

Strategic Communications & Knowledge Sharing Support for Guyana's Oil & Gas Sector

GY-T1154

Certification

I hereby certify that this operation was approved for financing under the **OC Strategic Development Program for Countries (CTY)** through a communication dated November 13, 2018 and signed by Nadine Schiavi (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$582,682** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project until December 12, 2018. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, representing a risk that will not be absorbed by the Fund.

Certified by:	original signed	12/06/2018
	_____ Sonia M. Rivera Chief Grants and Co-Financing Management Unit ORP/GCM	_____ Date

Approved by:	original signed	12/07/2018
	_____ Jose Agustin Aguerre Sector Manager Infrastructure and Energy Sector INE/INE	_____ Date

GY-T1154
Strategic Communications and Knowledge Sharing Support for Guyana's
Hydrocarbon Sector

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	Guyana
▪ TC Name:	Strategic Communications and Knowledge Sharing Support for Guyana's Oil & Gas Sector
▪ TC Number:	GY-T1154
▪ Team Leader/Members:	Natascha Nunes da Cunha (INE/INE), team leader; Jaime Sologuren (INE/ENE), co-team leader; Lenin H. Balza, Carlos Sucre, Ramon Espinasa (INE/INE), Dillon Clarke (INE/CYG), Jeanette Bonifaz (INE/ENE), Derise Williams (CCB/CYG), Carolina Verissimo da Silva and Liza Lutz (LEG/SGO); team members.
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support (CS)
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	November 2018
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Co-Operative Republic of Guyana
▪ Executing Agency:	Inter-American Development Bank, through its Infrastructure and Energy Department
▪ Donors providing funding (amount and Fund's name):	Ordinary Capital Strategic Development Program for Countries (CTY)
▪ IDB Funding Requested:	US\$ 582,682
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	December 2018
▪ Types of consultants (firm or individual consultants):	Firm and Individual consultants
▪ Prepared by Unit:	INE/INE
▪ Unit of Disbursement Responsibility:	INE/INE
▪ TC Included in Country Strategy (y/n):	N
▪ TC included in CPD (y/n):	N
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	(i) institutional capacity and rule of law

II. Objectives and Justification of the TC

- 2.1 The objective of this project is to continue to support efforts towards building strategic management capacity of the Guyanese Government at the new Department of Energy to properly manage the challenges of the nascent O&G sector. In addition, the TC will provide technical support to the Bureau of Statistics (BoS) to monitor and measure O&G production and exploration activities. This Technical Cooperation (TC) will: (a) assist the Department of Energy in the construction of an effective communication strategy for its day-to-day governance activities; and (b) provide immediate support to the BoS to assist in building its capacity to effectively monitor and measure O&G activities in the National Accounts.

- 2.2 Guyana is rich in natural resources, including predominantly five commodities: bauxite, gold, rice, sugar, and timber, which represent 84% of total exports.¹ Beginning in 2020, Guyana's economy will transition to become an oil producer, which is expected to considerably increase resource-related government revenues. Currently, Guyana is dependent on foreign oil, which represented 24% of the total imports in 2017 (Bank of Guyana, 03/2018). Despite lower commodity prices, Guyana's macroeconomic indicators have remained stable. Since 2013, the economy has grown at an average rate of 3.5% per year, the second highest in the Caribbean, and the average annual inflation has remained subdued at 0.8%. While economic performance exceeded the regional average, per capita income remains among the lowest in the English-speaking Caribbean.²
- 2.3 After a decade of robust economic performance, Guyana is poised to emerge as a significant oil producer by early 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 economic 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. Over the medium term, Guyana is expected to undergo an important structural transformation.
- 2.4 Since 2015, a consortium of three major international oil companies - ExxonMobil, Hess and the China National Offshore Corporation, have held licenses to explore for oil in the Stabroek block³, located 120 miles off the country's coast. In 2017, the consortium found several economically viable oil deposits within the block. Liza, Payara, Liza deep, Snoek, Turbot, Ranger, Pacora, Longtail, and Hammerhead discoveries are all located in the Stabroek Block and have been proved to contain nearly 4 billion barrels of oil equivalent (boe).^{4,5} While the main direct effect of the oil sector on the domestic economy will be through fiscal revenue, if well managed, it could improve the overall standard of living of the people of Guyana.
- 2.5 This oil discovery represents a significant shift in Guyana's development trajectory. Early estimates by the consortium show oil production with an initial output of 120,000 boe/day and projected to reach 750,000 boe/day in 2025. 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.⁶
- 2.6 Upstream O&G production presents an entirely distinct set of governance challenges for the resource-owning state from those that Guyana has faced heretofore as an oil importer. Guyana has never been an O&G producer and therefore, existing institutional, legal and regulatory laws governing the O&G energy sector are either inadequate or nonexistent. Existing institutions are already overburdened and must deal with new demands that will have important impacts on the

¹ Article IV International Monetary Fund (IMF) 2018.

² World Bank (WB) and Organization of Economic Cooperation and Development (OECD) 2016.

³ The Stabroek block currently comprises 26,800 square kilometers. Esso Exploration and Production Guyana Limited is the operator and holds a 45 percent interest in the Stabroek block. Hess Guyana Exploration Ltd. holds a 30 percent interest, and CNOOC Nexen Petroleum Guyana Limited holds a 25 percent interest.

⁴ The estimated cost for the Liza Phase 1 development from ExxonMobil, Hess and Nexen (a subsidiary of China National Offshore Oil Corporation) will be around US \$4.4 billion, which includes a lease capitalization cost of around US\$ 1.2 billion for the floating production storage and offloading (FPSO) facility.

⁵ [Exxon Mobil, 2018](#)

⁶ IMF Country Report No. 17/175, June 2017. Article IV Consultation Staff Report.

country. In this context, the Government of Guyana created a Department of Energy, within the Ministry of the Presidency, to lead the development of the O&G sector.

- 2.7 Alongside oil discovered in the Stabroek block, several fields elsewhere in the block have shown significant associated quantities of gas in the oil reservoirs. This implies that important amounts of associated gas could be brought onto the Guyanese shore via pipeline, and then used for power generation, giving Guyana an opportunity to improve energy security and generation capacity. Considered to be a game changer in the country's development, the O&G sector also presents an opportunity for Guyana to develop a sustainable energy matrix. Large reserves of associated natural gas can be used to generate cleaner and greener electricity.
- 2.8 The IDB has been actively supporting the Government of Guyana efforts to transform the energy sector through financing for several activities, institutional strengthening, and policy reforms, among others. In this regard, the IDB has supported the Department of Energy with two ongoing TCs towards building the GoG capacity to properly manage the nascent O&G sector (ATN/OC-16533-GY and ATN/OC-16532-GY). In addition, the IDB group recently approved a new investment program (GY-L1066) to support the Department of Energy to develop a regulatory framework and improve institutional capacity and governance of the O&G sector. Lastly, the IDB is preparing a multi-tranche Policy-Based Loan (GY-L1067) to support the energy sector in Guyana with the formulation and adoption of key early policy measures needed to take the initial steps towards building the O&G sector and fostering the diversification mix towards a sustainable electricity generation. Given the recent developments in the O&G sector, a Donor Coordination initiative has been established to coordinate the activities of the sector.
- 2.9 The activities envisaged in this technical cooperation respond to those outlined in the IDB Group's Country Strategy with the Co-operative Republic of Guyana for 2017-2021. The strategy focuses on four areas: natural resource management, sustainable energy, private sector development, and public-sector management. A principal focus across all these areas will be the effective management of nascent O&G sector and how this can be situated within the Government's overarching Green State Strategy. In addition, the TC is aligned with the overarching goals of the Extractive Sector Initiative (ESI) of the Inter-American Development Bank (IDB) which supports the coordination of the Bank's efforts to optimize conditions for the development of oil, gas and mining sector in a way that maximizes socioeconomic benefits for countries and mitigates potential risks.
- 2.10 This project also aligns with the Development Challenges and Cross Cutting Themes of the IDB Updated Institutional Strategy (UIS 2010-2020; AB-3008). Institutional Capacity & the Rule of Law is the overarching theme of this project. The project aligns with Corporate Results Framework Country Level indicator # 11 as management of natural capital will be improved. Further, this TC is aligned with OC-SDP Objective 1.i (*strengthen the technical and managerial capacity of national and/or subnational governments*), Priority 1 (*operational capacity and policy dialogue*), and with Eligible Activities 2 and 6 (*institutional strengthening activities focused on management capacity and knowledge sharing and dissemination activities*).

III. Description of activities/components and budget

- 3.1 **Component I – Oil & Gas Communication Strategy:** This component supports the provision of strategic technical expertise to the Department of Energy, within the Ministry of the Presidency, in the construction of an effective communication strategy for its day-to-day governance activities. Particularly, through consulting firms and/or individual consultants, this component will (i) coordinate efforts to support the design of Department of Energy's

communication and outreach strategy; (ii) conceptualize, design and develop communication products, including a website, printed materials, social media campaigns and other communication tools for the Department of Energy; and (iii) provide internal media and communications-related training.

3.2 Component II –Oil & Gas in the National Accounts Statistics: This component will finance, through consulting firms and/or individual consultants, activities geared towards building capacity within the Bureau of Statistics to effectively monitor and measure O&G exploration and exploitation, and to then incorporate the nascent sector in the National Accounts. Particularly, this component will (i) facilitate the design of a manual for national accounting of the hydrocarbon sector and (ii) execute peer-to-peer knowledge sharing activities to build up capacity of Bureau of Statistics officials.

3.3 Component III – Knowledge Generation & Dissemination: This component will finance, through consulting firms and/or individual consultants, the editing, translation and publication of products resulting from Components I and II. In addition, Knowledge dissemination efforts will ensure that lessons learned under this technical cooperation and other assistance programs financed by the IDB to the Guyanese O&G sector contribute to wider awareness of the challenges and opportunities associated with natural resource development at the local, national, and regional level. The component will also support targeted outreach efforts (dissemination workshops, seminars, etc.) and the coordination, monitoring and reporting of these efforts.

Indicative Budget

Component	IDB Funding (US\$)
Component I: Oil and Gas Communication Strategy	240,000
Component II: Oil & Gas in the National Account	300,000
Component III: Knowledge Generation & Dissemination	42,682
Total	582,682

IV. Executing agency and execution structure

- 4.1 The Bank will act as the executing agency, per request from the Government of Guyana, due to its ability to leverage its extensive network of internal and external subject-matter experts and well-established relationships with involved stakeholders. The execution will be carried out by the Bank through INE's Extractive Sector Initiative in close coordination with IDB country office in Guyana, the Department of Energy from the Ministry of the Presidency, and the Bureau of Statistics. In addition, this TC will be coordinated by the IDB Guyana Oil & Gas Working Group.
- 4.2 The IDB will lead implementation, programmatic oversight of the different activities and coordinate results reporting with other organizations operating in the field.
- 4.3 The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with the Bank's current procurement policies and procedures for Bank-executed operations: Recruitment of individual consultants AM-650; Contracting of consulting firms for services of an intellectual nature GN-2765-1 and its operational guidelines OP-1155-4; and Procurement of logistics services and purchase of goods GN-2303-20.

V. Major issues

- 5.1 The principal risks to the implementation of technical cooperation activities are political. While the Government has set forth an ambitious program to improve the capacity of the state to deliver better public services and critical infrastructure; international experience suggests that such change management processes are difficult due to institutional inertia, vested interests, and insufficient human capital.
- 5.2 Mitigating associated political and implementation risks will require extensive and widespread consultation with stakeholders, rapid deployment of administrative reforms, utilization of technology to increase transparency, and a commitment from the highest levels of government. Efforts will be undertaken jointly by the Authorities and the IDB to work with all stakeholders and manage expectations accordingly. To mitigate the risk that activities in the sector will not be conducted in a coordinated fashion with other IDB operations, the team will liaise with the country office - and designated sector specialists –during the implementation of all TC activities.
- 5.3 To mitigate the risk that the project might not exhaustively account for all opportunities to improve oil & gas management in Guyana, the team will support counterparts in scoping potential sources of additional financing to extend assessment efforts and address prioritized needs. Active engagement with and awareness of the work of other organizations operating in the field will also help avoid any potential overlaps with ongoing efforts.

VI. Exceptions to Bank policy

- 6.1 None apply.

VII. Environmental and Social Strategy

- 7.1 The project implementation has no associated potential negative environmental and/or social impacts. As per the IDB Social and Environmental Safeguards Screening Tool, the project Classification is “C”. See [Safeguard Policy Filter Report](#) and [Safeguard Screening Form](#).

Required Annexes:

- [Request from the client](#)
- [Results Matrix](#)
- [Terms of Reference I](#)
- [Procurement Plan](#)