

GUYANA

HYBRID PROGRAM
FOR
AIR TRANSPORT REFORM

(GY-0050)

LOAN PROPOSAL

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CONTENTS

	<u>Page</u>
MAP	
EXECUTIVE SUMMARY	
I. INTRODUCTION	1
II. FRAME OF REFERENCE	3
A. Macroeconomic Context	3
1. Recent economic trends	3
2. Progress in privatization	4
3. Outlook	4
B. Air Transport Sector Context	5
1. Institutional Framework	7
2. Air Traffic Control and Emergency Preparedness	7
3. Cheddi Jagan International Airport	8
4. Ogle Airport	9
5. Other Aerodromes	10
6. Guyana Airways Corporation (GAC)	10
C. Bank and Other Lender Experience in the Sector	11
D. Lessons Learned	11
E. Project Linkages with Bank Strategy and Rationale for Financing	11
III. THE PROGRAM	13
A. Objective	13
B. Program Components	13
1. Policy Component	13
a. Institutional and Organizational Reforms	13
b. Airports	15
i. Cheddi Jagan International Airport	15
ii. Ogle Airport	16
iii. Other Aerodromes	17
c. Guyana Airways Corporation	18
2. Investment Component	18
3. Technical Cooperation Component	19
a. Project Coordination	19
b. Institutional Reform	20
c. Privatization	20

C.	Environmental Considerations	21
D.	Project Financing	22
IV.	PROGRAM EXECUTION	23
A.	Basic Responsibility	23
B.	Procurement of Goods and Services	23
C.	Conditions for Disbursement	23
D.	Program Administration	23
1.	Inspection, supervision and monitoring	23
2.	Ex-post evaluation and results	24
V.	BORROWER AND EXECUTING AGENCY	25
A.	Entities Involved	25
B.	Sectoral Institutional Framework	25
1.	Legal mandate	25
2.	Internal organization	25
VI.	BENEFITS AND RISKS	26
A.	Benefits	26
B.	Risks	26

ANNEXES

1. Policy Matrix
2. Policy Letter
3. Procurement Plan

APPENDIX

Proposed Resolutions

BASIC SOCIO-ECONOMIC DATA

The basic socioeconomic data for Guyana are available on the Internet at the following address:

English:

http://www.iadb.org/int/sta/english/brptnet/brptframe_eng.htm

Spanish:

http://www.iadb.org/int/sta/spanish/brptnet/brptframe_eng.htm

ABBREVIATIONS

AOAG	Aircraft Owners Association of Guyana
ARG	Aviation Regulations for Guyana
ATC	Air Traffic Control
BWIA	BWIA International Airways
CAD	Civil Aviation Department (MPW&C)
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CFR	Crash, Fire and Rescue
CIDA	Canadian International Development Agency
CJIA	Chedi Jagan International Airport (formerly Timehri)
EPA	Environmental Protection Agency
ESAF	Enhanced Structural Adjustment Facility (IMF)
EU	European Union
FAA	Federal Aviation Agency (U.S. Government)
GAC	Guyana Airways Corporation
GCAA	Guyana Civil Aviation Authority
GDF	Guyana Defence Forces
GOG	Government of the Cooperative Republic of Guyana
Guysuco	Guyana Sugar Corporation Ltd. (MOA)
HIPC	Heavily Indebted Poor Countries
ICAO	International Civil Aviation Organization
IDA	International Development Agency (IBRD)
IMG	Infrastructure Management Group, Inc.
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOT	Ministry of Trade
MPW&C	Ministry of Public Works and Communications
NDS	National Development Strategy
SIMAP	Social Impact Amelioration Program
VFR	Visual Flight Regulations

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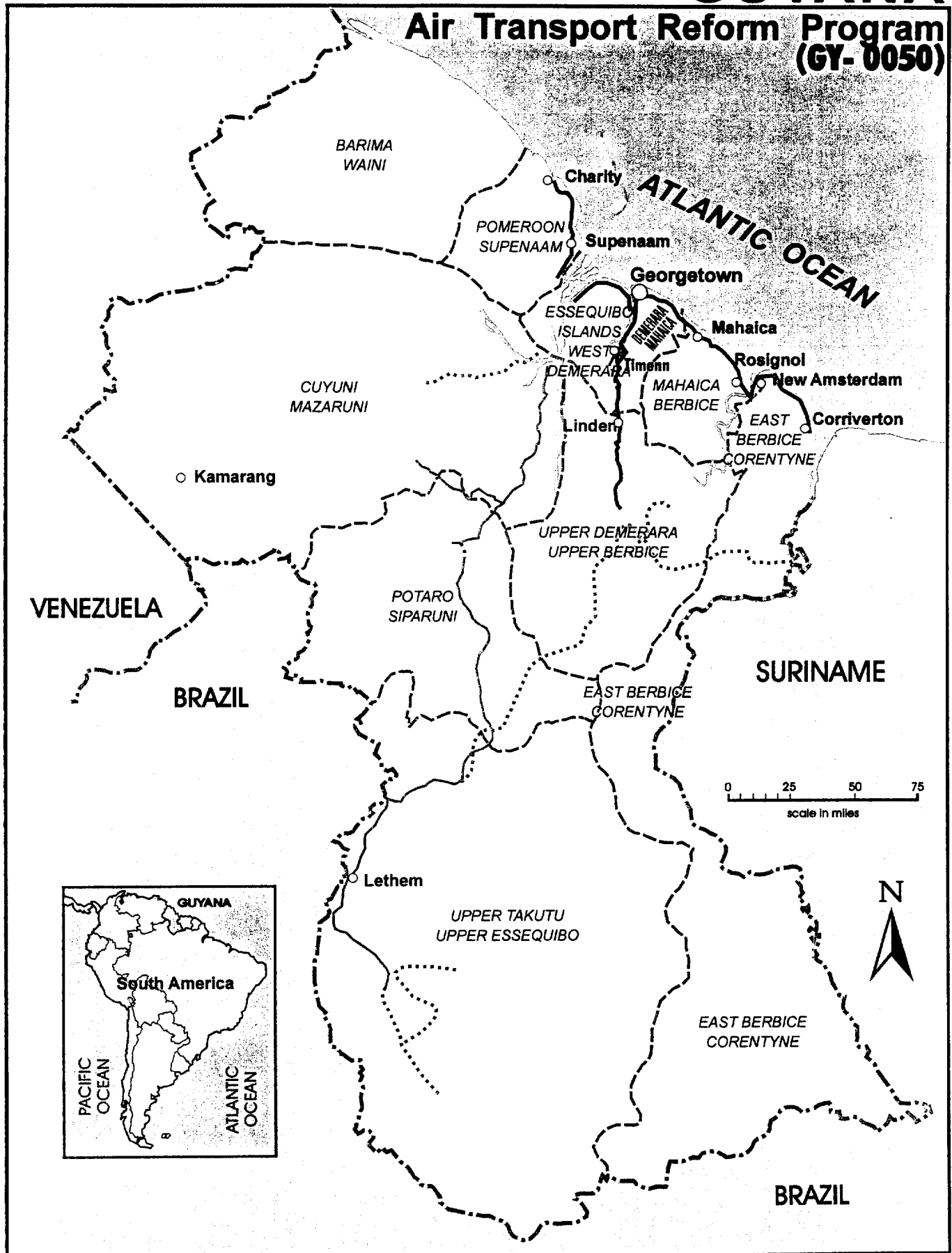
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GUYANA

Air Transport Reform Program (GY- 0050)



This map, prepared by the Inter-American Development Bank, has not been approved by any competent authority and its inclusion in the loan document has the exclusive objective of indicating the area of influence of the project proposed for financing.

GUYANA

Regional Support Services

REI/IRO

IDB LOANS

APPROVED AS OF JULY 31, 1999

	US\$Thousand	Percent
TOTAL APPROVED	623,161	
DISBURSED	447,480	71.8%
UNDISBURSED BALANCE	175,682	28.2%
CANCELLATIONS	31,231	5.0%
PRINCIPAL COLLECTED	105,451	16.9%
APPROVED BY FUND		
ORDINARY CAPITAL	109,161	17.5%
FUND FOR SPECIAL OPERATIONS	507,066	81.4%
OTHER FUNDS	6,934	1.1%
OUTSTANDING DEBT BALANCE	342,029	
ORDINARY CAPITAL	43,842	12.8%
FUND FOR SPECIAL OPERATIONS	298,187	87.2%
OTHER FUNDS	0	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	237,792	38.2%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	34,849	5.6%
ENERGY	77,566	12.4%
TRANSPORTATION AND COMMUNICATIONS	64,400	10.3%
EDUCATION	60,403	9.7%
HEALTH AND SANITATION	49,438	7.9%
ENVIRONMENT	0	0.0%
URBAN DEVELOPMENT	20,725	3.3%
SOCIAL INVESTMENT AND MICROENTERPRISE	30,013	4.8%
REFORM PUBLIC SECTOR MODERNIZATION	47,042	7.5%
EXPORT FINANCING	934	0.1%
PREINVESTMENT AND OTHER	0	0.0%

* Net of cancellations with monetary adjustments and export financing loan collections

GUYANA

REGIONAL SUPPORT SERVICES ITC/IRO

TENTATIVE LENDING PROGRAM

			US\$ Millions
1999			
GY0057	PPF:GY0052 LOW-INCOME SETTLEMENTS PROG.	0.4	APPROVED
GY0050	AIR TRANSPORTATION REFORM	30.0	
GY0054	GEORGETOWN WATER SUPPLY AND SEWERAGE II	26.0	
GY0059	GEORGETOWN DISPOSAL SITE ENVIRONM.IMPROV	0.8	
GY0052	LOW INCOME SETTLEMENTS	28.6	
	TOTAL A	85.8	
	TOTAL 1999	85.8	
2000			
GY0053	PUBLIC SECTOR MODERNIZATION PROGRAM	35.0	
GY0055	GEORGETOWN SOLID WASTE MANAGEMENT	6.0	
	TOTAL A	41.0	
GY0019	POST PRIMARY EDUCATION	20.0	
GY0056	MAHAICA ROSIGNOL ROAD	20.0	
GY0058	NEW GUYANA ELECTRIC COMPANY	25.0	
	TOTAL B	65.0	
	TOTAL 2000	106.0	



INTER-AMERICAN DEVELOPMENT BANK
REGIONAL OPERATIONS DEPARTMENTS
INFORMATION RESOURCES MGT. UNIT

GUYANA

STATUS OF LOANS IN EXECUTION AS JULY 31, 1999

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1993	4	119,700	79,299	66.25%
1993 - 1994	1	13,500	9,479	70.21%
1995 - 1996	4	138,100	66,424	48.10%
1997 - 1998	2	61,000	1,500	2.46%
TOTAL	11	\$332,300	\$156,702	47.16%

* Net of Cancellations . Excluding export financing loans.

EXECUTIVE SUMMARY

**BORROWER AND
GUARANTOR:**

The Government of the Cooperative Republic of Guyana (GOG)

EXECUTING AGENCY: Ministry of Public Works and Communications (MPW&C)

**AMOUNT AND
SOURCE:**

Total	Policy Component	Investment Component	Technical Coop. Component
IDB: US\$30.0 million	(FSO)20.2 m	7.5 m	2.3 m
GOG US\$ 1.5 million		1.4 m	0.1 m
Total: US\$31.5 million	20.2 m	8.9 m	2.4 m

**FINANCIAL TERMS
AND CONDITIONS:**

Amortization period: 40 years
Grace period: 10 years
Disbursement period: 4 years
Interest rate: 1 % during grace period
2% thereafter
Inspection & Supervision: 1%
Credit fee: 0.5%

OBJECTIVES:

The objective of this Program is to raise the standards of air transport operations, safety procedures, and affiliated services to internationally acceptable levels. This will require a thorough review of the statutory, regulatory and institutional framework of the sector; significant investments; and private sector participation in operating air transport facilities and services.

DESCRIPTION:

The Program has three components:

- a Policy Component with elements tied to the adoption of a sectoral policy, regulatory and institutional reforms, and the introduction of private ownership and operation of the previously state-owned airline and some airport facilities
- an Investment Component to provide funding for improvements at the Cheddi Jagan International Airport (CJIA); and
- a Technical Cooperation Component to finance the hiring of experts to help monitor the Program, develop and staff the Guyana Civil Aviation Authority (GCAA) and the CJIA corporation, and develop concessions for the airports.

**ENVIRONMENTAL
AND SOCIAL
REVIEW:**

The CESI noted that all investments in airport facilities will be accompanied by environmental assessments, and that the Executing Agency will hire a consultant with Project funds to monitor the application of mitigation measures.

RISKS:	<p>The Program requires actions that are significant to Government policy . The political debate will attract the attention of many affected interests.</p> <p>Guyana suffers from a scarcity of professionals with experience in air transport, and there is always the uncertainty whether skilled and seasoned personnel can be attracted despite higher salaries. The Technical Cooperation Component is designed to reduce this risk.</p> <p>The Guyanese authorities have been intimately involved in the development of this Program. This interest must be maintained through implementation phases.</p>
RELATIONSHIP OF PROJECT IN BANK'S COUNTRY AND SECTOR STRATEGY:	<p>The Bank's strategy, as reflected in the 1998 Country Paper, emphasizes the rehabilitation of transport infrastructure. The Program would improve the efficiency of air transport in Guyana, reducing costs and improving the service available to the country.</p> <p>Specifically, the Program incorporates the following strategic elements: (i) reformed institutional and statutory framework for air transport; (ii) increased private sector participation in air transport through the privatization of Guyana Airways Corporation, the corporatization of CJIA, and the leasing of Ogle Airport; and (iii) rehabilitation of the Guyanese air transport system to international standards of service and safety.</p>
POVERTY AND SOCIAL ASPECTS:	Not applicable.
EXCEPTIONS TO BANK POLICY	None
SPECIAL CONTRACTUAL CONDITIONS:	<p>A Policy Matrix, included as Annex 1 to this document, governs the conditions for the disbursement of each tranche of the Policy Component.</p> <p>Disbursement of funds from the Investment Component will depend upon agreement with the Bank on designs, environmental assessment, and specifications. With the exception of US\$500,000 for approach lights at CJIA, disbursements from this Component will also require creation and staffing of the CJIA Corporation.</p> <p>Disbursement of funds from the Technical Cooperation Component will be dependent upon agreement with the Bank on specific terms of reference and costs, and the signature of an agreement between the Ministries of Finance and Public Works and Communications by</p>

means of which responsibility for this Component is given to the latter without the need for further requests for the transfer of funds.

**ACQUISITION OF
GOODS AND
SERVICES:**

The threshold above which procurement will be subject to international competitive bidding is US\$250,000 for goods and services, US\$1,000,000 for civil works, and US\$200,000 for consulting services.

The Borrower has requested permission to hire the following firms to continue their work:

- Infrastructure Management Group, Inc. for negotiating the concession contract for Ogle Airport; and
- Transport Canada for the organization of the Cheddi Jagan International Airport Authority.

Bank management recommends that a waiver of international competitive bidding be granted for these services (see ¶3.34).

I. INTRODUCTION

- 1.1 Guyana is fundamentally dependent upon air transport. Located on the northeast shoulder of South America, it has no land communications with any other country, and only a skeletal internal road network. While bulk cargo is largely transported by water internationally and domestically, people depend upon the airways.
- 1.2 Despite this dependence, the sector is underdeveloped. Guyana is a member of the International Civil Aviation Organization but is in breach of a number of its obligations to operate a safe and secure air transport system. Parliament passed legislation in 1996 to address this problem but key features of the law have not been implemented and the law itself requires substantial alteration.
- 1.3 The basic facilities of the system are owned and operated by the central government. The airline was 100% government owned but financial problems arising from irregular services led the Government to sell a 51% stake in its ownership. Similarly, the airports are nominally owned and operated by the Civil Aviation Department of the Ministry of Transport and Works, but that entity has a serious shortage of technically capable staff. The international airport contracts out many of its functions to other government agencies, and many smaller airports are effectively operated by private-sector interests some of which seek legal rights to the facilities before investing in improvements.
- 1.4 To overcome this daunting challenge, the Government of Guyana has decided upon a comprehensive program. Amended legislation is being considered that would firmly establish government policy in the sector, create an effective autonomous regulatory agency, and encourage private-sector involvement. The international airport will be given a corporate structure, professional management, and an investment plan with specific sources of capital. The Government is negotiating a lease of a nearby regional airport to a private group with a mandate to develop domestic and regional transport on a commercially sound and openly competitive basis. Finally, the Government has sold a majority interest in the national flag carrier to private interests through public bidding.
- 1.5 The proposed Program is designed to support the Government in this effort. Specialized consultants have assisted the Government and the Bank in analyzing the various components of the sector and in offering suggestions for their improvement. The two parties have combined these suggestions and assembled a program that includes major financial support by the Bank for structural reforms, specific investments, and technical cooperation. The Program is expected to raise service levels in the sector to ICAO-compliant levels, attracting and retaining freely competitive international and domestic airlines.
- 1.6 The proposed Program would be supported by a loan equivalent to US\$30 million at concessionary rates financed from the Bank's Fund for Special Operations. Of this amount, US\$7.5 million would be for specific investments in the international airport, and another US\$2.3 million would be for a technical cooperation program. The remaining US\$20.2 million would provide balance-of-payments support in tranches of US\$7.0 and US\$13.2 million upon the satisfactory completion of specific actions.

- 1.7 This document presents a reform program for the air transport sector in Guyana. Following this introduction, Chapter II offers the relevant historical and current background of the sector; Chapter III presents the objectives of the Program and describes its components; Chapter IV discusses the anticipated financial and institutional implementation of the Program; Chapter V presents the institutions involved; and Chapter VI discusses the expected benefits and risks of the Program. Throughout the document, italics are used to highlight references to special conditions of the eventual loan.

II. FRAME OF REFERENCE

A. Macroeconomic Context

1. *Recent economic trends*

- 2.1 Following nearly two decades of economic decline, Guyana embarked in 1989 on an Economic Recovery Program that was supported by World Bank Structural Adjustment programs and the IMF's Enhanced Structural Adjustment Facility (ESAF). The IDB supported Guyana's stabilization and structural adjustment programs, focusing on the rehabilitation of the social and physical infrastructure, the improvement of the policy environment in agriculture and finance, and the strengthening of key institutions. Guyana has since met most of the macroeconomic performance targets and regularized its relations with foreign creditors. The economy achieved a remarkable compound growth rate of about 7% annually between 1990 and 1997, with gold, sugar, rice, and forestry growing fastest.
- 2.2 During the stabilization period, inflation declined from its peak of 105% in 1991, to 5% by 1998. The Government permitted exchange rates to become determined by the market; it decontrolled and privatized rice production; it freed interest rates; it abolished price controls with the exception of sugar and electricity; it increased tariffs for electricity and water to cost-recovery levels; and it abolished import restrictions. The Government also curtailed non-interest current expenditure, improved the efficiency of the tax system and broadened the tax base, and thus reduced the overall public sector deficit from 30% of GDP in 1991, to 5.1% GDP in 1998.
- 2.3 The 1997 elections, however, left an uneasy political climate. This political unease led to low consumer and investor confidence which, coupled with external shocks in 1998 caused Guyana's first recession in seven years. To settle the political climate, constitutional reform is likely to intensify, starting with widespread consultation of civil society, and culminating with consideration by the National Assembly in June 1999 of a report that proposed changes to the 1980 Constitution. By mid-1999 the tension had eased enough so that even the resignation of the President and her replacement by the Finance Minister did not cause disturbance.
- 2.4 The export sector was influenced by such factors as the low prices facing Guyana's principal exports, and rainfall deficiency associated with the El Niño phenomenon. The real value of sugar, rice, gold, bauxite, and timber exports fell in 1998.
- 2.5 Macroeconomic stability was maintained during 1998, but the policy scenario was dominated by the need to recover from the large public sector deficit, 8.8% of GDP in 1997. The Government of Guyana reached agreement with the IMF in July 1998 on the policy framework for a new ESAF arrangement to cover the 1998-2001 period. In the context of this macroeconomic program, the public sector deficit fell back to 5.1% of GDP in 1998.

2. *Progress in privatization*

- 2.6 The Government of Guyana is committed to a privatization program to improve the efficiency and competitiveness of all enterprises, eliminate the financial and administrative burden on Government, promote the country's modernization through new investments, technology, and efficient management, and re-deploy scarce public resources. To this end, the Government recently sold a majority interest in the national flag carrier, GAC, and will transfer ownership of the Guyana Electricity Corporation in October. It is bringing to the point of sale of Guyana Stores Ltd, Guyana National Printers, Guyana Pharmaceutical Co., Wauna estate, the bauxite mining companies LINMINE and BERMINE, and the Versailles dairy. It is also continuing with the restructuring of Hope Coconut Industries, Guyana National Shipping Corp., Guyana Oil Company and the sugar company, Guysuco. Among the new initiatives, the Government recently signed a management contract and will consider options including the possible privatization of the National Cooperative Bank..

3. *Outlook*

- 2.7 Guyana's economic growth is expected to resume but at lower rates than in the past. Real GDP growth of only 2% is expected in 1999, as a result of continuing difficulties in the external and domestic environment. Further tightening of monetary and fiscal policies may be necessary to contain inflation to the target of 9%, and to prevent more depreciation of the exchange rate below the projected 20%.
- 2.8 *Compliance with the policy conditions of the new ESAF agreement is a precondition for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and is supported by this Program as well.* In February 1999, a joint IMF, World Bank and IDB mission reviewed Guyana's progress on reforms, and determined that it had achieved substantial compliance. Guyana reached the completion point on 14th May 1999. The Government will reallocate the budgetary resources released from debt service to the social sectors and public-sector reform. Debt relief under HIPC amounts to about 4.4% of GDP, a percentage that is expected to decline over time as GDP grows.
- 2.9 In the medium term, growth rates in excess of 4% are not likely due to the shortfall of domestic and foreign savings to finance the investment required for higher growth, and the possible reduction of preferential and access to European markets. The current account of the balance of payments is expected to remain in deficit, averaging 12.7% of GDP for 1999 to 2003. This suggests that Guyana will need generous levels of concessionary financing or balance of payments support to sustain its development program.

B. Air Transport Sector Context

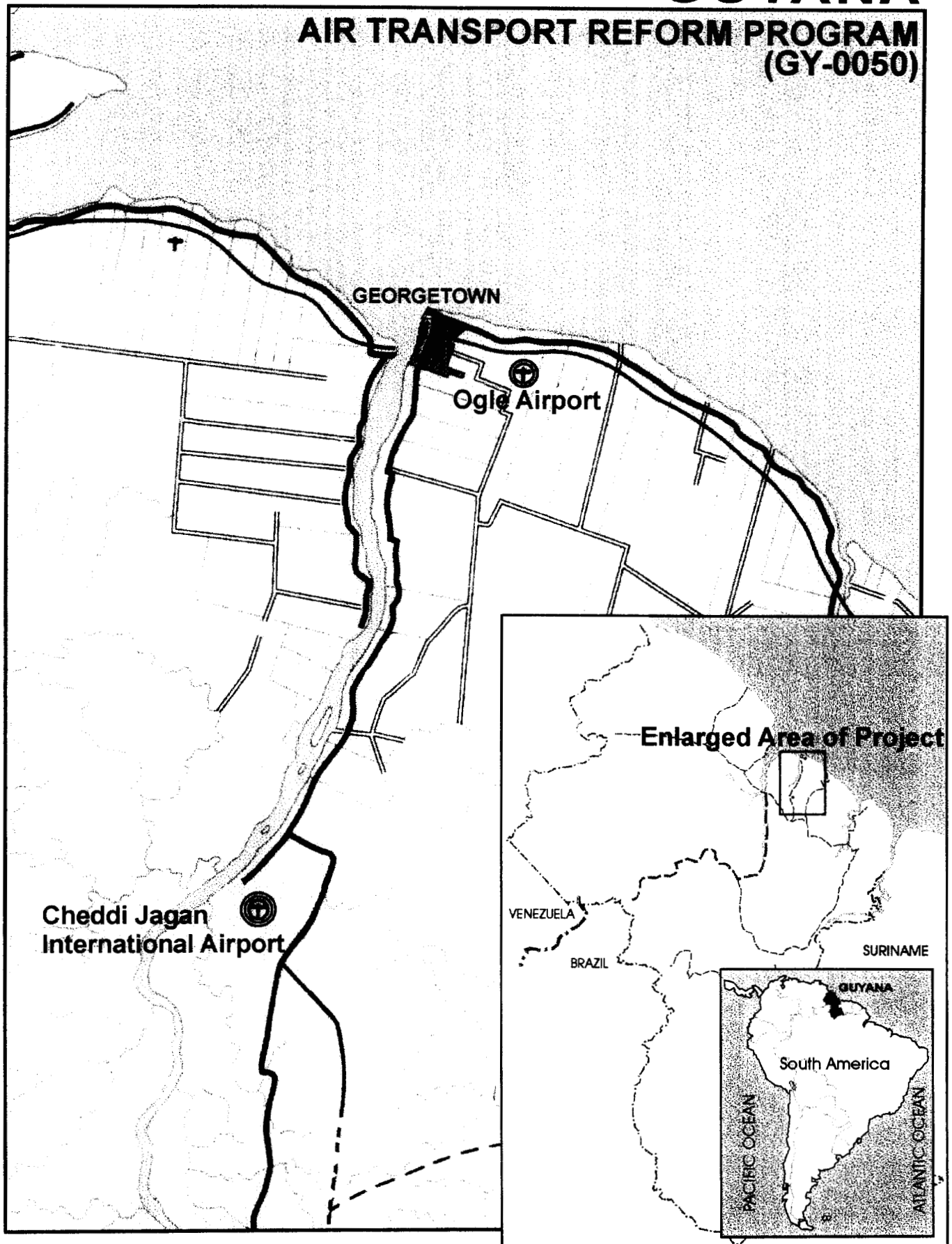
- 2.10 Guyana has an area about the same as that of Great Britain. Its 800,000 inhabitants live largely along the Atlantic coast between the capital of Georgetown and the coastal city of New Amsterdam and along the Demerara River south of Georgetown (see map, page v). The sparse population of its vast interior is centered around specific activities such as mining and timber extraction. Beyond the coastal region and the shores of the Demerara, the road net-

work is primitive: most roads are little more than dirt tracks impassable during much of the rainy season, and usable otherwise only by heavy trucks and four-wheel-drive vehicles.

- 2.11 Guyana's location makes it dependent upon air transport both for connections with the rest of the world and for connections between the coastal region and the interior. Guyana has two airports near Georgetown: Cheddi Jagan International Airport (CJIA) 35 km south of the city, and Ogle Airport on the city's eastern outskirts (see map, next page). In addition, it has nearly 100 aerodromes serving smaller towns and villages.
- 2.12 The Government of Guyana has developed several general policy initiatives for this sector over the years. No fewer than six studies have been made of air operations in the country, most with consistent recommendations (see Bibliography, page iv). The most recent and comprehensive study is the "National Development Strategy for Guyana," (NDS) prepared in 1996 with the collaboration of the Carter Institute. The NDS recommends four actions: (a) the creation of autonomous agencies to guide the sector; (b) the privatization of portions of the sector where possible; (c) adoption of an open skies policy and freedom of entry to general aviation companies; and (d) the upgrading of the system in areas such as air traffic control, search and rescue, and control centers in the interior.
- 2.13 Also in 1996, the Guyanese Parliament passed the Civil Aviation Act ("the Act") creating three agencies to supervise aeronautical operations:
 - the Civil Aviation Authority to regulate air transport, inspect and license airports, aircraft, personnel, training and maintenance activities;
 - the Air Transport Licensing Authority to issue operating licenses for commercial charter and private aircraft; and
 - the Airports Authority to develop and operate airports and aerodromes and provide such services as air traffic control, crash/fire/rescue operations, and security.
- 2.14 Shortages of qualified staff in the Government, and the lack of sufficient resources to finance the institutional changes and increased salaries needed to attract outside staff, frustrated efforts to move forward.
- 2.15 In June 1998 the Bank approved ATN/JF-6017-GY to analyze the air transport sector of Guyana and make specific recommendations for the preparation of this sector loan. The Bank hired consultants who delivered their final report in January 1999. Appended to their report is a draft of new legislation recommended for the sector. The proposed amendments to the Civil Aviation Act of 1996 have undergone extensive review, and the Government expects to present a revised Act to Parliament by the end of October.

GUYANA

AIR TRANSPORT REFORM PROGRAM (GY-0050)



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1. *Institutional Framework*

- 2.16 Air transport falls within the purview of the Minister of Transport and Hydraulics within the Ministry of Public Works and Communications (MPW&C). The Minister is advised by an Air Transport Board made up of representatives of the Guyana Airways Corporation (GAC), the Aircraft Owners Association of Guyana (AOAG), the Ministry of Home Affairs (MOHA), the Air Defence Wing of the Guyana Defence Forces (GDF), the Ministry of Trade (MOT), the Civil Aviation and Planning Departments of the MPW&C, and other private sector representatives. The Board is appointed annually but since the passage of the Civil Aviation Act of 1996, its activities have been limited to reviewing applications for licenses.
- 2.17 The Civil Aviation Department (CAD), has day-to-day responsibility for air transport. This Department has five Divisions: air traffic control, airport management at CJIA, aerodromes, air safety, and administration. The CAD had a budget of G\$185 million (US\$1.3 million) in 1998; any revenues collected from fees were turned over directly to the Ministry of Finance (MOF). As with most Government agencies in Guyana, salary levels are too low to retain sufficient staff so that 40% of the 159 positions in the Department are vacant. This affects all areas of responsibility of the CAD, but is particularly important in the areas of air traffic control (ATC) and emergency preparedness.

2. *Air Traffic Control and Emergency Preparedness*

- 2.18 ATC is provided out of CJIA, largely through radio transmission and direct telephone links with Suriname and Trinidad and Tobago. Links are also being developed with Venezuela and Brazil. The airport has only basic aircraft control systems¹; the closest radar stations are in Caracas and Port of Spain. CJIA also has a new voice control system received in grant from the European Union (EU), which also financed training of operators. Keeping operators, however, has proved problematic: they are generally trained in the United Kingdom and often leave the CAD for better positions overseas.
- 2.19 Aside from CJIA, Guyana's airports and aerodromes have no dedicated crash, fire and rescue (CFR) capabilities. These services are provided by the localities served, even in the case of Ogle Airport. At CJIA, services vital to safe airport operation have been seconded to other agencies. Fire and rescue is the responsibility of MOHA, so that training and operations are out of CAD control. Problems are rife: spare parts are subject to Government procurement rules and often are not available, and equipment is frequently unusable. Emergency procedures exist but depend upon outside services such as the GDF and local hospitals that are totally inadequate to handle an airport emergency. The last emergency drill was done in 1995. Facilities and equipment were upgraded as recommended by the International Civil Aviation Organization (ICAO) in 1993; nonetheless, the level of staffing, practice and equipment maintenance affects the airport's rating, with the result that non-regional airlines are unwilling to land in Guyana².

¹ VOR/DME, ILS Category I on a single approach, and PAPI.

² According to a representative of a major U.S. carrier, it has not applied to the Federal Aviation Administration

3. *Cheddi Jagan International Airport*

- 2.20 CJIA, the only international air gateway into Guyana, is located 35.7 km south of Georgetown on a plateau overlooking the Demerara River. CAD staff operates the airport but the airport manager has little input with planning and programming beyond preparing initial annual operating budgets.
- 2.21 The basic physical infrastructure at CJIA is in reasonable condition. The airport has a single operative runway with cracks that require further investigation but do not immediately threaten operations³. Instrument landing equipment has been installed for the southwesterly approach only, but this runway does not have approach lights in violation of ICAO standards. The passenger terminal was built in 1969; improvements were recently made with Canadian International Development Agency (CIDA) financing. The airport has parking facilities for two large aircraft adjacent to the terminal; general aviation aircraft are often parked on the taxiway when larger craft are using the main aprons. Air cargo facilities are located at the southern extreme of the terminal but the aircraft parking area is not well marked and is dangerously close to the taxiway. The perimeter fencing of the airport is being installed with a grant from the European Union (EU). Patrolling is seconded to the Guyana Police (MOHA) but in the absence of effective supervision, unauthorized people and animals cross the runways unchallenged.
- 2.22 Passenger flows through the airport are modest. Passenger numbers declined from 316,506 in 1996, to 311,405 in 1997. Data on final destinations are not available, but it is anecdotally affirmed that, although most travel first to Port of Spain, their principal final destinations are New York, Toronto and Miami. Projections variously estimate future passenger growth at between 2.6% and 5% annually, to reach between 385,000 and 465,000 passengers by 2007.
- 2.23 Five airlines make scheduled stops into CJIA: GAC 2000, BWIA, Suriname Airways, LIAT International Airways, and Air Caribbean. With the sole exception of GAC, the maximum time in flight upon leaving CJIA is under 90 minutes, although passengers are requested to check in three hours before flight departure. The timing of flights is such that passenger-serving staff must be available nearly 20 hours daily for an average of only six flights.
- 2.24 Air cargo reached nearly 4,000 tons in 1997, up some 6.6% from 1996. This has been the trend for several years and is projected to continue in the near future. Two air cargo companies have facilities at CJIA: Amerijet, Laparkan; GAC and BWIA carry only belly cargo. Flights are irregular although there are usually at least two weekly flights to Miami and occasional operations to New York and other points in North America.
- 2.25 The airport terminal houses concessions, airline counters and offices, and other services. The airport also makes land available to such interests as a gasoline station and parking areas. All

(FAA) for permission to schedule flights there because security, fire/rescue, air traffic control and other necessary services do not meet ICAO and U.S. requirements.

³ A second runway, used for general aviation, is too short for most international jets, and badly in need of maintenance.

concessions in and around the terminal are managed by the Ministry of Home Affairs (MOHA). In most cases there are either no rental contracts for these services, or rental fees are not collected; those fees that are collected flow directly to the MOF.

2.26 Environmental standards at CJIA are low. Natural drainage is good but sewerage needs repairs, and wastewater flows into the Demerara River untreated; there are no provisions for containment of spills and the collection of oil residues. Solid waste taken from aircraft is bagged and thrown into an open-air dump; some trays and cups find their way into neighboring communities.

2.27 On the surface, the finances of CJIA appear solid. Data supplied by the CAD (see table) would indicate an operating surplus of the equivalent of US\$250,000 in 1997, and slightly greater was expected in 1998. However, these data are based entirely upon budget allocations, not actual expenditures, and include a rough estimate of personnel expenses. Also, as has been noted, actual expenses are for a skeleton staff and do not include adequate resources for a

<i>CJIA: Revenues and Expenditures (in US millions)</i>			
	1996	1997	1998^P
Revenue	81.8	145.3	149.0
<i>Airport charges</i>	66.5	123.2	134.7
<i>Fees and fines</i>	12.0	16.4	7.8
<i>miscellaneous</i>	3.2	5.7	6.5
Expenses	99.0	106.9	106.9
<i>Operating costs</i>	19.0	86.9	86.9
<i>Personnel[*]</i>	20.0	20.0	20.0
NET	-17.2	38.4	42.1

maintenance program, let alone to cover necessary improvements and the depreciation of assets. It is estimated that these outlays would produce an operating deficit on the order of US\$500,000 excluding depreciation.

4. *Ogle Airport*

2.28 Among the airports in Guyana, Ogle is a special case due to its location on the outskirts of Georgetown and the concentration of air traffic. Government-owned and legally entrusted to Guysuco, the state sugar company, Ogle is intensively used and operated by the members of the Aircraft Owners Association of Guyana (AOAG). The airport originally served only light aircraft but has recently become home base to airplanes with capacity for up to 20 passengers and a gross weight of 12,500 lbs. It has a single runway 1,840 feet long and 27 feet wide; taxiing is done on the runway. Private interests have erected a number of hangars and other buildings but there is no passenger terminal or flight control center. Furthermore there is no zoning in the area; residential dwellings (squatters, mid- to upper-income houses), sugar fields, and small commercial establishments surround the airport.

2.29 The airport has neither lighting nor approach control equipment and operations are monitored from a control booth built years ago as a temporary structure. All flights are conducted under visual flight regulations (VFR) and approaches are frequently made through clouds and fog over the sea with only the last 1-½ miles in visual contact with the ground. For emergency crash and fire response, the airport relies upon the Georgetown fire brigade and local hospitals. A low fence surrounds the airport, but security is loose.

2.30 Eight operators with 37 aircraft are based in Ogle. The annual traffic out of Ogle was nearly 20,000 movements (take-offs or landings) in 1997, about evenly divided between single- and twin-engine craft. The density of traffic, size and weight of craft, and unimproved facilities at

Ogle have made flight from the field dangerous. Consequently, the AOAG prepared a development plan for the airport⁴, based on a study by Norconsult International A.S. funded in part by the Bank in late 1997 (ATN/NC-5695-GY). Norconsult recommended extending and widening the runway and adding certain safety features, to bring the airport into compliance with ICAO standards. The AOAG plan would enhance the airport to accommodate aircraft as large as regional jets that could serve domestic and regional traffic to destinations including Barbados, Brazil and Venezuela.

5. *Other Aerodromes*

- 2.31 Aside from CJIA and Ogle, Guyana has 95 operable aerodromes of which 56 are operated by the CAD. Nevertheless, because the CAD is short-handed, private aviators or groups of aviators operate many of these aerodromes. Sometimes this arrangement is legalized in the exploration or concession contract between Government and company, but more often it is a *de facto* reflection of the interest private aviators have in maintaining airstrips to some minimum standard. Even where other interests operate fields under license from the Government, fees are rarely collected.

6. *Guyana Airways Corporation (GAC)*

- 2.32 For many years prior to its privatization in April 1999, GAC, the national flag carrier, had suffered operating problems. It had four aircraft for domestic flights⁵, and leased a U.S.-registered Boeing 757 for its international operations. In 1996, the U.S. Federal Aviation Agency granted GAC a special waiver to operate its airplane, but this waiver was suspended in November 1998 and GAC was obligated to “wet lease”⁶ a second airplane until the first could be repaired. Operations of the company were irregular because, as a single-aircraft operation, minor delays cause a cascade of scheduling problems and cancellations.
- 2.33 The financial condition of GAC was precarious at best. The most recent audited financial statements for the company show an after-tax profit of US\$1.85 million in 1994. Unaudited statements show GAC earning accumulated net profits of US\$1.94 million over the subsequent three years. However, these figures exclude provisions required for major engine overhauls for the leased aircraft (US\$4.0 million) and pension contributions in 1997. Government sources estimated the value of GAC's assets at about \$4 million, and its liabilities at over US\$10 million.
- 2.34 Despite a reorganization attempt in late 1998, early the following year the Government decided to sell a majority interest in the airline. To facilitate the privatization process, the Government created a new company to operate international air routes only, and had the company assume the assets and some of the liabilities of GAC. Of the shares in this firm, 51% were offered to the public⁷. Seven firms submitted proposals to the Privatization Unit of the MOF

⁴ *Ogle Municipal & Regional Airport Development Proposal*, 21 January 1999.

⁵ GAC owned two Twin Otters and leases two Skyvans. Only one of these aircraft is operable.

⁶ A wet lease includes the aircraft, its maintenance and crew. A dry lease covers only the craft itself.

⁷ Privatization Unit, Ministry of Finance, *Request for Proposals and Information Memorandum for the Operations of Guyana Airways Corporation (GAC)*, January 1999.

and a special committee ranked a Guyanese proposal highest. The sale was completed in June when the GAC 2000 Corporation paid in US\$3.8 million in capital and assumed operating control over the airline.

C. Bank and Other Lender Experience in the Sector

- 2.35 The Bank has financed two projects in the transport sector: loans 890/SF and 999/SF, both for rebuilding the main roads and bridges connecting Georgetown with CJIA to the south, and the Berbice River to the southeast. The former has suffered numerous difficulties in execution due largely to the incomplete state of project preparation, institutional weakness in the MPW&C, and the Government's desire to use local contractors. Only recently has the Government met the conditions precedent to first disbursement of the second loan. Projects funded by other international lending agencies this sector have had similar difficulties.
- 2.36 The Bank has three sector loans underway: 956/SF, a financial sector adjustment loan signed in March 1996; 965 & 966/SF, agricultural sector policy loans signed in August 1996; and 986/SF, an electricity sector loan signed in June 1997. In all three cases the disbursement of the first tranche went relatively smoothly. Meeting conditions for the second tranche of these loans has taken longer: the GOG has recently met the conditions for disbursement of the financial sector loan, and the Bank expects that for the electricity sector to be met in the fourth quarter of this year, and that for the agriculture sector to be met early next.

D. Lessons Learned

- 2.37 The most relevant lesson learned from the experience of international financial institutions in the sector is that the executing capacity of the MPW&C is limited. Further operations, particularly those requiring direct investments and corresponding oversight, will of necessity be accompanied with technical cooperation in the form of long-term technical and managerial support.
- 2.38 Secondly, local ownership of projects financed with Bank funds is vital to their timely and successful execution, regardless of whether they involve direct investments or policy adjustments.

E. Project Linkages with Bank Strategy and Rationale for Financing

- 2.39 The Bank's strategy, as reflected in the 1998 Country Paper, emphasizes the rehabilitation of transport infrastructure, the provision of essential services to support increased production, and the strengthening of private sector incentives. The strategy also encourages more efficient management, increased revenues, and improved long-term planning arising from budgetary controls. The proposed operation is included in the Bank's pipeline and incorporates the following key elements:

➤ *Increased private sector participation in the economy*

The Program encourages private sector participation in air transport through (i) the privatization of Guyana Airways Corporation; (ii) the corporatization of CJIA; and (iii) the privatization of Ogle Airport.

➤ *Institutional, organizational and statutory reform*

The Program pursues institutional and statutory reforms by converting a clear national policy into effective regulatory and operative agencies, and by supporting efficient use of resources in the sector.

➤ *Transport rehabilitation*

The Program will enable Guyanese air transport to comply with minimum international safety standards through actions in selected priority areas with short-term needs, such as aviation facilities at CJIA. The main objective is to attract international carriers, made all the more important to face competition for domestic and regional routes from a privatized Ogle airport.

III. THE PROGRAM

A. Objective

- 3.1 The objective of this Program is to raise the standards of air transport operations, safety procedures, and affiliated services to internationally acceptable levels. This will require a thorough review of the institutional framework of the sector; significant investments; and private sector participation in operating air transport facilities and services.

B. Program Components

- 3.2 The Program has three components:

- a Policy Component of US\$20.2 million with a series of elements designed to encourage policy decisions and actions to improve air transport at specific locations, upon which depend fast-disbursement funds in tranches of US\$ 7.0 and 13.2 million;
- an Investment Component of US\$7.5 million to fund required improvements at CJIA; and
- a Technical Cooperation Component of US\$2.3 million to provide assistance in meeting the requirements of the other two.

1. *Policy Component*

- 3.3 In addition to verifying that the macroeconomic performance of Guyana is consistent with Project objectives as verified by IMF monitoring of ESAF, the Policy Component has three elements: reforming the institutional and organizational framework of the sector, upgrading airport facilities, and improving the operation of the national airline, Guyana Airways Corporation.

a. Institutional and Organizational Reforms

- 3.4 The Program supports the adoption and effective implementation of a national policy that includes the following precepts:

- that the Government supports freedom of the skies and seeks to make air transport facilities in Guyana attractive to any and all air carriers;
- that an autonomous authority will be created to oversee the development of the sector; that it will be professionally staffed, adequately funded; and that the authority shall develop rules and regulations governing air transport within a specified time frame;
- that privatization within the sector shall be encouraged where it has demonstrable benefits; and
- that efforts shall be made to attend the needs of aviation into the interior of the country through effective national search and rescue services, creation

of regional control centers, and greater supervision over smaller official aerodromes.

- 3.5 To implement this policy, Government will have to amend its legislation, creating an autonomous regulatory authority and eliminating barriers to the entry of new international carriers or general aviation companies. An analysis of the 1996 Act identified provisions that may restrict the privatization of individual airfields, and others that do not properly address fundamental issues such as aircraft airworthiness and registration, pilot certification, airline and airport operations, air traffic control, and liability. In addition, the analysis raised concerns over the organizational structure proposed in the Act, which might result in overlapping responsibilities among the three autonomous authorities in an environment where finding qualified staff is difficult. Finally, the Act as written contains numerous administrative clauses that would better be left either in an appendix of transitional clauses, or in the eventual regulations themselves.
- 3.6 The Government has prepared amendatory legislation that would create a single Guyana Civil Aviation Authority (GCAA) and allow it to develop and implement its own regulations. The amendments would also permit private sector participation in the management of airport infrastructure and services. *Enactment of the amended civil aviation legislation is a condition to disbursement of the first tranche of the Policy Component of the Program.*
- 3.7 While this legislative initiative is under way, the MPW&C will develop regulations governing air transport, to be known as the Aviation Regulations of Guyana (ARG). For this purpose the Ministry will hire a specialized consultant to ensure that the ARG are consistent with the amended Act and other statutes, and with the projected development of the sector. *Approval by the Minister of the ARG is a condition to disbursement of the first tranche.* Expertise needed for this purpose will be hired from the Technical Cooperation Component of the Program.
- 3.8 Because the objective of this loan is to raise Guyanese aviation to ICAO standards, and particularly to attract international carriers to the country, the GCAA must be so created and funded as to ensure continual compliance with these standards. The GCAA must be staffed at competitive salaries and given the necessary physical facilities and equipment. *Agreement with the Bank on an action plan for creating a decentralized Authority, including regulations and minimum number and qualification of staff is a condition to disbursement of the first tranche.* In the early stages it is expected that action plans will center about the hiring of short- to medium-term consultants who will provide training, organization, and internal procedures for a permanent full-time staff to be retained over time. *As a condition to disbursement of the second tranche, the GCAA must be fully operational for a period of at least six months, with a secure financial structure and adequate professional staffing, and must be applying the ARG. It must also certify full and sustainable compliance of air transport in Guyana with ICAO standards*⁸.

⁸ "Full and sustainable" is used to mean literal compliance with the standards, and financing that ensures indefinite compliance.

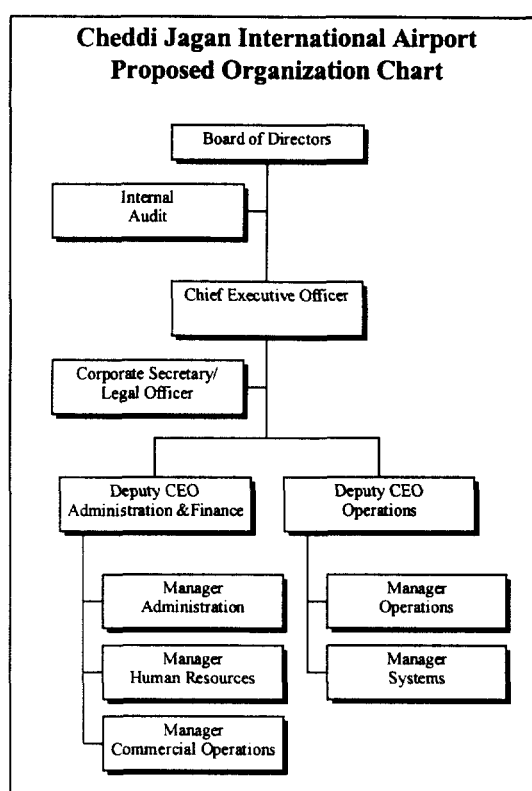
b. Airports

- 3.9 The Policy Component of the Program has specific actions to be taken to improve the operation the two airports near Georgetown and the group of aerodromes in the interior.

i. *Cheddi Jagan International Airport*

- 3.10 Transport Canada prepared an analysis of CJIA and offered suggestions for reforms⁹. Their calculations show that the airport could earn net operating revenues of nearly US\$2.5 million annually if a number of remedial measures are taken. Principal among these are the consolidation of all revenues and costs within airport authority itself, and the restructuring of airport management.

- 3.11 On the basis of these recommendations, the Government has proposed restructuring CJIA management into a corporate form. As shown in the adjoining diagram, the corporation would have a Chief Executive Officer and deputies, one to oversee the financial, administrative and commercial functions, and the other responsible for operations, maintenance, security and safety. The CEO would be directly responsible for the planning and programming functions of the airport. To the extent that these senior positions cannot be filled by Guyanese, external experts would be hired for a limited time to manage the airport and train permanent executives. *The GOG and the Bank have agreed on this structure, and on the professional qualifications required of key staff.*



- 3.12 The CEO would report to a non-executive board of directors representing stakeholder interests: airlines, workers, the business community, and the Government. The initial board would be appointed by the Minister of Transportation and Hydraulics, and would later come from stakeholder nominees and appointed by the standing board itself. Staffing of CJIA is expected to number about 110 including security, safety, operations maintenance, financial systems personnel, even though some of these functions may eventually be contracted to third parties.

⁹ Guyana: Airport Planning for the New Millennium, February 1999. The study was funded by a CIDA grant.

- 3.13 The conversion of existing management of the airport into a public-sector corporation and the evolution of that corporation into a financially self-sufficient organization will initially require a comprehensive business plan. This plan will outline how the transfer of authority is to take place, and what actions the corporation will take to develop the systems and procedures necessary for success. It will also have an investment program over the medium term (five to seven years)¹⁰, and specify environmental mitigation actions to be taken. *Government and Bank agreement on this plan, and the naming of key officers of the corporation are prerequisites to the disbursement of the first tranche under the Policy Component of the Program. Before the second tranche is released, the business plan must have been in operation for at least six months, and the airport must be in full and sustainable compliance with ICAO standards.*
- ii. *Ogle Airport*
- 3.14 Members of the AOAG have been operating Ogle Airport for several years and have made significant investments in hangars and other buildings. They have not, however, made improvements in the airstrip itself or to the avionics or other facilities, considering these to be the obligation of the Government so long as the Government owns the operating rights. AOAG members are anxious to acquire these rights for the stability they would ensure for further investment. The Government recognizes that private management of the airport would bring significant benefits from more effective use and expansion of the facilities without the need for further Government expenditures.
- 3.15 The Government and the Bank have given serious consideration to the alternatives for developing both Ogle and Cheddi Jagan Airports. In a situation where the number of passengers is limited and both airports serve essentially a single market, the need for two separate facilities was questioned. After reviewing alternative scenarios of leaving the ownership situation unchanged, closing Ogle, or building an entirely new facility, the Bank concluded that, except for a new airport, the difference in cost would not be significant and therefore recommends developing both airports, letting market forces influence their use. Because of space limitations, Ogle will not be able to accommodate long-range aircraft so that CJIA would have a natural monopoly on this segment of air traffic. Government and Bank analysts feel that the willingness or ability of foreign carriers to change to short-field aircraft to take advantage of Ogle's location is limited so that a substantial volume of passenger traffic will continue to use CJIA despite its relative distance from Georgetown.
- 3.16 Improvements at Ogle would have implications for air transport in general, not least of which concern regulation of private airports, airspace and traffic, air traffic control, fire and rescue, and zoning. Leasing of Ogle Airport is supported by the

¹⁰ Funding for investments during the first three years of the business plan will come, in part, from the Investment Component of the Program, as discussed in ¶¶3.23ff below.

Program, so long as it is considered within the broader scope of the Program here under consideration.

- 3.17 Both the Bank and the Government considered alternatives to direct negotiations with AOAG members. The value of the airport is too small to attract serious international operators. Furthermore, because the AOAG group incorporates most stakeholders using the field, it is unlikely that other domestic groups capable of operating Ogle would be interested in making an offer. Nonetheless, despite moving forward with direct negotiations, the procedures call for publicity during the process, and the agreement will include conditions allowing the Government to re-tender the lease periodically, thereby preserving the requisite element of competition.
- 3.18 *Certain other conditions have been incorporated into the agreement for operating Ogle Airport that are basic to Bank acceptance.* . In first instance, while direct negotiations may be acceptable, the eventual contract should be in the form of a long-term lease with the Government continuing to own the underlying property. In addition, operation and expansion of the airport would be subject to environmental and social restrictions, particularly with regard to waste disposal and noise abatement procedures (see ¶3.36). The airport would, of course, have to be operated within national regulations regarding air traffic control, and air and ground safety, etc. The Bank hired consultants to help the Government structure a lease for Ogle Airport; these consultants delivered their report and a draft lease¹¹.
- 3.19 *As a condition to disbursement of the first tranche, the Government and the Bank must agree on a plan for bringing Ogle Airport into full and sustainable compliance with ICAO standards. This plan must include assurances that the facility will be open to the general public on a non-discriminatory basis, that the mitigation program set forth in the Environmental Assessment is carried out, and that zoning regulations are put in place to avoid conflict of land use.* Under current circumstances, the Bank anticipates that compliance with this condition will entail an agreement between the Government and a corporation formed among members of the AOAG. Enforcement of the general provisions of this concession will fall to the GCAA, which will have consultancy assistance as explained in the description of the Technical Assistance Component below. Similarly, because the environmental regulatory system in Guyana is still in its infancy, and although conditions of other IDB loans require strengthening of this system, provisions have been made in the Technical Cooperation Component of the Program for consultants to monitor compliance with environmental conditions of the loan.
- 3.20 *Before the second tranche of the Policy Component of the Program can be released, Ogle Airport must have been operating in compliance with ICAO standards for a period of not less than six months.*

¹¹ IMG, *Draft Lease Agreement for the Management, Operation and Development of Ogle Municipal and Regional Airport, between "The Ogle Airport, Inc." and the Ministry of Public Works and Communications, Republic of Guyana*, August 1999.

iii. *Other aerodromes*

- 3.21 To complete the upgrading of air facilities in Guyana, CAD is developing a program to inspect, improve and certify smaller aerodromes in the interior. This program must conform to the minimum standards set forth by ICAO for the specific conditions of these aerodromes and the type of aircraft they are certified to receive. Any investments required to bring these aerodromes into ICAO compliance are expected to be minor. *The Government and the Bank must agree a plan to ensure certification of all 95 operating aerodromes according to the new ARG and ICAO standards as a condition of disbursement of the first tranche of the Policy Component. Actual certification of these fields is a condition prior to disbursement of the second tranche.*

c. Guyana Airways Corporation

- 3.22 The privatization of GAC has been described above (§2.34), and no further conditions to the loan are required.

2. *Investment Component*

- 3.23 The purpose of this Component is to cover the costs of improvements required immediately for safe operation of CJIA, as well as those needed over the next three years to bring the airport into full compliance with ICAO standards. In addition, the Component covers the cost of specific investments necessary to meet environmental and operating standards¹². The total cost of these investments, including the associated design and specification studies, is estimated at US\$7.5 million, as shown in the accompanying table. The values assigned to each element in the table are preliminary estimates subject to revision as designs and specifications are completed and the actual works and equipment put out to tender.

Investments Required for CJIA (in US\$'000 equivalent)	
<i>Element</i>	<i>Cost ('000 US\$)</i>
Immediate Requirements	4,500
Runway 06 Approach lights	500
Runway 06-pavement	2,200
Apron 1 upgrades	600
Safety Lighting	100
New X-ray equipment	200
Perimeter road	100
Incinerator & truck	250
Upgrade sewerage	500
Computer systems	50
Short-Term Requirements	3,000
Power distribution system	200
Arrival terminal roof	1,300
Vehicles	200
Runway 06-24 lights	300
Sewage treatment plant	1,000
TOTAL	7,500

¹² The investment needs were initially identified by Lufthansa Consulting (see §2.15) and later elaborated by Transport Canada (§3.10).

- 3.24 The most important immediate requirement is the installation of approach lights on the principal runway, 06, the lack of which is a serious safety hazard for operations at nighttime and under foggy conditions. *For this reason, the contracting of their installation is a condition prior to the first disbursement under the Policy Component of the Program.* The urgency of installing these lights leads the Project Team to recommend that disbursements for this purpose be exempt from all but the formal conditions prior to disbursement.
- 3.25 The largest single urgent element of the Investment Component is repaving runway 06. In making the estimate, it has been assumed that the runway does not urgently require reconstruction, but that an overlay of a depth to be determined by design studies will be carried out. The other urgent investments are relatively minor and require minimal engineering designs and specifications.
- 3.26 In the medium term, larger investments in the terminal roof and sewage treatment will require more extensive studies, but Management believes that these can be carried out comfortably within the time frame of the Program. *Nevertheless, the organizational framework and engineering studies are important to the proper dimensioning of the works or equipment to be included. Conditions to the disbursement of the funds under the Investment Component, other than those referred to in ¶3.24, are therefore that the corporatized CJIA be staffed; that the Government and Bank agree the corresponding designs, environmental assessment, and specifications; and that normal Bank procedures be used in acquiring goods or services under the Program.*

3. Technical Cooperation Component

- 3.27 Because the Government does not have the specific expertise to carry out the activities required to implement the Policy and Investment Components of the Program, a Technical Cooperation Component is included within the Program. This Component would support the Government in reforming governing statutes, developing air transport regulations, creating a Guyana Civil Aviation Authority, converting the management of CJIA into an incentive-based corporation, and privatizing Ogle Airport. The Component would also fund a special adviser to the Minister of Transport and Hydraulics who would coordinate the entire Program. The accompanying table shows a break down of the elements of the Technical Cooperation Component and provides an estimate of the associated costs.

a. Project Coordination

- 3.28 The Minister will delegate coordination of the Program to an adviser who will be contracted annually for three years. Funding is also provided for hiring an assistant as required, and an environmental monitor (see ¶3.38), and the Ministry will

<i>Estimated Distribution of TC Component (in '000 US\$)</i>	
Purpose	Amount
Project Coordination	400
<i>Special Adviser</i>	300
<i>Assistant</i>	50
<i>Environmental monitor</i>	50
Institutional	800
<i>Organization GCAA</i>	250
<i>Preparation of regulations.</i>	50
<i>Long-term consultants</i>	250
<i>Training</i>	250
Privatization	150
<i>Ogle Airport</i>	150
CJIA	950
<i>Organization</i>	150
<i>Engineering designs</i>	200
<i>Environmental assessment</i>	50
<i>Long-term consultants</i>	350
<i>Training</i>	200
TOTAL	2,300

provide them administrative support and office space. The adviser will be responsible for developing specific terms of reference for the remaining consultants identified for each of the elements in the Program.

b. Institutional Reform

3.29 Policy and statutory reform has originated within the MPW&C on the basis of draft legislation prepared by Lufthansa Consulting GmbH. Further consultancy is required to convert the draft into an amendment to the 1996 Act in cooperation with the Office of the Attorney General. The legislation leaves the development of revised regulations to the MPW&C, for which specialized consultancy will be required. The GCAA will regulate all air traffic and licensing.

3.30 The principle for reforming both CJIA and Ogle Airport is regulation by contract. The major aspects of operation of the airports and performance standards will be written into the lease for Ogle, and the articles of incorporation of CJIA. Enforcement of these conditions will rest upon a professional GCAA. Therefore, assistance will be necessary for establishing the regulatory authority itself and for initially staffing at least one senior position and training others. Areas will perforce include regulation and support of aviation in general, including licensing, air traffic control, safety, meteorology, search and rescue, etc.

c. Privatization

3.31 Privatization within Guyana has been assigned to a special unit within the Ministry of Finance. This unit is involved in all privatizations (e.g. GAC) but will not be involved in the leasing of Ogle Airport nor the corporatization of CJIA as these are not considered privatizations. Therefore the MPW&C will need specialized consultants to help during the negotiation of the terms of the eventual lease of Ogle. The Government has asked the Bank to permit direct contracting of the same firm that has been working on the draft agreement to assist them in completing the negotiations.

3.32 Activities for improving the operation of CJIA require a combination of actions. On the one hand, the MPW&C must create an internal mechanism to provide greater oversight of operations at the airport. The MOF will also need help in preparing for the corporatization, contracting key members of the management team, and training future managers. Funds are also included to cover the cost of hiring consultants to help the transition of CJIA to a corporate structure, to advise management during the formative stage of the airport corporation, and to train its staff.

3.33 *The nature of the Technical Cooperation Component is such that the resources must be made available to the Government as soon as possible following compliance with the general conditions precedent. In each case that a consultant or firm is to be hired, the Government must first agree with the Bank the corresponding terms of reference and cost estimate, and follow the Bank's procurement procedures.*

- 3.34 Specialized consulting firms have been supporting the Government in two areas covered by the Technical Cooperation Component: Transport Canada in preparing the background for restructuring CJIA, and IMG in preparing the documentation required to negotiate a lease for Ogle Airport. The Government has requested that the Bank waive the usual procurement procedures for contracting these studies on the basis of on-going efforts by these firms, and the difficulties any new firm would have in continuing the process now underway. Because this process would speed completion of the project and the pricing is competitive, Bank Management recommends that this waiver be granted.

C. Environmental Considerations

- 3.35 The Environmental and Social Impact Committee (CESI) reviewed and approved this operation for processing in its meeting of 21st September 1988, and it reviewed the draft Project Report on 9th February and 22nd March 1999. Any investments made under the loan, whether included within the Investment Component or carried out by the Government or other parties, will be regulated by the Environmental Protection Act of 1996. Under the Act, the Environmental Protection Agency (EPA) is responsible for regulating the sector, including the establishment, monitoring and enforcement of preventive and corrective measures for environmental management and quality control. The EPA operates through a decentralized system in which each operating ministry has its own environmental unit. Under IDB loan 999/SF-GY (Bridge Rehabilitation), the MPW&C created such a unit.
- 3.36 The Environmental Protection Act of 1996 also requires that every significant investment project be accompanied by an environmental assessment. The Bank financed an environmental assessment of the proposed expansion plan for Ogle Airport¹³. The study, completed in December 1998, sets forth an action plan that addresses significant impacts in the areas of noise abatement, drainage and wastewater disposal, solid and hazardous waste disposal, consultations with local residents, and land acquisition and development¹⁴. The cost of implementing this plan is estimated at US\$340,000. The action plan will become part of any contract developed between the Government and the lessees of the airport.
- 3.37 A consultant has identified several actions that require immediate attention at CJIA, primarily in the disposal of solid wastes from international flights, and the processing of liquid waste from both aircraft and land facilities. Future investments will generally be of a rehabilitative nature rather than new construction. Nevertheless, before any construction plans for CJIA are made final, the corresponding environmental assessment will be performed for which purpose the Technical Cooperation Component has funds.
- 3.38 The Bank has made available significant resources to the GOG to improve environmental monitoring. Management recognizes, however, that these efforts have not been met with success and therefore recommends that a special monitoring effort be made for this project. In addition to the normal oversight of the Bank and the regular visits by headquarters staff as

¹³ Environmental Resources Management, "Environmental Assessment: Ogle Airport," December 1998.

¹⁴ Two pieces of private property are within the airport precinct and will need to be acquired. Although there has been pressure from squatters in the past, the airport operators, in conjunction with the police, have prevented them from becoming established.

explained in ¶4.6, funds are provided to hire a consultant to visit Guyana semi-annually for the three-year disbursement period of the loan to verify compliance with environmental standards and conditions.

D. Project Financing

3.39 The total cost of the Program is US\$31.5 million, of which Bank would finance US\$30 million; US\$7.5 million for the Investment Component, US\$2.3 million for the Technical Cooperation Component, and the remaining US\$20.2 million for the Policy Component. The importance of the sector to sustainable growth in Guyana warrants the expenditure of large sums on system-wide reforms bring the standards of service to international levels while effectively liberating the Government from direct provision of these services. Specific public-sector costs include upgrading essential air navigation systems, establishing and staffing the regulatory entities required to meet Program objectives, participating in joint ventures for improving airline and airport services, and absorbing some of the liabilities (labor retraining, redundancies among them).

<i>Costs and Sources of Financing (in US\$ million equivalent)</i>				
<i>Cost Items</i>	IDB	GOG	Total	%
I. Policy Component	20.2	-	20.2	64.1
II. Investment Component	7.5	1.4	8.9	28.3
A. Direct costs	7.2	0.3	7.5	23.8
1. <i>Construct. and equip.</i>	6.8	0.2	7.0	
2. <i>Designs and specs.</i>	0.4	0.1	0.5	
B. Financial costs	0.3	0.1	0.4	1.3
1. <i>Interest</i>	0.2	-	0.2	
2. <i>Credit fee</i>	-	0.1	0.1	
3. <i>Inspection & superv.</i>	0.1	-	0.1	
C. Unallocated	-	1.0	1.0	3.2
1. <i>Contingencies (7%)</i>	-	0.5	0.5	
2. <i>Escalation (2.5%/yr)</i>	-	0.5	0.5	
III. Technical Cooperation Component	2.3	0.1	2.4	7.6
A. Consulting Services	1.9	-	1.9	
B. Training	0.4	-	0.4	
C. Financial costs	-	0.1	0.1	
TOTAL	30.0	1.5	31.5	100.0

IV. PROGRAM EXECUTION

A. Basic Responsibility

- 4.1 The Ministry of Public Works and Communications (MPW&C) will be responsible for executing the Program over a period of four years. The Ministers of Transport and Hydraulics and of Finance have created a Counterpart Technical Committee to guide the Program. Members of the Committee are the Permanent Secretary of the Ministry of Public Works and Communications, the Director of the Civil Aviation Department, the Airport Manager of CJIA, and the Head of the Project Cycle Management Division of the Ministry of Finance.
- 4.2 The Minister of Transport and Hydraulics of the MPW&C will have a specialized adviser reporting directly to himself charged with coordinating all activities under the Program. This adviser will be a consultant hired on an annual basis for the duration of the Program.

B. Procurement of Goods and Services

- 4.3 In procuring goods and services financed by the Bank, the Executing Agency will follow the basic Bank procurement policies and procedures. The MPW&C will use international competitive bidding for all goods and services valued at more than US\$250,000, for civil works valued at more than US\$1.0 million; and for consulting services in excess of US\$200,000.
- 4.4 The MPW&C has requested exceptions to this procedure to permit the continuation of the studies underway for the lease of Ogle Airport and the restructuring of CJIA. The U.S. firm, Infrastructure Management Group, Inc. was competitively hired with Bank funding to initiate the first of these studies in late 1998. CIDA financed a study to carry out the first part of the second study. Both have performed to the entire satisfaction of both the Bank and the Ministry.

C. Conditions for Disbursement

- 4.5 The conditions for disbursement of each of the two tranches of the Policy Component are set out in the Policy Matrix attached as Annex 1 to this document. Each of the disbursements is subject to the general condition of macroeconomic performance consistent with the objectives of the Program as committed in the ESAF requirements of the IMF. Specific conditions are set forth in the Matrix and cross-referenced to the corresponding paragraphs in this document. The conditions for disbursement of the first tranche can be met within eight months of the signature of the loan contract; those for the second tranche will take an additional 18 months to two years. Completion of the Investment Component may take somewhat longer, hence a four-year disbursement period is recommended.

D. Program Administration

1. *Inspection, supervision and monitoring*
- 4.6 The Bank will monitor the progress of this Program very closely. In addition to the usual supervision exercised by the Country Office, special administrative missions from headquarters,

accompanied if necessary by specialized consultants, will visit Guyana at least twice a year until conditions for disbursement of the second tranche are fulfilled. Each such mission will prepare a report on its findings that will serve as a vehicle for on-going monitoring.

2. *Ex-post evaluation and results*

- 4.7 The Guyanese authorities have decided not to carry out an *ex-post* evaluation of the Program. At the end of the disbursement period the success or failure of the Program will be judged from the attainment of the primary objective: an air transport system in Guyana that holds to standards of safety, airport operations and affiliated services that comply with international standards. An independent professional Guyana Civil Aviation Authority certifying that air transport is ICAO compliant would manifest this. Further and more visible evidence of success would be improved competitive air service, domestic and international.

V. BORROWER AND EXECUTING AGENCY

A. Entities Involved

- 5.1 The borrower and guarantor will be the Government of the Cooperative Republic of Guyana. *The Government must transfer to the Ministry of Public Works and Communication the responsibility for executing the Technical Cooperation Component of the Program in such a way as not to encumber the use of Bank funds with further transfer requests.* The signing of an agreement to this effect between the MOF and the MPW&C will be a condition prior to first disbursement.

B. Sectoral Institutional Framework

1. *Legal mandate*

- 5.2 Basic responsibility for the planning, construction, operation and maintenance of the transportation network of Guyana was assigned to the Ministry of Public Works and Communications, formed from a merger of some functions of previous ministries in 1996.
- 5.3 Formally the MPW&C has two major objectives: (a) to ensure the effective, efficient and safe design, supervision, construction and maintenance of civil works; and (b) to develop and maintain orderly, adequate and efficient air, land and water transportation systems.
- 5.4 The Ministry is not only accountable for the transportation system, but for civil works in general, including sea defenses and public buildings. Its responsibilities include the planning, designing, construction and maintenance of public civil works, training and supervision of contractors, inspection of works, and advising the Government on transport issues.

2. *Internal organization*

- 5.5 Problems in the MPW&C mirror those of the entire public sector in Guyana: low salaries, lack of qualified staff, insufficient recruitment, a need for training, inadequate budgeting process, paucity of system information, lack of clear lines of responsibility and accountability, no national level planning, and poor donor coordination. Recognizing the need for overall transport solutions to optimize modal roles and provide strategic policy and tariff bases, the MOF and the MPW&C, with the assistance of the Carter Institute, are updating the NDS. Separately, The Government is arranging the preparation of a Strategic National Transportation Policy Project. Between these studies, the lack of an adequate plan should be attended.

VI. BENEFITS AND RISKS

A. Benefits

- 6.1 The Program is designed to raise the level of air transport in Guyana to internationally accepted levels. If successful, the Program would result in safe, reliable transportation not only between Guyana and the rest of the world, but also within this vast country itself, as certified by a reliable and professional Guyana Civil Aviation Authority.
- 6.2 The restructuring of the international airport should raise the level of service to passengers and airlines, attracting new lines to include Guyana, and facilitating connections with the nation's principal trade partners, the United States and Canada. Passengers would benefit from greater comfort and convenience while travelling through the airport, while both they and the carriers will benefit from increased safety on the ground and in the air.
- 6.3 By generating competition between Ogle Airport and CJIA for regional traffic, the level of service should improve even further. Ogle will be in a position to provide greater volumes of domestic transport at much higher levels of safety. As in CJIA, comfort of passengers and attendance of carrier needs at Ogle should improve service at all levels. This would be extended to interior aerodromes by releasing Government resources towards them.
- 6.4 The recent privatization of Guyana Airways Corporation is expected to result in a strengthened carrier able to compete in the international arena, while the domestic airline should be able to concentrate better on providing regular service to the provinces.

B. Risks

- 6.5 The potential benefits of this Program are fairly well defined. However, actions required are significant not only to the future development of the sector, but also to Government policy in transport in general and, by extension, to other fields of government activity. This implies a level of political debate that will attract the attention of many affected interests.
- 6.6 Guyana suffers from a scarcity of professional staff, particularly within the public sector. Although the creation of decentralized agencies removes them from civil service salary scales, experience in this area is limited and there is always the uncertainty whether skilled and seasoned personnel can be attracted either from the private sector or from among overseas residents. Furthermore, from wherever attracted, staff must be insulated from the pressures of conflicts of interest or undue pressure of the regulated industry. Program resources will be set aside to provide training and consultants.
- 6.7 Up to now the Guyanese authorities have been intimately involved in the development of this Program, despite the scarcity of supervisory staff. This interest must be maintained through the implementation phase. Long-term technical support financed from Program resources will assist in keeping attention focussed.

GUYANA – Air Transport Reform Program

POLICY MATRIX

BACKGROUND	OBJECTIVE	COMPLETED	REQUIREMENTS	
			1 ST TRANCHE (US\$7.0M)	2 ND TRANCHE (US\$7.0M)
Ensure that macroeconomic environment is conducive to successful project execution	To maintain a sound macroeconomic framework		Comply with Enhanced Structural Adjustment Facility (ESAF) requirements (IMF monitoring); ¶2.8	Comply with Enhanced Structural Adjustment Facility (ESAF) requirements (IMF monitoring)
Civil Aviation Act of 1996 outmoded, Civil Aviation Authority not yet created	Implement adequate legal and regulatory framework incorporating a national policy	Agreement on amendatory legislation to the Act of 1996	Enactment of amended civil aviation legislation; ¶3.6	
	Put into operation an autonomous Guyana Civil Aviation Authority (GCAA) adequate by international standards		Ministerial approval of new Aviation Regulations for Guyana (ARG); ¶3.7	Full implementation of ARG
			Agreement on action plan for implementation of new Authority including internal regulations and minimum number and qualifications of staff; ¶3.8	GCAA fully operational within six months and prepared to implement ARG with secure financial base and adequate professional staff
				Air transport in Guyana to be sustainable compliance with ICAO standards; ¶3.8
Cheddi Jagan International Airport (CJIA) not operating to full potential	Ensure operation of financially secure CJIA at international standards	Agreement on structure and key managerial staff of corporatized airport; ¶3.11	Creation and staffing of CJIA corporation. Agreement on business plan, investment program and environmental mitigation actions; ¶3.13	CJIA operating for six months and sustainable compliance with ICAO standards; ¶3.13
			Execution of a contract for the installation of ICAO-compliant landing approach lights; ¶3.24	Business plan in execution
Proposal for lease of Ogle Airport developed by Aircraft Owner's Association	Private operation of Ogle Airport	Agreement with Bank on basic conditions for Ogle expansion, operation and lease terms; ¶3.18	Agreement with Bank on a plan for bringing Ogle Airport into compliance with ICAO standards, including assurances that the facility will be open to the general public on a non-discriminatory basis, that the mitigation program set forth in the Environmental Assessment is carried out, and that zoning regulations are put in place to avoid conflict of land use; ¶3.19	Ogle Airport operating in compliance with sustainable compliance standards for a period of six months; ¶3.20
Numerous airfields operating with outdated certifications or none at all	Ensure proper certification of all operating airfields		Plan to ensure certification of all operable airfields according to new ARG based on ICAO standards; ¶3.21	Implementation of airfield certification plan; ¶3.21
GAC incurring large losses at the expense of the fisc. Privatization begun	Competitive and efficient international airline service to and from Guyana	Privatization of GAC without monopolistic privileges; ¶3.22		



Office of the President

New Garden St. & South Rd.,

Georgetown

Guyana.

September 9, 1999

Mr. Enrique V. Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias:

The Government of Guyana wishes to confirm the request to the Inter-American Development Bank to finance the Air Transport Reform Program, currently being prepared by the Government. This policy letter presents our major economic achievements and development challenges, and sets out the overall program, which is an integral part of Government's reform efforts to promote private investment and to create a strong foundation for growth.

Economic achievements and development challenges

Guyana successfully implemented economic stabilization and structural reforms designed to reduce the macroeconomic imbalances and promote economic growth, meeting most of the macroeconomic performance targets and regularizing its relations with external creditors resulting in major debt reduction initiatives.

The macroeconomic stabilization program was supported by structural reform in the area of civil service reform, privatization, and the financial and agricultural sectors. Government recognizes the need to sustain the momentum of these efforts. The economy responded to stabilization and structural adjustment with a remarkable compound growth rate slightly in excess of seven percent between 1990 and 1996, with gold, sugar, rice, and forestry as the fastest growing sub-sectors.

We experienced some fiscal deviations in 1997, and real GDP at factor cost fell by 1.5% in 1998, due to the adverse impact of El Niño, declining commodity prices for Guyana's principal exports, weak demand in Asian export markets, and the domestic political uncertainty. The Government expects only modest gains in 1999. The outlook is predicated on a modest recovery of productive sectors led by sugar and rice, resulting in GDP growth of 1.8% in 1999, but could be dampened by lower commodity prices, adverse weather associated with La Niña and continued deterioration in forestry and mining (both bauxite and gold) sectors

In February 1999, we concluded negotiations with a joint mission of the IMF, World Bank and IDB on an ambitious structural reform agenda for 1999, which builds upon the reforms initiated under the Heavily Indebted Poor Countries (HIPC) Initiative. The policy matrix covers a number of areas that are important to the Bank's current and future programs. On May 12, 1999, the Boards of the IMF and the World Bank respectively approved the HIPC Initiative for Guyana. The debt relief under the HIPC Initiative released budgetary resources amounting to about 4.2% of GDP to promote economic and social progress.

Progress in privatization

The Government of Guyana remains committed to continue its privatization program to improve the efficiency and competitiveness of all enterprises, eliminate the financial and administrative burden on Government, promote the country's modernization through new investments, technology, and efficient management, and re-deploy scarce public resources. To this end, we have brought to the point of sale Guyana Stores Ltd, Guyana National Printers, Guyana Pharmaceutical Co., Wauna Estate, the bauxite mining companies L.I.N.MINE and BERMINE, and the Versailles Dairy. Earlier this year the National Airline and the Electricity Company were privatised. The Government will continue with the restructuring of Hope Coconut Industries, Guyana National Shipping Corp., Guyana Oil Company, and the sugar company, GUYSUCO. Among the new initiatives, the Government recently signed a management contract and will consider options including the possible privatization of the Guyana National Cooperative Bank.

The Air Transport Reform Program

The role of aviation in the economic well-being of Guyana is considered a high priority for our Government. Aviation plays a critical modal role in two areas: international passenger transport and access to the interior.

Rational, well-managed airport development is constrained by the current institutional and budgeting arrangements. Revenues from aviation activities currently go directly to central Government's accounts and are not available for maintenance or improvement of services. In pursuit of the modernization of the air transportation sector, the Government passed the Civil Aviation Act in 1996, creating three agencies to supervise aeronautical operations:

- the civil aviation authority, to regulate air transport, inspect and license airports, aircraft, personnel, training and maintenance activities;
- the Air transport Licensing Authority, to issue operating licenses for commercial charter and private aircraft; and
- the airport Authority, to develop and operate airports and aerodromes and provide such services such as air traffic control, crash/fire/rescue operations, and security.

Shortage of staff and the lack of sufficient resources to finance the institutional changes frustrated our efforts to move forward.

With this new Program we have decided to pursue a more comprehensive approach to solving the various problems affecting air transportation in Guyana along the following lines:

Air Transport Sector Policy

- The Government of Guyana is committed to make air transport facilities attractive to any and all international and domestic carriers.
- We fully support freedom of the skies.
- An autonomous Civil Aviation Authority will be created to oversee the development of the sector, and this Authority will be adequately and professionally staffed at competitive salaries and its financial soundness will be assured. The Authority will develop internal rules and regulations within a specified time frame.
- Government will encourage privatization within the sector wherever it has a demonstrable benefit.
- Government will make efforts to attend the needs of aviation into the interior of the country through effective national search and rescue services, creation of regional control centres (e.g. Lethem, New Amsterdam and Kamarang), and greater supervision over smaller official aerodromes.

To implement this policy Government will amend the 1996 legislation to create a single regulatory authority, eliminate barriers to the entry of new international carriers or general aviation companies, and simplify the process of maintaining effective regulations.

Institutional reform.

While the existing legislation is amended, internal regulations governing the functioning of the agency created by this legislation will be developed and approved by Government. These regulations will be developed with the assistance of specialized consultants to ensure that they are consistent with the law and other statutes, and with the projected development of the sector. Government's ultimate objective is to create the institutions in such a way to ensure continual compliance with ICAO standards.

Once the internal regulations of the entities to be created have been developed and approved, Government commits itself to staff these entities with competent personnel who will be offered competitive salaries and given the necessary physical facilities and equipment. Government has already agreed with the Bank that, in the early stages, the program will concentrate on the hiring of short- to medium term consultants who will

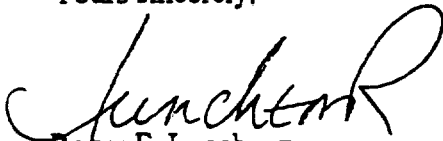
provide training for a permanent full-time staff to be retained over time, support to organizational development and development of internal procedures.

Private sector participation

Since the early 1990s, Government has actively sought to divest to the private sector participation in activities it previously provided exclusively. With the proposed Program, Government is confident that private interests will be further encouraged to invest in and operate elements of the air transport system, either exclusively or jointly with Government, or as management concessionaires. Specifically, Government is committed to; (i) lease the Ogle Airport to private interests under conditions agreed with the Bank and in accordance with national regulations regarding air traffic control, air and ground safety; and (ii) convert Cheddi Jagan International Airport (CJIA) into a corporation with professional management.

The Government of Guyana is fully aware that the success of the proposed program rests on the existence of an investment climate along with a sound legal, regulatory and environmental framework that promotes the participation of potential private investors while at the same time preventing monopolistic abuses, protecting the rights and interests of the public, and assuring a reliable and safe air transportation. To that end, the Government is committed to the implementation of the required measures to provide this framework in a timely manner.

Yours sincerely,



Roger F. Luncheon
Head of the Presidential Secretariat

GUYANA

AIR TRANSPORT REFORM PROGRAM

PROCUREMENT PLAN

<i>Description</i>	<i>% Financing</i>		<i>Method of Procurement</i>	<i>Pre- qualification</i>	<i>Publicity</i>
<i>Total US\$ million</i>	<i>ADB</i>	<i>Local</i>	<i>ICB Other</i>	<i>Yes/no</i>	<i>Half Year</i>
<u>Civil Works</u>					
Runway resurfacing US\$ 2.2 m	100	0	ICB	No	<u>2nd/1999</u> <u>1st/2000</u>
Arrival terminal roof US\$1.3m	100	0	ICB	No	<u>2nd/2000</u> <u>1st/2001</u>
Sewage treatment plant US\$1.0 m	100	0	ICB	No	<u>2nd/2000</u> <u>1st/2001</u>
<u>Equipment</u>					
Approach lights US\$0.5 m	100	0	ICB	No	<u>2nd/1999</u>
<u>Consultant Services (firms)</u>					
GCAA Organization US\$250,000	100	0	ICB	Yes	<u>2nd/1999</u> <u>2nd/1999</u>
CJIA engineering & envi- ronmental assessment US\$250,000	100	0	ICB	Yes	<u>2nd/1999</u> <u>2nd/1999</u>

Threshold amounts goods and services: US\$ 250,000
 civil works: US\$ 1,000,000
 consultancy: US\$ 200,000

PROPOSED RESOLUTION

GUYANA. LOAN ____/SF-GY TO THE COOPERATIVE REPUBLIC OF GUYANA

(Hybrid Program for Air Transport Reform)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Cooperative Republic of Guyana, as Borrower, for the purpose of granting it a loan to cooperate in the execution of a Hybrid Program for Air Transport Reform. Such loan will be for the amount of up to thirty million United States of America dollars (US\$30,000,000), or its equivalent in other convertible currencies except for that of Guyana, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.