

INSTITUTIONAL DEVELOPMENT SECTOR FACILITY PROFILE

GUYANA

JUNE 18, 2004

Project name: Public Management Modernization Program (PMMP)

Project number: GY-0073

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Borrower: Cooperative Republic of Guyana

Executing agency: Office of the President

Financing plan:

IDB (FSO):	US\$5,000,000
Local:	US\$560,000
Total:	US\$5,560,000

Tentative dates:

Main Mission:	August 2004
Approval:	4 th Quarter, 2004

I. BACKGROUND

A. Macroeconomic and social context

- 1.1 Following independence from the United Kingdom in 1966, Guyana introduced a system of cooperative socialist Government from 1971 to 1989, which involved extensive State intervention in the productive sectors. In 1989, amid high inflation and falling incomes, the Government launched a program that was focused on market-oriented stabilization and structural adjustment policies.
- 1.2 Real growth was more than 7% per year during the 1991-97 period, but this fell to 0.5% on average between 1998-2003¹, while fiscal and external deficits widened, influenced by large public sector wage increases; declining tax revenues; the slowing pace of structural reforms; and adverse movements in the terms of trade. In terms of human development, Guyana was ranked 92nd in the 2003 United Nations Human Development Index. Although this ranking compares favorably to other less-developed countries in Latin America, it is much lower than its peers in the English-speaking Caribbean².
- 1.3 Reactivation of the economy and improvements in policy effectiveness are urgently needed if Guyana's goals under its Poverty Reduction Strategy Paper (PRSP) are to be met. The country has received a substantial infusion of donor

¹ Guyana is among the more undeveloped countries in the Americas with an estimated per capita income around US\$950, population of 750,000, and GDP of US\$710 million (2002).

² Bolivia: 114; Honduras: 115; Nicaragua: 121; Barbados: 27; Trinidad: 54; Jamaica: 78.

resources in support of this objective (averaging a net 10% of GDP in 2001-2003); and in December 2003, it reached the completion point under the Enhanced Heavily Indebted Poor Countries Initiative (E-HIPC), leading to a reduction in the net present value of the external debt of almost one-half. If these external resources, and local tax revenues, are to lead to sustained improvements in living standards, it is essential that the effectiveness of Guyana's public sector as an agent for the promotion of socioeconomic development be strengthened.

- 1.4 Notwithstanding these new strategies, the Guyana's Public Sector is not yet equipped to meet the challenges laid down. In this context, the proposed Public Management Modernization Program (PMMP) aims to put in place the basic building blocks for improvements to the efficiency, transparency, accountability and effectiveness of Guyana's public management.

B. Guyana's public sector

- 1.5 Guyana has a significant public sector presence in the economy. Non-financial public sector expenditure declined from an average of 58% of GDP during 1989-1991, to 41% of GDP during the period 1995-2000, increasing thereafter to 47% of GDP in the period 2000-2003, owing in large part to increases in public sector wages and capital expenditures³. This level of public spending is substantially higher than the average for Latin America and the Caribbean (22% of GDP). Revenues, at around 33% of GDP, are insufficient to cover this level of expenditure, leaving a large fiscal deficit, which in 2000-03 averaged 14% of GDP before grants and 7% after grants. The need to contain overall spending whilst maintaining investment in basic social and economic infrastructure is an important constraint upon public sector reform in Guyana.
- 1.6 The Bank has a diagnostic study of public sector management in Guyana financed under the ATN/SF-6867-GY, which was completed in June 2003. The consulting firm's final report was the result of a consensus building process conducted through workshops in all ministries, and it has been adopted by the GoG as a basic strategy for the reform process. It identified the following five cornerstones to modernize Guyana's public sector management; (i) strengthen policy development and coordination; (ii) build performance monitoring and evaluation structure; (iii) establish a new human resources management infrastructure; (iv) develop a management framework for arm's length agencies and strengthen their accountability; and (v) fostering transparency and integrity in public sector. This work focused on public management, rather than overall State Reform. The latter would include other Government sectors such as the Parliament, the judiciary, local governments and civil society.
- 1.7 For the purposes of this operation, the proposals (ii) to (v) were structured into three main groups: (i) public employment management; (ii) the accountability of arm's length agencies; and (iii) the strategic vision of the overall State reform process.

³

The substantial underestimation of GDP—thought to be around 40%—tends to inflate these ratios.

- 1.8 **Public Employment Management.** Guyana is making important efforts to reduce the level of public employment and this process indicates that the major problem nowadays is not so much the size of the civil service as the efficiency of the human resources management. Between 1985 and 2001, public employment declined at an average rate of 4% per year; and from 1993 to 2000 it was reduced from 23% to 13% of the total labor force. As a result, the current total Government employment estimate is around 4.2% of population⁴; a little higher than the average for the Latin American Region. The total Central Government wage bill stands at 12% of GDP and 25% of Government expenditure (2003), somewhat higher than the Latin American average.
- 1.9 Notwithstanding these efforts to reduce the size of public employment in Guyana, the composition of the public service is bottom heavy. Also, the high emigration rate⁵ and the general educational profile of the population⁶ negatively affects the quality of public employees. In addition to these general issues, public employment management presents four main problems: institutional fragmentation, rigidity of civil service policies and rules, inadequate information management, and poor high-level staff accountability.
- 1.10 Guyana, as is the case with many of its Caribbean counterparts, has inherited a rigid tradition on civil service management. This is characterized by the institutional fragmentation of the various human resource management functions across different entities. In the country, civil service coordination and management is performed by three distinct agencies: the Public Service Commission (PSC), the Public Service Ministry (PSM), and the Ministry of Finance (MOF).
- 1.11 The PSC is a constitutional body that has the power to make appointments to all public offices and to remove and exercise disciplinary control over the public employees, including the recruitment processes and promotions⁷. The PSM is responsible for normative control and development, relations with the unions, and training; but does not have enough institutional capacity for planning and regulating the sector. The MOF is responsible for managing and executing the automated payroll.
- 1.12 While the personnel offices located in each ministry are, in principle, in charge of planning and management of their staff, in practice the fragmentation of authority and responsibility makes personnel management in the ministries very difficult. In this case, while the division of responsibilities has helped prevent politicisation of the public service, the resulting rigidity of civil service policies and rules affects the ability of Government to attract, retain and motivate the adequate human resources. Additionally, there is an excessively high level of employment tenure, and a lack of performance incentives.

⁴ 7.1% of public enterprises are included.

⁵ Guyana has the highest emigration in a sample of 61 developing countries.

⁶ Despite the illiteracy rate is only 1%, the secondary school completion rate and Math CXC performance scores, in Guyana are the lowest of the Caribbean (Monitoring Educational Performance in the Caribbean – World Bank 2003).

⁷ About 9,000 public employees are under PSC rules and control. Teachers and police have separate commissions and their boards control the agencies and public corporations.

- 1.13 Human resources management is further complicated by weak coordination among agencies and inadequate information management systems on human resource matters. Data capture, database updates, and report production are centralized in the MOF, based on information in the payroll system and monthly written forms received from ministries reporting changes⁸. The PSM, on the other hand, has its own information on public employment that is not integrated with the MOF payroll database. Therefore, there is a general lack of integration of the information for adequate human resources management.
- 1.14 Finally, the Permanent Secretaries (PS) and high-level staff in general do not have specific performance goals to achieve and adequate management skills to support their work and personal accountability. Lack of training opportunities makes this situation worse.
- 1.15 **Accountability of arm's length agencies.** The Executive Branch is headed by the Office of the President that houses the Cabinet. The latter is managed by the Head of the Presidential Secretariat, and oversees the operation of 15 stand-alone ministries, other departments, and some public corporations. There are also four constitutional service commissions (Judicial, Public Service, Teaching, and Police), over 50 statutory bodies, and several other arm's-length agencies that receive subventions from the public sector⁹.
- 1.16 The statutory bodies and agencies do not have a set of specific policy guidelines, and also present some overlapping mandates and too many layers in organizational design. In some cases, the relationship of statutory bodies and agencies to their parent institutions is unclear, resulting in weak oversight. Finally, reporting is geared towards administrative control and compliance, and not results-based program management or accountability for effectiveness. All of these weaknesses affect the quality of service delivery.
- 1.17 **Strategic vision for the overall State reform process.** Despite the public management diagnostic prepared in 2003 (ATN/SF-6867-GY), there is no comprehensive design for the State reform process in Guyana that would include the different strategic visions from institutional actors, to minimize political and legal obstacles to the reform course of action. The main stakeholders would be the Government Cabinet, the major political opposition (PNCR - People's National Congress Reform Party), the Guyana Public Service Union (GPSU), the Legislative Branch, and the Guyanese citizens, in general. Also, the international community could be consider an important agent.
- 1.18 Another important issue in the State reform process is the transparency of the public institutions. Guyana's public sector does not appear to actively promote transparency and openness, as reflected in a lack of formal statements of policy and the scarcity of current annual reports for ministries; uneven procedures and the lack of a central source for accessing Government information; and a lack of formalized means for seeking feedback.

⁸ Only Ministry of Education, Region 3, and Office of the President have on-line communication to the MOF.

⁹ There are several different types of arm's length agencies (or semi-autonomous agencies). The differences are minor and largely conceptual; no standard legal definitions for these agencies exist. The types of agencies include: closed ministries, public corporations, revenue generating bodies, statutory bodies, and project execution units.

C. Government's approach to reform

- 1.19 The GOG recognizes that effective State reform in the country will be a complex and long-term endeavour. On one hand, the need to contain overall spending whilst avoiding the potential for social tension represents an important constraint to rapid civil service reform. On the other hand, best international experience in the area has established gradualism as a good practice in State reform. As a result, the strategy adopted by the Government is gradual¹⁰, comprehensive, politically feasible, and will focus in improving public management efficiency as the first step of the long-term reform effort.
- 1.20 In accordance with this gradualist strategy, civil service employment will be governed by a continued policy of attrition, rather than immediate retrenchment, and concrete actions will be taken to improve human resources management. In organizational matters, the Government's priority is to improve accountability in the statutory bodies, rather than to promote a restructuring process in the ministries. Improvement in these areas is considered a necessary first step for the modernization sector regardless of the strategic approach.

D. Bank's strategy and other donors

- 1.21 The Bank's Country Strategy for Guyana (GN-2228-1) seeks to reduce the country's level of poverty in the medium term, while simultaneously addressing chronic institutional and human resource problems by providing selective assistance in three areas of development: (i) achieving sustainable economic growth; (ii) improving governance and public sector efficiency; and (iii) strengthening social programs. The proposed operation will contribute to improving the governance and efficiency of the public sector.
- 1.22 The modernization of the State strategy approved by the Bank included four comprehensive fields: (i) democratic system; (ii) rule of law and justice reform; c) State, market and civil society, and (iv) public management. This project is related to public management field.
- 1.23 Given the gradual, long-term nature of the reform process, the Bank has agreed with GOG to design the PMMP as a small-scale operation, focused on improving public management efficiency as the first step of the government's long-term reform effort, using an Institutional Strengthening Sector Facility instrument that will include low-cost activities characterized by relatively high impact and rapid execution. This operation would have the objective to improve public management efficiency and accountability, including a complete picture of the process of reform with implementation in a phased approach. Under this concept, this operation could be the first in a series of operations to support a long-term reform process, and could set the stage for a future policy-based loan.
- 1.24 The Bank's project team is coordinating preparation of this project with the main international agencies involved in public management initiatives in Guyana such as the Canadian International Development Agency (CIDA), Department for

¹⁰ The modernization of the State strategy approved by the Bank supports the notion that the gradualism is a good practice in the State reform processes.

International Development (DFID-UK), European Union (EU), the United Nations Development Program (UNDP), the US Agency for International Development (USAID), and the World Bank (WB).

- 1.25 The main project in the Bank's pipeline of relevance to public management in Guyana is the Fiscal and Financial Management Program (GY-0053), which seeks to strengthen fiscal and financial management practices and oversight in Guyana. In addition, however, most projects in the Bank's portfolio and pipeline in the country contain substantial components aimed at institutional strengthening at the sector level. The project team will adopt the necessary measures to ensure adequate coordination with other Bank interventions in Guyana.
- 1.26 Finally, a number of lessons learned have been incorporated in the initial design of this operation, including: (i) the need to promote ownership and political dialogue between the main stakeholders, (ii) the need to develop a comprehensive long term reform strategy but be selective and gradualist in the selection of projects for the short term, (iii) the importance of verifying the feasibility of implementation of international experience and adapting these to the local context, and (iv) the need to adopt flexible designs which can adapt to a dynamic process.

II. THE PROJECT

A. Objectives

- 2.1 The overall objective of the project is to improve public management efficiency, transparency and accountability in the Central Government of Guyana, including their agencies. The specific objectives of this operation are to: (i) strengthen civil service management and the PSM institutional capacity; (ii) improve accountability mechanisms for statutory bodies; and (iii) identify the long-term challenges for the State reform process in Guyana and promote the consensus building of the related strategies.

B. Description

- 2.2 **Component 1: Public service management strengthening (US\$2.5 million).** This component will seek to: (i) strengthen the capacity of the PSM; (ii) carry out a review of civil service policies and rules to support modern management; (iii) strengthen and share the MOF's central database for human resource management; (iv) strengthen selected personnel offices; (v) train Permanent Secretaries and Heads of Department; and (vi) design and implement a performance appraisal system for the Permanent Secretaries (PS) and Heads of Department.
- 2.3 The PSM will be strengthened in order to enhance its capacity to regulate and manage the civil service system, including the development of capacity to prepare job descriptions, re-classification of positions, and workforce planning and performance measurement. Civil service policies and rules will be reviewed with the objective of improving existing administrative procedures in order to enhance the effectiveness of public employment management.

- 2.4 The central database for human resource management will be strengthened through activities to increase the coverage and quality of the current MOF payroll system and to integrate the PSM and selected personnel offices into a formal human resource system.
- 2.5 The training of Permanent Secretaries and Heads of Department in management and leadership will be integrated with the performance appraisal system for these employees, including a description of their responsibilities, levels of authority, and core competencies. This system will consider specific accountability arrangements (i.e. a performance contract) between each Head of Department and his/her Minister and each PS and their Minister and the Head of Government.
- 2.6 **Component 2: Statutory bodies improvement (US\$1.5 million).** This component will develop mechanisms to ensure that agencies and statutory bodies are responsible and accountable yet flexible and responsive, by financing: (i) the development and implementation of a set of policy guidelines and institutional and organizational models aimed at reinforcing and streamlining the broad institutional framework for agencies; (ii) support for the strengthening of management capacity in a small number of pilots statutory bodies; and (iii) design and implementation of a monitoring and evaluation system for agencies.
- 2.7 Under the pilot projects¹¹, the program will finance: restructuring, work force planning, and performance monitoring and evaluation. *Restructuring* would include: the implementation of new organizational structures and their relationship with the sector and the related ministry¹²; the strengthening of policy formulation capacities; the revision of selected work processes; the outsourcing of support services; and other activities. *Work force planning* would include: a critical review of the number of authorized positions; the matching of job descriptions and establishments to mission statements and services provided, and of individual employees to job descriptions and required qualifications; agreement upon a new personnel structure, and capacity building through training. *Performance monitoring and evaluation* would include the building of the structures and capacities necessary to monitor program performance and a mapping of current performance. The experience of these pilots will be evaluated before replicated to other agencies.
- 2.8 The objective of a monitoring and evaluation system for agencies would be to encourage results-based decision-making processes, transparency, accountability, and competition for public resources. Design of the system will involve definition of the type and nature of financial information required for effective decision making, and capacity-building for the development, monitoring and evaluation of service agreements between the ministries and the agencies, related to program outcomes, impacts and benefits.

¹¹ The criteria to identify and select these pilots will include, at least: (i) statutorily created, (ii) preferably at least 10 years of existence, and (iii) Government priorities. The GOG has presented a preliminary list of 5 possible pilots that will be considered during the main mission.

¹² Activities to strengthen a given statutory body may be extended to the ministerial level where there is a need for improved oversight.

- 2.9 **Component 3: Coordination of the State reform process (US\$1 million).** This component will finance: (i) promotion of a comprehensive strategic vision for State reform; and (ii) design of specific guidelines to improve transparency in the public sector.
- 2.10 The promotion of a comprehensive strategic vision for public sector reform will entail consensus building among stakeholders with a view to managing expectations and developing an agreed approach to the phasing of an inclusive process of State reform. Activities will be undertaken to promote studies and debate about important issues and the costs and sequencing of reform, including monitoring and evaluation indicators and the analysis of potential environmental and social impacts. It is expected that this approach will promote political feasibility and sustainability for the whole process.
- 2.11 To improve transparency and integrity in public sector, the program will finance the development of specific guidelines to increase access to information and streamline the regulatory framework.

C. Execution plan and institutional aspects

- 2.12 **Executing agency.** The Permanent Secretary's bureau of the Office of the President, which is responsible for leadership of the reform process, will be the Executing Agency for this program, with participation and support of the PSM and the MOF. In this institutional design for execution, the GOG will establish a strategic high-level leadership for the program, which should be detailed during the main mission.
- 2.13 **Implementation.** The execution period is expected to be three years.

D. Social and environmental issues

- 2.14 Given that the objective of this program is to improve public management efficiency, this operation will not have a direct environmental or social impact. Nonetheless, the program will include the analysis of any potential environment or social implication of the eventual reforms.

III. SPECIAL ISSUES

A. Scope of the sector facility

- 3.1 This operation is one step in a long process of public sector reform efforts in Guyana. It is expected that other operations will support the implementation of the strategies defined by component 3.

B. Risks

- 3.2 Public sector reform in Guyana is complicated by the ethnic¹³ composition of civil service employment. Tensions between the Afro-Guyanese majority of civil servants and the ruling People's Progressive Party Government (support for which stems

¹³ Guyana has an ethnically mixed population, with about 48% of East Indian origin, 32% of African origin, and 6% Amerindian.

mainly from the Indo-Guyanese community) have contributed to a politicisation of the reform effort and hindered progress. The general elections scheduled for early 2006 may also increase political tensions. Cooperation between Government and opposition and the Guyana Public Service Union (GPSU) will be important during the consensus building process to mitigate this risk. In addition, the generation of more information for management, included in this project, will contribute to consensus building debates.

- 3.3 Weak implementation capacity of the Government in this area would be mitigated with the creation of a Program Executing Unit in the Executing Agency (the Permanent Secretary's bureau of the Office of the President), with participation and support of the PSM and the MOF. The team will analyze this option with the GOG during the main mission.

IV. COSTS

- 4.1 The total cost for the project will be US\$5.56 million including a US\$5 million loan and US\$0.56 million as local counterpart.

V. PREPARATION STATUS, ACTION PLAN AND PRELIMINARY INDICATORS

- 5.1 The GOG and the project team have discussed and agreed on this document. The main mission is scheduled for August 2004 and approval in the 4th Quarter 2004. The team will use the Bank's civil service diagnostic for Guyana, which is being prepared in the context of the Public Policy Management and Transparency Network of the Regional Policy Dialogue.
- 5.2 The indicators to measure successful implementation of the project will be defined during the final report preparation and it is possible to anticipate that the project design will include activities to support the implementation of specific indicators of efficiency, transparency and accountability, in the pilots agencies and related to the overall reform process.

Approved: (Original Signed) Date: June 18, 2004
M. Jeria, RE3/DEP