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PL 480 Title III

Guyana Program Proposal

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B. POLICY MATRIX

A. EXECUTIVE SUMMARY

The proposal is to develop a $30 million ($10 million per year) Title III program with Guyana. This will enable the country to maintain its current level of wheat imports for the coming three years. By the end of the three years, the country will be further on its path of economic growth, given the policy reforms and local currency usages contemplated, and will have satisfied its wheat import requirements without additional strain on its foreign exchange resources or having to add to its external debt burden.

Guyana is one of the neediest countries in the LAC region, which is why it qualifies for grant food aid under the "poverty criteria" in the new food aid legislation, unlike many of the other Title III countries in the LAC region. Per capita income in the country has declined, to $360 in 1990, making Guyana second only to Haiti in terms of overall levels of poverty. The country's productive and social infrastructure has deteriorated badly over the last decade, and significant numbers of the best educated Guyanese have left the country for better economic opportunities abroad. These developments will make it much harder to get the economy growing again now that the government has created a more reasonable macro-economic environment and has adopted a more liberal policy toward domestic and international markets. Guyana also has one of the most serious external debt problems of any country in the LAC region; interest payments on the country's external debt account for over 40 percent of GDP. Under these circumstances, continuing to supply Guyana's wheat needs through a Title I program which adds to its external debt burden makes no sense.

The proposal is for $10 million per year, because this is the estimated cost of continuing to cover Guyana's total wheat import needs plus transportation. If AID approves a smaller program, this will mean that the new government will have to decide whether to allow its scarce foreign exchange earnings to be used to pay for commercial wheat imports or to limit the availability of a food that cannot be grown locally but that is an integral part of the Guyanese diet. Adopting the first option would have negative implications for the economic growth prospects of the country, in that a significant amount of the country's scarce foreign exchange earnings would have to be used to import a consumption good rather than be available to cover the costs of importing the capital and/or intermediate goods needed to support the resumption of economic growth. The wheat supplies that are being made available under the current Title I program will only carry the country through to the end of March. Therefore, to avoid any gaps in the availability of wheat in the country, it is also essential that this program be approved in early December and the negotiations with the government completed as expeditiously as possible.

The Title III program will be the first activity to be initiated as part of our resumed foreign assistance program to Guyana. As it turns out, it is also likely to be the largest component of the U.S. foreign assistance program over the foreseeable future, as a result of the declines in DA and ESF resources. Under these circumstances, approval of a program that will cover the costs of the country's wheat import needs for the coming three years is needed to send the right message -- that the United States fully supports the democratic initiatives of the country as well as the efforts by the newly elected government to continue pursuing the economic and social development objectives that are consistent with the objectives of the U.S. government in general and of Title III assistance in particular. On the other hand, approving a smaller program (one that does not cover the full costs of importing the wheat plus shipping costs) would give the appearance that U.S. support to Guyana was declining right after the elections when the expectations in the country were that U.S. assistance would increase. Commitment to a three year program now is also important as another means of signaling of U.S. support to the new government, besides providing more leverage with respect to the policy reform agenda to be covered under the program.

The program will include five elements: 1) commodity imports, 2) balance of payments support, 3) policy reforms affecting the agricultural sector, 4) local currency generations, with strengthened accountability, and 5) agricultural policy coordination and monitoring. The major thrust of the policy reform element of the program together with the local currency expenditures is to remove or mitigate those constraints that are preventing Guyanese farmers in particular from responding in a more vigorous fashion to the improved structure of incentives that are now in place as a result of the country's new economic policy framework. In other words, although the implementation of many of the reforms will require working with and improving the workings of government institutions, the objective is to improve the environment and profitability for the private sector.

The long-term goal of the program is to contribute to broad-based, sustainable economic growth in the country. The purpose of the program is to increase agricultural production and foreign exchange earnings stemming from agricultural exports, both of which will have a positive impact on food security. Increases in agricultural production will have a positive impact on the amount of food available in the country, directly by increasing the amount of food available from domestic production, as well as indirectly, by increasing the amount of foreign exchange available to import wheat and other foods that the country does not have a comparative advantage in producing domestically. Increases in agricultural production and productivity should also have a positive effect on rural household's well-being by increasing rural incomes and on urban household's food security by reducing food prices. The primary outputs expected under the program (as a result of the policy reforms and local currency expenditures) are an increased investment by the private as well as the public sector in agriculture and an increase in agricultural productivity. The principal performance indicator of AID success in achieving the program purpose will be an increase in agricultural sector GDP.

One hundred percent of the approximately 47,000 metric tons of wheat imported under the program each year will be sold, and the local currency generated will be used for specific sector support, counter-part of AID and other donor projects, strengthening audit capability, the local costs of program coordination, and to indigenous NGO's (not less that 10 percent of the local currency generated will go to this latter purpose). Illustrative areas within the agricultural sector to which local currencies may be programmed include: rehabilitation and maintenance of sea defense, drainage and irrigation systems; land tenure; rural finance; technology transfer, research and extension; rehabilitation and maintenance of road and transport infrastructure; and financial accountability.

The Title III program will be managed from the AID Regional Development Office for the Caribbean (RDO/C) in Barbados, as will the remainder of the U.S. foreign assistance program to be developed for the country. A USDH program manager on the RDO/C staff will have prime program management responsibility, with support from senior mission management with respect to the policy dialogue. To facilitate management of the program, the PL480 office in Georgetown will be maintained and staffed with a DA funded PSC and a local currency funded administrative officer and secretary. The DA funded Policy Coordinator/Monitor, whose function will be to coordinate the policy agenda within the GOG and with the other donors on a day-to-day basis and to monitor and report to RDO/C on overall program performance, will play a key role in the successful management of this program.

B. PROGRAM DESCRIPTION

1. Problems Addressed

The Guyana multi-year Title III program has been designed to address the country's biggest problem -- the need to get the economy growing again on a sustainable basis. It will do this by helping to create an environment in which the agricultural sector can maximize its contribution to the long-term economic growth of the country. Renewed economic growth is essential not only to provide the jobs and the incomes needed to raise the majority of the population out of poverty but also to provide the economic surplus needed to rehabilitate the country's economic infrastructure. The latter is a prerequisite to increasing economic productivity and achieving long-term, sustainable economic growth. Without, economic growth the country will also not be able to afford to rebuild its social infrastructure (rebuilding the health and education systems are of major importance given the role they play in contributing to the needed upgrading in the human resource base in the country) or to provide for the needs of those such as the elderly and the disabled who will be unable to benefit directly from the resumption of economic growth.

The performance of the Guyanese economy during the 1980s was disastrous. Real gross domestic product declined continuously, averaging a minus 2.8 percent decline per year during the 1980-88 period. As a result, the level of recorded output in 1988 was only 68 percent of the 1976 level. Because of the continued decline in the terms of trade, and the rising share of interest payments, gross national income declined even faster, at a rate of minus 4.9 percent during the same period. Foreign debt outstanding increased from 187 percent of total exports in 1980 to 668 percent in 1989, and with the currency devaluation in that year, total debt exceeded 600 percent of GDP. The public sector deficit also increased from 21 percent in 1980 to 32 percent in 1988 and the current account deficit in the balance of payments widened from 7 percent of GDP to 20 percent in the same period.

The performance of Guyana's agricultural sector over the last ten years was also disastrous, with agricultural GDP declining at a rate of minus 2.6 percent per year over the period 1981-90. The sector's disappointing record, led by a slow but steady decline of rice production and a significant decline in output from the sugar industry, contributed significantly to the country's declining output and standard of living. In terms of the decline in national output, the sugar industry's performance by itself (including sugarcane and sugar-milling activities) accounted for almost 60 percent of the decline in total GDP during the 1983-90 period. In terms of welfare, the most important effect of the Government's policies on the agricultural sector was to reduce the incomes of Guyana's small farmers through the implicit tax on paddy rice production.

The country's dismal economic performance was a direct result of a series of misguided government policies beginning in the early 1970s which brought major productive sectors of the economy under the control of the Government, either through direct investment or through government price controls and rationing of foreign exchange. Major foreign owned investments in the sugar and bauxite sectors were nationalized in the 1970s. The government also extended its control over Guyana's major financial institutions, and most consumer and marketing agencies. These actions resulted in an environment in 1988 in which the government controlled over 80 percent of recorded import and export trade and 85 percent of total investment. Not surprisingly, the rapid expansion of the public sector was accompanied by a concomitant decline in the importance of the private sector and the emergence of a parallel economy.

With respect to the agricultural sector, the government's investment, pricing, trade and macro-economic policies combined to create major price distortions which had a negative effect on agricultural production and productivity. The increasing overvaluation of the country's currency alone resulted in an implicit export tax averaging more than 60 percent throughout the 1980s. Immediate and longer-term production and productivity were also undermined by the Government's increasing inability to provide much needed public goods and services. The largest negative impact on agriculture originated from (1) a steady deterioration of the country's infrastructure (this impacted significantly on agricultural production and productivity, since maintaining the productivity of coastal lands requires adequate drainage and protection from the sea) and (2) the deterioration of roads and other transport infrastructure which increased marketing costs.

In 1988, the economic situation had deteriorated to such a serious level that the government in power decided that it had to make major changes in the way that it had been managing the economy. And the comprehensive Economic Recovery Program (ERP) which was implemented called for a much reduced role in the economy for the public sector, the removal of controls that distorted commodity and factor prices, and a greater role for the private sector. Major changes that were implemented include the divestment of a number of public sector enterprises, the liberalization of the foreign exchange regime, the reduction of price controls to a minimum, and the elimination of most import and export licenses. Few countries, in fact, have undertaken such a dramatic turnaround in economic policies, and few have implemented such a program with similar speed and determination. Because of its efforts, a support group of donors was organized and the Government was able to secure financing to clear arrears to the multilateral lenders. It was also able to agree with the IMF, World Bank, and CDB on major programs of support, and to agree with the Paris Club on a major program of debt relief.

In the agricultural sector, the most important aspects of the economic reforms focussed on the liberalization of the rice market and the introduction of private management in the Government sugar corporation (GUYSUCO). Rice production in particular has benefitted from a decontrol of output prices, greater availability of inputs and spares, and the privatization of a majority of the public sector rice mills. In other words, most of the major price distortions affecting the agricultural sector have already been eliminated. The result has been an improvement in the structure of incentives facing Guyana's farmers and finally in 1991 an increase in agricultural output.

Still, there are many critical constraints that need to be addressed in order to enable the private sector (Guyana's farmers) to respond more effectively to the new price incentive structure, especially over the medium to longer-term. Most of the more important constraints are closely tied to the restoration of services which have traditionally involved public sector participation. These include (1) rehabilitation and maintenance of the sea walls, (2) rehabilitation and the improved maintenance and management of the country's drainage and irrigation systems, (3) the divestment of state-owned lands and the provision of adequate titling services to privately owned farms, (4) improvement in the research and technology dissemination services available, and (5) the development of more effective rural financial markets. The removal of these constraints, however, is fundamental to improving the levels of productivity and production in the agricultural sector. All are important constraints. And the removal of each will require a combination of policy changes and improvements in administrative and implementation arrangements.

Getting a sustained resumption of growth in the agricultural sector is also key to reducing overall poverty in the country. The agricultural sector is one of the most important sectors, historically contributing approximately one fourth of the value added in the overall economy (not counting the value added from services provided to the sector). The agricultural sector has also been responsible for roughly 50 percent of the county's export earnings over the last decade and for employing 35 to 40 percent of the economically active population.

2. Program Objectives and Performance Indicators

The long-term goal of this multi-year Title III program is to contribute to broad-based, sustainable economic growth in the country. The purpose of the program is to increase agricultural production and foreign exchange earnings stemming from agricultural exports, both of which will have a positive impact on food security. Increases in agricultural production will have a positive impact on the amount of food available in the country, directly by increasing the amount of food available from domestic production, as well as indirectly, by increasing the amount of foreign exchange available to import wheat and other foods that the country does not have a comparative advantage in producing domestically. Increases in agricultural production and productivity should also have a positive effect on rural household's well-being by increasing rural incomes and on urban household's food security by reducing food prices. The primary outputs expected under the program (as a result of the policy reforms and local currency expenditures) are an increased investment by the private as well as the public sector in agriculture and an increase in agricultural productivity. The principal performance indicator of AID success in achieving the program purpose will be an increase in agricultural sector GDP. By the end of the PL-480 Title III agreement period, the country will be further on its path of economic growth, especially in the agricultural sector, and will have satisfied its wheat import requirements without additional strain on its foreign exchange resources or having to add to its external debt burden.

3. Program Elements

The Guyana Title III program will include five elements, all of which are designed to contribute to the overall purpose of the program:

- commodity imports
- balance of payments support
- policy reforms affecting the agricultural sector
- local currency generations, with strengthened accountability
- agricultural policy coordination and monitoring

The commodity component of the program will supply Guyana with the total of its wheat import and consumption requirements, which on the basis of historic patterns, have averaged over 47,000 metric tons of imported wheat per year. Alleviating the pressure on Guyana's balance of payments through the dollar financing mechanism of PL-480 Title III wheat imports will permit the country to allocate scare foreign exchange to other priority import needs necessary to spur growth. With the Title III program in place, the immediate problem of implementing the economic recovery will not have negative implications for the maintenance of the food consumption patterns in the country. The policy reform component of the program (which is described in the following section) will be used to support reforms designed to remove or mitigate those constraints that are preventing Guyanese farmers in particular from responding in a more vigorous fashion to the improved structure of incentives that are now in place as a result of the country's new economic policy framework. The local currencies generated under the program will also be used in ways that are supportive of the identified policy and institutional reforms. A portion of the local currencies will be programmed to strengthen accountability for the funds in end-use agencies. A DA funded PSC will assist in coordinating the PL 480 Title III policy agenda within the GOG and with the other donors as well as monitor and report to AID on the overall program.

The program's policy reform agenda is summarized in the Policy Matrix in Annex B and set forth in detail below. The major thrust of the policy reform element of the program together with the local currency expenditures is to remove or mitigate those constraints that are preventing Guyanese farmers in particular from responding in a more vigorous fashion to the improved structure of incentives that are now in place as a result of the country's new economic policy framework. Although the implementation of many of the reforms will require working with and improving the workings of government institutions, the objective is to improve the environment and profitability for the private sector. In addressing these constraints, the policy dialogue will also focus on the need to implement programs that will be fiscally responsible, facilitate producer participation in the market economy, have positive economic impacts, promote the involvement of the private sector, and strive to achieve cost recovery and sustainability.

The policy reform agenda that is proposed is broad, but in comparison to the programs developed for some of the other Title III programs in the LAC region, lacks details in the second and third year of the program. This is understandable given the unique circumstances under which this proposal was developed -- no AID mission or program in place and a new government that had just been in office for two weeks.

The absence of an AID program in Guyana has meant that rather than having a policy agenda based on analyses prepared by AID, the agenda is based on studies prepared through the World Bank and IDB. This coupled with the election only weeks ago of a new government in Guyana has led to an agenda which will be made more specific through future study and dialogue for years two and three of the program. Even if a more detailed policy reform agenda had been developed, additional time would be required for the new government to be clear enough about the problems that it has inherited and how these impact on its own agenda to be able to agree to the details of any policy reform agenda presented by the donors. It is already clear that the new government plans to continue with the major directions of the macro-economic stabilization and economic liberalization program initiated by the previous government in 1988, and the negotiations with the IMF, World Bank and IDB to reconfirm it commitments to (and to put its own stamp on certain aspects of) the macro-economic stabilization and sectoral reform programs appears open to working with donors in the development of the details of these programs. Discussions with key members of the new government also gave every indication that a more detailed policy reform agenda can be developed for the second and third year of the program as a result of the analyses to be conducted and plans to be developed during the first year of the program. The fact that other donors, the World Bank and the Inter-American Development Bank (IDB) in particular, are actively working in areas that will complement and supplement the reforms being proposed in this proposal increases the likelihood of getting the necessary government commitments as well as the likelihood of having the desired economic impacts.

The lack of specificity in the outlying years does not invalidate the rationale for a three year program. Nor should it delay the approval of the program. The wheat supplies that are being made available under the current Title I program will only carry the country through to the end of March. To avoid any gaps in the availability of wheat in the country, it is essential that this program be approved in early December and the negotiations with the government completed as expeditiously as possible.

a. <u>Policy Measures Related to the Maintenance of an Appropriate Macro-economic Environment and the Commitment to Not Reintroduce Price Distortions Into the Economy</u>

1st Year	The GOG agrees to maintain its commitment to the macro-economic policy framework agreed to with the IMF and the World Bank and to refrain from adopting new measures that would reintroduce serious price distortions into the economy and in particular to refrain from reintroducing price distortions that would negatively affect the structure of incentives affecting the agricultural sector.
2nd Year	The GOG continues to agree to maintaining the agreed upon macro-economic policy framework and to refrain from taking steps that would reintroduce serious price distortions.
3rd Year	The GOG continues to agree to maintaining the agreed upon macro-economic policy framework and to refrain from taking steps that would reintroduce serious price distortions.

Continued adherence by the government to the economic stabilization and restructuring program is critical given the likelihood that the country will continue to face major macro-economic imbalances. It is also important that the government not react to the pressures created by these imbalances by reintroducing price distortions into the economy.

Guyana's Economic Recovery Program (ERP) finally appears to be beginning to yield results. Guyana's GDP, according to a recent IDB analysis, grew by 6.1 percent in 1991, with production increases in agriculture, fisheries, forestry, and gold and diamond mining.

The country also registered a trade surplus in 1991, in comparison to deficits during the previous two years. Inflation has also fallen since April of 1991, reflecting both the stability of the exchange rate and reduced liquidity in the banking system, and is expected to fall even further during 1992.

On the other hand, the IDB also expects serious macro-economic balances to continue into 1993 and that these imbalances may impair growth. The overall deficit of the non-financial public sector, according to the IDB, is likely to remain at unsustainable levels. And the country's external position is also likely to remain precarious. The country's current account deficit will grow, because of the need for increased imports to relieve infrastructural problems, in spite of the projections that exports will continue to grow. The fact that greater interest payments on debt due will also have to be made will put further pressure on the country's balance of payments.

b. Policy Measures Related to the Removal of Distortions in the Domestic Flour Market

1st Year	The GOG agrees to drop its requirement that the National Milling Corporation (NMC) limits its flour sales to a limited number of named distributors and allows NMC to sell to any and all potential buyers.
2nd Year	The GOG continues to adhere to the policy of non-intervention in the domestic marketing of wheat flour.
3rd Year	The GOG continues to adhere to the policy of non-intervention in the domestic marketing of wheat flour.

There is one milling company in Guyana, the National Milling Company (NMC) of Guyana, Ltd., which purchases the wheat that enters Guyana under the PL480 program and processes and wholesales the wheat flour at prices that cover all discharge, input and processing costs plus profit. The flour market consists of a variety of middlemen between the miller and the ultimate consumers. These marketing agents are also almost entirely private. Currently, there exists an arrangement to restrict the number of wholesale purchasers from the mill to five and prohibit any additional wholesale and direct retail sales from the mill. The effect of this arrangement has probably been an increase in the retail price of flour over what it would have been if more competition had been allowed among all potential buyers -- retail agents such as bakers as well as all potential wholesale buyers. Under the policy agenda of the proposed program, this arrangement will be revised to allow unrestricted wholesale and retail purchases from the mill, with the objective of further liberalizing the flour market and eliminating wholesaler rents.

The Ministry of Trade and Industry continues to review the justification behind the mill's proposals to increase flour prices, but no longer exercises any real control over the setting of these prices. Given the fact that the mill is a virtual monopoly with a capacity to satisfy the country's total milling needs, this review probably is not unjustified. Wheat and wheat flour imports enter at a zero tariff level. The Ministry of Trade feels theses licensing restrictions are necessary to reduce further pressure on the balance of payments, and thus have been agreed to as part of the overall economic recovery framework. If wheat flour imports were not restricted, for example, bakers would be able to bid foreign exchange away from other importers (since there are no controls on foreign exchange markets) and use it to import wheat flour. This would reduce the size of the foreign exchange savings that could be derived from the program. As the country's balance of payment situation improves and a liberalized domestic wheat flour market is implemented, these restrictions can be relaxed and a phased plan developed for moving the country towards satisfying its wheat import needs through commercial imports.

c. **Policy Constraints Related to the Removal of Basic Infrastructure Constraints to Increasing Agricultural Production and Productivity**

Set of Measures 1: **Rehabilitation and Maintenance of Sea Defenses**

1st Year	The GOG commits itself to the development of a clear policy and strategic plan for rehabilitation and maintenance of its sea wall defenses which is acceptable to the donor community, and in which planned activities are supported with financial commitments and effective administrative and implementation arrangements.
2nd Year	The GOG obtains donor support for this plan and begins implementation of the institutional and managerial changes and makes arrangements in its budget for the necessary financial support according to the benchmarks in the agreed upon plan.
3rd Year	The GOG continues implementation of this plan according to the agreed upon benchmarks.

The majority of Guyana's arable land resources and an estimated 90 percent of its population are located in a narrow strip of land along the Atlantic coast. This strip is prone to flooding at high tide, and currently is protected by over 300 kilometers of various sea defenses.

Proper installment and maintenance of the defenses is critical to protect the country's productive resources. However, due to the country's financial difficulties, the defenses have been sorely neglected and many need immediate attention. A clear policy and strategic plan for rehabilitation and maintenance, supported with financial commitments and effective administrative and implementation arrangements, needs to be developed and executed. The plan should address the priority needs on the basis of cost-benefit analyses, the longer term sustainability of the rehabilitation and maintenance program, and coordination and efficient division of responsibilities between the central authorities, the regional administrative units and local beneficiaries.

Set of Measures 2: Improvement in Drainage and Irrigation

1st Year	The GOG commits itself to the development of a clear policy and action plan for restructuring the management of its drainage and irrigation systems, which is acceptable to the donor community and in which planned activities are supported with financial commitments and effective administrative and implementation arrangements. This policy and action plan will include provisions for 1) a more efficient division of responsibility between national and regional entities, 2) the involvement of water users in water management, and 3) the establishment of more realistic water users fees and improved mechanisms for collecting these fees.
2nd Year	The GOG begins implementation of the institutional and managerial changes and makes arrangements in its budget for the necessary financial support according to the benchmarks in the agreed upon plan.
3rd Year	The GOG continues implementation of this plan according to the agreed upon benchmarks.

The proper management of Guyana's drainage and irrigation systems, covering approximately 150,000 hectares, is another critical factor that has serious implications for both the immediate and long-term growth prospects in the agricultural sector. Many of these systems currently need rehabilitation and suffer from serious neglect of maintenance. The problem stems partly from the lack of clear cut responsibilities between regional and central authorities, lack of tenure security in the irrigation districts, lack of financial and technical support, and a failure to incorporate local stakeholders (farmers) in water management systems.

Since it has been demonstrated that farmers do benefit from improved water allocation and pay a premium for properly irrigated land, efforts should be made to incorporate farmers in the strategy for sustainable water management. Here again, a clear rehabilitation and maintenance policy and strategy needs to be developed. The new policy and action plan should also develop more realistic water use fees and cost recovery mechanisms. The latter, in particular, is essential to insure long-term sustainability of these systems.

e. **Policy Constraints Related to Needed Improvements in Land and Rural Financial Markets**

Set of Measures 1: **Rationalization of Land Use**

1st Year	The GOG commits itself to the development of a program acceptable to AID for granting long-term leases or selling state owned lands at market determined prices, in which planned activities are supported with financial commitments and effective administrative and implementation arrangements.
2nd Year	The GOG begins implementation of an agreed upon plan according to planned benchmarks.
3rd Year	The GOG continues implementation of this plan according to the agreed upon benchmarks.

It is estimated that 50 percent of arable land in Guyana is owned by the public sector. And a significant amount of this land is leased to farmers often on short-term leases. Insecure property rights to the land represents an important impediment to the growth of sector output. Without tenure security, farmers are hesitant to make investments, engage in land transactions that would result in more efficient farming operations, and lack the incentive to participate in sustainable infrastructural maintenance schemes. Lack of security in land also limits farmers' collateral borrowing possibilities.

While the Government appears to recognize the value in the sale or long-term lease of this land, it is hampered by the lack of a clear tenure policy, a cadastre, and efficient land transactions procedures. Here again, a clear government policy with respect to land leasing and titling needs to be developed and annunciated. In addition, priority land titling/leasing targets need to be established, and pursued under a sustainable administrative process which has the full confidence of farmers, credit institutions and the legal system.

Set of Measures 2: **Development of Rural Financial Markets**

1st Year	The GOG agrees to undertake an analysis of the constraints to the development of the country's rural financial markets, which will include among the issues addressed an analysis of the advisability of restructuring GAIBANK as measure for improving rural financial markets in the short to medium-term until the number of private banks active in the country increases and they become more active in rural areas.

2nd Year	The GOG develops an action plan for implementing the agreed upon recommendations from the study.
3rd Year	The GOG begins implementation of this plan according to the agreed upon benchmarks.

The two major sources of formal credit to the agricultural sector in Guyana are state-owned commercial banks and the Guyana Agricultural and Industrial Development Bank (GAIBANK). The latter is the only financial institution servicing non-urban areas. It does not accept deposits and has relied on foreign currency funding from donors and development agencies. Larger farmers are serviced by commercial banks, which have sizeable state ownership. Credit unions and informal markets are the principal other sources of credit.

The role of GAIBANK is limited due to its poor financial situation. Much of its capital base has been eroded through large loan losses, subsidized interest rates, and successive devaluations of the Guyanese dollar which drastically reduced the assets of the bank in hard currency denominations. In 1991, the bank's portfolio in agriculture was equivalent to only $U.S. 1.2 million.

While few would disagree that farmers should have broader access to formal credit sources and that these sources should be private, one argument is that some sort of restructuring of GAIBANK is desirable for the medium-term until the financial sector is liberalized and other measures, such as land titling and drainage and irrigation maintenance and management programs, are implemented. The goals of the restructuring would, in the opinion of the World Bank, be the eventual divestiture of the viable rural portfolio and the transformation of GAIBANK into a second-tier lending institution.

f. Policies Related to Improvements in Research and Extension

1st Year	The GOG commits itself to the development of a medium-term program for improving agricultural research and technology transfer systems. This program should include the necessary institutional reforms for strengthening both research and extension; provisions for insuring adequate budgetary support for these programs; mechanisms for involving the system's clients (primarily Guyana's private small and medium-size farmers) in the identification of research priorities and technology transfer; and for export crops in particular, the potential for developing mechanisms for obtaining direct budgetary support from private sector users; plans for increased collaboration with international research institutions.

2nd Year	The GOG begins implementation of an agreed upon program according to planned benchmarks.
3rd Year	The GOG continues implementation of this program according to the agreed upon benchmarks.

While a) market based prices for agricultural commodities have largely been restored; b) fertilizer and other input markets have been liberalized; c) the distortions caused by overvalued exchange rates have been eliminated; and d) land access programs appear on the horizon, technological progress is required in order for the sector to move to higher production possibility frontiers.

The concentration of most Guyanese farmers in the coastal farming areas, the demonstrated benefits of new strains of crops, and the relatively high level of skill and homogeneity of the farming sector would appear to provide hope for high rates of technology adoption. This however is hampered by an inefficient, understaffed, under funded, and ineffective technology generation and transfer mechanisms.

A technology generation and dissemination policy, strategy and implementing mechanism needs to be developed and adopted in conjunction with national and international research entities, farmer groups, and market agents. One appropriate strategy for alleviating the technology constraint might be to limit government's activities in research and extension to a few priority areas, i.e. serving as the initial clearinghouse and testing ground for new technologies, and to rely on the private sector in the broader application and dissemination efforts. Producer organizations for traditional crops can serve this process, effectively relieving the government of wide scale involvement in import, testing, certification, multiplication, and dissemination efforts, enabling the government to devote some resources to non-traditionals and specialty research topics.

4. Program Integration

a. Support to Mission Strategic Objectives

Now that Guyana has held its first free and fair elections in 28 years and has successfully completed the transition of power to a new government, the development of a new AID program is expected to move ahead relatively quickly, although at a lower level of resources than was anticipated when the initial planning was begun over a year ago. It is anticipated that the program that is to be developed will follow the recommendations in the 1991 strategic options paper, which means that it will have the *private sector* as its primary strategic focus and *democratic initiatives* as a possible secondary focus. The Title III program that is being proposed is consistent with the primary focus of the overall program in that it is designed to support the development of a more vibrant private sector, in the agricultural sector in particular. The major thrust of the policy reform element of the program together with the local currency expenditures is to remove or mitigate those constraints that are preventing Guyanese farmers in particular from responding in a more vigorous fashion to the improved structure of incentives that are now in place as a result of the country's new economic policy framework. In other words, although the implementation of many of the reforms will require working with and improving the workings of government institutions, the objective is to improve the environment for growth through the private sector.

b. Relationship to Programs of Other Donors

A number of multilateral donors are already active in Guyana, including the International Monetary Fund (IMF), World Bank, Inter-American Development Bank (IDB), European Economic Community (EEC), Caribbean Development Bank (CDB) United Nations Development Program (UNDP). Among the bilateral donors, Canada and the United Kingdom are the most active.

This program is complementary to and complemented by the initiatives of the IMF, World Bank, and IDB. The resources to be made available under this program have been taken into account in the macro economic policy reform program agreed to with the IMF and the World Bank as part of the external support necessary for the success of the program. The government's continued adherence to the basic conditions in the policy framework agreed to with the IMF and the Bank is also necessary to the success of the agricultural sector policy reforms that are the focal point of the policy reform agenda in this program. The agricultural policy reforms that are included in this program will also complement and supplement reforms that are included in the IDB's Agricultural Sector Hybrid Loan. This loan includes $30 million to be released in three equal tranches as a specified set of reforms are completed related to price and trade policies, institutional reforms in the agricultural sector, amelioration of the impacts of structural adjustment on low income households and the environment. Other donors are also active in other related areas including rehabilitation of the sea wall defenses (EC and IDB) and agricultural research and extension (UNDP and FAO).

C. PROGRAM JUSTIFICATION

1. Relationship to Objectives of the Title III Legislation and the Enterprise for the America's Initiative

a. Contribution to Improved Food Security

The new food aid legislation places considerable emphasis on the use of the resources made available under the Title III program to improve food security in the recipient country. In Guyana the food security problem is not a result of the inability of the country to produce enough calories to provide an adequate diet in the aggregate for all of its people. Nor is there clear evidence of serious problems of inadequate distribution of food. The problem is that after years of mismanagement of the economy, the country is very poor and heavily in debt. And this means that if scarce foreign exchange is to be used to import wheat, which is a staple in local diets, there will be less foreign exchange available to pay the interest on Guyana's foreign debt or to import the capital goods and intermediate inputs such as fertilizers needed to keep the economy growing. The appropriate strategy for dealing with this problem is to provide the country with the wheat it needs directly (or with the additional foreign exchange needed purchase the wheat commercially) in the short-run and to use the policy reform and local currency generations components of the program to help get the economy growing again so that the country can earn enough foreign exchange to pay for all its import needs as well as make its debt payments.

The food security situation in Guyana, in fact, differs considerably from that found in other countries in the LAC region that qualify for grant food aid under the new legislation. For example, with respect to the question of food availability, calorie supplies in 1990 (the most recent year for which food balance sheet data is available) were 2,393 calories per person per day. This is significantly below the 2,576 calories per person per day reached in 1973 and, in fact, is the lowest level of per capita calorie supplies available in the country since 1973. On the other hand, although low for Guyana, 2,393 calories per person per day is still 93 calories above the 2,300 calories per person per day cutoff point used to qualify countries for the Title III program under the "food security" criteria in the new food aid legislation.

Child mortality rates, although higher than in some of the other countries in the Caribbean, would also not qualify Guyana as a food insecure country under the "food security" criteria in the new legislation. That is the rate of 71 children dying per 1000 children under the age of five is below the cutoff point of 100 children. This suggests that the unequal distribution of food within the country -- the access question -- may not be as big a problem in Guyana as it is in many of the other LAC countries.

Since the distribution of food within a country is often directly related to the distribution of poverty, knowing whether poverty in Guyana is widespread or more highly concentrated also has implications for the design of a Title III program if it is to make an effective contribution to improved food security. If poverty is widespread, the focus of the program should be on actions designed to increase overall growth in the economy. If poverty is more concentrated, then more attention needs to be paid to the development of targeted programs.

The choice that was made in the development of this program was to focus on policy reforms and local currency expenditures needed to spur economic growth. This appeared to be the most reasonable strategy given what is known about poverty in the country (i.e., that it is wide-spread) as well as the fact that considerable amounts of other donor resources are already being devoted to the support of targeted programs. What information is available on poverty, including IDB and government estimates, suggests that it has increased over the last decade and that it is wide-spread. Since 1980, for example, out-migration has kept the total population roughly constant at about 750,000 people. At the same time, real GDP has fallen by 24 percent and consumption spending has fallen by 22 percent. The IDB estimated that 67 percent of the population was unable to afford a minimum basic of needs in 1989; government calculations put the figure closer to 86 percent; and the large increases in food prices that occurred in 1990 would have widened the gap between the earnings of the poor and the cost of a minimum food basket and very probably increased the number in poverty according to this method of calculation.

In fact, there is no reliable way to estimate the extent or location of poverty in Guyana or assess the effects of the deterioration of the economy or the more recent structural adjustment program on the poor since recent data are not available on household income levels, employment and unemployment rates, or on other social conditions. The absence of even the most basic data also makes it difficult to design social programs which effectively target the poor. Consequently, even specific efforts to address poverty such as the government's Social Impact Amelioration Program (SIMAP) have focussed on providing assistance to groups generally recognized as vulnerable, specifically young women and children and the unemployed.

SIMAP, which is a short-term program that provides support to nutrition and health programs and labor intensive employment schemes in infrastructure rehabilitation, was specifically designed to help ameliorate the potential costs of the country's Economic Recovery Program. Although important as a means of ameliorating any continuing impacts of the structural adjustment program, SIMAP does not appear to need additional support at this time. Since the program was slow to get started, SIMAP is only now beginning to identify and fund a wide variety of projects; it has received significant contributions from both the IDB and the World Bank (the World Bank is scheduled to contribute $10.3 million to this program in 1992/93); there is also concern among a number of donors that the program will have difficulty absorbing any additional resources until it has improved its management capacity. Other targeted programs include the Futures Fund, which is a program similar to SIMAP financed by the Canadian assistance agency (CIDA) and a cash transfer program to groups at risk to be run through the country's health system, which is being required by the IDB as part of its Agricultural Sector Hybrid Loan.

SIMAP and these other programs, although desirable, can only have an impact in the short-term. Developing a long-run solution to improving the quality of life for the Guyanese population will require a major revamping of the government's social services programs, including in health and education, beyond the improvements that these programs, which are more limited in time and scope, can contribute. Years of economic decline, have meant declining government allocations for the social sectors, inadequate investment and maintenance of the capital stock and insufficient allocations for basic materials and supplies. Reversing these trends will require the development of more sustainable social sector policies. Here to, however, the major prerequisite is that the economy begins to grow again on a sustainable basis.

b. Privatization of Food and Agricultural Distribution Systems

The new food aid legislation also encourages the use of the program to expand private sector participation in the marketing and production of food and agricultural commodities. The government, as part of its Economic Recovery Program, has already divested itself of many of the productive enterprises that it had nationalized, including the majority of the country's rice mills, and removed many other interventions that previously restricted the ability of the private sector to participate in domestic and foreign markets. Under this program, the government will be supported in its decision to remove the remaining constraints on the operation of the country's domestic flour market. And more importantly, the government will be encouraged to sell (or at a minimum to enable farmers to rent land under long-term leases) a large percentage of arable, irrigated land that has remained under government control.

2. Country Commitment

The recently elected administration of President Cheddi Jagan is committed to pursuing social and economic development objectives that are consistent with the objectives of Title III assistance. The administration places appropriate strategic emphasis on agricultural sector development, given the country's obvious physical and human resource advantages in agriculture. It expects the sector to lead a strategy for poverty alleviation and to be a source of adequate and affordable supplies of food, employment, and incomes, at least in the short to medium term.

From the point of view of food production and food security for the Guyanese population, the new administration recognizes the priority that must be given to refurbishing productive irrigation and transportation infrastructure, and protecting vulnerable farmland resources along the coast with a vigorous sea defense program. The administration proposes to take measures to assure farmer access to factors of production, such as land, machinery, fertilizer, and new technologies. In this regard, it proposes to continue policies that liberalized foreign exchange and import markets, and will renew support to long neglected land titling, research and extension programs. It proposes to pursue institutional reform in research, extension, and farmer credit programs that will make these programs more effective, sustainable, and accountable.

In the area of food markets, the new administration proposes to continue the economic liberalization that was initiated under the previous administration which resulted in the decontrol of agricultural prices (except for sugar), as well as the divestiture of the majority of state-run processing facilities and a reduction of government regulation and involvement in the marketing of agricultural commodities. Although the liberalization has occurred relatively recently, it already has resulted in growth in output and sector value added. The administration will maintain appropriate policy and incentive systems and work to reform remaining policy and technical constraints on the private farm sector in order to encourage investment in production, processing and marketing enterprises.

From the point of view of social welfare, the administration expects production increases from a vibrant private farm sector to ensure the affordable and adequate supply of food to the population. In this regard, it proposes to place more and more emphasis on encouraging the supply of a broader range of products, notably livestock, non-traditional crops and processed foods, which will favorably impact on nutrition in the country, not to mention the potential for value added to the agricultural economy. Several short term programs to target those groups whose nutritional and income status have been effected by liberalization measures have been established, while longer term improvements in production, education, and health systems are to be pursued under an investment program financed by local and external donor resources.

In short, there is strong commitment of the Government of Guyana to the objectives of food security, the privatization of food production, marketing and distribution systems, and nutritional improvement in the country.

The strategy implicit in this program is entirely consistent with the LAC Bureau objectives and the Caribbean regional development strategy which focusses on increased trade and investment. In the case of Guyana, increased trade and investment is inextricably linked to the implementation of policies that will lead to the rehabilitation of its agricultural infrastructure and the promotion of private sector production, processing and marketing.

3. Constraints Analysis

The recovery of the Guyanese economy is constrained both by heavy balance of payments problems and the lack of appropriate sector growth policies and their implementation. The country's balance of payments accounts are under severe pressure from importers and creditors. Intermediate imports are of course essential to economic growth in the productive and service sectors, and it is assumed that they will be made available to generate employment, value added, and consequently make the economic recovery a success. At the same time, growth oriented agricultural sector policy needs to be defined and implemented to promote further investment and productivity. The PL-480 Title III program can help to alleviate the immediate problem of the country's balance of payments and promote policy reforms and their implementation, which over the longer term, will result in a sounder economic environment.

On the basis of historic import and consumption patterns in Guyana, the country needs to import about 47,000 metric tons of wheat on an annual basis, in addition to other food commodities. Alleviating the pressure on foreign exchange resources from the need to import food commodities with the dollar financing mechanism of PL-480 Title III will be of tremendous assistance to the country, and permit the country to allocate scare exchange to other priority import needs necessary to spur growth. In short, the immediate problem of implementing the economic recovery has implications for the maintenance of the food consumption patterns in the country. The program is designed to facilitate the necessary imports of food commodities, as well as encourage the undertaking of agricultural sector policy and implementation reform measures within the context of an economy wide recovery program. By the end of the PL-480 Title III agreement period, the country will be further on its path of economic growth, especially in the agricultural sector, and will have partially satisfied its wheat import requirements without additional strain on its foreign exchange resources.

The constraints to agricultural development in Guyana have been assessed in several comprehensive sector and macroeconomic studies undertaken by the multilateral lending institutions, notably the World Bank and the Inter-American Development Bank. These studies independently identify and concur on the major constraints and steps to be taken to remove their binding effect on agricultural growth. Due to the absence of a resident A.I.D. program and the first hand knowledge and information that results from a longer term presence in the country, the constraints analysis relies on these assessments, and synthesizes their findings below.

Since the 1980s, agricultural sector performance in Guyana has been dismal in spite of its very real potential to be Guyana's leading source of income, employment, and surpluses for the development of the country. The country is well endowed with arable land (0.5 million hectares), pasture (1.2 million hectares) forest (16.3 million hectares), and has ample water, mineral and marine resources. It possesses over 300 kilometers of sea defenses to protect the 5 to 10 mile wide swath of arable land along the coast which is below sea level at high tide and prone to flooding. It also possesses irrigation, transport, and processing infrastructure. The country has a relatively skilled and well educated human resource base, although low wage levels and disincentives to investment have resulted in the sector's inability to attract and hold good managerial and technical talent.

The sector has historically contributed approximately one fourth of the value added to the overall economy, not counting the value added from services provided to the sector. It has always been important from the standpoint of the country's foreign exchange earnings, and has been responsible for roughly 50 percent of the export earnings during the last decade. On the basis of current estimates, approximately 35 to 40 percent of the population of 800,000 are employed in the sector.

Because of heavy handed statist intervention, control, and mismanagement of the overall and sectoral economy since the 1970s, the country has witnessed i) serious deterioration of its infrastructure, ii) declines in production and arable land utilization, iii) the growth of parallel market activities, and iv) ballooning foreign and domestic debt burdens. The result was, according to World Bank estimates, that the annual rate of agricultural GNP growth fell by minus 2.6 percent per year from 1981 to 1990, with an even faster rate of decline of minus 5.8 percent per year during the 1988 to 1990 period. Production of sugar, which was 350,000 tons in 1976, fell to a level of 250,000 tons in 1985, only sufficient to supply the U.S. and EC quotas as well as domestic demand, and further to 130,000 tons in 1990. Rice production fell from 261,510 tons in 1981 to 116,104 tons in 1991. Land area in rice fell from 216,680 hectares in 1981 to 84,516 hectares in 1991. Overall production of other crops, such as fruits, vegetables, meat and seafood did not increase in the 1981-90 period. Ironically, this poor performance occurred at the same time the country was taking on onerous domestic and foreign debt to finance its public sector bureaucracy and operations and imports.

Guyanese agriculture lost its vitality in the 1980s and with it an ability to provide employment, income and necessary foreign exchange to the economy. An estimated 20,000 small farmers abandoned agriculture during the decade, and per capita income in 1990 was a mere $360. At the same time, the country was witnessing an increasing domestic and external debt burden which exceeded 900 percent of merchandise exports in 1991. Clearly, the incentive structure for the sector was inappropriate, and while funds were being spent, the country had less and less to show for them.

Under an Economic Recovery Program (ERP) initiated in mid-1988, the government of Guyana eliminated many important policy impediments to growth of the economy and the agricultural sector in particular. As is the case under other economic restructuring programs, the Government of Guyana liberalized its exchange rate, eliminated price controls, restructured its public sector, took numerous important steps to improve public fiscal management and organization, and embarked on an ambitious privatization program. The objectives of the ERP were to "restore the basis for sustainable economic growth and a viable balance of payments position over the medium term, to reintegrate the parallel economy into the official sector, and to normalize relations with external creditors". The ERP symbolizes Guyana's move toward a market oriented economy.

The newly elected administration (October 1992) appears to adhere to the principles underlying the ERP, perhaps with the exception of the privatization of a few large enterprises (sugar, electricity, bauxite). While it agrees conceptually with privatization, it has vowed to make the program more transparent than was practiced by the previous administration, and is expected to move cautiously on new privatization efforts. The new administration also is taking a more serious position regarding public sector accountability, and is likely to stress audit and control standards in its budgetary allocations and public financed operations.

The World Bank, in its report entitled Guyana Agricultural Sector Review (1992), has summarized the reforms taken by the Guyanese government that are significant for the sector as follows:

- Unification of exchange rate regime at market determined rates;
- Elimination of special exchange rate applicable to CARICOM transactions;
- Elimination of all price controls (except sugar and electricity rates);
- Elimination of most import prohibitions from non-CARICOM countries. Prohibitions (not always enforced) still exist for poultry, other meats, jam, jellies, and preserved fruits;
- Import licenses for non-CARICOM products easy to obtain and do not constitute a non-tariff barrier to trade;
- Some non-CARICOM exports still subject to licensing system. However, licenses are easy to obtain and do not constitute barriers to trade;
- Adoption of CARICOM common external tariff with a maximum of 45%;
- Privatization of public sector enterprises, including agricultural input supply firms;
- Rationalization of Government structure by reducing number of ministries from 18 to 10;
- Rationalization of sugar industry through management contract with private sector firm;
- Liberalization of rice market and divestment of Government-owned mills;
- Rationalization of bauxite sector with participation of private sector consultants.

These reforms, which have renewed incentives for investment in agriculture, have resulted in a surge of growth in the traditional and non-traditional crop sectors. They have contributed to an improvement in the country's balance of payments, reintegrated private sector agents into the official economy, and have opened the doors to renewed external financing. They need to be maintained and deepened in order for there to be longer term growth prospects. Much still remains to be done to divest the government from direct participation in economic activities more appropriately suited for the private sector, and to reorient its involvement toward assuring an appropriate set of investment incentives and the efficient provision of public services to Guyanese producers, market agents and agro-industry.

A second order of constraints to agricultural sector growth, and consequently to growth of incomes, employment and food security, are in the areas of: i) water management; ii) land tenure; iii) financial markets; iv) research and extension activities; and v) road infrastructure (see section B,2 for a more detailed discussion of the nature of each of these constraints and the policy reforms associated with them). These constraints, which comprise both policy and implementation reforms, are related to the productive and service infrastructure for Guyanese agriculture, and must now be addressed in the context of the market and pricing reforms accomplished under the framework of the ERP. In addressing these constraints, care must be taken to implement programs that will be fiscally responsible, facilitate producer participation in the market economy, have positive economic impacts, promote the involvement of the private sector, and strive to achieve cost recovery and sustainability.

4. Commodity Analyses

a. Commodity Needs Analysis

Wheat is the sole commodity that is specified, and it has been the only commodity historically imported under PL-480 commodity import programs for Guyana, except for 1,200 metric tons of soybean oil imports in the 1987 Title I program. The volume, type, estimated value and ETA of the wheat to be requested in this proposal is presented in Table 1. The five year historical data on imports to Guyana is presented in Table 2.

Guyana does not produce wheat and does not export wheat or wheat products. During this five year period, PL-480 imports basically have satisfied the country's consumption requirements, with the exception of minor donations from the European Economic Community and World Food Program (10,000 bags of wheat flour in 1992 for targeted feeding programs) and some commercial shipments from neighboring Trinidad (an estimated 900 bags of wheat flour on a monthly basis for specialty baking requirements). World Food Program projections for the annual level of wheat flour imports over the next four years are 1,500 metric tons.

Table 1: Volume, Type, Estimated Value and ETA of Wheat Imports Requested

CALENDAR YEAR 1993 DELIVERY DATE	QUANTITY BY WHEAT TYPE (Metric Tons)		ESTIMATED VALUE[1]
	HRW[2]	NS/DNS[3]	
March 1-10	5,250	1,750	1,547,000.00
April 10-20	5,250	1,750	1,547,000.00
June 5-15	5,250	1,750	1,547,000.00
August 1-10	5,250	1,750	1,547,000.00
September 20-30	5,250	1,750	1,547,000.00
November 10-20	5,250	1,750	1,547,000.00
December 20-30	3,750	1,250	1,105,000.00
TOTALS	35,250	11,750	10,387,000.00

1. Estimated value is based on a cost estimate of $136.00 per metric ton, and $85.00 per metric ton shipping from the U.S. to Guyana.
2. Hard Red Winter (Number 2 or better; protein minimum 12%, maximum 12.5% on 12% moisture basis; moisture 13.5% maximum).
3. Northern Spring/Dark Northern Spring (Number 2 or better; protein 13% minimum, 14% maximum on 12% moisture basis; moisture 13.5% maximum.

Table 2: Five Year Historical Import Data, Guyana 1987-91.

FISCAL YEAR	QUANTITY (MTs)	VALUE ($U.S.) [1]
FY88	49,604	6,799,585
FY89	40,627	6,950,062
FY90	50,081	6,810,628
FY91	56,000	6,100,000
FY92	42,000	5,000,000

1. Value calculated on the basis of wheat cost only. Government of Guyana covered shipping costs in these programs.

The prices at which the wheat imports have been and are expected to be monetized in the future are the local currency equivalents of the U.S. Dollar C.I.F. cost (on the basis of non-U.S. flag shipping rates). The one milling company in Guyana, an American owned firm called National Milling Company of Guyana, Ltd., purchases the wheat, and processes and wholesales the wheat flour at prices that cover all discharge, input and processing costs plus profit. The Ministry of Trade and Industry reviews the justification behind the mill's proposals to increase flour prices, but does not control them. Given the fact that the mill is a virtual monopoly with a capacity to satisfy the country's total milling needs, this review probably is not unjustified. Wheat and wheat flour imports enter at a zero tariff level.

The flour market consists of a variety of middlemen between the miller and the ultimate consumers. The marketing agents are almost entirely private. Currently, there exists an arrangement to restrict the number of wholesale purchasers from the mill to five and prohibit any direct retail sales from the mill. The effect of this arrangement has probably been an increase of the price of flour over what the level would be to some who could purchase directly from the mill. Under the policy agenda of the proposed program, this arrangement will be revised to allow unrestricted wholesale and retail purchases from the mill, with the objective of further liberalizing the flour market and eliminating unnecessary wholesaler margins.

b. Usual Marketing Requirements

Over the past several years, Guyana's total wheat import requirement, with some minor exceptions, has been met by U.S. sources under concessional PL-480 programs. Except as noted in Section 3. above, there is therefore no minimum quantity of wheat that the country must import commercially to maintain U.S. and other friendly country exports. The "usual marketing requirements" for Guyana are zero.

As the country's economy grows under the context of the Economic Recovery Program, demand for wheat and the level of commercial imports are expected to grow. Commercial imports are therefore likely in future years.

c. Storage Information and Disincentive Analysis

The National Milling Company, Guyana's only wheat milling firm, is owned by the Seaboard Corporation of Shawnee Mission, Kansas. It is located about three miles south of central Georgetown on the Demarara River.

The company has a pneumatic off-loading system ("Vac-u-vator") and conveyors to carry wheat directly from the delivery vessels to the flour grain storage tanks next to the mill. The tanks have a total capacity of 9,000 metric tons of wheat. The maximum milling capacity is now 1,500 metric tons per normal work week, and average weekly consumption (based on the amount that distributors pick up from the mill each week) is approximately 1,400 metric tons. The mill can store 40,000 cwt bags of flour (the amount produced by 2,400 metric tons of wheat). If necessary, the mill can use the storage facilities of the Guyana Rice Milling and Marketing Authority complex in Georgetown, which has 4,896 metric tons of capacity immediately available, or 7,344 metric tons of capacity on two weeks' notice, or more if more notice is given. However, the quantity expected, staggered over the year, will not require the use of additional storage capacity.

Based on current prices, AID estimates that 1993 demand levels can be purchased at approximately $U.S. 10,387,000. As in previous years, shipments will be staggered throughout the year, eliminating any possible storage problems. Based on proven storage capacity and performance over the past five years, AID confirms that Guyana is equipped to receive, store, and process 47,000 metric tons of wheat per annum, and could handle more if prices were to fall.

With respect to possible disincentives, Guyana does not produce wheat and there is no disincentive to local production caused by PL-480 sales. Local food production (rice, root crops, fruits and vegetables) are widely consumed along with wheat-based products. Wheat is used primarily for various breads, including ethnic bread products, such as "roti", and is an integral part of the Guyanese diet.

Regarding disincentives to production, recent experience under the Economic Recovery Program seems to indicate that price and marketing policies have been the most significant disincentives to agricultural growth, and that wheat imports have more than likely contributed to sustaining food consumption patterns. In 1991, following the decontrol of rice prices and the privatization of most government owned mills, rice acreage is reported to have increased 45 percent. Wheat imports at this time were steady and at historically average levels. As the agricultural economy responds to the removal of additional production constraints, as those indicated in this program, PL-480 imports will not exceed historical levels. The potential for the program to be source of production disincentive is minimal.

5. Donor Consultation

Consultations were undertaken with the World Bank, the International Monetary Fund, and other donor organizations involved in Guyana during the process of developing this proposal. As a result of these consultations, there is no indication that the importation of the wheat or the use of the local currency will be disruptive to farmers or the economy of the country. There is consensus on the beneficial impact the program will have on the country's balance of payments. Local currencies will be programmed in sectoral areas that will contribute to farmer welfare, and to the extent possible, will be used to provide the counterpart to donor financed projects, leveraging additional external financing for the country.

D. PROGRAM IMPLEMENTATION

The proposal is for a $10 million/year three year program, because this is the estimated cost of continuing to cover the costs of Guyana's total wheat import needs plus transportation. If AID approves a smaller program, this will mean that the new government will have to decide whether to allow its scarce foreign exchange earnings to be used to pay for commercial wheat imports or to limit the availability of a food that cannot be grown locally but that is an integral part of the Guyanese diet. Adopting the first option would have negative implications for the economic growth prospects of the country, in that a significant amount of the country's scarce foreign exchange earnings would have to be used to import a consumption good rather than be available to cover the costs of importing the capital and/or intermediate goods needed to support the resumption of economic growth. Limiting the amount of wheat in the country, on the other hand, would fuel consumer dissatisfaction at a time in which many of the citizenry's other basic needs are not being adequately met and might lead to a further decline in per capita calorie availabilities. Allowing the country to continue to pay for the shipping costs, as it has been doing under the Title I program, would be another option. This latter option would be more complicated to manage, for the miller and the government, as well as AID, but is the one that is preferable to the government because it would not put as much of a burden on the country's foreign exchange markets. Coupled with this program is a DA requirement of $550,000 for the costs of an Agricultural Policy Coordinator and Monitor, support for studies related to agricultural policy, and as contingency for audit requirements.

1. Management Responsibilities

The following paragraphs outline the management responsibilities and capabilities of the organizations that have roles in the implementation of the proposed Title III Program for Guyana.

a) The offices of AID/W will be responsible for i) the apportionment of Title III budgets for Guyana; ii) the receipt and execution of commodity orders, i.e. commodity procurement and shipping arrangements; and iii) informing the AID Mission, U.S. Embassy and consignee of price, shipping, and other pertinent information. The capability of AID/W resides in the Bureau for Food and Humanitarian Assistance, which has responsibility for Title III programs worldwide, and the Office of Procurement of the Directorate for Finance and Administration, which has the mandate and extensive experience in the procurement and shipping arrangements for Title III commodity programs. AID/W capabilities will be bolstered by country program backstop officers in the LAC Regional Bureau;

b) The AID Regional Development Office for the Caribbean (RDO/C) will be responsible for: i) coordination between the Government of Guyana, the private sector miller and AID/W regarding the specifications, procurement and shipment of the commodities to be provided under the program; ii) dialogue and monitoring of the program's policy agenda, including arranging for analytical studies related to this policy dialogue; iii) verifying the receipt and sales of commodities, the monetization and deposit of local currency, the appropriate programming and financial management of the local currency; iv) assessing the financial and administrative capability of host country institutions involved in the programming and use of local currency proceeds; v) managing official relations between the Governments of the United States and Guyana regarding the Title III program; and vi) sit on a Title III steering committee comprised of Government of Guyana, private miller, and U.S. Government representatives (U.S. Embassy, Georgetown, RDO/C Bridgetown, U.S. and Local PSC PL-480 monitoring staff), which will meet on a quarterly basis to direct, review and assign responsibilities for implementation of the various aspects of the program.

The capability of RDO/C in the management of the program will reside in a Barbados-based USDH program manager; Georgetown-based DA funded, U.S. PSC agricultural policy coordinator/ monitor and local currency funded FSN PSC administrative officer and secretary; and Barbados-based financial analysis and support staff in the Office of the Controller. Senior Mission management will support the policy and program dialogue from its base in Barbados. The U.S. Embassy in Georgetown also will support the dialogue with the other institutions involved in the management of the program, and will serve as the site of the program's administrative office in Guyana.

c) The Ministry of Trade, Government of Guyana, will be the formal recipient of the commodities on behalf of the Government of Guyana. It will: i) act as the consignee of the commodity shipments and verify arrival and discharge of the program commodities; ii) draw up official local currency sales agreements between the Government of Guyana and the private miller, which will monetize the imported commodities at non-subsidized market prices (cost of commodities plus shipping, at non-U.S. flag equivalents, plus applicable customs and processing fees) (FYI: Wheat has no tariff or other import taxes in Guyana); iii) assure the orderly processing of shipments through the customs authority; iv) assure deposits of local currency payments into the separate interest bearing account of the Ministry of Finance in a local commercial bank; and v) sit on a Title III steering committee comprised of Government of Guyana, private miller, and U.S. Government representatives, which will meet on a quarterly basis to direct, review and assign responsibilities for implementation of the various aspects of the program. The Ministry of Trade has capability for the above functions through its experience and participation with Title I programs since 1986. It essentially will continue with the responsibilities it has held under the Title I program, with the exception of establishing U.S. dollar letters of credit for payment of shipping PL-480 commodities.

d) The Ministry of Finance, Government of Guyana will: i) establish and manage the separate interest bearing local currency account for the proceeds from the sale of PL-480 commodities; ii) administer the official government budgeting process, which includes the programming of government owned local currencies; iii) apportion budgetary resources to other public and private sector institutions with responsibility for the administration of PL-480 local currencies; v) assure, in conjunction with the Accountant General and technical departments of the Ministry of Finance and the independent Auditor General of the Government of Guyana, the effective financial management, monitoring and auditing of budget line items receiving PL-480 local currency; and v) lead a Title III steering committee comprised of Government of Guyana, private miller, and U.S. Government representatives, which will meet on a quarterly basis to direct, review and assign responsibilities for implementation of the various aspects of the program.

The Department of International Economic Cooperation (DIEC) of the Ministry of Finance, Government of Guyana, will be responsible for coordinating the local currency disbursement, monitoring, reporting, and financial management/audit actions on behalf of the Ministry of Finance. In short, the DIEC will serve as the local currency account manager, on behalf of the Ministry of Finance, and will assume all local currency responsibilities, as required by AID policy and guidance. It will rely on its own staff, as well as staff from the offices of the Accountant General, the Auditor General, the Finance Offices of technical ministries, departments, and private sector organizations to execute its responsibilities.

Prior experience with the Ministry of Finance with Title I programs since 1986 has given us reasonable assurance that the agency has adequate financial management systems in place to properly account for local currency generated under the program. The Controller's office in RDO/C will conduct another financial management assessment of this ministry to determine if additional financial controls are required.

Other ministries chosen to receive specific sector support will also be reviewed to determine the adequacy of their financial control systems before local currency is programmed for such activities. A recent general assessment of the accountability environment in Guyana concluded that most government agencies possess the necessary internal control procedures but lack adequate enforcement of such controls. Substantial assistance may be required for technical assistance, training and additional staff to enhance internal compliance monitoring.

2. Implementation Schedule

The following illustrative implementation schedule outlines the most important actions to occur throughout the first fiscal year.

- Initial multi-year proposal reviewed and approved in AID/W, December, 1992;
- Agreement negotiated with Government of Guyana on basis of review and AID/W guidance on policy and program characteristics, January - February, 1993;
- RDO/C Controller conducts financial management capability assessment of Guyana government institutions involved in program management, February, 1993;
- Multi-year agreement signed, February, 1993;
- Initial steering committee meeting held, February, 1993;
- FY93 commodity call forward sent to AID/W, February, 1993;
- First FY93 commodity shipment arrives in country, March, 1993;
- Subsequent shipments arrive in country, April - December, 1993;
- Separate, interest bearing account established by Ministry of Finance, March, 1993;
- Local currencies programmed for financial management functions of the local currency account management entity (DIEC) and supporting agencies, April 1993;

- Second meeting of steering committee to follow up on policy conditionality, June, 1993;

- RDO/C Controller conducts second capability assessment and follow-up on recommendations, July, 1993;

- Third meeting of steering committee to follow up on policy conditionality, September, 1993;

- Mission reports on compliance with program conditionality, administration, local currency generation and use, and proposed modifications for purposes of initiating second year of program (annual evaluation and report), September, 1993;

- Fourth meeting of steering committee to follow up on policy conditionality, December, 1993;

- Local currencies programmed for sectoral support for Guyanese FY94, December, 1993;

- Second year conditionality met, February, 1994;

- First annual audit of the program, February, 1994;

- Second year cycle begins with FY94 commodity call forward, February, 1994.

3. Cost Estimate and Financial Plan

The proposed Title III program will provide approximately $10 million annually ($30 million over the three year life of the program) in balance of payments assistance to the Government of Guyana to promote policy reform and implementation for the agricultural sector. One hundred percent of the donated commodities will be sold to generate local currency, that in turn will be used to support implementation of the program. U.S. dollar financing in the amount of $550,000 will fund the foreign exchange costs of a PSC agricultural policy coordinator/monitor, studies and audit related costs. These costs will be augmented by local currency to cover local costs. The source of the U.S. dollar financing will be the Development Assistance account for Guyana; other support may come from core funding of existing projects.

The program will encourage a considerable degree of private sector participation in the purchase, storage, handling, and distribution of the PL-480 commodities. The Government will assume a minor role to the extent of approval of the call forward process, and the transfer of title to the officially donated commodities from the Ministry of Trade to the private sector miller.

The wheat milling industry, comprised of a single miller, will purchase the commodities donated to the government with financing arranged for privately or with the assistance of private commercial banks. The purchase price will be the Guyanese dollar equivalent of the un-subsidized U.S. dollar cost of the commodities, plus the shipping on a non-U.S. flag carrier equivalent. Ownership will be transferred from the government to the millers. The miller will deposit payments into a separate interest bearing account established by the Ministry of Finance within 90 days following the shipping date for each shipment of the commodities (current practice). In turn, the miller will undertake all handling and processing of the commodities.

The local currency funds generated from the sale of the agricultural commodities imported under the program will be used for specific sector support, counterpart to AID and other donor projects, strengthening audit capability, the local costs of program coordination and monitoring, and to indigenous NGOs. This latter amount will be not less than 10 percent of the local currency generated. The illustrative programming sectors for the local currency funds will include:

- rehabilitation and maintenance of sea defense, drainage and irrigation systems;
- land tenure;
- rural finance;
- technology transfer, research and extension;
- rehabilitation and maintenance of road and transport infrastructure; and
- financial accountability.

All uses of local currency will be jointly programmed with the Government of Guyana and A.I.D. in accordance with specific mechanisms agreed to by the Government of Guyana and A.I.D. All programming will be made in writing, through Program Implementation Letters (PILs) or other mechanisms agreed upon. Un-programmed balances or funds remaining undisbursed will be programmed/reprogrammed once a year, within three months of the close of the Government of Guyana fiscal year.

Table 3. Illustrative Cost Estimate and Financial Plan.

PROGRAM ELEMENT	AMOUNT PROGRAMMED	AMOUNT AVAILABLE IN U.S. DOLLAR EQUIVALENTS
1. Monetization of 141,000 metric tons of wheat and shipping costs (47,000 metric tons per year).		$30,000,000
2. Development assistance for Guyana		$550,000
3. Sector programs		
a. Rehabilitation and maintenance of sea defense, drainage and irrigation infrastructure.	$10,000,000	
b. Land survey, titling, and registration programs.	$5,000,000	
c. Rural finance (private and public sector institutional support)	$5,000,000	
d. Technology transfer, research and extension programs.	$3,000,000	
e. Rehabilitation and maintenance of road and transport infrastructure.	$6,500,000	
f. Financial accountability.	$300,000	
4. Local administrative office and support	$200,000	
TOTALS	$30,000,000.00	$30,550,000

E. MONITORING AND EVALUATION ARRANGEMENTS

AID will assure itself that sector programming will proceed in accordance with AID policy and procedures. However, monitoring will be undertaken by the U.S. and local FSN PSC staff members engaged for the program, and during the periodic visits of RDO/C staff to Guyana. RDO/C will submit an annual evaluation and progress report, which includes information on policy performance and local currency use, as well as proposals for program modifications. Host country institutions involved in the administration of the program and the use of local currency proceeds will contribute reports for this process. For funds programmed for specific sector support, AID will monitor to assure funds are transferred to appropriate line items but will not monitor end-use of funds budgeted for these line items.

With respect to program impact, the policy coordinator/monitor, in collaboration with the RDO/C program manager and the government, will develop a more detailed plan for monitoring and evaluating the program outputs as well as progress made in achieving the purpose of the program. This plan will be developed during the first six months of the program for implementation throughout the life of the program. The PSC policy coordinator/monitor will also make an assessment, again in coordination with the RDO/C program manager, of the information that is expected to become available during the first year of the program from a UNDP/World Bank supported household survey on the extent and distribution of poverty and malnutrition in the country. The purpose of this assessment will be to determine whether any modifications in the program are warranted, given the new knowledge on poverty and malnutrition in the country, in order to better meet the food security objectives of the new food aid legislation.

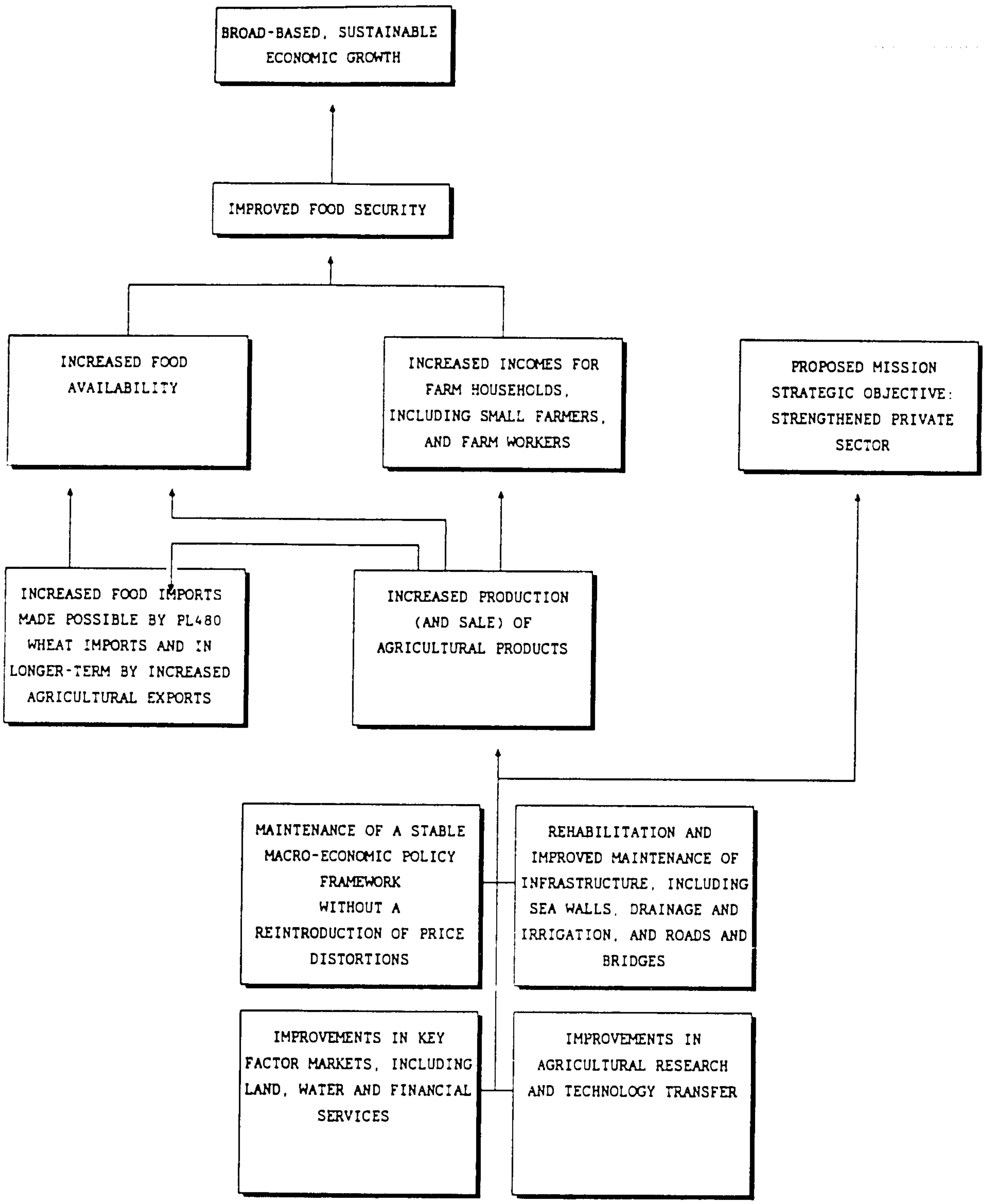
F. AUDIT PLAN

Periodic (yearly, at a minimum) audits of the receipt and sales of commodity shipments and the local currency separate accounts will be conducted by the Office of Auditor General of Guyana or an independent CPA firm under the supervision of the AID Inspector General's Office. Local currency generated by the program may be used to cover the costs of using local CPA firms.

Although the Auditor General has expressed a strong interest in conducting the required audits, a recent assessment by the RDO/C Controller's Office concluded that this office may not have sufficient qualified audit staff to complete the audits in a timely fashion. Local currency generated by the program, and such DA assistance that AID may make available to Guyana, may be approved for technical assistance, training, equipment and staffing requirements to enhance the audit capabilities of this office.

As the local currency is being programmed for specific sector support, audit of the end-use will not be specifically required. However, in order to choose this method of local currency programming, AID must have a high level of confidence in the reporting and controlling mechanisms of the financial and budgeting systems of the implementing agencies. To achieve this level of confidence, implementing agencies may be required to implement additional financial controls and more frequent internal and external audits, depending on the results of the planned financial management capability assessments. Local currency generated by the program may be approved for technical assistance, training and additional staff to assist such implementing agencies to improve financial controls.

ANNEX A: OBJECTIVE TREE FOR GUYANA TITLE III PROGRAM



ANNEX B: GUYANA TITLE III POLICY MATRIX

ISSUES	OBJECTIVES	ACTIONS ALREADY TAKEN BY THE GOG	ACTIONS TO BE TAKEN PRIOR TO THE INITIATION OF THE:		
			FIRST YEAR OF THE PROGRAM	SECOND YEAR OF THE PROGRAM	THIRD YEAR OF THE PROGRAM
1. Maintenance of the macroeconomic framework and commitment to market liberalization					
In July 1990, Guyana, in agreement with the IMF, implemented a stabilization program with emphasis on demand management and structural adjustment of the economy. Guyana continues to face macro-economic imbalances necessitating continuation of this program.	To restore external and internal equilibrium.	Implementation of the stabilization program. Exchange rate unification and adoption of a floating rate system. Adjustment of charges for selected public sector services to cover costs of production. Liberalization of price controls and import licenses for agricultural imports.	The GOG agrees to maintain its commitment to the macro-economic policy framework agreed to with the IMF and the World Bank and to refrain from adopting new measures that would reintroduce serious price distortions into the economy and in particular to refrain from reintroducing price distortions that would negatively affect the structure of incentives affecting the agricultural sector.	The GOG continues to agree to maintaining the agreed upon macro-economic policy framework and to refrain from taking steps that would reintroduce serious price distortions.	The GOG continues to agree to maintaining the agreed upon macro-economic policy framework and to refrain from taking steps that would reintroduce serious price distortions.
2. Elimination of distortions in the domestic flour market					
Procedures agreed to with the past government to limit the sale of flour milled using PL 480 wheat imports to a small number of named intermediaries create distortions in the domestic flour market and raise the price of flour to consumers.	Eliminate distortions in the domestic flour market associated with current practices of distributing flour ex mill.		The GOG agrees to drop its requirement that the National Milling Corporation (NMC) limits its flour sales to a limited number of named distributors and allows NMC to sell to any and all potential buyers.	The GOG continues to adhere to the policy of non-intervention in the marketing of wheat flour.	The GOG continues to adhere to the policy of non-intervention in the marketing of wheat flour.

ISSUES	OBJECTIVES	ACTIONS ALREADY TAKEN BY THE GOG	ACTIONS TO BE TAKEN BY THE GOG PRIOR TO THE INITIATION OF THE:		
			FIRST YEAR OF THE PROGRAM	SECOND YEAR OF THE PROGRAM	THIRD YEAR OF THE PROGRAM
3. Improvement in water resource use management a. Sea defenses					
Sea defenses are in disrepair and in need of rehabilitation.	Increase agricultural production and productivity.		The GOG commits itself to the development of a clear policy and strategic plan for rehabilitation and maintenance of its sea wall defenses which is acceptable to the donor community, and in which planned activities are supported with financial commitments and effective administrative and implementational arrangements.	The GOG obtains donor support for this plan and begins implementation of the institutional and managerial changes and makes arrangements in its budget for the necessary financial support according to the benchmarks in the agreed upon plan.	The GOG continues implementation of this plan according to the agreed upon benchmarks.

ISSUES	OBJECTIVES	ACTIONS ALREADY TAKEN BY THE GOG	ACTIONS TO BE TAKEN BY THE GOG PRIOR TO THE INITIATION OF THE:		
			FIRST YEAR OF THE PROGRAM	SECOND YEAR OF THE PROGRAM	THIRD YEAR OF THE PROGRAM
b. Irrigation and drainage					
Public irrigation systems are in disrepair and face severe maintenance problems. Users fees represent a negligible proportion of required O&M costs. No farmer participation in management of D&I systems.	**Increase agricultural production and productivity.**		The GOG commits itself to the development of a clear policy and action plan for restructuring the management of its drainage and irrigation systems, which is acceptable to the donor community, and in which planned activities are supported with financial commitments and effective administrative and implementational arrangements. This policy and action plan will include provisions for 1) a more efficient division of responsibility between national and regional entities, 2) the involvement of water users in water management, and 3) the establishment of more realistic water users fees and improved mechanisms for collecting these fees.	The GOG begins implementation of the institutional and managerial changes and makes arrangements in its budget for the necessary financial support according to the benchmarks in the agreed upon plan.	The GOG continues implementation of this plan according to the agreed upon benchmarks.

ISSUES	OBJECTIVES	ACTIONS ALREADY TAKEN BY THE GOG	ACTIONS TO BE TAKEN PRIOR TO THE INITIATION OF THE:		
			FIRST YEAR OF THE PROGRAM	SECOND YEAR OF THE PROGRAM	THIRD YEAR OF THE PROGRAM
4. Rationalization of land use					
State-owned lands are leased at below market rates. Contracts are non-transferable and often temporary. This promotes tenure insecurity and limits farm consolidation into more efficient economic units.	Rationalize the use of state-owned lands.		The GOG commits itself to the development of a program acceptable to AID for granting long-term leases or selling state owned lands at market determined prices, in which planned activities are supported with financial commitments and effective administrative and implementational arrangements.	The GOG begins implementation of an agreed upon plan according to planned benchmarks.	The GOG continues implementation of this plan according to the agreed upon benchmarks.
5. Development of rural financial markets					
Many people in rural areas lack dependable access to financial services.	Promote the development of rural financial markets.		The GOG agrees to undertake an analysis of the constraints to the development of the country's rural financial markets, which will include among the issues addressed an analysis of the advisability of restructuring GAIBANK as measure for improving rural financial markets in the short to medium-term until the number of private banks active in the country increases and they become more active in rural areas.	The GOG develops an action plan for implementing the agreed upon recommendations from the study.	The GOG begins implementation of this plan according to the agreed upon benchmarks.

ISSUES	OBJECTIVES	ACTIONS ALREADY TAKEN BY THE GOG	ACTIONS TO BE TAKEN PRIOR TO THE INITIATION OF THE: FIRST YEAR OF THE PROGRAM	SECOND YEAR OF THE PROGRAM	THIRD YEAR OF THE PROGRAM
6. Improvement in research and extension					
Research and extension efforts are weak. Linkage between research and extension is very limited. Limited financial and human resources are spread too thinly across too many commodities. The private sector is not sufficiently involved in the setting of research priorities or in technology transfer.	**Increase agricultural production and productivity.**		The GOG commits itself to the development of a medium-term program for improving agricultural research and technology transfer systems. This program should include the necessary institutional reforms for strengthening both research and extension; provisions for insuring adequate budgetary support for these programs; mechanisms for involving the system's clients (primarily Guyana's private small and medium-size farmers) in the identification of priorities and technology transfer, and for export crops in particular, the potential for developing mechanisms for obtaining direct budgetary support from private sector users; plans for increased collaboration with international research institutions.	The GOG begins implementation of an agreed upon program according to planned benchmarks.	The GOG continues implementation of this program according to the agreed upon benchmarks.

ANNEX C

Agricultural Sector Reform Project

1. Rationale

The Government of Guyana (GOG) desires to enhance Guyana's food security and recognizes that to do so policy and institutional changes are necessary. In addition, the GOG needs the balance of payments support that would be provided by a PL 480 Title III program. Undertaking these reforms and managing the Title III program while also managing host country and other donor projects will seriously tax the GOG's capability. Therefore, this Agriculture Sector reform project will assist the GOG in carrying out agreed upon reforms, related primarily to the proposed PL 480 program, and in managing aspects of the Title III program.

2. Background

AID and the GOG currently jointly fund staff and an office in Guyana that assists in managing the existing PL 480 Title I program. Other donors including CIDA, ODA (UK), and IDB have recognized the limited capability of the GOG to manage all donor funded activities and have established project management entities to assist with management of their activities.

3. Project Description

The goal of this activity is the furtherance of broad-based, sustainable economic growth. The purpose is to assist Guyana to implement agricultural sector reforms, leading to enhanced food security. The following activities will be funded by AID under this project:

a) long term (three years) technical assistance (a US PSC) who will: manage the PL 480 office and its local staff; advise the GOG on agricultural policy and institutional reforms and the means to achieve them; assist the GOG in coordinating AID's efforts on policy reform with that of other donors; report to AID on the progress of these reforms; assist the GOG in monitoring PL 480 orders, deliveries, and payments, and in determining how to program and improve GOG accountability for local currency generated by the PL 480 program.

b) short term technical assistance to advise the GOG on specific areas of agricultural reform and to carry out studies related to such reform, particularly as it relates to conditionality under the PL 480 program;

c) technical assistance related to evaluation, and audit of the PL480 program and, if necessary, strengthened accountability of sectors within the GOG that will receive programmed local currency.

As part of this project, the GOG is expected to finance the bulk of the local costs of the US PSC, the cost of two Guyanese staff of the PL 480 office (one professional and one support staff), the rent for the PL 480 office, the local costs of audit of the PL 480 program and audit and accountability of the uses of local currency generated by the PL 480 assistance, and various in-kind and ongoing costs associated with policy and institutional reform.

4. Project Implementation

Project funds will be obligated through a grant to the GOG. The project will be managed by AID's Regional Office for the Caribbean (RDO/C), which will assign one USDH staff full time to manage programs in Guyana. Other RDO/C staff will assist with aspects of this project and the PL 480 program.

The long term technical assistance will be procured by RDO/C under an AID direct personal services contract. The short term technical assistance other than that related to audit and strenthening GOG accountability for use of its local currency, will be procured directly by AID under purchase orders, contracts, or buy-ins to other AID activities. The method of procurement for the excepted short term technical assistance is likely to be the same, however, it may be through GOG procurement due to the fact that it is primarily GOG responsibility, through the GOG Auditor General, to audit the use of GOG funds.

The PL 480 office will be rented by AID and the local staff will be hired under contract by AID with local currency supplied to AID by the GOG through an escrow account. Most local costs of the US PSC, such as house rent, will also be funded from this escrow account. This escrow procedure already exists for funding similar costs related to the existing Title I program. The escrow account will be managed by RDO/C as is the current account.

The project's implementation schedule envisions hiring the USPSC within three months of project initiation, extending the existing local staff and lease when Title I related funding for these ends in March 1993, and providing short term TA at various periods over the life of the project including in year one when studies may be necessary to establish the baseline from which to measure progress in food security under the PL 480 program.

5. Evaluation

Evaluation of this project primarily involves evaluation of the PL 480 program. Plans for evaluating that program are noted in the body of the PL 480 proposal.

6. Audit

The audits affecting this project are primarily those of the PL 480 program. These audits will be performed under the auspices of the GOG's Office of the Auditor General and the GOG's Department of Technical and Economic Cooperation (DIEC) augmented with funds provided under this project for foreign exchange costs if necessary. Such audits may be done by GOG staff or local external auditors. The Controller's Office in RDO/C will recommend the appropriate audit mechanism based in part on its review of an audit of the PL 480 Title I program and will provide oversight for the audit program.

7. Summary Cost Estimate and Financial Plan (US $ 000)

	AID	GOG	Total
USPSC (3 yr)*	362	54	416
Studies/Short Term TA	53	10**	63
Audit/Eval	75	36**	111
Office Rent		11	11
Local PSC Staff		69	69
Contingency/Supplies	60		60
Total	550	180	730

* Detailed budget available in LAC/DR and RDO/C

** In-kind

Project costs are essentially the same for each 12 month period of this three year project.

8. Payment Method

All inputs are paid AID Direct with the possible exception of FX costs related to GOG audit and internal accountability. These are likely to be AID Direct, but may be a host country contract or purchase order. Should this be the case, RDO/C will verify the capability of the GOG to procure through this method prior to permitting its use.