.2	8.8
Import Growth 1/	-2.7	10.9	16.0	6.6	4.9
Resource Gap/GDP	-12.8	-37.0	-50.7	-27.2	-17.3
Ext. Current Acct./GDP	-35.1	-78.7	-82.1	-44.0	-24.5
Ext. Current Acct./Exports	-41.0	-69.1	-53.3	-34.5	-22.5
Total DOD/Exports	666.5	701.4	608.1	471.6	368.5
Debt Service/Exports	19.1	87.7	31.6	25.9	22.4

1/ In constant 1989 prices.
Source: Ministry of Finance, Bank staff estimates and projections.

US$229 million during 1992-95, while other resources (including sale of assets, net short term) amount to US$142 million during the period. The remainder, defined as new capital requirements, is projected to total US$440 during the four year period, which is 54% of gross capital requirements. This is projected to be obtained from bilateral grants (US$186 million), concessional bilateral lending (US$10 million), concessional multilateral lending (US$240 million) and suppliers credit (US$4 million). External balances would only be manageable through continued external assistance on concessional terms and grants, including balance of payments support to cover the country's additional financial requirements. External debt is projected to grow at around 2.4% per year between 1990 and 1997. However, the ratios of total debt to GDP as well as to total exports is projected to decline rapidly during the 1990s. The debt service ratio to total exports is projected to decrease only gradually, from 31.6% in 1991 to 22.7% by 1997.

44. Extraordinary Debt Relief. Because of its tight fiscal and external debt situation, Guyana needs more favorable debt relief than that available under the "Toronto terms". One option being considered by the Paris Club for low-income countries is to increase the average grant element from 20% under the "Toronto terms" to a range of 50% to 80%. The proposal is to grant a 50% debt or debt service reduction for moderately indebted countries and 80% for severely indebted countries. If the latter option is applied to Guyana's rescheduled bilateral debt of about US$600 million (including debt to Trinidad and Tobago), total debt outstanding would be reduced by US$480 million, and the interest obligations would immediately decline at least by US$15 million per year. After the grace period under the present Paris Club rescheduling, the annual debt service obligation is likely to be reduced by about US$65 million.

45. The impact of these debt relief measures upon external debt, the balance of payments and public sector finances are projected to be as follows in 1992 and 1997:

	Without Further Debt Relief 1992	1997	With Further Debt Relief 1992	1997
1. Stock of External Debt (US$M)	2048.0	2238.0	1568.0	1758.0
2. Debt Service/Exports (%)	29.6	22.6	25.3	20.2a/
3. External Current Account Deficit (US$M)	146.5	103.7	131.5	88.7
4. Public Sector Overall Deficit/GDP (%)	19.5	4.7	13.5	2.2
5. Interest/GDP (%)	26.0	13.0	20.0	10.5

a/ Beyond 1997, the debt service ratio will decline significantly because repayments (after the grace period) will also be reduced by about US$50 million per year in addition to the reduction of interest payments of about US$15 million.

46. **Alternative Case**. The key assumptions are some reversal of growth-oriented policies already in place combined with a lower level of external assistance. Under such a scenario, imports (particularly for investment) would be constrained by the availability of external financing. A reversal in economic policies would be signalled by: (i) a resumption of net Central Bank borrowing by the public sector; (ii) a switch back to a fixed exchange rate regime; and (iii) the Government returning to price controls and restrictions on imports liberalized under the SAC. Under such an alternative scenario investment is projected to average 32% of GDP during 1992-95 and real GDP, growth is projected to be substantially lower than in the base case, at 1.7%

per year during this period. Domestic savings are projected to be lower at 11% of GDP and per capita consumption is projected to decline at an average rate of 0.1% per year during 1992-97. Foreign exchange constraints are projected to result in increased accumulation of arrears and Guyana would not have access to extraordinary debt relief. In summary, if external financing constraints were to continue to dictate a policy of import retrenchment, the much sought supply response would be elusive, and would deter the recovery of the productive sectors resulting in negligible GDP growth and lower per capita consumption and lower export earnings.

47. Risks. The major Bank risks related to Guyana which might arise, other than from a reversal of policies discussed above, are derived from the country's vulnerability to sharp changes in international prices. If world oil prices were to increase sharply, this would place tremendous pressure on the country's external balances. However, in the aftermath of the Gulf war, such price increases are not envisaged. If as a result of the Uruguay Round negotiations, the EEC sugar subsidy were to drop sharply, Guyana might benefit since it is one of the world's lowest cost producers and over the medium term could increase its share of the overall international sugar market. Finally, if the world price of bauxite were to drop sharply, Guyana's export revenues would be affected. This would take place in a scenario of major world recession, not currently envisaged.

48. Both the base case and the alternative scenario indicate that Guyana will not be creditworthy for Bank lending in the foreseeable future, owing to its high debt and debt service burden. Both scenarios also highlight the importance of concessional assistance and debt forgiveness if Guyana is to move out of an unsustainable level of external debt. To promote a steady improvement in the country's debt service profile, the Government should not borrow on conventional terms during the program period and should limit the contracting and guaranteeing of conventional loans to a minimum maturity of 12 years. The Government will need to improve its external debt management capacity and is currently receiving external technical assistance for this purpose from UNDP and the Commonwealth Secretariat.

IV. BANK GROUP ASSISTANCE STRATEGY AND LENDING PROGRAM

49. Past Assistance. Prior to the recently approved SAC, there had been no new Bank Group lending to Guyana since 1982. Bank Group lending in the past had supported investment operations in a variety of sectors. The Bank Group also provided a structural adjustment loan and credit, approved in 1981. An IMF Extended Facility (EFF) was also approved in 1981. Guyana's performance under the first year of the EFF fell short of the targets set and the ERP was terminated in mid-1982. The improvements envisaged under the Bank's program also did not materialize because of the slow rate at which planned policies were implemented, and economic performance further deteriorated. An evaluation of Guyana's performance under the 1981 SAL/SAC (OED Report No. 6119 of March 25, 1986) identified two weaknesses: the lack of government commitment to the basic policy thrust of the program and the lack of institutional capacity to implement the program. Other deficiencies cited were the inclusion of too many conditions, the unrealistic time frame for carrying out a number of actions, and the lack of specificity in the conditionality set out in the program. According to the OED evaluation, the program was rushed through without sufficient appreciation of the need to have its provisions fully considered within the Government. These lessons were taken into account in the design of the 1990 SAC.

50. The Resumption of Bank Group Assistance. The support provided by IDA through the SAC approved in June 1990 made a critically important contribution to the success of the Support Group in normalizing Guyana's relations with multilateral creditors. The Government has responded well to the Support Group's efforts, persevering with the ERP under very difficult circumstances -- extremely bad weather, the Gulf oil crisis, a disaffected population which continued to migrate abroad in large numbers -- and in spite of the fact that net inflows were very small, leaving the program very thinly financed. After a brief hesitation in taking the final steps towards exchange rate and price liberalization called for under the program, the Government moved forward and actually surpassed program targets in a number of key policy areas. The Government's firm commitment to the new market-oriented policy direction can no longer be doubted, yet what IDA, the IMF, CDB and bilateral donors have done so far only sets the stage for the next phase of the Government's effort which must be directed towards rehabilitating the dilapidated infrastructure, revitalizing social services, pushing ahead with the privatization process, tax and other fiscal reforms, in order to consolidate the adjustment program. Moving forward in these areas will be essential to stimulate the private sector response to the improved incentive environment and to create confidence in the population at large that opportunities exist for improved living standards. To meet these challenges, however, the Government will need a continuation of substantial amounts of external support in the form of highly concessional loans and grants as well as additional debt relief.

51. There are some encouraging signs, however tentative, that the economy is beginning to respond to the improved incentive environment. In a sense the program is at a crucial stage. Continued external support at adequate levels at this time could help the program to take a firm hold, but as such support is critical to its success, if it is not forthcoming the efforts so far expended could come to naught.

52. Size of Proposed Program. Based on our recent review of the Government's PSIP there will be a need for about US$150 million a year in new external commitments for investment projects over the next four years. Given the paucity of traditional bilateral donors to Guyana and the increasing competition for ODA resources, only Canada, the U.K. and possibly the U.S. are likely to be significant donors. Thus, Guyana will have to rely primarily on multilaterals for external concessional assistance. IDB is expected to be the major lender, and CDB and the EEC should continue to be active, but a significant contribution will be required from IDA if Guyana is to approach the funding levels necessary for its program. IDA resource availabilities constrain the size of the Bank Group program, but in light of the needs and the expected contribution of other donors, we propose a lending level of US$24 million per annum, for a total of US$121 million for the five-year period FY92-96. This total does not include US$3-4 million proposed under the IDA Debt Reduction Facility for dealing with Guyana's existing commercial bank debt.

53. Assistance Strategy. The main focus of the Bank Group country assistance would be to help the Government to move to a sustainable upward growth path and to alleviate poverty by :

(a) supporting the efficient development of the private sector as the principal engine of economic growth and source of employment generation. This would cover: (i) support for the Government's divestment and rehabilitation efforts in two of the key productive sectors of the economy (bauxite and sugar) with a view to arresting a further decline in output and to improve the overall performance of both sectors, and (ii) support for financial sector reform and domestic deregulation;

(b) assisting in the rehabilitation of the economic and social infrastructure needed to support the private sector;

(c) supporting measures to address the short-term impact of the adjustment program on vulnerable groups, to promote economic opportunities for the poor, and to bring about the rehabilitation of the social sectors;

(d) assisting Guyana through the Caribbean Group for Cooperation in Economic Development (CGCED), in its efforts to mobilize the external resources needed for the implementation of the Government's PSIP -- this must come from a combination of concessional loans, grants and additional debt relief;

(e) assisting Guyana in addressing the issue of its commercial bank debts through a proposed credit from the IDA Debt Reduction Facility; and

(f) continued monitoring of the ERP, including tax reform and other aspects of fiscal performance through supervision of the SAC, and thereafter through our ESW and economic dialogue.

A critical issue which will need to be addressed in each area of our involvement is the widespread dearth of qualified manpower to plan and implement investments, stemming from the prevailing low public sector levels of remuneration and living conditions. Until the Government is able to offer a better package of incentives as a result of increases in productivity and economic growth all Bank Group investment operations will have to include the financing of management and other technical staff in the public service.

54. Core Lending Program. As stated in paragraph 46 above, the proposed Bank Group assistance strategy also provides for a core program of US$40 million (US$8 million a year) focusing on the social sectors and critical infrastructure rehabilitation needs.

Private Sector Development

55. A major objective of the Bank Group's assistance strategy is to promote greater private sector participation in the economy. In two of the traditional productive sectors (bauxite and sugar) where performance has been weak, Bank Group assistance would support the Government's divestment efforts to establish joint ventures, as a basis for further assistance in the financing of the rehabilitation needs of both sectors. Efforts would also be made to address related environmental issues, notably in the mining sector. Progress towards the establishment of joint ventures in both sectors has been slow because of the reluctance of potential foreign partners to commit new money in the form of risk capital. IFC is collaborating with the Bank in support of the Government's efforts to develop a set of appropriate financing arrangements for each sector. MIGA recently approved its first guarantee project for Guyana and is considering a number of other guarantee arrangements.

56. The proposed lending program includes provision for an IDA Credit of US$25 million equivalent each for the bauxite and sugar industries. Since such assistance would not require a special guarantee arrangement (which since Guyana is not creditworthy for Bank lending would have been required in the case of the earlier envisaged Bank loans), it would remove the largest impediment, so far, in the Government's efforts to complete a financing plan for the divestment and rehabilitation of both industries. The proposed IDA assistance program also includes a credit project to support other private sector activities in the productive sectors. The major objectives would be to strengthen the capacity of the financial sector to meet the needs of private investors and to support the adoption of measures to improve the domestic regulatory environment. Planned sector work would be designed to provide the analytical basis for addressing these issues. In (non-sugar) agriculture, where a number of other donors are active in Guyana, an FY-92 sector review would analyze policy, regulatory and institutional issues with a view to focussing the Government and donors on those key reforms and investments which, within a constrained financial environment, would most effectively address the constraints to productivity improvements, particularly for small-scale producers who are almost wholly lacking in supporting services.

<u>Infrastructure</u>

57. The Bank Group's program of assistance in infrastructure will focus on measures to strengthen the institutional capacity to effectively plan, execute and monitor sectoral investment programs in infrastructure, including the design and development of an effective capacity for carrying out adequate routine maintenance of existing facilities. A major constraint in the Government's ability to adequately maintain existing facilities in the past has been the absence of effective cost recovery measures to generate resources to support even minimum maintenance requirements. Until recently, the power tariff was well below that needed to cover the operating costs of the power company, while water charges are currently based not on usage but on out-dated real estate assessments. Road user chargers are almost non-existent and the token charges in respect of irrigation and drainage facility in agriculture, including the protective sea defense, go uncollected.

58. Taking into account the planned assistance of the IDB and the CDB in the power sector and the Government's plans to privatize the power company, Bank Group assistance would focus on infrastructure needed for <u>road and bridge rehabilitation, sea wall rehabilitation and related drainage improvements</u>. Bank Group assistance would be closely coordinated with the IDB, EEC, and other donors that are active in the sector to ensure maximum efficiency in the use of scarce resources. Close coordination will be particularly important in the case of the sea wall where total needs far exceed the amount of financing Guyana can expect to raise and as such, it will be important to ensure that the highest priority segments are financed and that a rational plan for carrying out the works is developed. Bank Group financing would also provide an effective framework for implementing measures that are critical to the long-term development of the institutional arrangements for the sector, such as measures to strengthen investment planning, contract management and management information, the development and implementation of a system of routine road maintenance through the use of domestic private contractors, and the development and implementation of measures to ensure adequate cost recovery. The proposed project would also assist in developing institutional arrangements to address environmental issues associated with road construction. Bank Group assistance in the <u>water supply and sewerage sector</u> would be based on the recommendations of an on-going Georgetown Master Plan

study and would provide an effective framework for coordinating donor assistance in the sector, rationalizing the institutional arrangements in the sector, and for improving the system of water and sewerage charges, including measures to improve collection performance.

Human Resource Development and Poverty Alleviation

59. The processing of the proposed Health and Nutrition project in support of the Government's Social Impact Amelioration Program (SIMAP) is well advanced. The project would provide financing, through a variety of international and national NGOs, governmental agencies and community organizations, for health, nutrition and sanitation (water, sewerage and solid waste disposal) sub-projects. The proposed project, which is being coordinated with IDB, will help alleviate poverty and improve the health and nutrition status of the poor, particularly women and children. In assisting the Government to develop an effective mechanism for responding flexibly and efficiently to the pressing health needs of the population in a decentralized manner, it would help strengthen public support for the difficult adjustment measures associated with the ERP. IDA's support for SIMAP, which is designed as a short-term program, would be followed by an investment operation in human resource development, aimed at improving the Government's capacity to deliver health, nutrition and education services, over the medium term. Since IDB has a major on-going program for primary education, the education component of the IDA project would focus on restoring educational quality at the secondary level and seek to develop cost recovery mechanisms for the sector.

60. While the Government's ERP is helping to make the incentive system more neutral and may increase the demand for labor, no systematic review of its impact on employment and income opportunities for the poor has yet been undertaken. A poverty study planned for FY93 will include such assessment and recommend what further action is needed at the macro and sectoral levels to assure consistency between Government policies and programs and the reduction of poverty.

61. Implementation of the proposed Bank Group's program of assistance, including our periodic review of the PSIP will be closely coordinated with those of the IDB, CDB, EEC and bilateral agencies. The opportunities for co-financing with such agencies will be routinely explored in each case. In this context, we plan to initiate shortly, in collaboration with the UNDP resident mission, a review of on-going and future planned donor activities, on a quarterly basis, in the field.

Country Economic and Sector Work Program

62. The CESW Program summarized in Annex C is designed to consolidate the results achieved under the structural adjustment program and to develop the analytical basis for the proposed lending program. Accordingly, the CEM will focus on further measures to improve the conditions needed for private sector development. Based on the findings of the CEM, an in-depth financial sector and domestic regulation review will be carried out in FY93. An update of the Policy Framework Paper and poverty assessment study will be carried out in FY93 and a PSIP review will be conducted in FY94. The latter will build, in part, upon the findings of an infrastructure review to be carried out as part of project preparation for the FY93 Infrastructure Rehabilitation Project. In sector work, we would also include an analysis of options available for agricultural and forestry development.

ATTACHMENT I

GUYANA

Proposed Lending 1/
(US$ million)

BASE PROGRAM

	FY91	FY92	FY93	FY94	FY95	FY96	FY92-96
SAC Supplemental (Gulf Oil Crisis)	18.0	-	-	-	-	-	-
Sugar Rehabilitation	-	-	-	25.0	-	-	-
Bauxite Rehabilitation	-	-	-	-	-	25.0	-
Private Sector Development	-	-	-	-	10.0	-	-
Infrastructure Rehabiliation	-	-	20.0	-	-	-	-
Water Supply and Sewerage	-	-	-	-	-	10.0	-
Health and Nutrition	-	11.0	-	-	-	-	-
Human Resource Development	-	-	-	-	20.0	-	-
Total Base Program	**18.0**	**11.0**	**20.0**	**25.0**	**30.0**	**35.0**	**121.0**

CORE PROGRAM (FY92-96)

	FY92	FY93	FY94	FY95	FY96	FY92-96
Health and Nutrition	11.0	-	-	-	-	-
Human Resource Development	-	-	-	15.0	-	-
Infrastructure Rehabilitation	-	15.0	-	-	-	-
Total	11.0	15.0	0.0	15.0	0.0	41.0

1/ All IDA.

Annex A
(Page 1 of 1)

GUYANA - KEY INDICATORS - SCENARIO I (BASE CASE)

Key Indicators	Actual 1985	1986	1987	1988	1989	Prelim. 1990	Projections 1991	1992	1993	1994	1995	1996	1997
GDP Growth Rate	2.4	-0.9	0.9	-2.6	-3.3	-2.5	4.3	4.0	4.0	4.0	4.3	4.4	5.0
GDP/Capita Growth Rate	1.9	-1.4	0.4	-3.1	-3.8	-3.0	3.8	3.5	3.5	3.5	3.8	3.9	4.4
Consumption/Capita Growth Rate	1.4	-2.4	-8.2	2.0	-7.7	6.5	8.7	2.0	2.4	1.1	1.0	1.6	1.9
Total DOD a/ (in US$)	1482.0	1615.0	1712.0	1678.0	1740.3	1895.0	1973.1	2048.0	2107.8	2142.1	2194.4	2228.1	2237.6
DOD/XGS b/	574.0	627.7	584.3	621.9	666.5	701.4	608.1	542.0	493.9	444.6	405.9	369.2	330.5
Debt Service (in US$) (paid)	27.0	31.0	27.0	21.1	49.8	236.9	102.6	111.7	110.3	123.8	122.4	132.5	154.0
Debt Service/XGS (paid)	10.5	12.0	9.2	7.8	19.1	87.7	31.6	29.6	25.8	25.7	22.6	22.0	22.7
Interest/XGS (paid)	5.4	6.6	5.1	4.4	13.7	30.3	16.6	16.8	15.1	13.1	11.4	9.8	11.2
Gross Investment/GDP	26.8	25.4	31.4	21.0	32.6	40.0	40.0	39.5	39.0	38.5	36.0	34.0	32.0
Domestic Savings/GDP	10.7	12.3	20.1	10.5	19.7	12.5	9.2	13.1	14.2	15.8	15.7	15.2	14.3
National Savings/GDP	-1.4	-1.4	-2.2	-9.0	-2.6	-32.1	-26.0	-14.0	-5.4	1.6	6.1	9.4	11.7
Public Sector Primary Current Account/GDP	4.8	17.8	27.1	15.5	17.5	17.0	23.6	25.8	27.2	28.2	28.7	28.7	28.7
Public Sector Overall Balance/GDP	-46.3	-34.6	-33.9	-32.2	-46.7	-58.8	-35.9	-18.3	-13.9	-8.4	-5.2	-4.2	-4.2
Export Growth Rate	5.8	-9.1	-3.3	-9.6	-5.3	-4.4	14.7	11.3	10.2	10.1	9.0	8.7	8.8
Exports/GDP (Current Prices) b/	47.1	45.4	80.0	60.5	85.7	114.0	154.0	141.2	127.7	120.5	112.2	108.8	105.2
Import Growth Rate	21.4	6.0	-11.1	-23.8	-2.7	10.9	16.0	7.9	7.5	6.7	4.4	5.1	5.3
Imports/GDP (Current Prices)	61.4	58.0	90.5	64.4	98.6	151.0	204.7	177.5	156.7	144.4	131.6	125.9	120.6
Current Account (in US$)	-131.6	-140.9	-109.4	-88.0	-101.0	-175.3	-163.3	-151.2	-147.4	-140.9	-130.3	-122.9	-118.9
Current Account/XGNFS	-55.7	-58.4	-39.8	-34.9	-41.0	-69.1	-53.3	-43.1	-37.3	-31.5	-26.1	-22.1	-19.2
Terms of Trade Index	78.5	85.6	100.5	100.0	100.0	100.9	101.9	105.2	105.0	104.0	101.3	98.8	96.1

a/ Debt outstanding and disbursed.
b/ Exports of goods and services. A meaningful analysis of time trends in relation to nominal GDP is precluded by: (i) the underestimation of GDP in the context of growing parallel economy, and (ii) the wide disparities in the impact of a series of major devaluations upon the magnitudes of external debt, exports and nominal GDP.

1989 Per Capita GNP in US$: 310
Mid-1989 Population (millions): 0.8

GUYANA - NATIONAL ACCOUNTS

A. National Accounts Indicators as Shares of GDP/GDY (%)

	Historical shares of GDP in Current Prices					Prelim.	Projected shares of GDY in Constant 1989 Prices						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	99.4	98.6	96.1	96.0	96.5	98.8	101.3	104.4
Net Indirect Taxes	17.0	15.7	13.8	13.4	13.2	13.1	13.2	12.9	12.9	13.0	12.9	13.2	13.2
Agriculture	23.4	24.3	23.9	22.5	25.8	23.2	22.9	22.4	22.3	22.5	23.0	23.6	24.3
Industry	25.8	25.2	25.5	25.6	33.0	34.1	33.8	33.1	33.2	33.5	34.6	35.9	37.3
(of which Manufacturing)	4.3	4.5	3.7	3.6	4.8	4.1	4.1	4.0	4.0	4.0	4.1	4.2	4.4
(of which Mining)	9.2	8.5	8.6	8.7	13.1	13.8	14.2	14.3	14.7	15.2	16.0	17.0	18.1
Services	33.8	34.8	36.8	38.4	27.9	29.1	28.7	27.8	27.6	27.6	28.4	28.6	29.6
Resource Balance	-16.1	-13.1	-11.3	-10.5	-12.8	-27.9	-31.8	-29.3	-27.8	-25.4	-21.2	-17.8	-14.1
Exports of GNFS	51.0	45.1	80.4	88.2	85.7	83.5	91.1	95.0	100.5	106.9	114.5	122.1	130.5
Imports of GNFS	67.1	58.2	91.7	98.7	98.6	111.4	122.9	124.3	128.3	132.3	135.7	139.9	144.6
Total Expenditures	116.1	113.1	111.3	110.5	112.8	127.3	130.4	125.4	123.8	121.9	120.0	119.1	118.5
Total Consumption	89.3	87.7	79.9	89.5	80.3	87.5	91.0	87.4	86.3	84.8	84.5	84.6	85.1
Private Consumption	56.1	58.5	52.2	61.7	57.9	64.5	68.9	67.1	67.1	66.5	66.8	67.5	68.4
General Government	33.2	29.2	27.7	27.9	22.3	23.0	22.1	20.3	19.2	18.3	17.7	17.2	16.7
Gross Domestic Investment	26.8	25.4	31.4	21.0	32.6	39.8	39.4	38.0	37.4	37.2	35.6	34.4	33.4
Terms of Trade Adjustment	..	..	..	..	0.0	0.6	1.4	3.9	4.0	3.5	1.2	-1.3	-4.4
Gross Domestic Income	..	..	..	..	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross National Income	62.4	63.0	56.8	60.6	72.8	51.0	60.6	68.9	75.7	80.5	83.6	86.6	88.7
Gross National Product	85.5	84.5	74.7	77.5	72.8	50.5	59.2	65.0	71.7	77.0	82.4	87.9	93.0
Gross Domestic Saving	10.7	12.3	20.1	10.5	19.7	11.9	7.7	8.7	9.6	11.7	14.4	16.6	19.3
Net Factor Income	-14.5	-15.5	-25.3	-22.5	-27.2	-49.0	-39.4	-31.1	-24.3	-19.5	-16.4	-13.4	-11.3
Net Current Transfers	2.4	1.8	3.0	3.0	4.9	4.6	4.7	5.1	5.5	5.9	6.9	7.6	8.6
Gross National Saving	-1.4	-1.4	-2.2	-9.0	-2.6	-32.5	-27.1	-17.3	-9.2	-1.9	4.9	10.8	16.6

B. National Accounts Growth Rates (%) at Constant (1989) Prices

	Actual					Prelim.	Projections		
	1985	1986	1987	1988	1989	1990	1991	1992-95	1995-97
Gross Domestic Product m.p.	2.4	-0.9	0.9	-2.6	-3.3	-2.5	4.3	4.1	4.6
Net Indirect Taxes	..	..	..	..	..	-2.3	6.1	3.3	2.6
Agriculture	..	6.3	-2.5	-5.0	-3.1	-12.0	4.0	4.1	4.6
Industry	..	0.0	0.3	1.5	-8.5	1.1	4.2	4.6	5.5
(of which Manufacturing)	..	-1.2	-1.2	-1.2	-1.2	-15.0	4.0	4.1	4.8
(of which Mining)	..	-5.4	0.3	1.5	-12.2	3.9	8.0	7.2	8.1
Services	..	5.4	4.8	5.4	2.2	2.0	3.8	3.7	4.2
Exports of GNFS a/	..	-9.1	-3.3	-9.6	-5.3	-4.4	14.7	10.1	8.9
Imports of GNFS a/	..	6.0	-11.1	-23.8	-2.7	10.9	16.0	6.6	4.9
Total Expenditures	..	-3.0	-0.8	-3.0	-1.2	10.7	7.7	1.9	0.9
Total Consumption	..	-3.0	-7.4	8.1	-13.4	7.0	9.2	2.1	2.0
Private Consumption	..	0.7	-8.1	11.3	-9.6	9.3	12.2	3.2	2.8
General Government	..	-9.9	-6.0	1.5	-21.9	1.0	1.0	-1.6	-1.2
Gross Domestic Investment	..	-2.9	22.5	-32.6	51.3	19.7	4.3	1.4	-1.7
Gross Domestic Income	..	..	..	..	16.2	-1.9	5.1	4.0	1.9
Gross National Income	..	3.4	-10.7	7.6	17.1	-31.2	24.7	12.8	5.2
Gross National Product	..	4.0	-12.4	4.7	-8.5	-32.0	23.3	13.0	8.5
Gross Domestic Saving	..	17.7	61.9	-47.4	83.7	-38.1	-23.8	19.2	1.2

C. Price Indices (1985=100)

	Actual					Prelim.	Growth Rates (% p.a)	
	1985	1986	1987	1988	1989	1990	1984-88	1984-89
Consumer Prices	100.0	107.9	138.9	194.4	368.5	603.4	17.0	22.0
Implicit GDP Deflator	100.0	114.7	167.2	208.2	401.2	610.8	28.6	28.3
Deflators for Sector VA:								
Agricultural Sector	100.0	110.7	189.1	222.5	222.5	..	-0.7	-2.3
Industrial Sector	100.0	123.0	221.8	292.4	292.4	..	0.3	-1.6
Services Sector	100.0	122.0	156.2	213.5	213.5	..	1.0	1.3

a/ The growth rates of exports and imports which are in volume terms are not comparable with the growth rate of their values in Table D below, which reflect major exchange rate adjustments.

GUYANA - NATIONAL ACCOUNTS (continued)

Annex B1
(Page 3 of 3)

D. National Accounts (millions of G$ at 1989 Prices)

	Actual					Prelim.	Projections						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Gross Domestic Product m.p.	8,252	8,178	8,252	8,037	7,772	7,579	7,904	8,218	8,548	8,894	9,275	9,684	10,165
Net Indirect Taxes	1,024	1,024	1,024	1,024	1,024	1,000	1,061	1,103	1,147	1,194	1,210	1,263	1,287
Agriculture	2,104	2,238	2,181	2,072	2,008	1,767	1,838	1,911	1,990	2,071	2,158	2,260	2,370
Industry	2,757	2,758	2,766	2,807	2,568	2,597	2,706	2,826	2,953	3,087	3,246	3,431	3,629
(of which Manufacturing)	389	385	380	376	371	315	328	341	355	369	386	404	424
(of which Mining)	1,200	1,136	1,139	1,156	1,015	1,055	1,139	1,220	1,305	1,397	1,506	1,629	1,763
Services	2,367	2,159	2,281	2,134	2,172	2,215	2,300	2,378	2,459	2,542	2,662	2,730	2,878
Resource Balance	(1,255)	(1,045)	(894)	(838)	(997)	(2,127)	(2,549)	(2,503)	(2,476)	(2,342)	(1,990)	(1,702)	(1,373)
Exports of GNFS	3,974	3,599	6,358	7,037	6,662	6,366	7,300	8,123	8,952	9,851	10,742	11,676	12,707
Imports of GNFS	5,229	4,644	7,252	7,875	7,659	8,493	9,848	10,626	11,428	12,193	12,732	13,377	14,080
Total Expenditures	9,507	9,223	9,146	8,875	8,769	9,707	10,453	10,721	11,025	11,236	11,266	11,386	11,538
Total Consumption	7,419	7,196	6,663	7,202	6,237	6,675	7,291	7,475	7,691	7,812	7,927	8,093	8,285
Private Consumption	4,832	4,866	4,472	4,978	4,500	4,920	5,519	5,738	5,980	6,127	6,267	6,450	6,658
General Government	2,587	2,330	2,191	2,224	1,737	1,754	1,772	1,736	1,710	1,685	1,660	1,643	1,626
Gross Domestic Investment	2,089	2,027	2,483	1,673	2,532	3,032	3,162	3,246	3,334	3,424	3,339	3,293	3,253
Gross Domestic Income	6,634	6,462	6,836	6,689	7,772	7,625	8,014	8,550	8,908	9,215	9,385	9,561	9,737
Gross National Income	4,863	5,027	4,492	4,835	5,660	3,892	4,854	5,893	6,742	7,416	7,845	8,278	8,632
Gross National Product	6,482	6,743	5,907	6,184	5,660	3,847	4,743	5,561	6,383	7,095	7,735	8,400	9,060
Gross Domestic Saving	834	982	1,589	835	1,535	950	723	1,075	1,217	1,403	1,459	1,468	1,452
Net Factor Income	(1,771)	(1,435)	(2,344)	(1,854)	(2,112)	(3,732)	(3,161)	(2,657)	(2,166)	(1,799)	(1,540)	(1,284)	(1,105)
Net Current Transfers	187	144	237	239	378	352	379	432	486	541	649	730	838
Gross National Saving	(750)	(310)	(518)	(779)	(199)	(2,431)	(2,059)	(1,149)	(462)	144	567	914	1,185

GUYANA - EXTERNAL TRADE

Annex B2
(Page 1 of 2)

A. Volume, Value and Prices

	Actual					Prelim.	Projections						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Merchandise Exports	Volume Index 1989=100												
Calcined Bauxite	159.8	128.2	132.0	120.4	100.0	88.0	114.4	131.6	147.3	162.1	175.9	189.0	202.3
Dried Bauxite	104.2	95.0	90.5	84.4	100.0	107.6	118.4	130.2	143.2	156.1	170.2	185.5	204.0
Sugar	126.1	126.1	105.5	86.4	100.0	79.1	83.5	96.0	110.4	126.9	139.6	152.2	167.4
Rice	72.2	95.1	170.0	153.2	100.0	123.0	141.5	158.4	174.3	191.7	214.7	240.5	271.7
Gold	57.2	86.2	130.2	115.7	100.0	232.7	302.5	347.9	382.7	428.6	488.6	557.0	640.6
Spirits	111.3	112.3	117.9	97.2	100.0	79.2	87.1	93.2	100.0	109.5	119.9	131.3	143.8
Timber	156.2	130.6	150.4	105.0	100.0	97.0	107.0	111.8	118.5	126.8	137.0	147.9	162.7
Shrimp	81.0	52.4	47.6	52.4	100.0	96.0	105.6	110.9	112.0	112.0	112.0	112.0	112.0
Other Goods	54.7	32.5	51.2	100.0	100.0	110.0	126.5	132.8	141.5	152.8	167.3	183.2	201.5
Total Merch. Exports FOB	77.5	65.0	95.0	130.8	100.0	94.1	108.4	122.3	136.5	151.9	166.7	181.9	199.6
Merchandise Exports	Value-Current Prices (US$ millions)												
Calcined Bauxite	73	61	67	58	49	48	59	70	79	88	97	106	116
Dried Bauxite	26	22	19	22	23	27	31	35	40	46	52	59	67
Sugar	66	83	90	75	83	75	86	102	121	144	160	176	195
Rice	13	11	16	15	12	14	17	20	22	25	28	33	37
Gold	3	6	9	8	6	13	19	23	26	30	36	43	51
Spirits	7	7	10	8	7	5	7	8	9	10	11	13	14
Timber	4	4	5	0	3	3	3	4	4	4	5	5	6
Shrimp	4	3	5	4	5	5	6	6	7	7	7	7	8
Other Goods	9	8	11	16	12	13	15	17	18	20	23	25	29
Total Merch. Exports FOB	207	204	232	206	200	204	245	285	326	373	418	466	523
Merchandise Imports	Volume Index 1989=100												
Petroleum and Other Energy	146.0	105.0	110.0	105.0	100.0	97.5	106.8	115.2	124.0	132.0	139.3	147.3	156.8
Other Goods	..	..	..	..	..	..	..	..	..	..	..	..	..
Total Merch. Imports CIF	136.0	144.0	128.0	101.0	100.0	115.4	137.3	149.2	161.4	172.9	180.3	189.3	199.0
Merchandise Imports	Value-Current Prices (US$ millions)												
Petroleum and Other Energy	103	74	77	74	70	80	85	84	98	113	128	147	168
Other Goods	152	186	185	142	142	183	238	266	292	321	346	375	408
Total Merch. Imports CIF	255	260	262	216	212	263	323	350	390	434	474	522	576
Country Indices	Price Indices 1989=100												
Merchandise Exports	79.9	87.2	102.4	102.0	100.0	108.2	112.8	116.3	119.5	122.8	125.4	128.1	131.0
Merchandise Imports	88.2	84.7	96.0	100.2	100.0	107.2	110.7	110.6	113.8	118.1	123.8	129.7	136.4
Merch. Terms of Trade	90.6	103.0	106.7	101.8	100.0	100.9	101.9	105.2	105.0	104.0	101.3	98.8	96.1

GUYANA - EXTERNAL TRADE

Merchandise Exports	B. Share of Total X or M (%) at Current Prices 1985	1986	1987	1988	1989	1994	1996	C. Growth Rates (%) at Constant Prices 1986-88	1991-93	1993-96
Calcined Bauxite	35.5	29.7	28.7	28.1	24.5	23.5	22.8	-6.0	18.7	9.5
Dried Bauxite	12.5	10.5	8.4	10.7	11.7	12.3	12.6	-5.0	10.0	9.2
Sugar	32.1	40.8	38.9	36.4	41.7	38.5	37.7	3.0	11.7	12.2
Rice	6.4	5.1	6.9	7.5	6.0	6.7	7.0	4.0	12.3	11.0
Gold	1.4	2.7	4.0	3.9	2.8	8.1	9.1	28.0	18.0	12.5
Spirits	3.4	3.6	4.1	3.9	3.4	2.6	2.7	3.0	8.1	8.9
Timber	2.0	2.0	1.9	0.0	1.5	1.1	1.1	-9.0	6.9	7.2
Shrimp	2.1	1.6	2.0	1.9	2.6	1.8	1.6	-1.0	5.3	0.2
Other Goods	4.5	3.8	4.9	7.8	5.7	5.4	5.4	..	8.7	8.4
Total Merch. Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..	13.2	10.4

Merchandise Imports	B. Share of Total X or M (%) at Current Prices 1985	1986	1987	1988	1989	1994	1996	C. Growth Rates (%) at Constant Prices 1991-93	1993-96
Petroleum and Other	40.3	28.3	29.4	34.2	33.1	25.9	28.1	8.3	6.3
Other Goods	59.7	71.7	70.6	65.8	66.9	74.1	71.9	..	..
Total Merch. Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	11.9	6.1

GUYANA - BALANCE OF PAYMENTS

(US$ millions at Current Prices)

Annex B3
(Page 1 of 1)

	Actual 1985	1986	1987	1988	1989	Prelim. 1990	Projections 1991	1992	1993	1994	1995	1996	1997
A. Exports of Goods & NFS	236	241	275	252	247	254	306	351	396	447	499	555	620
1. Merchandise (FOB)	213	210	240	215	200	204	245	285	326	373	418	466	523
2. Non-Factor Services	23	31	35	37	46	50	62	66	69	73	80	89	97
B. Imports of Goods & NFS	308	308	311	269	283	336	407	441	486	536	585	643	711
1. Merchandise (CIF)	255	260	262	216	212	263	323	350	390	434	474	522	576
2. Non-Factor Services	53	49	50	53	71	74	84	90	95	102	111	121	135
C. Resource Balance	(72)	(67)	(36)	(17)	(37)	(82)	(101)	(90)	(90)	(89)	(86)	(88)	(91)
D. Net Factor Income	(71)	(84)	(84)	(84)	(78)	(106)	(76)	(77)	(75)	(72)	(68)	(62)	(59)
1. Factor Receipts	11	6	7	5	1	3	4	11	13	15	18	21	26
2. Factor Payments	82	90	91	89	79	109	81	88	89	87	86	83	85
(Interest on LT)	11	17	15	12	11	25	27	28	29	28	29	28	46
(Inc.: Interest on Arrears/Resc.)	..	..	..	..	58	18	51	54	56	57	58	57	55
E. Net Current Transfers	11	10	11	13	14	13	14	16	18	20	24	27	31
F. Current Account Balance	(132)	(141)	(109)	(88)	(101)	(175)	(163)	(151)	(147)	(141)	(130)	(123)	(119)
G. Long-Term Capital Inflow	44	68	43	33	44	109	170	140	138	144	147	144	139
1. Direct Investment	8	(12)	5	5	7	14	42	45	46	47	51	59	65
2. Official Capital Grants	6	6	10	7	7	16	26	51	48	45	42	40	34
3. Net LT Loans (DRS data)	49	52	30	21	30	79	80	32	28	34	32	23	18
a. Disbursements	61	65	42	30	44	132	125	80	71	72	71	62	59
b. Repayments	12	13	12	9	14	53	45	48	43	38	39	39	41
4. Other Inflows incl. Divestment Proceeds	(19)	22	(2)	0	0	0	22	13	17	18	22	22	22
H. Total Other Items (net)	(11)	(7)	5	17	18	77	19	18	18	18	18	18	0
1. Net Short Term Capital	(12)	(0)	..	0	25	68	19	18	18	18	18	18	0
(Interest Not Paid owing to Resch.)	..	..	..	..	25	18	19	18	18	18	18	18	0
2. Capital Flows N.E.I.	..	..	..	22	0	0	0	0	0	0	0	0	0
3. Errors and Omissions	1	(7)	5	(5)	(7)	9	0	0	0	0	0	0	0
I. Changes in Net Reserves	98	80	61	39	39	(11)	(26)	(7)	(9)	(21)	(34)	(38)	(20)
1. Net Credit from the IMF	0	(1)	0	0	0	2	35	25	21	(7)	2	(8)	(7)
3. Other Reserve Changes	98	81	61	39	39	(13)	(61)	(32)	(30)	(14)	(36)	(30)	(13)
(memo: Rescheduled Liabilities)	0	0	0	0	491	419	..	..	..	..	..	..	
(- indicates increase)													
J. Financing Gap	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares of GDP (Current US$):													
1. Resource Balance	-14.3	-12.6	-10.6	-4.0	-12.8	-37.0	-50.7	-36.3	-29.0	-23.9	-19.4	-17.2	-15.4
2. Total Interest Payments	2.8	3.2	4.4	2.9	12.5	36.8	27.0	25.6	20.8	17.0	13.9	11.6	12.8
3. Current Account Balance	-26.2	-26.5	-31.8	-21.1	-35.1	-78.7	-82.1	-60.9	-47.6	-38.0	-29.3	-24.1	-20.2
4. LT Capital Inflow (line G)	8.8	12.8	12.5	7.8	15.3	48.9	85.6	56.5	44.7	38.9	33.1	28.1	23.5
5. Net Credit from the IMF	0.0	-0.2	0.0	0.0	0.0	0.9	17.6	10.1	6.8	-1.9	0.4	-1.6	-1.2
Memorandum Item:													
GDP (Mlns. of Current US$)	501.5	531.6	343.9	417.2	287.6	222.8	199.0	248.2	309.9	370.8	444.6	510.7	589.6
Nom. Off. X-Rate	4.250	4.270	9.8	10.0	27.2	39.5	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Gross Reserves (Wks. of Imp.)	1.3	1.7	1.8	1.0	7.0	7.6	9.6	9.7	9.8	10.9	13.1	15.0	15.0

GUYANA - EXTERNAL CAPITAL AND DEBT

(US$ millions at Current Prices)

	Actual					Prelim.	Projections						
A. Disbursements	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Public & Publicly Guar. LT	61	65	42	30	44	132	125	80	71	72	71	62	59
Official Creditors	57	35	28	19	32	120	117	73	70	72	71	62	59
Multilateral	25	26	20	13	23	111	96	60	64	68	69	61	58
of which IBRD	2	1	0	0	0	0	0	0	0	0	0	0	0
of which IDA	1	5	1	0	0	57	45	11	15	25	25	28	20
Bilateral	32	9	8	6	9	9	21	13	6	4	2	1	1
Private Creditors	4	30	14	11	12	12	8	7	1	0	0	0	0
Suppliers	3	30	14	11	12	12	8	7	1	0	0	0	0
Financial Markets	1	0	0	0	0	0	0	0	0	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Total LT Disbursements	61	65	42	30	44	132	125	80	71	72	71	62	59
4. IMF Purchases	0	0	0	0	0	104	39	25	24	16	24	26	30
5. Net Short-Term Capital	-12	0	0	57	0	50	0	0	0	0	0	0	0
6. Total incl. IMF & Net ST	50	65	42	87	44	286	164	105	95	88	95	88	89
B. Repayments													
1. Public & Publicly Guar. LT	12	13	12	9	14	53	45	48	43	38	39	39	41
Official Creditors	8	6	5	4	7	43	35	37	31	29	31	32	38
Multilateral	3	3	1	2	4	30	21	23	21	20	21	21	20
of which IBRD	2	2	0	0	1	16	8	8	7	6	6	6	6
of which IDA	0	0	0	0	0	0	1	1	1	1	1	1	1
Bilateral	5	3	4	2	3	13	14	14	10	9	10	11	18
Private Creditors	4	7	7	5	7	10	10	11	12	9	8	8	4
Suppliers	4	7	6	5	7	10	10	11	12	9	8	8	4
Financial Markets/Bonds	0	0	1	0	0	0	0	0	0	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Total LT Repayments	12	13	12	9	14	53	45	48	43	38	39	39	41
4. IMF Repurchases	1	1	0	0	0	102	4	0	3	23	22	34	37
5. Total LT Repay.+IMF Repur.	13	14	12	9	14	155	49	48	46	61	61	73	78

GUYANA - EXTERNAL CAPITAL AND DEBT (continued)

Annex B4
(Page 2 of 3)

	Actual					Prelim.	Projections						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
C. Interest													
1. Public & Publicly Guar. LT	11	17	15	12	11	25	27	28	29	28	29	28	46
Official Creditors	8	11	9	9	10	22	23	24	25	26	26	26	45
Multilateral	7	8	7	8	9	19	19	19	18	18	18	16	16
of which IBRD	4	3	0	0	1	7	5	5	4	4	3	3	2
of which IDA	0	0	0	0	0	0	0	1	1	1	1	1	1
Bilateral a/	1	3	2	1	1	3	4	5	7	8	9	10	29
Private Creditors	3	6	6	3	1	3	3	4	4	3	2	2	1
Suppliers	1	5	1	3	1	3	3	4	4	3	2	2	1
Financial Markets/Bond	2	1	5	0	0	0	0	0	0	0	0	0	0
2. Private Non-Guar. LT	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Total LT Interest	11	17	15	12	11	25	27	28	29	28	29	28	46
4. IMF Service Charges	3	0	0	0	0	50	7	9	9	8	6	4	3
5. Interest on ST Debt	0	0	0	0	25	7	20	27	27	27	27	27	27
6. Total incl. IMF & Net ST	14	17	15	12	36	82	54	64	65	63	62	59	76
D. External Debt (DOD)													
1. Public & Publicly Guar. LT	777	856	948	935	1011	1114	1157	1207	1246	1287	1337	1379	1396
Official Creditors	601	653	727	728	858	957	1057	1111	1160	1210	1268	1316	1336
Multilateral	265	309	360	357	371	458	532	569	611	659	707	747	785
of which IBRD	65	78	96	89	85	69	61	53	46	40	34	28	23
of which IDA	27	34	37	36	35	93	137	148	162	186	210	237	256
Bilateral	336	344	367	371	487	499	525	542	549	551	561	569	551
Private Creditors	176	203	221	207	153	157	100	96	86	78	70	63	59
Suppliers	86	113	130	116	79	83	83	79	69	61	53	46	42
Financial Markets/Bonds	90	90	91	91	74	74	17	17	17	17	17	17	17
2. Private Non-Guar. LT	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Total Long-Term DOD	777	856	948	935	1011	1114	1157	1207	1246	1287	1337	1379	1396
4. IMF Credit	91	100	116	110	108	110	145	170	191	184	186	178	171
5. Short-Term Debt b/	614	659	648	633	621	671	671	671	671	671	671	671	671
6. Total incl. IMF & Net ST	1482	1615	1712	1678	1740	1895	1973	2048	2108	2142	2194	2228	2238

a/ Increase in interest in 1997 reflects resumption of scheduled interest payments after rescheduling.
b/ Includes interest on arrears.

GUYANA - EXTERNAL CAPITAL AND DEBT (continued)

Annex B4
(Page 3 of 3)

	Actual					Prelim.	Projections						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
E. Bank and IDA Ratios													
Share of Total LT DOD													
1. IBRD as % of Total	8.4	9.1	10.1	9.5	8.4	6.2	5.3	4.4	3.7	3.1	2.5	2.0	1.6
2. IDA as % of Total	3.5	4.0	3.9	3.8	3.5	8.3	11.8	12.3	13.0	14.5	15.7	17.2	18.3
3. IBRD+IDA as % of Total	11.8	13.1	14.0	13.3	11.9	14.5	17.1	16.7	16.7	17.6	18.2	19.2	20.0
Share of LT Debt Serv													
1. IBRD as % of Total	26.1	16.7	0.0	0.0	8.0	29.5	18.2	17.1	15.4	15.2	13.3	13.3	9.2
2. IDA as % of Total	0.0	0.0	0.0	1.9	0.0	0.0	2.0	2.3	2.5	2.9	3.1	3.4	2.9
3. IBRD+IDA as % of Total	26.1	16.7	0.0	1.9	8.0	29.5	20.2	19.4	17.9	18.0	16.4	16.7	12.0
F. DOD-to-Exports Ratios (a)													
1. Long-Term Debt/Exports	300.9	332.7	323.5	346.6	387.3	412.3	356.6	319.5	291.9	267.2	247.4	228.5	206.1
2. IMF Credit/Exports	35.2	38.9	39.6	40.8	41.4	40.7	44.7	45.0	44.8	38.2	34.4	29.5	25.3
3. Short-Term Debt/Exports	237.8	256.1	221.2	234.6	237.8	248.4	206.8	177.6	157.2	139.3	124.1	111.2	99.1
4. LT+IMF+ST DOD/Exports	574.0	627.7	584.3	621.9	666.5	701.4	608.1	542.0	493.9	444.6	405.9	369.2	330.5
G. DOD-to-GDP Ratios (b)													
1. Long-Term Debt/GDP	154.9	161.0	275.7	224.1	351.7	500.0	581.6	486.2	402.0	347.1	300.8	270.1	236.7
2. IMF Credit/GDP	18.1	18.8	33.7	26.4	37.6	49.4	72.9	68.5	61.6	49.6	41.8	34.9	29.0
3. Short-Term Debt/GDP	122.4	124.0	188.4	151.7	216.0	301.2	337.2	270.3	216.5	181.0	150.9	131.4	113.8
4. LT+IMF+ST DOD/GDP	295.5	303.8	497.8	402.2	605.2	850.6	991.7	825.0	680.2	577.8	493.5	436.3	379.5
H. Debt Service/Exports (a)													
1. Public & Publicly Guar. LT	8.9	11.7	9.2	7.8	9.6	28.9	22.0	20.1	16.7	13.7	12.5	11.2	12.9
2. Private Non-Guar. LT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Total LT Debt Service	8.9	11.7	9.2	7.8	9.6	28.9	22.0	20.1	16.7	13.7	12.5	11.2	12.9
4. IMF Repurchases+Serv.Chgs.	1.5	0.4	0.0	0.0	0.0	56.3	3.4	2.4	2.8	6.4	5.2	6.3	5.9
5. Interest only on ST Debt	0.0	0.0	0.0	0.0	9.5	2.5	6.2	7.1	6.3	5.6	5.0	4.4	4.0
6. Total (LT+IMF+ST Int.)	10.5	12.0	9.2	7.8	19.1	87.7	31.6	29.6	25.8	25.7	22.6	22.0	22.7
I. Interest Burden Ratios													
1. Total Interest/GDP	2.8	3.2	4.4	2.9	12.5	36.8	27.0	25.6	20.8	17.0	13.9	11.6	12.8
2. Total Interest/Exports (a)	5.4	6.6	5.1	4.4	13.7	30.3	16.6	16.8	15.1	13.1	11.4	9.8	11.2

(a) Ratio to "Exports" with latter defined to include merchandise exports and receipts from non-factor services, factor services and worker remittances.
(b) Needs to be interpreted with care because of (i) the underestimation of GDP in the context of a growing parallel economy, and (ii) the wide disparities in the impact of a series of major devaluations upon the magnitudes of external debt and nominal GDP.

GUYANA - CENTRAL GOVERMENT FINANCES

Annex B5
(Page 1 of 2)

	Actual				
	1985	1986	1987	1988	1989
	(In millions of G$)				
Central Government					
A. Total Current Receipts	780.2	1019.2	1138.8	1660.7	2935.0
1. Indirect Tax Revenues	348.5	467.5	543.9	598.5	1236.0
2. Direct Tax Revenues	312.7	413.8	441.2	630.5	1096.5
3. Non-Tax Current Receipts	119.0	137.9	153.7	431.7	602.5
B. Total Current Expenditures	1493.7	1895.0	2394.3	2790.2	5726.8
1. Interest Payments	702.8	993.4	1207.8	1313.5	3220.2
2. Transfers	99.2	211.0	219.1	300.1	759.0
3. Goods and Services	683.0	682.6	951.9	1165.3	1741.8
4.Refund of Revenues	8.7	8.0	15.5	11.3	5.8
C. Current Budget Balance	-713.5	-875.8	-1255.5	-1129.5	-2791.8
D. Capital Receipts and Grants	34.6	27.1	102.2	71.2	252.1
E. Capital Expenditures	382.7	350.3	575.6	473.7	1093.5
1. Capital Formation & Transfers	380.1	345.5	564.0	459.2	1053.7
2. Acq. of Financial Assets	2.6	4.8	11.6	14.5	39.8
F. Overall Balance	-1061.6	-1199.0	-1728.9	-1532.0	-3633.2
G. Financing:					
1. Financing of Public Corporations	0.0	863.5	0.0	0.0	0.0
H. Financing Requirement:	1061.6	2062.5	1728.9	1532.0	3633.2
1. External Borrowing (net)	235.9	141.0	234.1	322.0	308.7
2. Domestic Financing (net)	825.7	1921.5	1494.8	1210.0	3324.5
a. non-bank borrowing	227.9	359.6	-73.6	-51.4	1215.0
b. borrowing from banks	597.8	1561.9	1568.4	1261.4	2109.5
G. GDP at Current Market Prices	2056.0	2339.0	3439.0	4172.0	7772.0

Annex B5
(Page 2 of 2)

GUYANA-PUBLIC SECTOR FINANCES
(In percent of GDP at Constant Prices)

	Actual					Prel.		Projected					
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Primary Current Account	4.8	17.8	27.1	15.5	17.5	17.0	23.6	25.8	27.2	28.2	28.7	28.7	28.7
Central Government 1/	-5.7	4.5	-3.1	-4.0	-3.1	2.9	9.5	7.7	9.0	10.0	10.5	10.5	10.5
Revenue	33.0	39.2	29.5	29.7	24.8	29.2	33.2	30.7	31.0	31.0	31.0	31.0	31.0
Expenditure	-38.7	-34.7	-32.6	-33.7	-27.9	-26.3	-23.7	-23.0	-22.0	-21.0	-20.5	-20.5	-20.5
Public enterprises and NIS 2/	8.2	11.9	30.3	19.3	21.0	14.3	14.4	18.0	18.0	18.0	18.0	18.0	18.0
Bank of Guyana 2/	2.3	1.4	-0.1	0.2	-0.4	-0.2	-0.3	0.1	0.2	0.2	0.2	0.2	0.2
Capital Revenue	0.2	0.1	0.0	0.0	0.5	2.5	7.3	5.2	5.4	4.8	4.9	4.3	3.7
Grants	1.5	1.1	3.0	1.7	2.8	4.8	7.8	20.5	15.6	12.1	9.4	7.8	5.8
Capital Expenditure	-24.3	-23.1	-28.4	-18.2	-25.0	-37.1	-36.4	-35.0	-33.5	-29.0	-27.0	-26.3	-22.6
Overall Primary Balance	-17.8	-4.1	1.7	-1.0	-4.2	-12.8	2.3	16.5	14.7	16.1	16.0	14.5	15.6
Interest Obligations	-28.5	-30.5	-35.6	-31.2	-42.4	-46.0	-38.2	-34.8	-28.6	-24.5	-21.3	-18.8	-19.8
Domestic	-15.7	-16.7	-12.2	-11.6	-11.8	-12.2	-11.2	-9.2	-7.8	-7.5	-7.4	-7.2	-7.0
External 3/	-12.8	-13.8	-23.4	-19.6	-30.6	-33.8	-27.0	-25.6	-20.8	-17.0	-13.9	-11.6	-12.8
Overall Balance	-46.3	-34.6	-33.9	-32.2	-46.7	-58.8	-35.9	-18.3	-13.9	-8.4	-5.2	-4.2	-4.2
Financing	46.3	34.6	33.9	32.2	46.7	58.8	35.9	18.3	13.9	8.4	5.2	4.2	4.2
External (Net)	29.1	24.7	35.9	17.3	34.7	41.6	40.3	12.8	9.0	9.2	7.3	4.4	3.0
Domestic	17.2	9.9	-2.0	14.9	12.0	17.2	-4.4	5.5	5.0	-0.9	-2.0	-0.2	1.2

Sources: Government of Guyana and Bank Staff Estimates

1/ Excludes transactions with the Public Enterprises and the NIS.
2/ Excludes transactions with the Central Government.
3/ Starting from October 1990 interest obligations on rescheduled debt were estimated at 2 percent of the stock of such debt. These obligations were subsequently rescheduled by the Paris Club.

ANNEX C

SUMMARY OF ECONOMIC AND SECTOR WORK, FY92-94
(Staff-Weeks)

	FY92	FY93	FY94
Economic Work			
Country Economic Memorandum	32	-	-
Policy Framework Paper	2	15	-
Poverty Assessment	-	30	-
Economic Update	-	-	30
PSIP Review	-	-	25
Total Economic Work	34	45	55
Sector Work			
Agricultural and Forestry Policy Options	40	-	-
Financial Sector and Domestic Regulation Review	-	50	-
Total Sector Work	40	50	55
TOTAL	74	95	55

Social Indicators of Development, 1990

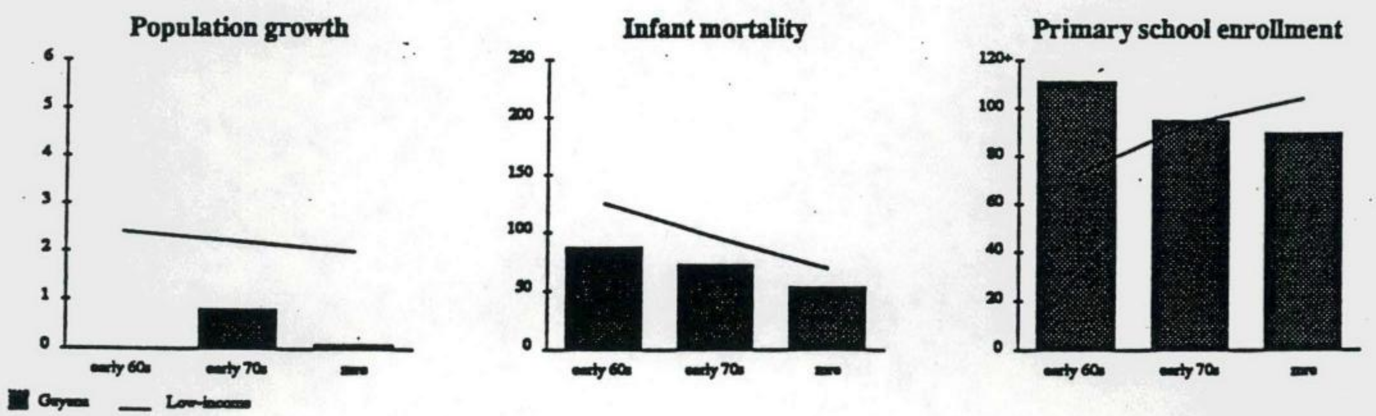
Guyana

	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region / income group: Latin America, Caribbean	Same region / income group: Low-income	Next higher income group
INCOME AND POVERTY							
Income							
GNP per capita (mre = 1989)	US$	320	640	340	1,950	330	1,320
Total household income							
Share to top 10% of households	% of income	..	..	..	..	..	..
Share to top 20% of households	"	..	..	..	..	..	..
Share to bottom 40% of households	"	..	..	..	..	..	..
Share to bottom 20% of households	"	..	..	..	..	..	..
Poverty							
Absolute poverty income: urban	US$ per person	..	..	..	..	..	..
rural	"	..	..	..	..	..	..
Pop. in absolute poverty: urban	% of pop.	..	..	..	..	..	..
rural	"	..	..	..	..	..	..
Prevalence of malnutrition (under 5)	% of age group	..	32.1	22.1	..	..	..
EXPENDITURE							
Food	% of GDP	..	..	..	..	..	..
Staples	"	..	..	..	..	..	..
Meat, fish, milk, cheese, eggs	"	..	..	..	..	..	..
Cereal imports	thou. metric tonnes	43	62	53	17,357	27,738	40,386
Food aid in cereals	"	..	0	65	..	7,122	7,767
Food production per capita	1979-81=100	112.4	101.4	69.6	103.8	117.8	99.9
Share of agriculture in GDP	% of GDP	24.1	31.1	24.5	10.1	32.8	15.2
Daily calorie supply	calories per person	2,276	2,302	2,373	2,728	2,342	2,741
Daily protein supply	grams per person	56	57	59	69	56	71
Housing	% of GDP	..	..	..	..	..	..
Average household size	persons per household	..	5	..	..	..	..
Urban	"	..	..	..	..	..	..
Fixed investment: housing	% of GDP	..	..	..	..	..	..
Fuel and power	% of GDP	..	..	..	..	..	..
Energy consumption per capita	kg of oil equivalent	..	819.9	585.0	967.1	323.8	843.7
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	..	..	..	..	..
Population per passenger car	persons	62	28	..	17	..	30
Fixed investment: transport equipment	% of GDP	..	..	..	..	..	..
Total road length	km	..	..	..	..	..	..
Population per telephone	persons	..	35	24	12	..	17
INVESTMENT IN HUMAN CAPITAL							
Medical care	% of GDP	..	..	..	..	..	..
Population per: physician	persons	..	4,000	6,220	938	1,463	1,551
nurse	"	..	1,134	885	879	1,747	..
hospital bed	"	..	200	300	..	755	..
Access to health care	% of pop.	..	..	88.8	..	..	..
Immunized (under 12 months): measles	% of age group	..	..	52.0	52.7	43.5	62.9
DPT	"	..	..	67.0	62.4	41.3	65.2
Oral Rehydration Therapy use (under 5)	% of cases	..	..	9.8	33.6	21.6	27.5
Education	% of GDP	..	..	..	..	..	..
Gross enrollment ratios							
Primary: total	% of school-age group	111.0	95.0	90.0	106.8	104.3	102.0
female	"	110.0	95.0	99.0	105.4	94.7	101.1
Secondary: total	"	53.0	54.0	55.0	47.9	37.2	51.1
female	"	50.0	55.0	62.0	51.3	28.0	52.4
Tertiary: science/engineering	% of tertiary students	..	31.3	17.4	..	..	..
Pupil-teacher ratio: primary	pupils per teacher	26	32	37	24	29	26
secondary	"	28	21	19	..	18	17
Pupils reaching grade 4	% of cohort	..	99.6	94.0	69.3	67.8	..
Repeater rate: primary	% of total enrollment	..	8.4	3.5	19.6	..	8.6
Illiteracy rate: overall	% of pop. (age 15+)	..	..	4.1	16.7	43.4	25.4
female	% of females (age 15+)	..	..	5.2	19.0	56.5	31.6
Newspaper circulation	per thou. pop.	..	165.7	88.8	81.7	20.4	78.9

Source: World Bank International Economics Department, September 1990.

Guyana

	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region / income group: Latin America, Caribbean	Same region / income group: Low-income	Next higher income group
HUMAN RESOURCES							
Size, growth, structure of population							
Total population (mre = 1989)	millions	0.65	0.73	0.80	422	2,945	667
14 and under	% of pop.	46.1	43.8	35.9	36.5	35.3	37.9
15-64	"	46.6	52.8	59.2	58.9	60.1	57.6
Age dependency ratio	unit	1.06	0.89	0.64	0.70	0.65	0.73
Percentage in urban areas	% of pop.	29.2	29.6	34.1	73.6	37.4	59.2
Females per 100 males							
Urban	number	..	101	..	104	..	..
Rural	"	..	101	..	..	..	..
Population growth rate	annual %	..	0.8	0.1	2.0	2.0	2.1
Urban	"	..	1.0	1.5	2.9	5.6	3.0
Urban/rural growth differential	difference	..	0.2	2.1	3.0	5.8	1.9
Projected population: 2000	millions	..	..	0.82	514	3,620	831
Stationary population	"	..	..	1.30	..	..	..
Determinants of population growth							
Fertility							
Crude birth rate	per thou. pop.	40.8	32.8	25.6	27.9	29.8	30.0
Total fertility rate	births per woman	6.13	4.32	2.92	3.45	3.80	3.87
Contraceptive prevalence	% of women 15-49	..	29.0	..	..	56.2	..
Child (0-4) / woman (15-49) ratios							
Urban	per 100 women	..	63	..	..	..	..
Rural	"	..	63	..	..	..	..
Mortality							
Crude death rate	per thou. pop.	12.4	8.1	7.6	7.1	9.9	8.1
Infant mortality rate	per thou. live births	87.2	71.8	53.2	51.7	69.3	52.7
Under 5 mortality rate	"	..	..	64.3	61.6	161.0	81.5
Life expectancy at birth: overall	years	58.4	60.4	63.7	67.0	61.9	65.2
female	"	60.2	62.8	66.6	70.0	62.7	67.6
Labor force (15-64)							
Total labor force	millions	0.19	0.24	0.37	148	1,371	244
Agriculture	% of labor force	35.0	29.3	..	..	..	..
Industry	"	27.9	27.1	..	..	..	..
Female	"	19.8	22.8	25.0	26.6	35.9	30.2
Females per 100 males							
Urban	number	..	103	..	106	..	..
Rural	"	..	103	..	88	..	..
Participation rate: overall	% of labor force	28.9	30.6	36.5	35.1	49.5	38.8
female	"	11.4	13.9	18.3	18.5	35.0	22.6
Educational attainment of labor force							
School years completed: overall	years	..	..	6.8	..	..	..
male	"	..	..	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	215	215	215	20,308	36,997	21,088
Density	pop. per sq. km	3	3	4	20	76	30
Agricultural land	% of land area	6.3	6.4	8.0	36.5	36.1	36.9
Agricultural density	pop. per sq. km	47	53	46	55	212	82
Forests and woodland	thou. sq. km	182	182	164	9,703	9,154	6,084
Deforestation rate (net)	annual %	0.0	0.0	0.0	-0.5	-0.3	-0.7
Access to safe water	% of pop.	..	84.0	82.0	73.2	..	63.5
Urban	"	..	100.0	100.0	83.6	73.4	77.2
Rural	"	..	75.0	65.0	52.6	..	46.8



ANNEX E

Environmental Issues

1. In the case of bauxite, the residue from mine excavation and from refining operations cause unsightly but largely localized problems, although bauxite dust coats an area up to several miles downwind from the plant where most of the mineworkers live. Gold and diamond prospecting by small-scale individual prospectors and international mining companies on streams throughout Guyana's western interior given rise to major environmental problems. First, the dredging activity greatly alters the appearance and quality of streambeds and banks. Second, a new dredging method recently introduced into the region has a substantial potential for streambank destruction. Third, the mining process also has the potential for releasing large amounts of mercury or cyanide directly into the streams. A 175-mile road linking Brazil and Guyana is currently under construction with Brazilian financing. There is justifiable concern that it would impact negatively on wild life and on the biodiversity of the area involved. There is also a fear that it will open-up one of the few remaining virgin forests in the world to various forms of exploitation. However, a parallel development which could have a positive environmental impact is a program currently being prepared by the Commonwealth Secretariat for the development of a Sustainable Tropical Forestry Project on land donated by Guyana for such purposes. In any event, there is an urgent need for the development of an appropriate regulatory framework and a means for enforcement to deal with the environmental issues associated with bauxite and other mining activities and with the new road.

Women In Development

2. In 1990, a UNDP-financed survey identified the needs of women in twelve communities located outside the major cities of Guyana. Potable water supply was considered by women to be a priority in two-thirds of the communities surveyed. The need for day care centers was cited in 40% and nursery schools in 30% of the communities. The survey did not cover nutrition or health care. Nevertheless, the women expressed serious concerns about the lack of income-generating activities, a concern which reflects a deteriorating economic situation where women feel unable to provide food and other basic necessities for their families. An estimated 74% of pregnant women are anemic. The Government's SIMAP program has identified women and children as groups particularly vulnerable to the social costs imposed by the structural adjustment process. The estimated 173,000 women of child-bearing age (15-44 years) comprise the key target group for SIMAP projects in health, including potable water, nutrition, and for services such as day-care centers and nursery schools.

ANNEX F

GUYANA - EXTERNAL FINANCING REQUIREMENTS, 1990-95
(in millions of US$)

	Actual		Projected				Total
	1990	1991	1992	1993	1994	1995	1992-95
Capital Requirements	239	234	207	200	200	204	811a/
Non-interest Curr. Acct. Deficit	132	85	69	62	56	43	230
Interest Payments	43	78	82	85	85	87	339
Amortization	53	45	48	43	38	39	168
Reserve Accumulation b/	-11	-26	-7	-9	-21	-34	-71
Financing (Gross)							
Gross Disbursements	239	234	207	200	200	204	811
Long Term Capital	162	193	176	165	164	164	669
Multilaterals	111	96	60	64	68	69	261
Bilaterals	9	21	13	6	4	2	25
Private Suppliers Credits	12	8	7	1	0	0	8
Direct Investment	14	42	45	46	47	51	189
Grants	16	26	51	48	45	42	186
Other	77	41	31	35	36	40	142
Memorandum Item:							
New Capital requirements			110	108	112	110	440
Bilateral			58	50	46	42	196
Grants			51	48	45	42	186
Concessional Loans			7	2	1	0	10
Multilateral			48	58	66	68	240
Concesional Loans			48	58	66	68	240
Private Suppliers			4	0	0	0	4
Credits			4	0	0	0	4

a/ Totals may not add due to rounding.

b/ A negative sign indicates reserve accumulation.

Source: World Bank staff projections.

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THE WORLD BANK
Operations Committee

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Minutes of the Operations Committee to Consider the PERU - Trade Policy Reform Loan; Initiating Memorandum

Held on Wednesday, September 4, 1991, at 10:30 a. m. in Room E1243

A. Present

Committee

Messrs. M. A. Qureshi, Chairman
D. J. Wood, FPRVP
K. Kashiwaya, CFSVP
A. Karaosmanoglu, ASIVP
W. A. Wapenhans, EMNVP
D. R. Bock, OPNSV
P. Isenman, PRE
H. Scott, LEG
F. J. Aguirre-Sacasa, AFR

Others

Messrs./Mmes A. M. Choksi, LA1DR
D. Papageorgiou, LA1CO
G. Shepherd, LA1CO
V. F. Garcia, LA1CO
I. Ohno, LA1CO
E. Grilli, EAS
E. J. Stoutjesdijk, FRS
N. Okonjo-Iweala, OPNSV
R. H. Cucullu, LEGLA
M. Selowsky, LACCE
T. L. Hutcheson, PRDRA
M. J. L. Pommier, CODOP
M. E. de Nevers, FRSCR
K. Ebiri, CL2DR
H. P. Crevier, SECGE
F. J. Lysy, EAS

B. Issues

1. The Operations Committee met on September 4, 1991, to consider the Initiating Memorandum for the proposed Trade Policy Reform for Peru. The discussion covered the following issues:

(a) The Macro Framework, in particular the fiscal situation and the viability of the program;

(b) The external financing plan;

(c) The support for supply side measures, such as for rehabilitation of productive infrastructure;

(d) The trade reform program; and

(e) The proposed approach on tranching, and disbursement procedures.

C. Discussion

The Macro Framework, the Fiscal Situation, and Viability

2. The Region opened the discussion with a brief statement on the status of the program in Peru. They noted that they had already discussed the basic strategy with our Board, and that the IMF would go to their Board for approval of their Rights Accumulation Program in Peru in early September.

3. The Chairman then asked about the sustainability of the proposed program. He noted that the fiscal situation would be key to this, and that there had been a marked decline in fiscal revenues. He asked what was being done to reverse this. The Region responded by noting that the overall structural reform program was excellent and was proceeding well (and in fact accelerating). There had been strong measures in such areas as trade reform and agriculture. The weakness was in the macro situation, which remained tenuous and extremely difficult. The fiscal situation was, indeed, the critical element here. Fiscal revenues were now 7.6% of GDP, and the goal was to bring them to 10%. The key problem was in tax administration, which was lax. With essentially the same tax structure, Peru formerly obtained taxes equivalent to 15% of GDP. The upcoming SAL (to be pre-appraised next week) will address fiscal reform issues, but the IMF is providing the main assistance here, both in the design of the tax reform program and in assistance in improving tax administration. The IDB is assisting on customs administration. The Region is comfortable with having the Fund (and on customs, the IDB) take the lead on assistance for tax administration and reform. A member of the Committee noted later in the discussion the Bank was relying to an unusual degree on the Fund in this critical area of structural reform. The Region responded that this was true, but that the Fund had been working longer with Peru than the Bank had (having been receiving current debt service payments since August 1989), and had begun work in this area before the Bank was involved. He noted also that the Bank was in close agreement with the Fund on the basic policy issues involved.

4. A member of the Committee noted that the macro projections provided in the IM did not show a deep macro adjustment, and were inconsistent with the meeting's discussion on the desperate state of the situation. Domestic consumption, for example, was projected to rise as a share of GDP to over 80% before showing a slow decline over time. The figures in the annex tables of the IM on the levels and trends on public sector revenues and expenditures also seemed to be inconsistent with the discussion in the text of the IM and with the discussion at the meeting. Another member of the committee noted that the macro framework for the operation was not really provided in the IM. He noted that, although the proceeds from this operation would be used for, in effect, the clearance of arrears to the Bank and hence not result in a net increase in Bank exposure, this was still an adjustment loan and should meet all of the normal requirements of an adjustment loan. In particular, the macro framework for the operation should be clear. The Region agreed that perhaps not enough had been presented on the macro program in the IM, and that it would remedy this. Another member of the Committee noted later in the discussion that paragraph 66 (a) of the IM stated that, as a condition of Board presentation, there would be agreement on the macro program, including specific macro targets and focussing in particular on fiscal revenue and expenditure measures. He asked whether this program would be circulated to the OC. The Region responded that it would.

The External Financing Situation

5. The Chairman asked about the status of the Support Group discussions. The Region responded by noting that there was a need for $1.3 billion in 1991-92 from the Support Group in the financing plan developed by the Fund. So far, however, only about $1.0 billion had been raised, and of this, only about $650 million was untied balance of payments support as Peru needs. The Region noted, in particular, that the announced support of the United States was to a large extent tied to specific imports. The US Chairman of the Group had stated that he agreed that this was a problem, and that he would discuss the issue again with other officials in Washington, as well as (in his role as Chairman of the Support Group) with the other donors on their tied support. The timing of the financial support to be provided was also critical. It is hoped that agreement on the full $1.3 billion of assistance needed will be reached in early September. The Fund had previously indicated it would go to its Board with the Fund program only after all of this support was in place. However, the Fund was now considering the possibility of presenting its program to the Board provided at least the first year money was committed.

6. The Chairman asked why Peru had so far been able to remain current on new debt service payments due the Fund, but not to the Bank or the IDB. The Region stated that payments due the Fund are made by the Central Bank, and to obtain the foreign exchange required it is able to use its power to print money and then in effect to use this domestic currency to purchase foreign exchange in the open foreign exchange market. The ceilings set by the Fund on money creation and reserves take these repayment needs into account. For the Bank and the IDB, in contrast, the Government (and not the Central Bank) is the debtor, and the Government has found it difficult to maintain current debt service payments to the Bank and the IDB (and payments to other internal and external creditors as well) under the tight fiscal ceilings of the Fund. And, if the Central Bank were to lend funds to the Government in order to effect payment to the Bank and the IDB, there would be a constitutional problem. The Region noted that it was quite concerned about these new arrears to the Bank. Its position is that the Fund Board should not meet on the Peru program until these new arrears were cleared. Since the whole workout process depends on a tight sequencing of events, starting with the Fund's approval of the Rights program (which is necessary for the Paris Club then to reschedule debts owed to members of the Club, which is in turn then necessary for some of the Support Group members to provide the support they have pledged), the threat of holding up the meeting of the Fund Board should exert significant leverage on Peru. The Chairman noted that Mr. Husain had sent a letter to Mr. Beza of the Fund on this. The Chairman also stated that we must not go to our own Board with our new operations if there are any post-October 1990 arrears to the Bank.

7. The Chairman also noted that the external financing plan was not clear from the tables and discussion in the IM. The IM tables show a large residual financing gap, and it was not clear what was being assumed about how these would be closed. He directed that the multi-year financing plan should be circulated to the OC. He noted that Peru was not paying any debt service to any creditor but the IFI's, and that this would need to continue. He also noted that the financing plan should cover the period beyond 1992. What was needed for a possible sustainable work-out? There is a need to begin to build

a case, such as was done for Poland, for an eventual reduction of the debt to a viable level.

World Bank Support for Supply Side Measures

8. A member of the Committee stated that it was not clear from the documentation circulated what would be done to assist in the rehabilitation of Peru's productive structure, and indeed what would lead to a supply response. The IM did note that Peru's productive structure was in a desperate state of decay. Shouldn't this be a key element of the Bank's program? For example, could not the Bank help prepare or coordinate projects which others might finance? The Region responded by stating that it was doing work here. The Bank was proceeding to prepare rehabilitation loans in Infrastructure, Mining, and the Social Sectors. However, because of the extremely weak institutions in place and the fact that the Bank has done no business with Peru for a number of years, such loans will require 18 to 24 months of preparation before they can be ready for Board presentation. In addition, the Bank is, through ESW and other efforts, working with other donors and agencies (including the IDB) in their Peru programs.

9. In terms of other means to provide support to the program, the Chairman stated that the Region should consider the possibility of establishing a Resident Mission in Lima.

The Trade Reform Program

10. The trade reform program Peru is following was generally praised as being exceptionally strong. However, a few points were raised. First, the question arose of whether too much effort was being placed on reducing average tariff levels, given the extremely low level of fiscal revenues discussed above. Tariff dispersion should be reduced, but the emphasis on also reducing average tariff levels in the current fiscal crisis situation is not so clear. The Region responded that, first, overall tariff receipts would not fall as much as otherwise, since non-tariff barriers have also been drastically reduced. And second, whether tariff receipts fall with a cut in average tariff rates will depend on the price elasticities. The Chairman noted, however, that the elasticity effect should not be exaggerated; it is questionable whether the elasticities would be so high as to lead to this result given the situation in Peru. In any case, the Region should look into this issue of the appropriate average tariff rates, given the fiscal revenue needs.

11. Second, the question arose of the appropriate structure for export taxes, given the need to expand exports. The Region agreed that the current export taxes were distortionary for the products affected, but that since the taxes were relatively small and isolated, it was not worthwhile to expend a great deal of the Bank's "political capital" on the issue.

12. Third, it was noted that the trade reform being followed in Peru would not necessarily be consistent with what will soon be negotiated in the Andean Pact. The Region agreed that this could be a potential problem, but that it was working to encourage the Andean Pact members to negotiate an agreement that would not introduce new trade restrictions.

The Approach on Tranching, and Disbursement Issues

13. The Chairman stated that the IM gave the impression that the operation was justified on the basis of actions taken prior to June 30, 1991, i.e., a one tranche operation. Although the Peruvian authorities had already implemented the bulk of the key measures, the operation still had a number of actions which would be required during the performance period between Board approval and the signing of the loan. These actions should be considered like a trigger for a second tranche. The representative of the Legal Department stated that he would prefer the approach described in the IM in which all the conditions would be set out in a Letter of Development Policy which would be given to the Bank prior to Board approval. Continued performance of these conditions would be a condition of signing the Loan Agreement.

14. The practical difficulty of gathering sufficient import receipts for Bank disbursements in such arrears work-out cases, was also noted. The Chairman directed that some practical modification to the standard procedures be considered if necessary. If such modifications could be worked out, the Chairman suggested that board approval be obtained in principle before the proposed operations are presented to it.

D. Decisions

13. The Region was cleared to proceed with the appraisal of the proposed operation, taking into account the discussion above. However, no operation for Peru could be presented to the Board unless the post-October arrears of Peru to the Bank had been cleared. The Region must also circulate to the Operations Committee an elaboration of the macro program being expected in Peru, as well as a multi-year financial plan, all as discussed above. Finally, it was noted that the date proposed for the start of Negotiations might imply the Green Cover package would have to be cleared by the SVPOP at a time when he (and other senior managers) had already left for Bangkok for the Annual Meetings. This should be avoided.

FJLysy:sb

September 24, 1991

Mr. Qureshi

Page 24-25

Invit. - Page 53.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE : September 20, 1991

TO : Operations Committee

FROM : Fred D. Levy, Acting Director, EAS

EXT. : 81947

SUBJECT: **BRAZIL: Country Strategy Paper - Agenda**

1. 3.30 The Operations Committee will meet on **Wednesday, September 25, at 3:00 p.m., in Room E-1243**, to discuss the Country Strategy Paper for Brazil.

Introduction

2. Brazil's economy grew at about 8 percent per annum between the mid-sixties and the onset of the debt crisis in 1982 - a long period of sustained growth which included the "miracle years" of 1970-73 during which GDP grew by 12.6 per cent per year. At the beginning of the debt crisis, however, Brazil had the largest foreign debt for any developing country because of its large borrowings during the 1970s. The debt crisis and annual inflation rates of over 100% led to strong stabilization efforts and low growth. During the 1980s as a whole the average GDP growth was only 2 percent.

3. Low growth, very high and variable rates of inflation, and ineffective stabilization measures of various types have become constant features of the economy. There has been five major stabilization packages beginning with the Cruzado plan in 1986. In fact, over the last ten years, "there have been eight monetary stabilization plans, four currencies, 11 indexes of inflation, 18 foreign exchange rules, 54 price control guidelines, 21 foreign debt proposals, and 19 fiscal austerity decrees (para 28)". The inadequacy of the macroeconomic framework has led to a big drop in the Bank's lending levels since FY86; the economic and sector work program has, however, been deepened and strengthened in an effort to increase the effectiveness of policy dialogue.

Prospects

4. Clearly the fundamental concern in Brazil today is the prospect of continuing stagnation with high and variable inflation, and the further impoveri~~zation~~ shment of the lower income groups. The failure of the two Collor packages have apparently led to an impasse; the Government is now seeking a sweeping overhaul of the Constitution without which it believes the necessary fiscal reforms would not be possible. But fiscal

measures to create a substantial primary surplus would not be sufficient; a sharply contractionary monetary policy is also needed (with money defined broadly to include the government's short-term internal debt):

- would the Region elaborate upon the policies necessary for successful stabilization and the lessons of Collor I and II? What are the prospects for a breakthrough? Is the low-case scenario (Annex B, page 1), with no stabilization and little adjustment, viable and sustainable? Is it likely that the intermediate case (Annex B, page 2) would yield results so rapidly compared to the low case (projected GDP growth 4 percent higher in 1992)?

- what is the status of negotiations between the Government and the Fund, and between the Government and commercial debtors?

Graduated response

5. The CSP proposes a continuation of the policy of "graduated response" that was approved during the last CSP review in 1988. In the low-case, our lending would be $500 million per annum, and the intermediate case (the high case) it would be $1,500 million per annum. Although the CSP does not present a "most likely" or "base" case, it essentially proposes a continuation of current levels of lending (Table A1-5), which are above the proposed low-case lending program. The Committee might wish to consider the correspondence between policy reforms and lending levels, with references to the sectoral policy issues listed in Annex A2 and the discussion of trigger points in Annex I. In particular:

Why is there not the base case?

- the Region might explain the nature and extent of sectoral policy reforms that should condition the continuation of current levels of lending. Are we seeking all the changes listed in Annex A2 or only the changes in the sectors which will receive our loans? The Region might also explain the discordance between the sectoral policy issues mentioned in the CSP and those discussed in the last Country Economic Memorandum. For example, (a) in agriculture, the CSP mentions policy issues in irrigation, water resource development, and land markets and rural property. The CEM on the other hand stresses the need to eliminate interventions to influence prices, in particular the various price stabilization schemes; (b) in industry, the CSP mentions the need to support the Government's privatization program and pollution controls. The CEM, however, appeared to give higher priority to the elimination of the system of fiscal incentives which reduces the cost of capital goods to selected industries; (c) in education, higher emphasis on primary and general secondary education is proposed, but the CEM also stressed the need to enhance the role of the private sector in providing education.

? Poor Projects

- **lower lending scenarios**. How does the low-case lending program ($500 million per annum) differ from the current lending program in terms of the required policy performance?

- **higher lending scenarios**. The intermediate scenario assumes some success in macroeconomic stability, deeper structural reforms in trade, deregulation and privatization, an IMF program, and a debt agreement (a DDSR is not however shown in the lending program in Annex C). Assuming such policy changes do occur, will an increase in the lending program from $620 million to $1500 million be warranted as early as FY92 or FY93? How long a track record should be required? And if macroeconomic policies do improve but still remain less than fully satisfactory what would be the lending response? Would increases in lending be at all warranted short of substantial progress toward macroeconomic stability and an IMF program?

- **risk management**. Net disbursements and net transfers would remain negative for sometime unless commitments are substantially increased. While the Region advises against defensive lending, what are the risks of continuing with the current lending level, or of reducing it to $500 million or less?

Areas of special emphasis

6. The Bank's country strategy in Brazil has incorporated considerable emphasis on private sector development, environment, and poverty. Nearly all of our advice to the Government has been in the direction of reducing public interventions and promoting competitive private markets. Government strategies in trade, deregulation, and privatization have benefitted from our policy work and are well-directed, but little progress appears to have been made in reforming the financial sector. Concerns with environment and poverty alleviation are also reflected in the proposed lending and ESW programs. Would the Region elaborate upon the priorities of policy reforms in these areas that might be considered preconditions for expanded lending?

Operations Committee:

Messrs. Qureshi (OPNSV), Husain (LACVP), Jaycox (AFRVP), Karaosmanoglu (ASIVP), Wapenhans (EMNVP), Rajagopalan (PRSVP), Summers (DECVP), Shihata (LEGVP), Kashiwaya (CFSVP), Wood (FPRVP), Bock (OPNSV).

cc: Messrs. Thahane/Burmester, SECGE; Picciotto, CPB; Goldberg, LEGOP; Wyss, COD; Sandstrom, EXC; Isenman, PRD; Linn, CEC; Stoutjesdijk, FRS; (Ms.) Okonjo-Iweala, OPNSV; Parmar, IFC-CIO; El Rifai, MIGPA; Rao, IEC; Kavalsky, FRM; Niehuss, CFSVP; Pfeffermann, IFC-CEI; Liebenthal, PRD; Kilby, FRS; Robless, OPNSV; Walton, DEC; Khanna, EXC; Selowsky, LACCE; Choksi, Papageorgiou, Fitzgerald, LA1; Santos, CL2; Shakow, EXT; Institutional ISC.

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NK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 23, 1991

TO: Mr. Shahid Husain

FROM: Lawrence H. Summers

EXTENSION: 33774

SUBJECT: Mexico and Brazil Country Strategy Papers

1. I agree with the overall direction for Bank strategy described in both these CSPs, but I have some comments.

Mexico

2. I am more concerned than the CSP that we need to continue to pay attention to macroeconomic issues. Box 1 is wrong: the fact that capital inflows are associated with imports of investment goods is not the key issue; the question is whether capital inflows are supporting a rise [illegible] investment. Here the figures are mixed and worrying: national saving have declined from 21 percent of GDP in 1989 to 17 percent estimated for 1991; there is a broad-based expansion in private consumption demand (that [illegible] not explained by postponed spending on durables); and at least in 1990 [illegible] of the growth in imports was in consumer goods. If capital inflows [illegible] partly financing a consumption boom alongside a declining private savings rate, the situation has much greater potential for unravelling. The CSP also pays little attention to what should be done with the PACTO/PECE and whether the exchange rate should be fixed. These issues are linked: if the behavior of the private sector leads to an excessive trade deficit, there could be a need to bring about a real depreciation [illegible] inflation. I expect macroeconomic management will [illegible] good, but that doesn't mean Mexico won't face difficulties [illegible]eed to maintain a core of strong economic work.

[illegible] agree a large lending program is justified in this period of [illegible]ion and I can see that Mexico's high creditworthiness offsets, to [illegible] extent, the risks associated with its high share of the Bank's [illegible]io. However, I am not clear why we should be agreeing to more than [illegible]a, where a lending program of \$1.7 billion was agreed to only [illegible] special circumstances [illegible] Indonesia is poorer, it arguably has greater [illegible] probably at [illegible]st as creditworthy as Mexico.

[illegible] composition of lending and the proposal [illegible] old lending [illegible] policy progress [illegible] persuasive. I have two questions on the [illegible] program:

[illegible] clear [illegible] key policy iss[illegible] for [illegible] environ[illegible] [illegible]ing. [illegible] understand fro[illegible] that [illegible] important issue is the bala[illegible] [illegible] and pri[illegible] [illegible]s. Some mix of taxation and [illegible] make sense. [illegible] likely to be clear: for [illegible] attempt to reduce [illegible] [illegible]ing people which can [illegible] on which day [illegible] being bought and I understand that preliminary analysis indicates high welfare losses for little or no benefits. Substantially raising the cost of private urban transport, notably through higher gasoline prices, will, I hope, be one of the tests of sectoral policy.

(b) The CSP gives the impression that regional and poverty issues will be taken care of by a relatively modest, targeted part of the program. This may well be part of the story, but I would have liked to see a more comprehensive regional strategy--including assessment of the balance in growth between Mexico City and peripheral regions--and a better understanding of how the 60 percent of our resources going to support for "private-sector-led" growth was influencing the pattern of growth in an inequality -ducing direction. (On the poverty numbers, I found it difficult to square the mathematics on page 6--by my calculations even th richest decile have an income below the national average).

Brazil

5. I share both a pessimistic assessment of Brazil's capacity to get to grips with its macroeconomic problems, and the view that if it could only sort out its policies it could return to high growth. However, I found the CSP unclear on the fundamental constraints to serious action. I suspect that the absence of strong, Salinas-style, leadership is more important than political economy or institutional issues. The remarkable success in long-term growth prior to the 1980s suggests Brazil's problems are not intractable. The CSP also surprisingly fails to give a clear series on the fiscal deficit, that is fundamental to the macroeconomic and debt problems. Fiscal adjustment is reportedly sometimes very strong (in Collor I) and sometimes inadequate and insoluble.

6. I support a position of limited lending under current circumstances and placing equally stringent conditions on our support for debt reduction as are laid down for the resumption of adjustment lending. I would attribute the success of the Mexico deal--and the less clear benefits to the Philippines deal--precisely to the fact debt reduction was a necessary complement, as much politically as financially, to strong domestic adjustment programs. We should, of course, be prepared to come in with substantial resources when this is justified.

I have one general reaction to the strategy. The Brazil CSP shares the Mexico CSP a trinity of emphases on private sector development, the environment and poverty. Since Brazil has shocking human conditions r its wealth and it is cl the environment will continue to get plenty attention from the G-7, I wo argue that we should further raise the ority we give to poverty uman resource development in the use of own resources and our p ual capital. On the environment, I wo e greater relative weight to urban pollution in our strategy, e il has examples of the best (in reducing pollution levels in Sao lo) and the worst (in some of the Northeastern cities).

OC members, Thalwitz (man, Steckhan, Choksi