

**TECHNICAL COOPERATION PROFILE
(GY-T1065)**

I. BASIC PROJECT DATA

Country:	Guyana
Program Name/Number:	Support for Preparation of Water Sector Program (GY-T1065)
Team Members:	Javier Grau Benaiges (WSA/CGY) Team Leader, Yvon Mellinger (INE/WSA), Juan Carlos Lazo (CCB/CGY), Roy Parahoo, (CCB/CGY), Rodrigo Riquelme (INE/WSA), Javier Jiménez (LEG/SGO), Catalina Gallego (INE/WSA).
Date of Request:	December 18, 2008
Beneficiary:	Guyana
Executing Agency:	Guyana Water Inc. (GWI)
	IDB (FSO): US\$ 500,000
Financing plan:	Local: US\$ 50,000
	Total: US\$ 550,000
Technical Basic Responsibility:	Water and Sanitation Division (INE/WSA)
Execution timetable:	Execution Period: 10 months
	Disbursement Period: 15 months

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 With a population of approximately 750,000, Guyana enjoys good access to water resources. Data on the Millennium Development Goals (MDG) indicate that in 2006, 93% of Guyana's population used an improved drinking water source (98% in urban areas and 91% in rural areas). However, good access to water resources and to drinking sources does not necessarily mean good quality of the water and sewerage services provided to the population.
- 2.2 Current manifestations of the difficulties in providing an appropriate supply of potable water and wastewater services include: (i) *high levels of Non Revenue Water (NRW)*— estimated to be 72% in 2006 and 70% in 2007, NRW is one of the main causes for Guyana Water Inc's (GWI) inability to be financially self-sustainable; (ii) *unreliable service*— it is estimated that in 2005 the number of hours per day that all connected customers received a pressurized (greater than 5 meters) water supply was only 3.62; (iii) *inadequate maintenance of the infrastructure* - the challenges in maintaining the distribution infrastructure is evidenced by the level of NRW; (iv) poor performance of the sewage system —while only 10% of Guyana's population is connected to a sewage system, this system is unable to operate 50% of the time, increasing the risk of overflowing in Georgetown, especially during the rainy season, adding to the problems associated to floods and the risks for the health of Georgetown's residents; and (v) *inadequate financial performance of the sector* -GWI is far from achieving financial self-sustainability, between 2003 and 2007, the Coverage of Operating Expenses (Revenues from Tariffs / O&M + Depreciation) averaged 61%.

- 2.3 Up to 2002, water and sewerage services were provided by the Guyana Water Agency (GUYWA) and the Georgetown Sewerage and Water Commissioners (GS&WC). However, on that year, the Government of Guyana (GOG) took the decision to merge GUYWA and GS&WC into GWI. In 2003, the GOG hired a consulting firm, Severn Trent Water International (STWI), to manage GWI. The contract was terminated in 2007, with the GOG fully taking over GWI again.
- 2.4 Since its creation, GWI's Audited Financial Statements (AFS) have been qualified for various reasons such as uncertainties and limitation of scope. The AFS for 2005 received a disclaimer of opinion. Specific financial areas of concern include: (i) fixed assets, (ii) creditors, verification of balances, (iii) debtors, verification of balances, (iv) inventory, physical verification, and valuation.
- 2.5 Over the past two years, GWI has worked to address these deficiencies, with an emphasis in financial accounting, reporting, maintenance of accounting records and overall financial management. The implementation of a new billing system has also contributed to GWI's efforts to achieve financial sustainability. However, further work needs to be done to strengthen GWI's financial management to ensure that future financial statements are not qualified.
- 2.6 The Bank is currently supporting the water sector in Guyana through the "Georgetown Water Supply and Sewerage Program II" (LO-1047/SF-GY). This operation was signed on June 14, 2000 and is executed by GWI. The initial cost of the project was US\$30 million (US\$27 million FSO). However, as a result of the debt relief with Guyana, this operation had to be partially cancelled and the current cost is US\$16.4 million (US\$14.7 million FSO). The objective of the operation is to improve the sanitary conditions of the population in Georgetown and reduce the current levels of environmental degradation through an improvement in the quality of the water supply and sewerage services. To date, the project has committed US\$12 million and has disbursed US\$11 million. The current disbursement deadline is June 2010.
- 2.7 The operation includes a component aimed at consolidating and improving GS&WC (now GWI) as the operating agency. This component set ambitious targets in relation to the financial performance of the utility. However, as a result of the 2002 merger, the achievement of financial soundness will take longer than anticipated during the design of LO-1047/SF-GY.
- 2.8 In November 2008, a mission by the Infrastructure and Environment Sector (INE) visited Guyana; the agreements reached with the GOG included the design of a Technical Cooperation in 2009 to strengthen GWI's financial management. The proposed interventions in this TC will contribute to the goal of achieving GWI's financial and administrative soundness in the medium term. This TC will also design key financial benchmarks and triggers for the approval of the new operation in the water sector in 2010.

III. PROGRAM OBJECTIVE AND DESCRIPTION

- 3.1 The objective of this TC is to enhance GWI's financial management and to improve its revenue collection; and administrative and procurement capacities. This TC will finance the following components:
- 3.2 **Component 1: Upgrade of Accounting Software.** As seen in GWI's Audited Financial Statements, GWI has a history of challenges in financial management and reporting. Shortly after its creation, GWI acquired the accounting software Dynamics. By 2008, it became evident that Dynamics had shortcomings and there was a need to upgrade it. While the software has four available modules - Accounts Payables, General Ledger, Inventory and Receivables, only the Accounts Payables and General Ledger modules are currently used by GWI. Dynamics Version 6 functions on a C3 database that is unwieldy and has a very slow response time. Routine transactions that should take minutes often times would take hours and sometimes days to complete making reporting untimely.
- 3.3 Discussions with the manufacturer and provider of the software determined that GWI could upgrade to a more current version and be able to benefit from support provided by the manufacturer. While GWI is of the opinion that the upgrade to Microsoft Dynamics 10 would meet the entity's needs to improve accounting and financial management, there is concern in the utility regarding the technical support available for this software in Guyana.
- 3.4 In addition to this, over the last few months, upon the invitation of the Ministry of Finance, Oracle has conducted demos for the benefit of GWI and other GOG agencies such as Ministries and Government-owned corporations. These presentations have focused on the applications most suitable to meet the needs of these entities
- 3.5 The GOG is currently exploring the software provided by Oracle as the preferred solution covering the entire suite of applications for government ministries and Government-owned corporations, such as GWI. This could leverage the synergies that such a consolidated the procurement of a single product that would lend to greater economies of scale and better application support.
- 3.6 Currently, different softwares are being used across the various GOG ministries and Government-owned corporations. Support for a multitude of software applications has proved unsustainable since there is a scarcity of qualified to provide this support in Guyana. Both Information Technology staff and accounting staff are becoming more difficult to recruit and attract.
- 3.7 Two large government owned companies; the Guyana Sugar Corporation (GUYSUCO) and the Guyana Power and Light (GPL) have already moved to implement Oracle. However, GWI has not yet taken a decision over the software for the company needs. This component of the TC is to support GWI decide on which accounting software would best fit the needs of the utility in order to resolve its accounting and financial problems.

- 3.8 **Component 2: Improvements in Stores Management and Procurement.** To complement the implementation of the accounting software, which would include an inventory management module and procurement salvage and disposal module; physical improvements to the main GWI store in La Bonne Intention are necessary. The store is currently used as a place for safekeeping of used discarded items, as well as to house the inventory. However, there is a need to upgrade the building and to improve the layout and dispose of old obsolete and discarded items.
- 3.9 The TC will finance a risk assessment with the goal of determining the vulnerability of the stock and designing the mitigation measures that will need to be implemented. The TC will also finance a fire safety plan and will provide recommendation for the improvement of the security, storage of toxic, degradable and high risk items.
- 3.10 In relation to procurement, to date, the interventions to improve the procurement functions have focused on the recruitment of a Head for the Department. While a Head of Procurement is needed, the short term focus should also aim at developing the existing staff in the Department, the functions of the Department along with their responsibilities, contract management skills and building of supplier databases to move towards a more efficient and effective procurement unit. The TC will finance a training program for the staff of the Procurement Department. It is envisaged that other departments of GWI such as the Capital Investment and Planning Department (CIP), Finance Department and the Human Resources Department would also participate in aspects related to training in corporate procurement.
- 3.11 **Component 3: Creation of Standard Operating Procedures and Document Management Systems.** GWI has identified a deficiency as to the different ways of working in all areas of the utility. With a relatively high staff turnover, on the job training is critical, but since practices and norms vary widely across the company, there is a need to pay special attention to Standard Operating Procedures (SOPs).
- 3.12 A SOP is a set of instructions having the force of a directive, covering features of operations that lend themselves to standardized procedures without loss of effectiveness. GWI currently has several divisions that operate on different procedures in areas of customer services, operations and financing. Training in the use and implementation of SOPs, to be financed by the TC, will aid in eliminating customers' frustration and will lead to a more customer orientated utility.
- 3.13 A Document Management System (DMS) is a computer system used to store and track electronic documents and images of paper documents. Some of the common issues involved in managing documents include the location of the documents, the filing and retrieval of documents, retention period, security, archiving, workflow, authentication and traceability. Currently, there is segmented storage of information by each department that hinders decision making. Through this component, assistance will be provided in the design and implementation of a DMS to allow GWI to respond faster to all stakeholders.

IV. BUDGET

Estimated Total Project Costs and Sources (US\$)				
	IDB	Local	Total	%
Component 1.	\$350,000	\$10,000	\$360,000	65%
Component 2.	\$70,000	\$10,000	\$80,000	15%
Component 3.	\$60,000	\$10,000	\$70,000	13%
Project Management		\$20,000	\$20,000	4%
Monitoring and Auditing	\$20,000		\$20,000	4%
Total	\$500,000	\$50,000	\$550,000	100%
Percentage	91%	9%	100%	

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Executing Agency for this TC will be GWI; the GOG-owned water utility with responsibility for water supply and wastewater management. The IDB currently has a loan, LO-1047/SF-GY, being implemented by GWI. This loan is being executed by GWI's Capital, Investment & Planning Department with the assistance of GWI's Finance Department for financial management.
- 5.2 The TC will improve GWI's financial management as well as in the procurement and stores departments and will be executed by GWI's Finance Department. The Finance Department is knowledgeable of the Bank's policies as it is in charge of disbursements of the current IDB loan. For component II, the Finance Department will coordinate with the Procurement and Stores Departments under the supervision of GWI's management and GWI's Board of Directors. The TC will have a disbursement period of 15 months and an execution period of 10 months.

VI. RISKS

- 6.1 The only risk is related to the impacts to the financial standing of GWI if the implementation of component 1 was delayed. Lack of improvements in GWI's accounting and financial management might result in the audited financial statements being qualified again. To mitigate this risk, the approval of the Bank loan for the water sector in 2010 will be subject to the satisfactory implementation of component 1 of this TC.

VII. ACTION PLAN

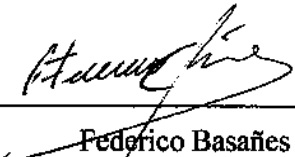
- 7.1 Timetable: (i) Plan of Operations completed and submitted to QRR by October 15, 2009; (ii) Plan of Operations approved by October 30, 2009, and (iii) TC signed by November, 5 2009. The TC would start disbursements in December 2009 and would be completed by April 2011.

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

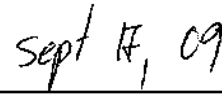
- 8.1 The Program is not anticipated to have negative direct environmental or social impacts and has been classified as a "C" according to the Safeguard Classification Tool.

IX. APPROVAL

Approved:



Federico Basañes
Chief, INE/WSA



Date

IN REPLYING QUOTE DATE
HEREOF AND No.



MINISTRY OF FINANCE
49 Main & Urquhart Streets,
Georgetown,
Guyana.

2009-09-02

Mr. Marco Nicola
Resident Representative
Inter-American Development Bank
47 High Street
Kingstown

Dear Mr. Nicola,

Re: Technical Cooperation -Support for Preparation of Water Sector Programme (GY-T1065)

Reference is hereby made to the caption above.

Please be advised that the Ministry of Finance hereby offers its no-objection to the contents of the attached Technical Cooperation Profile in respect of the Support for the Preparation of the Water Sector Programme (GY-T1065).

Yours sincerely,


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Ms. Jennifer Webster M.P
Minister within the Ministry of Finance