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IDB GROUP COUNTRY STRATEGY WITH THE COOPERATIVE REPUBLIC OF GUYANA 2017–2021

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Acronyms

AOG	Audit Office of Guyana
BOE	Barrel of oil equivalent
CARICOM	Caribbean Community
CS	Country Strategy
CSA	Climate-smart agriculture
DSF	Debt Sustainability Framework
EITI	Extractive Industries Transparency Initiative
FSO	Fund for Special Operations
GDP	Gross domestic product
GoG	Government of Guyana
GPL	Guyana Power & Light Inc.
GRIF	Guyana REDD+ Investment Fund
GCI	Global Competitiveness Index
GSA	Guyana Statistics Agency
HDI	Human Development Index
IC	Inclusive urban development
KE	Knowledge economy
LAC	Latin America and the Caribbean
LCDS	Low-Carbon Development Strategy
NSG	Non-Sovereign Guaranteed
OECD	Organisation for Economic Co-operation and Development
OII	Office of Institutional Integrity
OVE	Office of Evaluation and Oversight
PEFA	Public Expenditure and Financial Accountability Performance
PEU	Project Executing Units
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
PSIP	Public Sector Investment Programme
PRODEV	Programme to Implement the External Pillar of the Medium-Term Action Plan
REDD+	Reduced Emissions from Deforestation and Forest Degradation Plus
SOE	State-owned enterprise
SME	Small and medium-sized enterprise
VAT	Value-added tax
WEF	World Economic Forum
WTP	Water treatment plant

Executive Summary[1]

Country Context	After a decade of robust economic performance, Guyana is poised to emerge as a significant oil producer by mid-2020. Guyana's growth, however, has not been inclusive. Per capita income remains among the lowest in the English-speaking Caribbean, at US$7,520 PPP in 2015, and the Human Development Index score stands at 0.64 compared with 0.75 for LAC. Guyana's institutional framework has not been able to translate economic returns into improved outcomes in human development (well-being), or an enhanced environment for the private sector, including as it relates to delivering critical infrastructure for supporting both. Over the medium term, Guyana is expected to undergo an important structural transformation while access to concessional resources decline.
The IDBG in Guyana	During the 2012–2016 CS period, the Bank's activities focused on four priority areas (**natural resource management, sustainable energy, private sector development, and public-sector management)**. During this period, 13 new loan (US$143.6 million) and investment grant operations (US$51.9 million) and 30 technical cooperations were approved. Four Multilateral Investment Fund (MIF) operations were also approved for US$4.0 million. Slow portfolio performance reflected Guyana's challenging institutional environment, notwithstanding efforts by the authorities to overcome such difficulties.
Strategic Areas	Government of Guyana and the IDB Group agreed on four areas of interventions: (i) **Establishing a modern national strategy and planning framework for undergirding the new Green State Development Strategy**, including to drive economic diversification efforts and pursue modern industrial policies (ii) **Strengthening fiscal policies and the framework managing natural resource revenues**, (iii) **Facilitating private sector development** to support the delivery of better services, mainly through enhancing the business environment. And last (iv) **Delivering critical infrastructure** to facilitate human and private sector development. These areas will ensure continuity with existing portfolio commitments, and respond to developing government priorities in areas in the new Green State Development Strategy.
Indicative Lending Framework	This country strategy forecasts a sovereign guaranteed envelope of US$86.1 million as compared with approved amount of $209.8 million (including investment grants) for the previous period. Net cash flows to Guyana will average US$22.7 million per year but will turn negative by 2021 (US$6.4 million). Total net cash flows will equal US$113.4 million.
Risks	This country strategy will be exposed to macroeconomic, environmental, political and portfolio execution risks. The largest potential source of risk is Guyana's vulnerability to commodity price shocks in the absence of fiscal buffers. Natural resource dependence also leaves the country vulnerable to the effects of natural disasters and climate change. Political risks could potentially undermine the task of retooling the public service for improved service delivery. Last, portfolio challenges arise from structural impediments to project execution.

[1] This country strategy will be in effect from the date of approval by the Board of Executive Directors until November 2021.

I. SOCIOECONOMIC CONTEXT

1.1 **Following a decade of robust economic performance, Guyana is now poised to emerge as a significant oil producer by the mid-2020s.** The economy depends predominantly on six commodities—bauxite, gold, rice, shrimp, sugar, and timber—which represent 90 percent of total exports.[2] Buoyed by increases in gold output, real economic activity expanded by 3.3 percent in 2016 and is expected to reach 3.5 percent in 2017.[3] The current account registered a surplus of 0.4 percent of GDP, up from a 5.7 percent deficit in 2015. Debt relief supported Guyana's improved macroeconomic outlook.[4] By 2016, total public debt had declined from 180 in 2006, to 46.3 percent of gross domestic product (GDP), and nominal per capita income rose from US$1,956 to US$4,492.[5]

1.2 **Despite these favourable macroeconomic outcomes, Guyana's growth has not translated into better living standards.** Although recent data on income distribution and the incidence of poverty are unavailable,[6] all other indicators suggest that growth has not been pro-poor, or inclusive. Despite its continuous increase since 1990, per capita income remains among the lowest in the English-speaking Caribbean, at US$7,520 PPP as of 2015.[7] The country's Human Development Index (HDI) score has not improved significantly when compared with Latin America and the Caribbean (LAC) and has been consistently lower than the regional average since the 1990s. Today, the HDI score stands at 0.64 compared with 0.75 for LAC.[8] In addition, the Government spends less on key public services compared with its regional peers: in health, the country spends US$222 per capita compared to a LAC average of US$694,[9] and in education, expenditure totalled 3.6 percent of GDP, compared to a LAC average of 5.2 percent.[10]

1.3 **Guyana's institutional framework has been inadequate for translating economic returns into improved outcomes in human development and fostering private sector development.** In general, Guyana underperforms on many indices related to the quality of its institutions. On the World Bank's Government Effectiveness ranking, Guyana places in the 42nd percentile, compared to 58th for LAC. On Transparency International's Public-Sector Corruption Perceptions Index, Guyana scored 34 out of 100 in 2016 (100 being "clean")

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[2] International Monetary Fund, 2017. Article IV Consultation Staff Report.

[3] Ibid.

[4] Through a debt agreement with the IDB, Guyana was relieved of 100 percent of its debt on outstanding loan balances as of December 31, 2004, from the IDB's Fund for Special Operations (FSO). Total relief granted to Guyana was $467 million. The benefits were effective retroactively to January 1, 2007, as Guyana and the other four countries had already reached the "completion point" under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC). http://www.iadb.org/en/mapamericas/guyana-old/debt-relief-for-guyana,5915.html

[5] IMF Staff Report for the 2016 Article IV Consultation—Debt Sustainability Analysis. https://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr16216.pdf

[6] The most recent data are from 2006, where it was recorded that since 1992, poverty rates had declined from 43.2 percent to 28.7 percent and extreme poverty had fallen from 36.1 percent to 18.6 percent, respectively (World Bank Country Engagement Note, 2016). The Government of Guyana, with technical assistance from the IDB, is currently undertaking a household survey to assess current poverty rates, among other indicators. The results will be available in 2018.

[7] In 1990 income per capita was at US$ 1,915 (Current international dollars per capita). Compared with US$15,930 in Barbados, US$8,860 in Jamaica, US$16,870 in Suriname, and US$29,630 in Trinidad and Tobago. World Development Indicators.

[8] In 1990, Guyana's HDI stood at 0.54, reached to 0.62 by 2005, but then stagnated at this level, with only a small increase by 2015 to 0.64. By contrast, the LAC region experienced a gradual uptick in HDI, from 0.63 in 1990, 0.68 in 2000, 0.73 by 2010, and 0.75 in 2015. United Nations Human Development Report http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/GUY.pdf. FSO countries include Guyana, Bolivia (with an HDI score of 0.67), Honduras (HDI: 0.62), and Nicaragua (HDI: 0.65).

[9] Data from 2014. World Health Organization Global Health Expenditure database. In 1994, expenditure on health in Guyana was US$43 per capita, compared to a LAC average (excluding high income countries) of US$235.

[10] World Bank (2013). World Development Indicators.

compared to a LAC average of 44. Guyana's business climate was ranked 124th out of 190 countries on the World Bank's 2017 Doing Business Index, with a distance from the frontier score of 56.2 compared to a LAC average of 58.8.[11] Although Guyana has made some progress on the institutional indicators of the World Economic Forum's (WEF) Global Competitiveness Index (GCI), where its score improved from 2.8 to 3.4 out of 7 between 2006 and 2016, the country performs below par with respect to the LAC average of 4.0; and ranks 102nd out of 140 countries.

1.4 **Guyana is at a critical point in its development trajectory.** In 2015, Exxon Mobil made a significant oil discovery offshore, which is conservatively estimated to hold 2 billion barrels.[12] Commercial production is planned to commence by the mid-2020s, with an output of 100,000 barrels/day for up to eight years. At present, oil exploration and drilling are not included in the national accounts or balance of payments; therefore, official statistics underestimate GDP, as well as imports of goods and services.[13] Oil will have the largest impact on GDP through fiscal revenue.[14] However, there are implications in advance of oil production. Leading up to production there will be opportunities to boost economic growth through increased foreign direct investment in supporting goods and services, presenting the country with opportunities to diversify its production and trade base through participation in global value chains.[15] Economic growth is projected to hover around 3.5 percent from 2017 to 2019. Once oil production starts, IMF estimates GDP growth at 38.5 percent in 2021.[16] The current account is projected to run a persistent surplus, with a significant increase in official reserves and a gradual decline of the public debt-to-GDP ratio.[17] The increased dependence on natural resources exacerbates the economy's vulnerability to external shocks and could reduce the competitiveness of the non-oil economy due to the potential appreciation of the exchange rate.[18] [19] Ultimately, the conversion of medium-term oil wealth into long-term growth and well-being hinges on the Government's capacity (through its institutions) to enact productivity-enhancing reforms. International evidence shows that natural resource wealth has the potential to become a real development asset when coupled with strong institutions (both public and private), smart investments in skills and technological capacities, and solid macroeconomic fundamentals.[20]

1.5 **In 2015, Guyana experienced its second change in government since independence, ending 23 years of rule for the previous administration[21].** A Partnership for National Unity and Alliance for Change, formed the first ever coalition government, and came to power at a pivotal point in Guyana's history. This new Government has made notable progress over the last two years. Primarily among their achievements: conducting local government elections for

[11] Doing Business 2017. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each Doing Business indicator. An economy's distance-to-frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

[12] https://www.economist.com/news/americas/21724385-it-will-take-better-politicians-resist-corrosive-power-petrodollars-will-oil-corrupt

[13] IMF Country Report No. 17/175, June 2017. Article IV Consultation Staff Report.

[14] The revenue-sharing agreement sets the Government's share at 50 percent of "oil profit." With 75 percent of total oil revenues initially allocated for "cost recovery," the Government's share is only 12.5 percent, but will increase significantly after Exxon Mobil and partners recover their initial upfront investment. Ibid. IMF (2017).

[15] Blyde, J.S. 2014. Latin America and the Caribbean in the Era of Global Value Chains. The Inter-American Development Bank.

[16] Ibid. IMF (2017).

[17] Ibid. IMF (2017).

[18] Lederman, D. and Maloney, W. Editors. (2007). *Natural Resources: Neither Curse nor Destiny*. Stanford University Press and World Bank.

[19] Bauxite, gold, rice, sugar, and timber made up 86 percent of exports (Ministry of Finance, 2016).

[20] See, for example, Kahn, S. R. 2015. Caribbean Economic Alchemy: Has Magic Returned to Bauxite? Country Department Caribbean Group: Inter-American Development Bank. https://publications.iadb.org/bitstream/handle/11319/6763/IDB-PB-238_Caribbean%20Economic%20Alchemy_Has%20Magic%20Returned%20to%20Bauxite.pdf?sequence=1

[21] The People's Progressive Party Civic (PPP/C) ruled for 23 years from 1992 to 2015 and the People's National Congress ruled for 28 years from 1964 to 1992. http://www.caribbeanelections.com/gy/elections/default.asp

the first time in two decades; establishment of the procurement commission and other constitutional bodies; focusing efforts towards providing low income housing; aligning fiscal policy closer to national priorities by increasing revenues while reducing VAT, increasing public sector compensation, raising the minimum wage, targeting increase in expenditures in health, education, security and infrastructure; undertaking reforms to state owned enterprises; and maintaining financial stability. In addressing the infrastructure deficit and confronting the rapidly deteriorating state of the country's connectivity networks, the GoG has made infrastructure a priority area, under-taking much needed maintenance works on the roads and bridges network. The Government of Guyana, in its efforts to bridge the vast economic and spatial divide between the coast lands and the interior regions has undertaken targeted infrastructural interventions which includes the construction of strategic climate resilient main thoroughfares. These new networks will not only link critical regions but will also supplement the Government's successes in the development of new townships in remote regions which provide economic and social amenities that were previously only available in the country's capital.

1.6 **The Government of Guyana is aware of the above-mentioned challenges, and has set its medium-term strategic vision to improve institutional capacity and create a prosperous climate for private sector development**.[22] As the country does not have the fiscal and legal framework to manage its natural resource wealth in a sustainable manner, since taking office the government has worked to prepare for the new oil-producing framework[23] while simultaneously addressing the current developmental challenges hindering social advancement by laying the foundations for stronger institutions.[24] Specifically, the Government of Guyana's objectives are to: (i) stabilise the economy and public finances; (ii) prioritise quality education and health services; (iii) design the necessary legislative, regulatory, and policy frameworks to manage oil and gas revenues and oversee the sector; (iv) encourage and support entrepreneurship; (v) create more job opportunities; (vi) boost innovation; (vii) reform business facilitation; (viii) build climate-resilient infrastructure (including renewable energy investments); (ix) improve the overall quality of life; (x) address poverty; (xi) reform the public and financial sectors; and (xii) linking coastland and diversification of the economy.[25] Guyana has expressed commitment by pursuing candidature to the Extractive Industries Transparency Initiative (EITI).

II. THE IDB GROUP IN GUYANA

2.1 **The IDB Group continues to be Guyana's most active multilateral partner. The Bank provides 42.4 percent of external financing, or 70 percent of total multilateral financing.** The IDB Group's support is predominantly focused on the public sector, with outstanding sovereign-guaranteed debt totalling US$495 million. During the 2012–2016 Country Strategy (CS) period, approvals were higher than expected, with additional resources leveraged for programmes in energy, water and sanitation, small and medium enterprise (SME) development,

[22] Although no official document for the development strategy of the Government exists yet, the authorities outlined their development agenda until 2020 in the past three Budget Speeches. The priority areas are: (i) infrastructure (transnational highway and port, hinterland roads, and airports); (ii) renewable energy and energy conservation; (iii) public sector management and governance; (iv) information and communication technology–enhanced framework; and (v) climate change adaption/resilience.

[23] Presentation of the Petroleum Commission of Guyana Bill to Parliament, commitment to the establishment of a Stabilization Fund and National Oil Company.

[24] 2017 and 2016 Budget Speeches, Ministry of Finance.

[25]According to the Government of Guyana's 2017 Budget, "Building a Diversified, Green Economy: Delivering the Good Life to All Guyanese."

and a forest carbon partnership. In total, 13 new loan and investment grant operations and 30 technical cooperations were approved. Loan approvals exceeded the high-scenario lending envelope by 39.1 percent and totalled US$143.5 million (of which US$34.0 million were for policy-based loans). Investment grant approvals were US$51.7 million through contributions from the Guyana REDD+ Investment Fund, the European Union, and the Global Environment Facility. Four Multilateral Investment Fund (MIF) operations were also approved for a total amount of US$3.6 million.

2.2 **During the previous CS period, the Bank's activities focused on four priority areas (natural resource management, sustainable energy, private sector development, and public-sector management), across nine sectors, with modest results.** By the end of 2016, 54 percent of the portfolio was classified as "alert" or "problem," while the disbursement rate for loans fell from an annual average of 8.6 percent in 2012 to 4.4 percent in 2016. As a result, there was a significant decline in net cash flows to Guyana, which reached an all-time low in 2016. Around 50 percent of the IDB's approvals were in infrastructure[26]—the water, transport, and energy sectors—all of which faced delays during the decision-making and procurement stages. The change in administration in 2015,[27] the first after 23 years under regular general elections, slowed execution across the Government's public-sector investment programme due to a comprehensive portfolio review. This transition has not been without its challenges. The government has had to tackle the issue of stalled project implementation after encountering a capacity (institutional and human) deficit in ministries. Although an additional time constraint on execution, this review marked the beginning of an iterative process by which the Government, development partners, and the private sector identified bottlenecks in the current project management system and developed joint solutions.

2.3 **Slow disbursements were symptomatic of Guyana's challenging institutional environment and the lack of strategic planning and vision at the highest level.** This resulted in inefficient planning across the project cycle, from design and financing to implementation and monitoring. Recommendations made by the Office of Evaluation and Oversight (OVE) are in line with this assessment and have informed the institutional strengthening focus of this new strategy. Specifically, the Bank's Board of Directors endorsed four of OVE's recommendations for future engagement in Guyana: (i) work with the government to develop and institutionalise a project management system that combines core procurement functions across programmes; (ii) ensure an adequate level of IDB Group staff support in each area of the programme to enhance project implementation and achievement of results; (iii) design projects that fit the institutional environment, build on one another, and incorporate the Office for Institutional Integrity's (OII) input as part of project risk assessment; and (iv) increase support for the generation and publication of data by continuing to work with the Government to strengthen the national statistical system.

2.4 Across the priority areas, the following results were achieved:

- **In Public Sector Management (5.6 percent of approvals),** the Bank facilitated the strengthening of the Audit Office of Guyana—cited by OVE as a highlight of the CS period. This resulted in the use of national systems for external audit for 75 percent of IDB-financed operations. Through technical assistance, the Bank also helped strengthen the statistical capacity of the Guyana Statistics Agency (GSA and provided

[26] Today infrastructure accounts for 71 percent of the existing portfolio.

[27] In 2015 Guyana experienced only the second change in government since independence when the opposition coalition won the elections, ending 23 years of rule for the previous government. The coalition, A Partnership for National Unity-Alliance for Change (APNU/AFC), formed the first-ever coalition government, and came to power at a pivotal point in Guyana's economic history.

oversight for a new labour force survey, the first since 2007, and planned to report in 2018.

- **In Natural Resource Management (34 percent of approvals)**,[28] the Low-Carbon Development Strategy and "green economy" approach of the government was supported by two policy-based programmes for environmental sector strengthening, one loan to support sustainable agriculture, an investment grant for institutional strengthening, and six technical cooperation operations. Guyana's ability to manage its natural resources and the effects of climate change were enhanced through the development of a best-practice forestry monitoring system; a revision of the policy framework, institutional arrangements, and technical capacity for managing natural resources; the development of a monitoring, reporting, verification system roadmap that complies with the standards set by the Intergovernmental Panel on Climate Change; and the development of the curriculum of Guyana's Mining Training School.[29]

- **In Sustainable Energy (26 percent of approvals)**,[30] the programme focused on activities to increase the use of renewable energy as well as to improve quality of service, electricity coverage, and management of the electric utility system. The improvement in the quality of electricity services was facilitated by a reduction in the frequency and duration of customer interruptions and an increase in the number of legal connections, 15,357 greater than the target of 12,540. However, increasing access to electricity, investing in renewable energy technologies, and strengthening the legal and institutional framework did not achieve the expected results due to delays in project implementation.

- **In Private Sector Development (8 percent of approvals)**,[31] the Bank facilitated private investment in low-carbon technologies through the creation of a Credit Guarantee Fund, which provides 40 percent of the collateral requirements of lending institutions; an Interest Payment Support Facility, which provides reductions in the interest cost of SME loans; and a Low-Carbon Grant Scheme for equipment upgrades, implementation of beneficiaries' business plans, technological innovations, marketing, and others. The agricultural diversification programme sought to increase hydroponic and natural/organic cultivation of vegetables for domestic and export markets. The programme provided public services to the sector (agricultural health and food safety, research and development, and extension) and was successful in investing in infrastructure (primarily irrigation and drainage rehabilitation and facilities promoting research and development and agricultural health). Slow implementation due to high staff turnover, lack of coordination between agencies, and procurement and institutional capacity difficulties of some of the executing agencies hindered progress.

[28] GY-T1076 Developing Capacities in Implementing REDD+; GY-T1094 Sustainable Livelihoods and Econ. Growth through Hydroponic and Organic Vegetable Production and Marketing; GY-T1097 Forest Carbon Partnership Facility Project in Guyana (FCPF); GY-T1106 Supporting Technical Training in Extractive Industries in Guyana; GY-T1108 Supplemental Endemic Fish Surveys for the Amalia Falls Hydroelectric Project; GY-T1126 Technical and Economic Analysis for the Preparation of Loan GY-L1060.

[29] GY-L1039 Environment Sector Strengthening I; GY-L1043 Environment Sector Strengthening II; GY-L1060 Sustainable Agricultural Development Programme (SADP).

[30] GY-L1037 Sustainable Operation of the Electricity Sector and Improved Quality of Service; GY-L1041 and GY-X1002 Power Utility Upgrade Programme; GY-G1004 Sustainable Energy Programme for Guyana; GY-T1041 Expanding Bioenergy Opportunities in Guyana; GY-T1095 Support to the Preparation of Loan GY-L1038; GY-T1096 Strengthening Capacity in Energy Planning and Supervision; GY-T1106 Supporting Technical Training in Extractive Industries in Guyana.

[31] GY-G1003 MSE Development and Building Alternative Livelihoods; GY-L1059 Enhancing the National Quality Infrastructure for Diversification and Trade Promotion; GY-T1094 Sustainable Livelihoods and Economic Growth through Hydroponic and Organic Vegetable Production and Marketing.

- **In Citizen Security**[32], the Bank committed to reduce crime and violence by focusing on conflict resolution in target communities, strengthening the Guyana Police Force's capacity in crime prevention, and improving the Guyana Prison Service's rehabilitation and reintegration services. The project is still in the early phases of execution, and progress has been made in the selection of target communities, identification of community action officers and appointment of Liaisons.

- **With respect to gender**, the Bank approved a new project in 2016 to address Guyana's poor health outcomes for women and, the high maternal-death ratio, in particular. The Government, with Bank support, tackled child malnutrition (wasting and stunting) by providing "sprinkles," which reduced anaemia in the participating group by 40 percent, and food coupons, which reduced the prevalence of wasting by 27 percent. At the end of the CS period, the Bank approved two new operations to support maternal and child health[33]. Women were also the beneficiaries of an intervention aimed at reducing anaemia.

2.5 **Infrastructure projects dominated disbursement issues.** In water and sanitation,[34] results were mixed across programmes. The main achievements include the construction of the Haags Bosch Sanitary Landfill (HBSL); the rehabilitation of Georgetown's Sewerage System; and the construction of water treatment plants (WTPs), reservoirs, and storage tanks in Linden and Georgetown's surrounding areas. The impact of financial and institutional strengthening activities was limited. Poor procurement practices, lack of technical human resources, and weak institutional capacity in the executing agency resulted in programme delays, cost overruns, reformulation, and extensions. Work was also ongoing in the energy sector, with the Bank contributing to efforts to strengthen the institutional capacity of Guyana Power & Light, and to rehabilitate and extend power lines. Financial, operational, and institutional factors threaten the long-term sustainability of the results. In transport, design delays and procurement deficiencies thwarted projects to expand, upgrade, and maintain road networks. In ICT, the Bank supported broadband laws and other regulatory changes to improve telecommunications infrastructure.[35] OVE's Country Programme Evaluation highlights the results achieved by a housing project, which exceeded expectations and improved access to housing for 74 percent of the target population—surpassing the anticipated 70 percent.[36] Even so, delays in procurement and contracting impeded programme implementation, and the project had to be extended by two years. As mentioned, there remains a sizeable portfolio of undisbursed resources, which represented an incomplete set of initiatives to help address the country's critical infrastructure gap. The new strategy proposes that supporting the delivery of critical infrastructure remains a substantial part of the thrust going forward.

2.6 **The IDB Group has consistently worked with the Government of Guyana to strengthen institutions.** In fiscal and financial reforms, tax policies and administration were updated and strengthened, public financial management systems were improved, and the capacity of the

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[32] GY-L1042 Citizen Security Strengthening Programme; GY-T1107 Support for the implementation of the Citizen Security Strategy

[33] The Bank approved a loan for Support to Improve Maternal and Child Health and an associated TC Support for Maternal and Child Health Improvement Programme at the end of 2016, but they have yet to begin implementation.

[34] GY0055 Georgetown Solid Waste Management Programme; GY-L1025 Georgetown Sanitation Improvement Programme; GY-L1036 Linden Water Supply Rehabilitation Programme; GY-L1040 Water Supply and Sanitation Infrastructure Improvement Programme; GY-T1090 Support Preparation Water Supply and Sanitation Infrastructure Improvement; GY-T1065 Financial and Institutional Strengthening of Guyana Water, Inc.

[35] Regional TC RG-T2212.

[36] Unpublished PCRs for GY-LGY-L1059: Low-Income Settlement 2, GY-L1039 and GY-L1043: Environment Sector Strengthening I & II.

Audit Office was expanded. National Assembly committees on economic services were also revamped to ensure adequate oversight of fiscal and fiduciary matters. In the realm of tax policy and administration, the system was simplified through the elimination of those taxes with high administrative costs, discretionary exemptions, and tax holidays. The introduction of a value-added tax (VAT) contributed to more stable fiscal performance, reduced tax distortions, and improved foreign trade. The enactment of a new Fiscal Management and Accountability Act (2003) bolstered public financial management, and ICT upgrades and capacity building built sustainability and transparency into Guyana's public institutions. In short, these activities enabled a great leap forward in a short period of time. However, there is much more work to be done.[37]

III. STRATEGIC AREAS

3.1 **The 2017–2021 Country Strategy supports reducing constraints to achieving inclusive growth as it proceeds through an historic transformation.** Based on collective lessons from previous country strategies, the Country Development Challenges (CDC) findings, and in line with government priorities, the new strategy aims to support Guyana in pursuing inclusive growth by focusing on institutions to deliver services, critical infrastructure, and improve the basic conditions that enhance the private sector's role in the economy. Although the Country Development Challenges identifies "enhancing human capital" as an area for consideration, it should be noted that other important donors are working on several related initiatives in Guyana. The strategy objectives will be pursued by new operations, the existing portfolio, and policy dialogue initiatives. The authorities consider the forthcoming work with the IDB Group undergirds the Green State Development Strategy, albeit under preparation. Therefore, the proposed CS is intended to support the Government of Guyana to deliver 'the good life' for all citizens.

3.2 The Government of Guyana and the IDB Group agreed on four areas of intervention: (i) **Establishing a modern national strategy and planning framework**; (ii) Strengthening **fiscal policies and the corresponding framework for management of natural resource revenues;** (iii) **Facilitating private sector development**; and (iv) **Delivering critical infrastructure.**[38]

A. Establishing a Modern National Strategy and Planning Framework

3.3 **Sound institutions and a clear national planning framework are key** to designing appropriate policies to address future challenges. The institutional capacity of the public sector in Guyana has stagnated. Although Guyana has made some progress on the institutional indicators of the World Economic Forum's (WEF) Global Competitiveness Index (GCI), as highlighted in the introduction, its performance is below par with respect to the LAC average. Furthermore, on the World Bank's Government Effectiveness ranking, Guyana places in the

[37] Guyana and the IDB: Partners for Progress. Guyana Country Office. 2010. https://publications.iadb.org/handle/11319/631
[38] Critical Infrastructure comprises those assets, services and systems that support the economic, political, and social life of Guyana whose importance is such that loss could: 1) cause large- scale loss of life; 2) have a serious impact on the national economy; or 3) have other grave social consequences for the country.

42nd percentile, compared to the 58th for LAC. According to Transparency International's Public Sector Corruption Perceptions Index, in 2016 Guyana scored 34 out of 100 (100 being "clean"), and ranked 108th out of 176 reporting countries. The average score for the entire Americas region was 44. In the Caribbean subregion, Guyana outperformed only Haiti (ranked 159/176).[39] Furthermore, the quality of public administration; transparency and accountability in the public sector; rule-based governance; quality of budgetary, procurement and financial management, and revenue mobilisation have not improved much in recent years.[40]

3.4 **These challenges constrain public service delivery in key sectors such as education and health.** Health indices reveal the general pattern of stagnation and, in some cases, decline. Life expectancy was 63 years in 1990, only 64 years a decade later, and by 2014 stood at 66 years—below the steady increase in LAC from 67 to 75 years over the same period. There are marked inequalities between men and women in health, with infant and maternal mortality rates among the worst in the region.[41] The leading causes of infant mortality in Guyana are preventable and largely a result of preterm and intra-partum birth complications.[42] In education, there is a large and growing disparity in enrolment,[43] attendance,[44] and attainment[45] between the coast and the interior of Guyana and its regional peers. From a once-prized education system, Guyana now struggles with low passing rates.[46] The quality conundrum,[47] a lack of qualified teachers,[48] and an education system that lacks the ability to design instruction with a view to post-educational job opportunities, are borne out by the country's low tertiary enrolment rate.[49] More than half of Guyanese firms identify an 'inadequately educated workforce' as a major constraint to their

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[39] See Country Development Challenges, Chapter 3, Section A, which provides further details, empirical evidence, and references to relevant background studies.

[40] One of the five components of the CIPE, the Public-Sector Management and Institutions Cluster, assesses the above-mentioned dimensions. It shows the same evolution as the aggregate index.

[41] Of concern is the deterioration in maternal mortality rates, in contrast to the rest of LAC. In Guyana, from 2010 to 2015, the ratio (per 100,000 population) worsened from 210 to 229, in contrast with the LAC average, which showed marked improvement over the same period, whereby maternal mortality fell from 99 to 67. World Bank, World Development Indicators (WDI), accessed 2017. Infant mortality rates in Guyana dropped very slightly from 2005 to 2015, from 34 to 32 deaths per 1000 live births; this is compared to a much more positive trend in LAC during the same period, from 21 to 15.

[42] At 19.7 and 13.1 percent, respectively. UNICEF (2015). https://data.unicef.org/topic/child-survival/under-five-mortality/

[43] Primary enrolment is 82 percent, below the LAC regional average of 92 percent, and is 82 percent at the secondary level, above the LAC average of 72 percent. Around 61.5 percent of adult women have reached at least a secondary level of education, compared with 48.8 percent of their male counterparts. Human Development Report 2015. http://hdr.undp.org/en/2015-report

[44] An average attendance rate of 75 percent or less reduces the benefits to be gained from almost-universal enrolment. A similarly low average rate of attendance by teachers compounds the problem, and it is possible for students to be enrolled in schools and still receive less than half the number of contact hours needed to complete the syllabus for any grade. (Government of Guyana Annual Statistical Questionnaire 2012–2013).

[45] The results of the 2008 and 2013 National Assessments in Mathematics and English show that there is an achievement gap between the hinterland and coastal regions that has increased over time. Learning differences between boys and girls in the two regions are also striking. In 2013, 26 percent of girls in the hinterland compared to 49 percent in the coastal area passed English in the CSEC exam, and 10 percent of boys in the hinterland compared to 29 percent of boys in the coastal area passed mathematics. (Government of Guyana Annual Statistical Questionnaire 2012–2013).

[46] Ministry of Education data, 2013. In national (grade 6) exams at the primary level only 31 percent of students pass proficiency in maths, and 20 percent in English. In 2013, only 28 percent of Guyanese students passed the CSEC in maths, and 45 percent in English; the lowest score of all 16 participating Caribbean countries. The CSEC is set by the Caribbean Examinations Council. Sixteen Caribbean countries participate in the exam: Anguilla, Antigua and Barbuda, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos Islands.

[47] According to UNESCO, internal inequalities are extremely acute in almost all the region's countries, with social class, poverty, and place of residence being the most common manifestations of this. Even where the most disadvantaged have advanced in absolute terms, their situation in relation to the most privileged has not improved significantly. "Regional Report about Education for All in Latin America and the Caribbean." Global Education for All Meeting, Muscat, Oman, May 2014.

[48] According to UNESCO, the main pillar of educational quality is the professional capacity of the teachers. At present, only 58 percent of Guyana's teachers are adequately trained, with a reported shortage of mathematics and science teachers, especially in the hinterlands. Regional Report about Education for All in Latin America and the Caribbean, Global Education for All Meeting, Muscat, Oman, May 2014. The Ministry of Education of Guyana reports high levels of absenteeism in the hinterlands, few teachers prepared to work with indigenous communities, and a higher incidence of multi-grade instruction. MOE: ESP 2014–2018.

[49] Of 13 percent, as compared to the LAC average of 43 percent. World Economic Forum Data (2015).

performance.[50] Limited institutional capacity is related to a weak planning framework, lack of a civil service culture, and data collection shortages.

3.5 **Guyana does not perform well in terms of results-oriented planning.** The country ranks as one of the lowest countries in Latin America at 1.7, compared with a regional average of 2.8 (PRODEV).[51] The country-specific PRODEV analysis for Guyana notes that its institutions lack the ability to conduct long-term operational planning: that is, the ability to define programmes and targets and establish roles and responsibilities. Among the collection of long-term plans, none are annualised or contain indicators for monitoring implementation. Plans also fail to address the social aspects of development.[52] The evaluation also noted that in terms of planning, Guyana's Poverty Reduction Strategy Paper (PRSP) expired in 2005 without a replacement.[53] Until the Green State Development Strategy[54] is in place, fully national policy is presently articulated through budget documents. The central government's management of public institutions is complex and dysfunctional: the three main institutions responsible for public service management—the Public Service Commission,[55] the Department of Public Service (within the Ministry of the Presidency), and the Establishment Division of the Ministry of Finance—have overlapping responsibilities and lack coordination.[56] These combined factors result in "issues of sluggishness in implementation, poor inter-agency coordination and cooperation, and a deficit of strategic planning and management,"[57] which in turn undermines service delivery, affecting productivity and growth.[58]

3.6 **Guyana's civil service lacks "a culture embodying a set of core values and standards,"** as noted by a recent Presidential Commission.[59] Guyana's civil service accounts for approximately 2 percent of the population[60] and the nonfinancial public-sector wage bill represented approximately 7.2 percent of GDP in 2016, which is commensurate with the LAC average. Weaknesses are observed on both the "front office" and "back office" ends. There is a wealth of qualitative information on challenges related to the civil service, including the frequent turnover of personnel after a government change, engagement in supposedly prohibited political activities while in government employ, and a perceived abundance of misconduct among public servants.[61] Public servants lack the necessary training and skills, and on the PRODEV index, the country ranks well below the regional average in terms

[50] This rate is higher than the 40.7 percent observed in the 11 other Caribbean countries in the PROTEqIN 2014 survey round.

[51] Of IDB clients, Guyana ranks above only Belize (1.4) and Bahamas (0.2). This evaluation was conducted across all IDB clients in two rounds to date: in 2008 and 2013. Kaufman, J. Sangines, M., and Moreno, M.G. (2015). *Building Effective Governments: Achievements and Challenges for Results Based Public Administration in Latin America and the Caribbean*. Inter-American Development Bank.

[52] IDB. (2015). Executive Summaries of the Caribbean Country Series: Guyana.

[53] http://documents.worldbank.org/curated/en/605091468771559168/pdf/multi0page.pdf

[54] The IDB supported the implementation of the LCDS which expired in 2015. The Government is currently working on the preparation of the Climate Resilience Strategy and Action Plan as well as the Green State Development Strategy, which aim to set the roadmap for a green economy. Through TC GY-T1141, the IDB developed a regulatory framework to support businesses adopt more sustainable practices.

[55] As well as other specialised commissions for teachers, police officers, and the judiciary.

[56] Lutchman, H. (2016) *The Commission of Inquiry into the Public Service of Guyana*: Chapter 7.

[57] Government of Guyana, Budget Speech 2017, p. 26.

[58] For example, the Ministry of Public Health, the Ministry of Communities, and the Ministry of Indigenous Affairs have been unsuccessful in creating a collaborative framework for health service delivery in the interior (CDC, p.101).

[59] Lutchman, H. (2016) *The Commission of Inquiry into the Public Service of Guyana*: Conclusions. http://parliament.gov.gy/documents/documents-laid/5853 report_of_the_commission_of_inquiry__into_the_public_service_of_guyana.pdf

[60] Lutchman, H. (2016). This number excludes staff in SOEs, statutory bodies and regional governments, which according to different sources comprise over two-thirds of nonfinancial public-sector employment. The latest publicly available data put total public-sector employment between 40,000 and 61,000 staff. However, these figures are outdated. Source: United Nations (2004) and ILO (2006).

[61] Ibid.

of programme and project management capacity, with a score of 1.4, compared to a regional average of 2.2. Moreover, there has been little improvement in this indicator since 2009, when it scored 1.3. According to the Ministry of Finance, challenges with Public Sector Investment Programme (PSIP) implementation can be attributed to a shortage of skilled staff and its efforts to increase transparency.[62] On the front office side, delivery is generally considered to be ineffective and inefficient, as symbolised by the perception that citizens must wait in lines for basic services.[63]

3.7 **The ability to design policy is further constrained by the limited collection and use of data**. While the overall trend in statistical capacity has signalled improvement for Guyana over the years, it is still behind its LAC counterparts. According the World Bank Statistical Capacity Indicator,[64] Guyana underperforms in its overall score on statistical capacity, at 57.8 compared to the LAC average of 78.2 in 2016. This is further substantiated by the results of the application of the Tool for Assessing Statistical Capacity (TASC) that took place in May 2017. This self-assessment tool demonstrated that two of the weakest areas[65] of statistical capacities in Guyana are institutional capacity of the national statistical system and the use of administrative records, adversely affecting effective evidence-based policy making. The last household survey conducted to gauge poverty levels (among other key human development variables) is more than a decade old. A recent assessment conducted by the IDB highlighted the need for staff training to build statistical capacity; the provision of technical assistance in the areas of sampling, data analysis, dissemination, and mapping; modernisation of technology for data collection and monitoring of field operations; and alignment of the statistical products that are available in the country (surveys, censuses, and administrative records) with priority data needs.[66] The limited use of ICT not only *impedes* the development of a robust data-gathering/dissemination mechanism necessary for evidence-based decision making, but also affects the government's front-office functions directed at businesses and citizens, including the facilitation of business climate and procedural services for citizens. This is reflected in Guyana's low position in the e-Government Survey published by the United Nations, where it ranks 126th out of 193 countries, with a score of 0.37 out of 1, well below the regional and sub regional averages.[67]

3.8 **The CS will strengthen** institutional capabilities to deliver public services, supporting (i) strategic sector planning in line with national strategy goals; (ii) civil service quality; and (iii) collection and enhanced use of data and implementation of digital solutions.

3.9 **The crosscutting themes of climate change and gender have crucial linkages as part of a modern institutional framework.**

[62] Demerara Waves, May 11, 2017. "Public Sector Investment Implementation down to 20 Percent; Rescue Plan on the Cards." http://demerarawaves.com/2017/05/11/public-sector-investment-implementation-down-to-20-percent-rescue-plan-on-the-cards/

[63] For example, Stabroek News, April 29, 2016 http://www.stabroeknews.com/2016/business/04/29/implementing-technology-solutions-within-ministries-will-reduce-costs-improving-overall-quality-service-guyanese-citizens/

[64] World Bank Statistical Capacity indicator http://datatopics.worldbank.org/statisticalcapacity/SCIdashboard.aspx

[65] Other areas are: planning and management of censuses and surveys, cartography, sampling, design and evaluation of questionnaires, field operations, data processing, data analysis and evaluation, and data dissemination.

[66] The Tool for Assessing Statistical Capacity-TASC is a self-assessment tool that has the general objective of measuring and evaluating the statistical capacity of the National Statistical System and National Statistical Office to produce and disseminate basic statistics from censuses, surveys, and administrative records.

[67] In Latin America and the Caribbean, only four countries ranked lower than Guyana: Paraguay (122nd), Guatemala (133rd), Nicaragua (147th), and Haiti (176th).

i) **Climate change:** The creation of a national strategy and planning framework is essential if the Government of Guyana is to provide the necessary leadership on climate change, and to reconcile its preferred low-carbon growth strategy with the discovery of oil. Given the dire predictions of sea-level rise over the next 30 years, the country faces significant decisions on the protection or possible decampment of the capital city, Georgetown. Although the discovery of oil presents a shift in resource revenues, Guyana remains unique in terms of its pristine forest cover, which hitherto had been a key source of revenue under REDD+.[68] Detailed financial plans will be needed, by sector, to understand the costs of adaptation and mitigation requirements, and the extent to which they can be offset by carbon credits or extractive industry rents, as determined by the national planning process.

ii) **Gender and diversity[69]:** Research from the Caribbean shows that it is important to link national development plans to explicit allocations in the budget to promote gender equality and diversity goals for women and indigenous groups.[70] Accordingly, the availability of gender and minority groups statistics becomes the basic requirement to identify equality gaps as well as to design, implement, and evaluate strategic policies. Within the assistance provided to improve the capacities of the Guyana Bureau of Statistics, the health sector—given its impact on maternal and child well-being—will be selected to initiate appropriate data-gathering processes and to support the design of gender-responsive health policies. Once the exercise matures, the introduction of gender budgeting can be mainstreamed at a later point. Mechanisms for participatory planning to include the private sector, and civil society—in particular, disadvantaged groups such as women and indigenous peoples—will ensure transparency and accountability.

3.10 **These actions** are aligned with the IDB's Update to the Institutional Strategy 2010–2020, specifically, the crosscutting objective of improving the institutional capacity of the State and with the Inter-American Investment Corporation (IIC) Business Plan 2017–2019 as it supports the key segment priority of building capability and expertise in corporate sectors.

B. Strengthening Fiscal Policies and the Framework for Managing Natural Resource Revenues

3.11 **Fiscal performance in Guyana has been volatile.** Strong fiscal performance and governance underlie appropriate management of natural resources. In 2016, the nonfinancial public-sector deficit widened to 2.9 percent of GDP in 2016, an increase from 0.2 percent in 2015. Despite slower than expected economic growth, fiscal revenue increased due to improvements in tax administration and higher mining royalties. Total expenditure increased but was less than projected, due to 23 percent lower than budgeted public sector investment. Despite the underperformance of current and capital expenditures, the central government recorded a

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[68] Guyana approved a Low-Carbon Development Strategy in 2010, under which it committed to implement a sustainable, low-carbon development model that protects forests, water supplies, and biodiversity. The implementation of the LCDS lasted through 2015, under which Norway committed to paying Guyana annual installments based on performance criteria linked to preserving its rain forests. The initial package was worth US$250 million for five years from 2009, paid out of a World Bank-administered Guyana REDD-Plus Investment Fund (GRIF). http://www.guyanareddfund.org/

[69] In Guyana, there are nine indigenous groups: the Akawaios/Kapon, Arawaks/Lokonos, Arekunas/Kamarakoto, Karinya/Caribs, Makushis/Macuxi, Patamonas, Wai Wais, Wapishanas, and the Warraus.

[70] Christie, T. and Thakur, D. (2016). "Caribbean and Pacific Islands: A Survey of Gender Budgeting Efforts." IMF Working Paper WP/16/154.

deficit of 4.5 percent of GDP. This deficit was driven mainly by transfers, amounting to 9.5 percent of GDP, to state-owned enterprises (SOEs), which accounted for the largest share of non-interest current expenditure. GUYSUCO[71] transfers accounted for approximately 1 percent of GDP (US$54 million), and utility providers[72] received transfers of approximately 0.5 percent of GDP. Furthermore, for the first half of 2017 GUYSUCO received US$34.1 million, while the public-sector investment expended only 27.9 percent of the PSIP's budgeted allocation of US$277 million.

3.12 **Revenue collection is unpredictable and volatile**. Although Guyana's average tax revenue-to-GDP ratio was on a par with that of other Caribbean countries, its growth performance has been far superior to its regional peers.[73] The weak responsiveness of revenues to growth is largely due to a complex tax system marked by high marginal effective tax rates,[74] high exemptions,[75] and low compliance,[76] leading to a concentration of revenue sources.[77] The composition of revenue reveals the narrow base of the system. In 2014, this constituted a VAT at 6 percent of GDP, excise taxes (on alcohol, fuel and tobacco) and personal income tax at 3 percent, company income tax at 3.4 percent, import duties at 2.2 percent, and property tax at 3 percent.[78] Although imports equal approximately 65 percent of GDP, 50 percent of import value is normally exempted from import duties.[79] The VAT efficiency rate was estimated at 37 percent compared to the average efficiency rate for lower-middle-income countries of 47 percent.[80]

3.13 **Revenue volatility affects expenditure.** Between 2012 and 2016, total expenditure as a share of GDP averaged 29.3 percent, while revenue as a share of GDP averaged 23.9 percent.[81] This has contributed to recurrent deficits and debt financing. Though debt levels are currently manageable, this is due to a high degree of concessionality in external borrowing,[82] which could

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[71] The 11 largest SOEs in the country provide essential services such as electricity, postal mail, water, fossil fuel imports, and telecommunications, and employ around 40 percent of the public-sector work force. GUYSUCO, the sugar corporation, continues to receive transfers equivalent to 1-1.5 percent of GDP per year and is technically insolvent. (CDC & IMF Article IV)

[72] Guyana Water Incorporated, Guyana Power & Light, Lethem Power Company, LINMINE, Mabaruma Power Company, Mahdia Power & Light, Maruca Power & Light, Matthews Ridge Power & Light Company, and Port Kaituma Power & Light Company.

[73] An average real rate of 4.2 percent compared to less than 2 percent for the same group of Caribbean countries for 2015 and 2016. Specifically, in 2015, the regional Caribbean average revenue per GDP was 21.8 percent and in 2016, it was 22.0 percent. The 13 countries included in this analysis are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Neves, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Economic Commission on Latin America, "Fiscal Panorama of Latin America and the Caribbean: Mobilizing Resources to Finance Sustainable Development: 2017." UN ECLAC Santiago, Chile, p. 15.

[74] For example, combining the personal income tax with the national insurance contribution leads to an average tax rate of up to 34 percent of gross income and a marginal tax rate of 44 percent for middle-income earners. The high average and marginal tax rates are not only a disincentive for formal employment but, combined with weak tax administration, explain high tax evasion, especially by self-employed earners.

[75] Losses from exemptions and tax evasion are high; for example, in 2011, Guyana had a gross compliance rate (defined as value-added tax collected/potential value-added tax) of 31.1 percent, below comparable countries such as Barbados (65.1 percent) and Jamaica (43.2 percent). Tax waivers amounted to 6.6 percent of GDP or 27 percent of total tax revenues.

[76] Defined as value-added tax collected/potential value-added tax. In 2011, Guyana had a gross compliance rate of 31.1 percent, well below comparable countries such as Barbados (65.1 percent) and Jamaica (43.2 percent). Average variance for revenue and capital expenditures has exceeded the international benchmark of 5 percent for the last six years. IMF. (2011). *Revenue Mobilization in Developing Countries.* IMF Fiscal Affairs Dept., Washington, DC.

[77]The concentration of taxpayers is high. In a 2008–2012 assessment, the top 20 percent of individual taxpayers accounted for 73 percent of the tax liabilities paid. Middle-class government sector employees pay a disproportionate amount of the personal tax liabilities. Guyana: Review of the Tax System. Furthermore, The VAT efficiency rate was estimated at 37 percent compared to the average efficiency rate for lower middle countries of 47 percent. IMF 2011. Revenue Mobilization in Developing Countries.

[78] Duke University Stanford Business School, 2014. Guyana: Review of the Tax System. Prepared by the Sanford School for Public Policy for the Guyana Tax Review Commission, Office of the President.

[79] Ibid.

[80] IMF. (2011). *Revenue Mobilization in Developing Countries*.

[81] Ministry of Finance, WEO April 2016.

[82] Representing 35 percent of current concessional financing. Ibid. Ministry of Finance (2016).

disappear should Guyana graduate to a market-access country.[83] The structure of expenditures from 2012 to 2016 indicates double-digit increases across all four categories of current expenditures: wages increased by 15 percent, purchases of goods and services by 16 percent, transfers jumped 21 percent, and interest payments by 11 percent.[84] Notably, this increase in expenditures was most acute in non-productivity-enhancing areas such as transfers to the country's inefficient SOEs.[85] While current expenditures ranged from a low of 19.7 percent as a share of GDP in 2013 to a high of 24.5 percent in 2016, capital expenditures exhibited much more volatility, fluctuating from 4.7 percent of GDP in 2015 to 10.7 percent in 2012. The variance between actual and budgeted was most marked for capital expenditures,[86] suggesting that expenditure will not have the desired outcome unless public-sector investment management is improved.

3.14 **Public financial management is inadequate.** According to the World Bank's 2015 Public Sector Management and Institutions Index, on a scale of 1–6 where 6 is high, Guyana scores 3.10, compared to the 3.06 average for IDA countries. This score has remained static since 2007.[87] On the PRODEV index, Guyana scores 2.0 on public financial management—well below the regional average of 2.9, and only above Haiti, Suriname, and Belize.[88] Public expenditure and financial accountability assessments[89] identify weaknesses across six key areas, each of which received a D ranking, with little improvement between 2007 and 2013. These are: (i) a lack of transparency in intergovernmental fiscal relations; (ii) a lack of information on the resources received by delivery units; (iii) no internal audit process; (iv) insufficient legislative scrutiny of external audit reports; (v) absent, uncompetitive, and poorly monitored annual procurement planning, resulting in substandard provision and low value for money; and (vi) ineffective tax collection. In addition, fiduciary assessments identify several specific areas for improvement for Guyana's public investment management.[90] Poor public investment management is particularly germane to Guyana's SOEs, which provide essential services such as electricity and water and employ around 40 percent of the public-sector work force.[91] Guyana's SOEs fail to make investment decisions based on relative need or results-based budgetary assessments;[92] this chronically undermines the provision of quality public services and the efficiency of expenditure management.

[83] The amount of Net Official Development Assistance per capita for Guyana has fallen from and a peak of US$352 in 1998, to US$40.30 in 2015. https://tradingeconomics.com/guyana/net-oda-received-per-capita-us-dollar-wb-data.htmlWorld Bank. Note: Net overseas development assistance (ODA) consists of disbursements of loans made on concessional terms (net of principal repayments) and grants by bilateral and multilateral development institutions.

[84] Op. cit. MoF (2016).

[85] The largest 11 SOEs in the country provide many essential services and employ around 40 percent of the public-sector workforce. Currently the budgetary burden of transfers to SOEs is around 7 percent of GDP. Guyana Ministry of Finance.

[86] Between 2014 and 2015 the variance was in the range of -23 percent to -37 percent. Budget Estimates MoF.

[87] The public-sector management and institutions cluster (CPIA) includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector. The ratings reflect a variety of indicators, observations, and judgments based on country knowledge and relevant publicly available indicators.

[88] Kaufman, J. Sangines, M., and Moreno, M.G. (2015). *Building Effective Governments: Achievements and Challenges for Results Based Public Administration in Latin America and the Caribbean.* IDB.

[89] Guyana Integrated Fiduciary Management Volumes 1 and 2, 2013. Findings and Recommendations on Public Expenditure and Financial Accountability (PEFA).

[90] Ibid.

[91] The Government of Guyana is currently assessing the number of SOEs or public entities comprising the sector. There are several institutions that if accounted for would make Guyana one of the countries with the highest number of SOEs per capita in the region. The most important SOEs in Guyana are the Guyana Sugar Corporation (GUYSUCO), Guyana Gold Board, Guyana Oil Company Limited, Guyana Power & Light Inc., National Communications Network, the Guyana National Printers, and Georgetown's new Marriott Hotel.

[92] These problems can be illustrated by GUYSUCO. The company has been losing money for years and its deficit is now estimated at $500 million, despite heavy subsidies. Transfers to GUYUSCO were equivalent to 1.8 percent of GDP in 2015 and are budgeted at about 1.3 percent of GDP for 2016. See Section PI-9 in 2013 Integrated Fiduciary Assessment.

3.15 **Fiscal policy needs to be guided by a transparent rules-based framework after the onset of oil production.** The legislative and regulatory framework for managing natural resource revenues is currently in the process of being updated. Preparation works have begun on the drafting of a Petroleum Commission Bill and a Sovereign Wealth Fund Act. In the absence of a strong, independent regulatory body to govern oil and gas exploitation, the sector will not perform in benefit of the economy and the country at large.[93, 94] Guyana committed to joining the EITI in 2010, and expects membership approval in October 2017.[95] However, Guyana will need considerable support to comply with the EITI's eight key requirements.[96] The EITI process will require increased transparency between the Government and companies regarding the proceeds garnered from extractive industries. Both the public and the private sector are required to report separately on revenues received to a reporting multi-stakeholder group.

3.16 **The CS will support the strengthening of fiscal policies, as strong fiscal institutions are essential to translate long-term policy objectives into operational guidance for the annual budget and to hold policymakers accountable.** Specifically, the CS will support (i) revenue management, through adjustments of tax legislation and administration (ii) public expenditure and public financial management, emphasizing transparency and the adoption of sound auditing, and procurement practices (iii) the establishment of appropriate natural resource wealth management tools.

3.17 **These interventions are also aligned with the IDB's Update to the Institutional Strategy 2010–2020**. Specifically, they respond to the policy objectives of creating a more distributive fiscal policy, that support high potential low carbon sectors and climate resilient activities, as well as to the crosscutting objective of improving the institutional capacity of the State to enforce the rule of law.

C. Facilitating Private Sector Development

3.18 **Institutional challenges affect the business climate and subsequently private sector development.** Guyana's business climate was ranked 124th out of 190 countries on the World Bank's 2017 Doing Business Index, with a distance from the frontier score of 56.2 compared to a LAC average of 58.8. On the WEF's 2015-2016 GCI, which is based on business perceptions and statistical data, Guyana ranked 121st out of 140 countries. The lowest scores are recorded in: access to finance (4.1 score out of 7, compared to 4.4/7 for ROSE-C) and infrastructure (2.1, compared to 2.9/7 for ROSE-C). The lowest scores recorded on the 2017 Doing Business survey are in resolving insolvency and getting credit.

3.19 **Access to finance is limited,** especially for small enterprises as well as the agriculture and mining sectors.[97] This is partly due to an out-of-date and weak institutional framework. Guyana

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[93] Balza, L. and Espinasa, R. (2015). Oil Sector Performance and Institutions: The Case of Latin America. Washington, DC: Inter-American Development Bank.

[94] Balza, L., Espinasa, R., and Jimenez, R. (2014). Transforming Oil Abundance into Sector Performance: Which Institutions Really Matter? In Vieyra, J. and Masson, M. (Eds.), Transparent Governance in an Age of Abundance: Experiences from the Extractive Industries in Latin America and the Caribbean. Inter-American Development Bank.

[95] http://www.kaieteurnewsonline.com/2017/07/26/guyanas-eiti-application-set-for-august/

[96] https://eiti.org/eiti-requirements

[97] The agriculture and mining sectors receive 9 percent and 4 percent of the commercial bank credit extended to the productive sectors, below their respective contributions to GDP of 17.2 percent and 15 percent. Central Bank of Guyana and Challenges and Opportunities for Development in Guyana, A Private Sector Perspective, 2016

ranks 82nd out of 190 countries in 'Getting Credit' in the Doing Business survey for 2017.[98] Of the Guyanese firms that made fixed-asset purchases, only 10.8 percent borrowed from a commercial bank (versus 15.5 percent in the Caribbean) whereas 83.8 percent used internal funds or retained earnings (versus 59 percent in Caribbean).[99] Only 27 percent of small firms have a line of credit with a financial institution versus 56 percent for large firms. Women face more challenges, as they are charged higher interest rates than men.[100] A high perception of default risk results in steep collateral requirements for borrowers. These are particularly onerous to SMEs given insecure land tenure,[101] a credit bureau with limited coverage, and the high expense of foreclosure, which constrain access. Alternatives to debt finance are scarce given that capital markets remain underdeveloped.

3.20 The CS will support the business climate, fostering access to finance with initiatives to develop secure transaction systems and collateral registries. The IDB Group will work with the Government of Guyana, including through the IIC and MIF, to support the private sector by focusing on initiatives to increase firms' access to credit and assisting companies to achieve productivity gains through investments and advisory services that promote innovation and adoption of sustainable business practices. The IDB will help address relevant market failures. As SMEs are the most financially constrained firms, IIC will seek to partner with financial intermediaries to address sub-optimal SME investment opportunities. The MIF will support efforts to increase the competitiveness of the business sector by promoting business development in three areas: climate-smart agriculture (CSA), innovation and the knowledge economy (KE) and inclusive urban development (IC).[102]

3.21 **The crosscutting themes of climate change and gender are integral to improving institutions for enhanced public service delivery during the CS period.**

i. Climate change: According to sea-level rise estimates, Guyana is one of the most affected countries in the LAC region, with some scenarios anticipating as much as 60 miles of coastal loss by 2050. Such a result would threaten much of the country's present-day arable land.[103] As such, climate change is expected to have significant impacts on the sustainability of economic and social well-being. The agriculture sector, which generates one-fifth of Guyana's GDP[104] and employs one-third of the country's economically activity population,[105] is likely to be negatively affected by climate change through decreasing yields caused by greater drought-like conditions.[106] According to a

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[98] The ranking improved compared with 167 one year before based on an amendment to the Credit Reporting Act in 2016 that expanded data providers beyond financial institutions to utilities and state entities.

[99] Compete Caribbean Firm Survey 2013.

[100] Based on World Bank's Enterprise Survey (2011) and PROTEqIN (2013) data sets, on average female-owned businesses are charged 19 percent annual interest, compared to 13 percent for men. The country office also explored challenges faced by women-owned businesses to understand ways to improve access to finance for women entrepreneurs.

[101] Three-quarters of all land in Guyana is publicly held, which requires most farmers, miners, and businesspeople to obtain leaseholds from the State. Banks do not generally accept these leaseholds, especially the short ones, as collateral.

[102] CSA approaches include boosting productivity; supporting mitigation efforts that reduce, avoid, or capture GHG emissions; and implementing adaptation strategies that prevent or minimise the damage caused by climate change. KE promotes job creation by powering inclusive, tech-driven enterprise growth, strengthening the ecosystem for entrepreneurship and innovation, and testing, investing in, and scaling tech-driven enterprises that solve social, economic, and environmental problems, as well as preparing a competitive workforce for 21st-century jobs. **IC** approaches to improve the quality of life of urban areas include enhanced urban services and climate change adaptation and mitigation, driven by small businesses, entrepreneurs, and public–private partnerships. Areas of engagement include the sharing economy and circular economy models.

[103] Dasgupta et al. (2007). "The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis." World Bank Policy Research Working Paper 4136.

[104] World Development Indicators using data from 2015.

[105] Private Sector Assessment of Guyana (PSAR): Compete Caribbean, 2014.

[106] "Climate Change Projections." Government of Guyana. Available at: http://www.lcds.gov.gy/index.php/documents/climate-change-information/understanding-climate-change

report by the IDB Group, the crucial factor that will determine the ability of countries to adapt to and mitigate the effects of climate change are institutional capacity and economic structure.[107] Through enhanced public-sector planning and execution, the CS will ensure that climate-change resilient infrastructure projects are delivered. Actions to improve the business climate will enhance the ability of the private sector to contribute to these activities, and enable the productive sector to adapt to help protect the economy and its future growth.

ii. Gender: The CS focus on improving business climate initiatives, tailored to overcome gender barriers, can enhance female workforce participation and access to finance among other key services. The IIC will seek to facilitate access to capital to women-led SMEs either through value chain financing or by partnering with the financial sector.

3.22 The actions are also aligned with the IDB's Update to the Institutional Strategy 2010–2020. Specifically, the actions respond to the policy objectives of addressing social exclusion and inequality as well as low productivity and innovation. In addition, the actions proposed in this CS are aligned with the IIC Business Plan 2017–2019, as it supports the key segment priority of partnering with financial institutions to impact priority business areas and crosscutting themes.

D. Delivering Critical Infrastructure

3.23 **The infrastructure stock is inadequate to support delivery of public services or facilitate private sector growth.** While it is difficult to estimate the infrastructure gap, according to the World Bank, Guyana will need to spend around 104 percent of GDP over the next 20 years to reach adequate infrastructure coverage.[108]

3.24 **This gap impairs performance, especially with respect to the provision of energy and transport infrastructure.** Guyanese firms report high energy costs as a major obstacle.[109] Electricity tariffs in Guyana are among the highest in the region, at an average of US$0.30 per kWh, representing a high proportion of the monthly expenditures for households and businesses. The cost of electricity is three times higher than in the continental United States and seven times higher than rates (subsidised) in Suriname.[110] Despite its hydro,[111] photovoltaic, biomass, and wind power potential, 83 percent of the installed electricity generation capacity is still sourced from fossil fuels, and the publicly provided service is not reliable and only extends to 26 percent of the population. Guyana's high energy and logistics

[107] "Institutional weaknesses worsen vulnerability to the effects of climate change. The scarcity of skilled manpower, because of both cost constraints and a small base from which to draw efficient and experienced officials, limits the decision-making process necessary to tackle the factors that contribute to these countries' vulnerability (Briguglio et al., 2009). As a result, public institutions (in small Caribbean states) have relative disadvantages—when compared to most inland Latin American countries—that could weaken and delay the design of policies intended to decrease the negative effects of climate change or to take advantage of its opportunities." Inter-American Development Bank, 2014. Climate Change and IDB: Building Resilience and Reducing Emissions. Regional Study: LAC and Small Island Developed States.

[108] This assumes an annual growth rate of GDP of 2.7 percent per year over the next 20 years, and indicates the cost of investments needed to reach infrastructure coverage per worker levels similar to those of Korea. Fay, M and Morrison, M. 2015. *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges.* The World Bank Directions in Development Series.

[109] As a percentage of sales. PROTEqIN 2014.

[110] Electricity rates published by Guyana Power & Light in 2016.

[111] Guyana has a significant hydroelectric potential that has been estimated at 8.4 GW (8,400MW)' - *Inter-American Development Bank, Update of the Study of Guyana's Power Generation System* Expansion. Yet to date, Guyana only has one small hydro plant in operation. No hydropower is supplied to the grid. Wind farming is under development and solar panels, are largely used in remote interior locations for limited nighttime electric supply.

costs, coupled with a poor connectivity, constrain efficient service delivery and increase business costs, hurting the prospects of formal job creation in the economy. According to the GCI, out of 140 economies, Guyana ranks 104th in terms of road infrastructure, 87th in port infrastructure, and 93rd in air transport infrastructure. Potential economic synergies with its neighbors are unexploited in part because the existing infrastructure network does not adequately connect these economies; sales to Guyana's main export destinations (United States, Canada, Trinidad and Tobago, and the United Kingdom)[112] are hampered because shipping costs in and out of the country are high relative to other countries in the Caribbean, due to the lack of deep water ports and insufficient domestic logistics infrastructure. Road density, measured in terms of area (0.024), is far lower than the LAC regional average (0.462).[113] The Liner Shipping Connectivity Index, which measures maritime connectivity, ranks Guyana below all other Caribbean countries.[114] The private participation in infrastructure is scant as a result of institutional deficiencies in strategic planning and project management, a lack of adequate regulation, and a nascent public–private partnership framework.[115]

3.25 **Management of the infrastructure assets is further complicated by the impact of climate change.** It threatens existing infrastructure, delays project implementation, and increases the cost of construction and maintenance, creating debilitating conditions for the Guyanese people and businesses if left unaddressed. According to models of sea-level rise, Guyana is forecast to be one of the most affected countries in the LAC region, with some scenarios anticipating as much as 60 miles of coastline lost by 2050. Such a result would threaten much of the country's present-day arable land, and existing infrastructure.[116] The climate change impacts on the sustainability of economic and social well-being extends to the agriculture sector, which generates one-fifth of Guyana's GDP[117] and employs one-third of the country's economically active population,[118] decreasing yields due to greater drought-like conditions.[119] It also threatens housing and increases the vulnerability of residents. The crucial factors that will determine the ability of countries to adapt to and mitigate the effects of climate change are institutional capacity and the economic structure.[120] The country's ability to attract and deploy affordable resources and investments in climate-resilient infrastructure under appropriate modalities to respond to its infrastructural challenges must be strengthened.

[112] According to Comtrade data from 2015.
[113] IDB logistics indicators, measured as km/km^2, based on Ministry of Transport data from 2011.
[114] Countries are scored on a scale of 1-100 (100 being the best). Guyana scored 4.1, Suriname 5.0, Jamaica 21.6, and the Dominican Republic 26.3.
[115] While it is difficult to estimate the infrastructure gap, according to the World Bank, Guyana will need to spend around 104 percent of GDP over the next 20 years to reach adequate infrastructure coverage. This assumes an annual GDP growth rate of 2.7 percent a year over the next 20 years, and indicates that the cost of investments needed to reach infrastructure coverage per worker levels is similar to that of Korea. Fay, M. and Morrison, M. (2015). *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges.* World Bank Directions in Development Series.
[116] Dasgupta et al. (2007). "The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis." World Bank Policy Research Working Paper 4136.
[117] World Development Indicators using data from 2015.
[118] Private Sector Assessment of Guyana (PSAR): Compete Caribbean, 2014.
[119] "Climate Change Projections." Government of Guyana. Available at: http://www.lcds.gov.gy/index.php/documents/climate-change-information/understanding-climate-change
[120] "Institutional weaknesses worsen vulnerability to the effects of climate change. The scarcity of skilled manpower, because of both cost constraints and a small base from which to draw efficient and experienced officials, limits the decision-making process necessary to tackle the factors that contribute to these countries' vulnerability (Briguglio et al., 2009). As a result, public institutions (in small Caribbean states) have relative disadvantages—when compared to most inland Latin American countries—that could weaken and delay the design of policies intended to decrease the negative effects of climate change or to take advantage of its opportunities." Inter-American Development Bank, 2014. Climate Change and IDB: Building Resilience and Reducing Emissions. Regional Study: LAC and Small Island Developed States.

3.26 **The CS will support Guyana in delivering critical infrastructure**[121] by: (i) increasing the execution rate of infrastructure investment in the PSIP; (ii) fostering the institutional framework for public–private partnership, installing capabilities to select, prioritise, and structure critical infrastructure projects (including through PPPs) in fiscal-friendly and sustainable ways; (iii) upgrading selected infrastructure (identified in the national strategy and planning process) to support climate resilience, social improvement, and structural transformation; and (iv) and continue working with key utilities to enhance their capacity to manage existing and future infrastructure assets. The MIF and IIC will seek to invest in critical infrastructure through: (i) support for small and medium-sized developers in renewable energy generation projects; (ii) encouragement of investment in energy efficiency technology by enabling mechanisms to provide energy audit services and follow-on financing plans; (iii) the provision of expertise in due diligence, risk assessment, and feasibility evaluation for extracting natural gas for power production;[122] and iv) the facilitation of public–private partnership opportunities to develop investments in logistics, transport, and communications that tackle the country's poor connectivity.

3.27 **These actions will support the objectives of the Green State Development Strategy:** diversifying the economic base, accessing new markets, and creating decent jobs for all; the transition to renewable energy and greater energy independence; and resilient infrastructure and spatial development. The actions are also aligned with the IDB's Update to the Institutional Strategy 2010–2020. Specifically, the actions respond to the policy objectives of addressing social exclusion and inequality as well as low productivity and innovation. In addition, the actions proposed in this CS are aligned with the IIC Business Plan 2017–2019 as it supports the key segment priorities of being bold in Infrastructure, particularly through renewable energy and transport solutions.

IV. INDICATIVE LENDING FRAMEWORK

4.1 **The IDB projects a sovereign guaranteed scenario of US$86.1 million (US$17.2 million per year).** This represents a lower level of approval compared with the previous CS (2012–2016) of US$209.8 million (or US$42.0 million per year). This scenario assumes a reduction in allocations because of the increase in Guyana's per capita income and relatively weaker portfolio performance over the CS 2012–2016 period. It is assumed that the current blend of 50/50 of concessional resources with ordinary capital will be maintained throughout the allocation period. Net cash flows to Guyana will average US$22.7 million per year but will turn negative by 2021 (US$-6.4 million). Total net cash flows will equal US$113.3 million, and the outstanding debt to the IDB will grow to US$654.1 million by the end of the period (Annex IV). The scenario does not include grants or complementary funding sources, either direct or leveraged.

[121] The IDB's undisbursed portfolio includes about $140 million in infrastructure projects. This amount is 65 percent more than the proposed strategy envelope.

[122] As economic activities directly related to the resource economy as well as less connected to it flourish, and the estimation and allocation of resource-related revenues are better defined, the IDBG will seek to support the country to identify priority transport and logistics needs, together with the support to improve the institutional framework for private investment mentioned in the previous section.

V. STRATEGY IMPLEMENTATION

5.1 **Portfolio performance.** During the CS period, the Government of Guyana will continue strengthening its execution units (with IDB support) to bolster project management, and aid on-time delivery of results and, by extension, disbursements. In addition, the authorities are designing a dedicated 'delivery unit' for monitoring progress against key outcomes foreseen in the Green State Development Strategy. Where necessary, nonperforming loans will be restructured to ensure appropriability and alignment with government priorities for development impact. The Bank will continue to enhance its supervisory capacity using real-time financial monitoring systems and by enhancing its presence in the country to support dialogue and project executing. Coordination with the local procurement body will continue.

5.2 **Effective and efficient implementation of critical infrastructure projects is constrained by the limited capacity of existing institutions.** The IDB portfolio as well as the public-sector infrastructure investment programme have been beset by project management issues, as outlined previously. Accordingly, the CS proposes concrete activities to support the country by taking the pragmatic approach of explicitly linking the existing portfolio of infrastructure projects to the new strategy. Further, the work of strengthening the institutional and management capacities of the key utilities (already with IDB Group support) is still incomplete. This approach will ensure infrastructure investments to facilitate delivery of services and an improved business climate while also ensuring that Guyana builds its capabilities to manage infrastructure investments to support its Green State Development Strategy.

5.3 **To address these bottlenecks, the IDB Group will:** (i) increase the level of specialised staff in the Country Office; (ii) continue to provide project executing teams with technical support in the areas of procurement, engineering, financial management, and general project management; (iii) ensure timely and appropriate support throughout the project cycle through a new Delivery Unit; (iv) facilitate capacity building through training and knowledge transfer to address weaknesses in project management capacity, increase awareness of procurement practices, and strengthen leadership skills; (v) engage in frequent stakeholder consultations with civil society and communication to ensure buy-in at all levels throughout the programme cycle; (vi) review internal processes within the IIC to better serve client needs and expectations in the region; and (vii) include change management activities in each project plan. While pursuing these measures, the IDB Group will assist in addressing the execution issues faced by line ministries, and ensure close collaboration with the central government. A portfolio restructuring exercise will be undertaken during the CS period to ensure that all operations—loans in particular—achieve their intended development objectives.

5.4 **Country Systems:** In line with its strategy to expand the use of country systems and efforts to improve execution in Guyana, the Bank relies on the budget, treasury, and external audit subsystems. During the 2017–2021 CS period, the Bank will continue to support further strengthening of these subsystems and Guyana's ongoing Action Plan for PFM Reform. This will allow the Government to achieve great improvements in public finance management (PFM) and enhancing external audit capabilities. This should allow the achievement of acceptable standards, resulting in satisfactory results in aspects of the procurement and financial management systems and leading to the increase in the use of country systems by the Bank, either in full or in part.

5.5 Specifically, the Bank will support country systems through the ongoing implementation of the Action Plan for PFM Reform, including : (i) completing the implementation of a sole PFM platform for all public expenditures, (ii) streamlining budgetary processes, (iii) adopting International Public Sector Accounting Standards (IPSAS), and (iv) developing an updated Action Plan for the Audit Office of Guyana to be informed by the results of a Supreme Audit Institution Performance Measurement Framework (SAI-PMF) assessment to be undertaken. Additionally, the Bank will continue its ongoing dialogue with the Government on the use of the national procurement information system and the approval of template Price Comparison Documents for Goods and Works. Table 1 summarises the status and expectation for the use of fiduciary systems in Guyana during the CS period.

Table 1: Use of Country Systems

Use of Country Systems	Baseline 2016	Estimated Use 2021	Foreseen Actions
Public Financial Management System			
Budget	100%	100%	1) Support the streamlining of Budget processes
Treasury	100%	100%	
Accounting & Reporting	0%	0%	1) Support the implementation of IPSAS
Internal Audit	0%	0%	
External Audit	57%	70%	1) Support the Audit Office of Guyana to identify opportunities for improvement through a comprehensive diagnostic – SAI-PMF and, based on priorities, develop a work plan for further strengthening.
Procurement System			
Information System	0%	0%	
Price Comparison/ Shopping	0%	0%	
Individual Consulting	0%	0%	
Partial NCB	0%	0%	
Advanced NCB	0%	0%	

5.6 **Donor Coordination.** Coordination with other multilateral and official donors will continue in the new CS period. The closest cooperation is with the European Union under the Grant Leveraging Mechanism used to augment IDB loans with EU grants to support interventions in the energy and water and sanitation sectors. In addition, the IDB is fully engaged as a member of the United Nations Development Programme-facilitated inter-donor network. Throughout the CS period, the IDB participated in missions conducted by the International Monetary Fund and the Caribbean Development Bank. Frequent dialogues are held with the Caribbean Community (CARICOM), particularly in the areas of energy and the environment. The IDB Group will continue to explore co-financing opportunities to leverage resources from development partners. There is potential for further collaboration with CARICOM and the Caribbean Development Bank in the areas of public procurement, and collaboration with new entrants, such as the Islamic Development Bank, will be explored.

VI. RISKS

6.1 **Macroeconomic risks**. Guyana faces the challenge of maintaining adequate levels of public capital investment to promote growth while managing its debt. The largest potential source of risk is Guyana's vulnerability to commodity price shocks in the absence of fiscal buffers. In the advent of such a shock, the country could experience widening fiscal and external imbalances, which could potentially destabilise the macroeconomic framework over the medium term. With recent slow global growth, a continued slowdown in China, and a strong US dollar, the prices of Guyana's commodity exports tend to remain depressed, which in turn impacts domestic activity. Furthermore, as Guyana continues to grow richer, the amount of concessional resources at its disposal will decrease. De-risking also remains a major source of concern for the country's banks. Macroeconomic risks will be mitigated and monitored by close supervision of economic performance and policies to support corrective measures, as well as by assisting the Government in the strategic area of strengthening public sector institutions and governance.

6.2 **Environmental risks**. A significant share of the country's economic activity is derived from its natural resources, and this will only continue with the recent oil find. Guyana remains vulnerable to a wide range of natural hazards and is particularly vulnerable to the effects of climate change. A natural disaster of significant proportions during the CS period could undermine the potential successful project implementation in the short term, and growth and employment in the medium term. The IDB will continue to support climate-change adaptation and mitigation actions, as well as disaster risk management measures in the public and private sectors, in keeping with the crosscutting theme of climate change.

6.3 **Political risk**. The Government has set forth for itself an ambitious programme of improving the capacity of the State to deliver better public services and critical infrastructure. Such change management processes are difficult due to institutional inertia, vested interests, and insufficient human capital—given Guyana's extraordinarily high emigration rate of tertiary-educated nationals. Mitigating associated political and implementation risks will require extensive and widespread consultation with stakeholders, creating attractive jobs for young people as a part of this process, rapid deployment of legislative and regulatory reforms, utilisation of technology to increase transparency, and commitment from the highest levels of government. The authorities and the IDB Group will work jointly with all stakeholders and manage expectations accordingly.

6.4 **Portfolio execution risks**. The lack of project management capacity, frequent changes to the structure of government agencies, and reassignment of key decision makers engaged in programme execution may continue to delay implementation and undermine efforts to coordinate agencies and deliver timely results during the CS period. Moreover, given the demand-based nature of the private sector opportunities that are influenced by market fluctuations, and the country's current productive capabilities, implementation of private sector operations may face several obstacles that could hinder the IDB Group's support to private sector development. For mitigation measures, see paragraphs 5.1-5.3.

ANNEX I: The Results Matrix

Government Priorities	Strategic Area	IDB Strategic Objective	Expected Results	Indicator: measurement	Baseline
Governance and institutional pillars	**1. Strengthening public sector instituions and planning**	**1.1 Establish a modern national strategy and planning framework**	**Support strategic sector planning in line with national strategy goals in which gender and climate change are mainstreamed**	PRODEV Index for results oriented planning	1.7 (PRODEV evaluation tool 2013)
			Improve civil service quality	Caribbean Civil Service Ranking (CCPS) which scores civil service across six key areas	Baseline to be established in 2018
			Enhance use of data and digital solutions	United Nations eGovernment Survey	0.37 (UN e-Government Index 2016)
Sustainable management of natural resources	**2. Strengthening fiscal policies**	**2.1 Strengthen fiscal policies and the framework for management of natural resource revenues**	**Improve revenue management through adjustment of tax legislation and administration**	PEFA Indicator PI-15/M1 Effectiveness in collection of tax payments	D (PEFA 2013)
			Enhance public expenditure management through increased reporting transparency	PEFA Indicator PI-27-MI Legislative scrutiny of external audit reports	D (PEFA 2013)
			Enhance public financial management through the adoption of sound auditing and procurement practices	PEFA Indicator PI-19/M2 Competition, value for money and controls in procurement	D (PEFA 2013)
				PEFA Indicator PI-21/M1 Effectiveness of internal audit	D (PEFA 2013)
			Estsablish appropriate natural resource wealth management tools	EITI Compliance	Membership scheduled for August 2017
Diverisfy the economic base, access new markets and create decent jobs for all	**3. Improvement of the business climate**	**3.1 Support the business climate by fostering access to finance and the instituional framework for PPPs**	**Increase access to finance**	Domestic Credit to Private Sector (as % of GDP)	45.5 (World Development Indicators 2016)
			Improve the institutional framework for PPPs	Private investment in infrastructure (millions of dollars)	US$0 (PPI, World Bank, 2015)
Resilient infrastructure and spatial development	**4. Delivering critical infrastructure**	**4.1 Support investment in infrastructure for private sector growth**	**Increase execution rate of public sector infrastructure investment portfolio**	execution rate of infrastructure investment in the PSIP as reported by Ministry of Finance Mid-Year Report	27.9 percent of budget allocation expended (first half 2017)
			Install capabilities to select, prioritise and structure critical infrastrcuture projects	PRODEV Index of Programme and Project Management	1.4 (PRODEV evaluation tool 2013)

ANNEX II: Country Systems Matrix

IDB Strategic Objective	Expected Results (2021)	Indicator	Baseline (2016)	Indicative Target	Timing
Strengthening and use of country systems	Increase in the use of the external control system	a) Percent of IDB projects using the external control system	a) 57 percent of IDB loan operations using the external control system	a) 70 percent of IDB loan operations using the external control system	By the end of CS period

ANNEX III: Main Economic and Social Indicators

	2010	2011	2012	2013	2014	2015	2016	2017F
Real Sector and Prices	(Annual percentage changes, unless otherwise specified)							
Real GDP /1	4.37	5.44	4.82	5.22	3.84	3.10	3.30	3.50
Real GDP - Energy /1								
Real GDP - Non-energy /1	4.37	5.44	4.82	5.22	3.84	3.10	3.30	3.50
Headline Inflation	4.43	3.30	3.48	0.90	1.20	-1.80	1.50	2.60
External Sector	*(In percentage of GDP, unless otherwise specified)*							
Exports (merchandise)	39.12	43.74	49.59	46.01	37.92	36.16	41.92	40.48
o.w. Energy Exports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Imports (merchandise)	62.73	68.58	69.95	61.78	56.46	46.85	42.13	45.55
o.w. Energy Imports	17.48	22.20	22.35	19.22	18.63	11.54	10.02	12.07
Trade Balance (merchandise)	-23.61	-24.85	-20.36	-15.76	-18.54	-10.69	-0.21	-5.07
Services Balance	-3.72	-5.63	-7.17	-10.27	-7.10	-8.09	-8.74	-6.28
Income Balance	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Current Transfers (net)	17.72	17.45	15.97	11.81	14.87	13.09	9.32	8.35
Current Account	-9.60	-13.03	-11.56	-14.23	-10.78	-5.69	0.38	-2.99
Capital and Financial Account	19.60	20.68	21.50	10.55	5.54	3.02	-0.39	4.37
Overall Balance	6.85	0.98	2.65	-2.63	-3.62	-2.11	0.49	1.38
Variation in Int'l Reserves (US$ billion)	-6.85	-0.98	-2.65	2.63	3.62	2.11	-0.49	-1.38
Central Government (on a FY basis) /2	*(In percentage of FY GDP)*							
Revenue and Grants	25.81	24.66	25.62	24.53	23.42	27.76	27.97	26.05
o.w. Energy Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Expenditure	18.43	18.87	19.50	19.62	21.06	22.46	23.98	24.61
o.w. Transfers and Subsidies	5.07	5.23	6.76	6.50	7.10	8.11	9.48	9.42
Capital Expenditure and Net Lending	11.05	10.23	10.69	8.63	8.25	5.64	6.92	8.65
Primary Balance	-1.67	-3.04	-3.60	-2.87	-4.74	0.64	-1.96	-6.12
Overall Balance	0.95	0.97	0.88	-3.71	-5.89	-0.34	-2.93	-7.21
Debt Indicators (on a FY basis) /2								
Net Public Sector Debt	67.85	66.69	63.71	57.94	51.89	48.69	49.59	55.15
CG External Debt	46.01	46.73	47.67	41.85	39.54	35.90	33.82	34.21
CG External Debt Service	1.25	1.54	1.48	6.60	5.67	3.28	1.73	1.95

Source: IMF Article IV 2017, and Bank of Guyana

Notes: Income balance is not disaggregated and is treated as factor services in the services balance.

ANNEX IV: Indicative Lending Framework

(in US$M, unless otherwise indicated)	2012	2013	2014	2015	2016	2017*	2018	2019	2020	2021	Average 2017-21	Total 2017-21
Approvals	66.2	16.9	69.5	17.2	40	0.0	38.8	0.0	47.3	0.0	17.2	86.1
Disbursements	51.4	58.5	26.2	14.7	8.6	22.1	87.6	67.3	34.9	16.9	45.8	228.8
Principal	2.5	4.5	5.3	8.1	10	11.9	14.3	14.4	14.6	15.0	14.0	70.2
Net loan flows	**48.9**	**54.0**	**20.9**	**6.6**	**-1.4**	**10.2**	**73.3**	**52.9**	**20.3**	**1.9**	**31.7**	**158.6**
Subscriptions	0.8	0.6	1.0	0	-0.5	0.5	0.0	0.0	0.0	0.0	0.1	0.5
Interest	5.3	6.4	7.4	8.4	9.4	9.1	9.4	9.1	8.8	8.4	9.0	44.8
Net cash flows	**42.8**	**47.0**	**12.5**	**-1.8**	**-10.3**	**0.6**	**63.8**	**43.8**	**11.6**	**-6.4**	**22.7**	**113.3**
Disbursement/Outstanding Loan Balance	6.59	5.37	2.06	0.89	0.44	1.05	3.69	2.86	1.49	0.72		
Disbursements/Fiscal Deficit	-0.27	-0.43	-0.14	-0.19	-0.04	-0.11	-0.39	-0.28	-0.14	-0.07		
IDB Debt	415.4	469.4	490.3	496.9	495.5	505.6	578.9	631.8	652.1	654.1		
IDB Debt/Multilateral Debt	61.7%	65.5%	70.9%	71.8%	69.0%	70.0%	78.8%	84.7%	86.0%	84.9%		
Multilateral Debt/Total Debt	49.6%	57.5%	56.9%	60.6%	60.2%	58.0%	56.1%	54.5%	53.5%	52.6%		
IDB Debt/Total External Debt	31%	38%	40%	43%	42%	41%	44%	46%	46%	45%		
IDB Debt/GDP	14.6%	15.7%	15.9%	15.7%	14.3%	13.7%	15.0%	15.6%	15.4%	14.7%		

ANNEX V: Development Effectiveness Matrix

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluabiliy of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

COUNTRY STRATEGY

STRATEGIC ALIGNMENT
Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS
This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC cleary identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the **priority area's** specific contraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the **main factors** or causes contributing to the specific constraints and challenges	100%
- That provide corresponding **policy recommendations**	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	83%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expect results stem from the strategic objectives.

CS Diagnostic:
As part of the country strategy 2017-2021 a country development challenges diagnostic was presented. The CDC diagnostic is comprehensive and based on empirical evidence.The CS diagnostic identifies a priority area for the Bank's intervention: strengthening core institutions

-The diagnostic cleary identifies and dimensions, based on empirical evidence, 100% priority area's specific constrains and challenges.
-The diagnostic cleary identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constrains and challenges for 100% of the priority areas.
-The diagnostic provides policy recommendations for Bank actions, that are based in empirical evidence, for 100% of the priority areas.

Results matrix: The section of the results matrix corresponding to the new strategic area includes 3 strategic objectives for Bank action, 3 expected results and 20 indicators to measure progress.

- 100% of the Strategic Objective(s) are clearly specified.
- 100% of the expected result(s) are clearly specified.
- 100% CS Objectives are directly related to the main constraints identified in the Diagnosis.
- 100% of the indicators used are SMART.
- 83% of the indicators have baselines.

Country Systems: During the Cs period, the IDBG will use the country's budgetary financial management system for all loans. The IDBG will continue the dialogue and technical support to the government, focusing in the following areas: i) IFMAS accounting system, already in use, will streamline treasury and budgetary processes during the CS period, ii) activities to further strengthen the institutional capacities of the Audit Office, and the Public Procurement Commission, iii) regarding financial management, all IDB-financed operations will continue to use the budget and treasury subsystems, with increased use over the CS period of the accounting/reporting subsystem, internal control subsystem, iv) from a baseline of 57 percent in 2016, the IDB aims to use 70 percent of the external control system by the end of the CS period, and iv) continue to support the action plan for a Procurement and Financial Management Reform during the new CS period, including completion of the implementation of a sole procurement and financial management platform for all public expenditures, streamlining budgetary processes, adoption of international standards, and enhancement of external audit capabilities.
Vertical logic.
The CS has vertical logic.

RISKS. The main risks facing the implementation of the EBP are related to: (i) country's vulnerability to commodity price shocks in the absence of fiscal buffers; (ii) Guyana's vulnerability to a wide range of natural hazards and is particularly vulnerable to the effects of climate change; (iii) political risks associated with the complexity of institutional chanegs and (iv) portfolio execution risks due to the lack of project management capacity. The CS identifies specific mitigation and monitoring measures for each risks.

ANNEX VI: Management Response to Country Program Evaluation Recommendations

<table>
<tr><th>OVE Recommendation</th><th>Management Response</th></tr>
<tr><td rowspan="2">Recommendation 1:

Prioritise the implementation of the active portfolio over new approvals. The Bank's current portfolio includes many projects with large undisbursed balances facing numerous implementation challenges. The new CS should minimise new approvals until these projects are more advanced and on track for completion.</td><td>Partially Agree</td></tr>
<tr><td>Management's Proposed Actions:
Management agrees that improving implementation should be a priority given the large undisbursed loan balances. Management notes that the Enhanced Performance-Based Allocation/Debt Sustainability Framework (EPBA/DSF), in which portfolio performance is a variable, has already led to an automatic adjustment in approval levels. Guyana's biennial allocation for 2017–2018 is only two-thirds the level in 2015–2016. Management considers that a focus on improving portfolio execution can be concurrent with new approvals at this level. Moreover, the EPBA/DSF mechanism will ensure that lending levels after 2018 will be tied to portfolio performance. In this regard, Management will continue to determine new approvals based on the dialogue with the country within the Country Strategy framework.
Management agrees that portfolio implementation needs to be improved and recognises this requires a joint effort with the country. Throughout the Country Strategy implementation period, Management has provided training for capacity building of project executing unit staff in project management, procurement, and financial management. However, there is a recognition that more must be done. In this regard, Management has been in dialogue with the Government on additional ways to improve the implementation of the active portfolio, including the following key actions:

a) The Bank has received written communication from the Government requesting the IDBG's support to address the chronic systemic implementation challenges across the public sector and is exploring the modalities to do so. Among the options, Management is exploring with the Government the possibility of establishing a central project implementation unit to address implementation challenges not only for IDBG-financed operations but for the wider PSIP.

b) Dialogue with the Government is advancing on the reformulation of the Road Network Upgrade and Expansion Programme (GY-L1031) with a significant undisbursed loan balance, which presents significant implementation challenges; and,

c) Management is currently exploring with the Government an initiative to provide technical assistance to support the Government's procurement functions through the provision of independent evaluators for its Evaluation Committee's review of submitted bids. With the country's concurrence, this type of intervention will be pursued on specific procurement transactions, as part of the larger strategy to improve portfolio execution.</td></tr>
</table>

OVE Recommendation	Management Response
Recommendation 2: **Work with the government to develop and institutionalise a project management system that combines core procurement functions across programmes.** A well-staffed professional procurement unit for all IDB-financed projects could improve the efficiency and integrity of procurement processes while lowering the supervision burden on the Bank's fiduciary specialists. To enhance the design of the centralised procurement unit, the Bank should draw on OII's findings from its investigative and preventive work.	**Agree** **Management's Proposed Actions:** As stated in the response to Recommendation 1, Management agrees that it is important to work with the Government to develop and institutionalise a project management system that combines core procurement functions across programmes. To this end, Management is exploring with the Government the option of establishing a central project implementation unit to address implementation challenges not only for IDBG-financed operations but for the wider PSIP. The Bank has received written communication from the Government requesting the IDBG's support to address the chronic systemic implementation challenges across the public sector and is exploring options to do so. When designing such a unit, OII will be consulted to provide input based on lessons learned from its investigative and preventive work.
Recommendation 3: **Ensure an adequate level of IDBG staff support in each area of the programme to enhance project implementation and achievement of results.** IDBG staff support is currently spread too thin given the breadth and size of the programme; either staff support needs to be increased (through in-country assignments or an increased number of missions by sector specialists) or the programme needs to be narrowed.	**Agree** **Management's Proposed Actions:** Management agrees with the need to ensure an adequate level of staff support in each area of the programme. The presence of the staff in the Country Office increased gradually throughout the implementation period of the Country Strategy with the relocation of Transport and Energy specialists to the Country Office supported with technical consultants. Management will closely monitor the situation on the ground to assess the changing demands for additional staff support, in line with evolving programme needs. Also, within the context of the next Country Strategy discussions with the Government, it is envisaged that the areas of priorities will be narrower and build on the existing portfolio.
Recommendation 4: **Design projects that fit the institutional environment, build on one another, and incorporate OII's input as part of project risk assessment.** Project design should consider the relatively low technical capacity of most project execution units (PEUs) and the experience gained in previous projects. It should also avoid too many simultaneous activities and overdependence on materials or contractor skills that are scarce in the local market. Finally, OII's preventive and investigative work generates a wealth of information that specialists should use systematically in designing future operations.	**Agree** **Management's Proposed Actions:** a) Management agrees that project design should consider the existing low technical capacity of most PEUs. Also, please see reply above to Recommendations 1 and 2. In addition, within the context of the next Country Strategy discussions with the Government, the focus will be on building public sector capabilities and institutions. b) During the design of new operations, Project Teams will consult with OII regarding the identification and assessment of integrity risks and vulnerabilities and on the design of practical and targeted measures to mitigate them.

OVE Recommendation	Management Response
Recommendation 5: **Increase support for the generation and publication of data by continuing to work with the government to strengthen the national statistical system.**	**Agree**
	Management's Proposed Actions: Management recognises the need to improve the statistical capability of the Guyana Bureau of Statistics as well as the capacity of the government's wider statistical system. In this regard, Management and the Government have been working together in the following areas: a) Through the TC, Enhancing Statistical Capacities of Guyana (GY-T1114), the Bank is supporting the strengthening of the overall national statistical system. b) Also, through the investment loan *Citizen Security Strengthening Program* (GY-L1042) the IDB is currently working with the Guyana Bureau of Statistics to execute a nationally representative household survey on *Violence Against Women and Girls* using the methodology of the World Health Organization. c) With the investment loan, *Sustainable Agricultural Development Program* (GY-L1060) approved in 2016, high-quality data for Guyana's agricultural sector will be generated. d) Under the TC, *Support for the Development of a National Housing Strategy* (GY-T1136), the IDB is working with the Government to strengthen housing and urban development data in Guyana through the identification, collection and harmonization of indicators, as well as developing a monitoring framework in line with the Sustainable Development Goals. e) In addition, the IDBG has approved and is executing two TCs namely, *Design and Execution of a Household Survey of Living Conditions* (GY-T1117) and *Design and Execution of a Labour Force Survey* (GY-T1118) aimed at designing and executing a continuous quarterly, publicly available Labour Force Survey.