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CR-139-GUA.

RESTRICTED
Report No. P-664

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT CREDIT AND A PROPOSED LOAN TO GUYANA FOR THE EDUCATION PROJECT

January 16, 1969

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REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT CREDIT AND LOAN TO GUYANA FOR THE EDUCATION PROJECT

1. I submit the following report and recommendation on a proposed development credit and loan, each in an amount in various currencies equivalent to US$2.9 million to Guyana, to assist in the financing of an education project.

PART I - HISTORICAL

2. In late 1966, the Bank, after reviewing Guyana's 1966-1972 Development Program, recommended not only an increase in investment expenditure on education, but also a new strategy for developing Guyana's human resources, whereby public investment would be substantially reduced in primary education, and would instead be concentrated on establishing a multilateral pattern of secondary school education, on teacher training and higher education. At the Government's request, a UNESCO/Bank reconnaissance mission visited Guyana to outline the scope of an education project adapted to the above-mentioned approach. A follow-up UNESCO mission in March-April 1968 helped to prepare an education proposal, which was submitted by the Government for the Association/Bank's consideration in May 1968. The proposal was appraised in July-August 1968.

3. Negotiations for the proposed credit and loan, totaling $5.8 million, were held from December 30, 1968 to January 3, 1969. The Government of Guyana representatives at these negotiations were headed by Mr. James Douglas, Permanent Secretary in the Ministry of Education.

4. This would be the Bank's second and Association's first lending operation to independent Guyana. The Bank made a loan in 1961, to the former colony of British Guiana, with the guarantee of the United Kingdom. The following is a summary statement of Bank lending as of December 31, 1968:

Loan	Year	Borrower	Purpose		Amount Bank	(US$ Million) Undisbursed
285-BG	1961	British Guiana	Agricultural Credit		1.2	-
559-GUA	1968	Guyana	Sea Defenses		5.0	5.0
		Total (less cancellations)			5.9	
		Of which has been repaid to Bank and Others			.8	
		Total now outstanding			5.1	
		Amount sold		.8		
		Of which has been repaid		.7	.1	
		Total now held by Bank			5.0	
		Total undisbursed				5.0

5. No other projects are in an advanced stage of review. The Government is however discussing further projects in agriculture and transport.

PART II - DESCRIPTION OF THE PROPOSED DEVELOPMENT CREDIT AND LOAN

6. **Borrower:** Guyana

Purpose: To assist in financing the construction and equipment of one teacher training college and seven multilateral schools; a study of materials and construction methods for schools; fellowships abroad; and a project implementation unit.

Amount: A development credit in various currencies equivalent to US$2.9 million, and a loan in various currencies equivalent to US$2.9 million.

Amortization:	A - Development Credit: In 50 years, including a 10-year period of grace, through semi-annual installments of 1/2 of 1% from June 15, 1979 through December 15, 1988, and of 1-1/2% from June 15, 1989 through December 15, 2018.
	B - Loan: In 30 years, including a 10-year period of grace, through semi-annual installments beginning June 15, 1979 and ending December 15, 1998.
Interest Rate (Loan):	6-1/2% per annum.
Service Charge (Development Credit):	3/4 of 1% per annum.
Commitment Charge (Loan):	3/4 of 1% per annum.

PART III - THE PROJECT

7. An appraisal report entitled "Appraisal of An Education Project In Guyana" (PE-1) on the proposed project is attached.

8. The proposed project is the first part of Guyana's long-term education development program for improving the quality, efficiency and output of school teachers and for introducing a multilateral system of secondary education. Unlike the prevailing grammar-type schools, multilateral secondary schools, after providing students with a common base of general studies, screen them according to ability and aptitude for further schooling in distinct curriculum streams such as science, technology, agriculture, humanities and commerce, thus producing the versatile school leavers needed by a developing economy.

9. The project consists of:

(a) construction and equipment of one primary teacher training college (and related boarding facilities), with total enrollment of about 660 students;

(b) construction and equipment of five new multilateral secondary schools and conversion of two existing schools to the multilateral type (and related boarding and staff housing facilities, with combined total enrollment of about 5700 students;

(c) consultant services for an analytical study of the economics of the use of building materials and techniques for school buildings in Guyana, designs, and supervision of construction;

(d) provision of 15 man-years of fellowships; and

(e) establishment of a project implementation unit.

10. In Guyana, the responsibility for all educational matters rests with the Ministry of Education. To ensure an efficient implementation of the project and co-ordinate other matters relating to Guyana's long-term educational program, of which the project is an essential part, a Project Implementation Unit is to be established within the Ministry. A Director in charge of the Unit, acceptable to the Association and the Bank, has already been appointed, and will be entrusted with powers and responsibilities agreed to with the Association and the Bank. He will be assisted by a project architect, procurement, educational and other necessary specialists. The effectiveness of the development credit and the loan will be conditional on the appointment of Consultants, acceptable to the Association and the Bank, to prepare the site surveys, college and school designs and the aforementioned analytical study, as well as to supervise construction.

11. Total project costs, including contingencies and interest and other charges on the loan during construction, are estimated at about US$10 million. The proposed development credit and loan would cover the estimated foreign exchange component of the project, with the minor exception noted in the following paragraph.

12. Contracts for civil works, instructional equipment, books and furniture would be let on the basis of international competitive bidding. Bids would be invited in packages of a size likely to encourage international bidding. There is a local furniture industry which appears to offer prospects for development on an economically viable basis, and at the request of the Government, it is proposed that the Association and the Bank be prepared to include some local procurement, with local suppliers being allowed a preference of up to 15 percent in lieu of existing import duties. The total value of furniture to be procured is about US$340,000, and local furniture has an estimated foreign exchange component of about 50 percent. Hence the proposed development credit and loan might cover a nominal amount of local costs, which could not exceed some US$170,000.

13. Disbursements for civil works, fellowships and the project implementation unit would be on the basis of agreed percentages representing the estimated foreign exchange component and those for instructional equipment, books and consultants' fees, on that of full foreign exchange costs. Disbursements for furniture would be against the actual foreign exchange cost of imported goods, or if local suppliers win the orders, for the ex-factory price of the goods.

14. Guyana has a high literacy rate (estimated at 83 percent in 1960) and an adequate number of primary schools. However, the physical facilities for secondary education are not only insufficient, but the academic curriculum is unsuited for the needs of a developing economy. With the upgrading of teacher training and the changeover at a secondary level to a multilateral pattern, it is anticipated that students provided with both academic and prevocational backgrounds could either enter work-life at a semi-skilled level, or after further specialization serve as skilled workers or technicians for industry, agriculture, administration, commerce, health services, etc., or as professionals after appropriate university training, to meet Guyana's future manpower needs in these varied fields.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

15. The draft Development Credit Agreement between Guyana and the Association, the draft Loan Agreement between Guyana and the Bank, the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association and the Report of the Committee provided for in Article III, Section 4(iii) of the Bank's Articles of Agreement are being distributed to the Executive Directors separately.

16. The draft Development Credit and Loan Agreements conform substantially to the pattern of agreements for education projects. I would call your attention to the following features:

(i) Both Agreements have identical provisions with respect to the allocation of the proceeds of the total financing to be provided by the Association and the Bank for the Project (Schedule 1 to both Agreements).

(ii) Except for that portion of the Loan which will finance a part of the interest and other charges on the Loan, the proceeds of the Loan will not be disbursed until the amount of the Development Credit has been fully withdrawn or committed (Section 2.03 (b) (iii) of the Loan Agreement and above-mentioned Schedule 1).

PART V - THE ECONOMY

17. The report of the Bank's economic mission entitled "An Appraisal of the Development Program of Guyana", No. WH-169b, which evaluated Guyana's 1966-1972 Development Program, was distributed to the Executive Directors on May 3, 1967 (R-67-56). It highlighted the need to substantially increase public savings in order to meet the requirements of the proposed public investment program, to improve fiscal management and control of credit, and to curb consumption and corresponding import demand, thus alleviating the pressure on the balance of payments. In view of the country's generally scarce resource endowment, the low levels of per capita income and foreign exchange reserves, and its limited capacity at this stage of development to generate sizeable domestic resources, the report pointed out the need for Guyana to seek external finance on a soft blend basis. With the establishment of the Burnham coalition Government in 1966, Guyana entered a new phase of development marked by the restoration of political order and more orderly economic growth. In elections last month, Mr. Burnham's party, the People's National Congress, received increased popular support and now has a substantial majority in the legislature.

18. In the atmosphere of political stability, the economy has demonstrated a high degree of vitality in recent years. Economic growth in real terms has averaged about 4.5 percent during 1966-67. Because of less favorable weather conditions, preliminary estimates indicate a somewhat lower growth rate in 1968. Overall price increases have been limited to an annual rate of less than 3 percent. Because of the relatively high population growth, (a little less than 3 percent per annum), real per capita income has been rising very modestly and is currently estimated at US$240. Spurred by sizeable private investments in the bauxite mining sector as well as by a substantial increase in public investments, gross investment reached the very high level of 30 percent of GDP in 1967 (compared with less than 20 percent prior to 1966). The public sector accounted for over one-third of the total. The large investments by bauxite mining companies were substantially completed in 1967; however, public investment has reportedly continued to increase.

19. Marked improvement has occurred since 1966 in public finances. As a result of new tax measures, and improvements in tax administration, current revenues rose by an average annual rate of about 10 percent during 1966-1968 and now are equal to about one-fourth of GDP. At the same time, current expenditure increases were successfully restrained to between 3 and 4 percent annually. As a result of these efforts, budgetary savings rose from a negative position in 1965 to G$5.3 million (net of debt amortizations) in 1967. The 1968 results are expected to be similar to those for 1967. The resulting larger public savings amounted to about 17 percent of the public sector investments in 1967. While continuing efforts, especially in reducing the heavy subsidies to some public entities, will be needed to increase the proportion of the public investment program financed from domestic sources, the progress in recent years in this direction has been encouraging.

20. Recent balance of payments performance has been on the whole quite satisfactory. Following a period of overall deficits, sizeable surpluses were registered during the past two years. As a result, Guyana did not need to draw under the Stand-by Agreement with the IMF. This favorable turn is largely attributable to extraordinarily high private capital inflows connected with recent investments in the bauxite mining sector, and to rising public capital inflows. More significant from the standpoint of improving the basic structure of the balance of payments has been the commendable export performance (with exports rising at an average of about 9 percent annually since 1965) and the successful containment of consumer goods imports. In view of the recently increased capacities in the bauxite mining sector and further investments being envisaged to raise sugar and rice production, the outlook for further export growth appears favorable. Guyana's general competitive position has also been enhanced by the devaluation in line with sterling in November 1967. These prospects, together with the expected further increase in public capital inflows, should largely compensate for the now reduced capital inflows by the bauxite companies, and keep the balance of payments viable.

21. Because of the very favorable terms of external aid in recent years, the service requirements on Guyana's public external debt are relatively low - between 4 and 5 percent of current foreign exchange earnings. However, total (internal and external) public debt charges currently absorb as much as 16 percent of current revenues. In the circumstances, and in view of its heavy reliance on external aid for implementing the public investment program and its limited capacity to service external debt, Guyana has properly been seeking a substantial portion of its external aid needs on concessional terms.

PART VI - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

22. I am satisfied that the proposed development credit and loan would comply with the respective Articles of Agreement of the Association and the Bank.

PART VII - RECOMMENDATION

23. I recommend that the Executive Directors adopt the following Resolutions:

"RESOLUTION NO. IDA ___________

Approval of Development Credit to Guyana in an amount equivalent to US$2,900,000.

RESOLVED:

THAT the Association shall grant a development credit to Guyana in an amount in various currencies equivalent to two million nine hundred thousand United States dollars (US$2,900,000), to mature on and prior to

December 15, 2018, to bear a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Development Credit Agreement (Education Project) between Guyana and the Association, which has been presented to this meeting."

"RESOLUTION NO.____________

Approval of Loan to Guyana in an amount equivalent to US$2,900,000.

RESOLVED:

THAT the Bank shall grant a loan to Guyana in an amount in various currencies equivalent to two million nine hundred thousand United States dollars (US$2,900,000), to mature on and prior to December 15, 1998, to bear interest at the rate of six and one-half percent (6-1/2%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Loan Agreement (Education Project) between Guyana and the Bank, which has been presented to this meeting."

Attachments

Robert S. McNamara
President

Washington, D.C.
January 16, 1969