

Tc DOCUMENT

I. Basic Information for TC

▪ Country/Region:	GUYANA
▪ TC Name:	Support to Fiscal Policy and Management in Guyana
▪ TC Number:	GY-T1173
▪ Team Leader/Members:	Harper, Leslie Elizabeth (IFD/FMM) Team Leader; Alejos Marroquin, Luis Alejandro (IFD/FMM); Armendariz, Edna (IFD/FMM); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Dunbar, Gregory A (VPC/FMP); Gaviria, Ivan Alonzo (VPC/FMP); Gonzalez Sosa, Nathalia (IFD/FMM); Kevish, Maria Lorena (IFD/FMM); Sanchez Torrico, Daniel Fernando (IFD/FMM); Solorzano Salazar, Lorena (CCB/CGY); Valencia Arana, Oscar Mauricio (IFD/FMM); Williams, Derise Avione (CCB/CGY) ; Centeno Lappas, Monica (LEG/SGO)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	GY-L1075.
▪ Date of TC Abstract authorization:	26 Oct 2020
▪ Beneficiary:	Ministry of Finance of Guyana
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$1,000,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes execution period):	Execution period: 36 months, disbursement period: 36 months
▪ Required start date:	December 15, 2020
▪ Types of consultants:	Individual
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CCB/CGY-Country Office Guyana
▪ TC included in Country Strategy:	No
▪ TC included in CPD:	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Description of the Associated Loan/Guarantee

- 2.1 The technical assistance program is associated with the Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Guyana (GY-L1075), a Programmatic Policy-Based Loan (PBP) series consisting of two technically related and financially/contractually independent operations. The objective of GY-L1075 is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. GY-L1075 is currently under preparation and expected to be approved in December 2020.

III. Objectives and Justification of the TC

- 3.1 The general objective of this technical cooperation program is to strengthen institutional capacity for fiscal management.

- 3.2 The TC will support the government in the development of activities needed to comply with policy conditions in GY-L1075 to improve fiscal management including public procurement, public financial management, public investment, and macro fiscal management. These activities are complex and time consuming and will require extensive technical support, which is why the TC is critical.
- 3.3 **Justification.** After a decade of robust economic performance, Guyana is poised to emerge as a significant oil producer by the end of 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 Purchasing Power Parity (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. For this reason, fiscal management has taken on a renewed priority for public policy for the government, especially in its role of funding the transformation and ensuring long-term sustainable provision, and improvement, of public services and infrastructure.
- 3.4 In the area of public procurement, Guyana has made improvements over the last few years. The legal and regulatory framework is relatively sound even though there has been little progress in deepening procurement capacity and capability to achieve fuller objectives of fairness, transparency, and best value. An important step was the establishment of the Public Procurement Commission (PPC) which came into effective existence with the approval of its Commissioners by Parliament in October 2016, and their swearing-in later that same year. Another important advance was the passing of the Procurement (Amendment) Act 2019 which mandates the Tender Authority's implementation of a vendor registry, small business set-asides, and mandates procurement plans to be submitted by all procuring entities in the country. However, the procurement framework still does not reflect international best practices. Current procurement practices in Guyana have some gaps as reflected in the low score (D) received in the 2019 Public Expenditure and Financial Accountability (PEFA) assessment Performance Indicator PI-24, which examines key aspects of procurement management including transparency of arrangements, open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.¹
- 3.5 In the area of public financial management, the latest PEFA Assessment in 2019 evidenced some areas of improvement, however, it also found areas with important weaknesses and potential for improvement. The comparison of the assessments indicates that between 2013 and 2019 budget credibility has improved as revenues are now well in line with budget estimates and budgets are executed within available resources. On the other hand, the Chart of Accounts has not been modernized to comply with Government Finance Statistics (GFS) standards. Guyana was a pioneer in terms of adopting a Commercial Office the Shelf (COTS) platform for its Integrated Financial Management and Accounting System (IFMIS). However, that legacy system has been having performance issues such as slow response times for queries and data registry, gaps between committed and executed amounts and duplication of efforts as many public officials have resorted back to manual procedures. There have also been no major improvements in fiscal planning, the budget calendar, and medium-term expenditure.² The main area of declining performance is in the oversight of

¹ 2019 PEFA Assessment

² The MTBF lacks solid indicative forward estimates to guide capital spending budgeting.

aggregate fiscal risk from other public sector entities and the timeliness of in-year budget execution reports. Improvement in the efficiency and quality of public spending is essential for oil-related revenues to contribute to productivity and economic development. Strengthening public expenditure management, mainly budget planning, and preparation, will allow for better expenditure control and effective means for achieving a resource allocation that reflects expenditure policy.³

- 3.6 In the area of public investment, Public Investment Management (PIM) has many positive features such as the fact that capital and recurrent budgets are prepared within the Ministry of Finance (MOF), information on capital spending is quite extensive, and the coordination between the central and lower levels of government is relatively orderly. However, there are areas where there is room for improvement according to the 2017 International Monetary Fund (IMF) Public Investment Management Assessment (PIMA). The PIM system in Guyana is 1.5 times less efficient than comparator countries. Despite a relatively high capital stock, Guyana has an estimated efficiency gap of 41% compared to 30% in Latin America and the Caribbean (LAC), and 27% in Emerging Market Economies (EMEs). There are substantial gaps in the perceived quality of, and access to infrastructure. The perceived quality of public infrastructure in Guyana was 3.6 out of 7 in 2015 according to the World Economic Forum survey, well below the 4.2 average score for comparator countries. The main areas of weaknesses in PIM according to the PIMA include in the planning, appraisal, selection, and implementation of capital projects. Investment planning, both national and sectoral, does not appear to be guided by an explicit fiscal objective, and is not constrained by a medium-term fiscal envelope; sectoral investment planning is absent in some sectors, or ad hoc in others. There is a lack of guidance on feasibility studies and rigorous project appraisal leads to inclusion in the budget of many projects that may not be ready for implementation. The absence of a pipeline of ready-to-implement investment projects makes annual and medium-term capital budgeting challenging; and project implementation is generally weak. The MoF lacks a system to monitor physical progress of major capital projects. Ex post reviews are not systematically conducted for major projects.⁴
- 3.7 In the area of macro-fiscal management, fiscal policy has remained relatively stable and is expected to strengthen. Oil-related revenues are expected to become the largest source of income for the government in the medium term, equaling the government's current budget by 2024. This development will contribute to easing public finance pressures but must be accompanied by improved planning and a strengthened fiscal framework. The government has taken a series of steps to improve the oil and gas governance; however, these steps are insufficient, given the size of the expected revenue windfall. The legal and regulatory framework pre-dates oil discoveries indicating these are not adequate to monitor oil production activities which are expected to strain current systems in place. The oil and gas legal and regulatory framework are made up of multiple institutions with varying levels of authority creating overlaps and legal gaps. The fiscal framework is incomplete, lacking a medium-term expenditure framework with specific development plans. Furthermore, although the Natural Resource Fund (NRF) restricts transfers of oil revenues to the annual budget, there is currently no constraint on spending in the budget process limiting the NRFs capacity to maintain stability.⁵

³ 2019 PEFA.

⁴ 2017 IMF, PIMA.

⁵ 2019 CDC, IDB.

- 3.8 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (AB-3190-2) and is aligned with the priority of Institutions for Growth and social welfare by supporting activities that will strengthen the institutions responsible for fiscal management. The program is also aligned with the crosscutting themes corresponding to: (i) Institutional Capacity and Rule of Law since it will strengthen fiscal policy and management. It is aligned to the Country Strategy for Guyana (GN-2905), specifically the strategic area of strengthening fiscal policies and the framework managing natural resource revenues.
- 3.9 **Contribution to the Bank's Operational Program.** This TC is complementary to the technical cooperation program Regional Public Procurement Program to Advance Innovation and Private Sector Development in the Caribbean (ATN/OC-17031-RG), which seeks to harness the purchasing power of the public sector to advance innovation and private sector development in the Caribbean. By supporting Guyana's efforts to modernize its public procurement, this TC will enable the country to leverage scarce resources, prepare for digitalization, and learn from the other Caribbean countries participating in the regional public good program. In addition, it will build on the work that was done with the TC program Public Procurement Modernization and Financial Management Strengthening (ATN/OC-14815-GY), which supported the government with activities such as the development of the electronic government procurement action plan, inputs for the update of the procurement legislation and training and Fiscal Management Modernization in Guyana (ATN/OC-15939-GY), which supported capacity building activities for the Guyana Revenue Authority.

IV. Description of activities/components and budget

- 4.1 The TC will support activities in four main areas: (i) Public Procurement; (ii) Public Financial Management; (iii) Public Investment; and (iv) Macro Fiscal Management.
- 4.2 **Component I. Public Procurement (US\$220,000).**⁶ This component will support activities to improve efficiency, transparency and value for money in public procurement, including the following: (i) procurement planning training; (ii) electronic public procurement guidelines; and (iii) legal and regulatory framework and capacity building.
- 4.3 **Component II. Public Financial Management (US\$220,000).** This component will support key activities needed to improve budgeting and key activities indicated in the PEFA action plan, including: (i) conceptual design for new Integrated Financial Management Information System (IFMIS) modules; and (ii) a training program in public financial management.
- 4.4 **Component III. Public Investment (US\$240,000).** This component will support activities that strengthen public investment management, including: (i) development of regulations and operational guidelines on public investment management; (ii) development of methodologies and tools; and (iii) a training program in public investment management as well as a cost-benefit analysis.

⁶ This TC will build on and deepen the work that was accomplished under the Public Procurement Modernization and Financial Management Strengthening (ATN/OC-14815-GY). That program supported the government with activities such as the development of the electronic government procurement action plan, inputs for the update of the procurement legislation and training.

- 4.5 **Component IV. Macro Fiscal Management (US\$225,000).** Macro fiscal management. This component will support activities that will strengthen fiscal strategy and planning in the post-pandemic period, including (i) support for the development of medium-term fiscal framework; (ii) analytical tools for macro-fiscal management including fiscal revenues, expenditures and debt management; (iii) tools to enhance the debt management; and (iv) review and enhance instruments to manage volatility of oil prices on fiscal accounts.

Table 1. Indicative Budget

Activity/Component	Description	IDB	Total Funding
Component I. Public Procurement	Improve efficiency, transparency, and value for money in public procurement	US\$220,000	US\$220,000
Component II. Public Financial Management	Support key activities identified in PEFA	US\$220,000	US\$220,000
Component III. Public Investment	Strengthen public investment management	US\$240,000	US\$240,000
Component IV. Macro Fiscal management	Promote fiscal consolidation	US\$225,000	US\$225,000
Knowledge and Dissemination	Promote knowledge and dissemination in the four areas of the program	US\$85,000	US\$85,000
Final evaluation		US\$10,000	US\$10,000
Total		US\$1,000,000	US\$1,000,000

- 4.6 **Expected results.** After the program's outputs are successfully implemented, the country will have the foundation for a modern public financial management and public procurement system. This will be reflected in a PEFA score of at least a "C" for the indicator Competition, value for money and controls in procurement (scored as "D" in 2018).
- 4.7 **Indicative budget.** The TC budget will be US\$1,000,000 of which \$1,000,000 will come from the OC Strategic Development Program for Countries (CTY).
- 4.8 **Supervision.** Technical and basic responsibility for the implementation of the TC rests in the project team including the project team leader (Leslie Elizabeth Harper, IFD/FMM) who will be responsible for the execution of the project in collaboration with the designated focal point in the Guyana COF. The cost of supervision will include the time required to process the contracts needed for the activities of the program.
- 4.9 **Monitoring.** The monitoring of the program will be carried out by considering the indicators that are provided in the Result Matrix for the technical cooperation program, which include means of verification.
- 4.10 **Evaluation.** An external final evaluation will be carried out to determine whether objectives were achieved based on the indicators from the results matrix. (MOF project files).

V. Executing agency and execution structure

- 5.1 The Bank will execute this project. Bank execution is justified given that the MOF does not have the technical and institutional capacity to manage the program, especially given the additional constraints as a result of the COVID-19 pandemic. The Bank, on the other hand, has a long track record of executing similar projects as well as highly technical knowledge of fiscal management programs.
- 5.2 The government requested that the IDB execute the program in a [signed letter](#) dated November 27, 2020.
- 5.3 **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants and; (c) GN-2303-28 for logistics and other related services.

VI. Major issues

- 6.1 The main risk to the TC achieving its objective is that the country would not have the technical and institutional capacity to carry out the activities given the challenges being faced and competing priorities of COVID-19. This will be mitigated by the Bank executing the TC as well as providing continuous technical support on behalf of the project team. In addition, Guyana participates in the Regional Public Procurement Program to Advance Innovation and Private Sector Development in the Caribbean (ATN/OC-17031-RG). This program facilitates south-south collaboration among the countries, which will enable Guyana to have the support of other Caribbean countries in their modernization process. Finally, this TC includes capacity building activities.
- 6.2 Another risk is related to the duplication of efforts as Guyana has multiple donors supporting the Ministry of Finance. This risk will be mitigated by the Bank team being in continuous communication with the World Bank (WB), the IMF, the Caribbean Development Bank, the European Commission, Canada, and other partners concerning requests for support from Caribbean countries and exploring potential areas for collaboration.

VII. Exceptions to Bank policy

- 7.1 This TC does not foresee any exceptions to Bank policy.

VIII. Environmental and Social Strategy

- 8.1 There are no environmental or social risks associated with the activities outlined in this operation; therefore, its environmental classification is "[C](#)", according to the Environment and Safeguard Compliance Policy (OP-703).

Required Annexes:

- Request from the client (e.g. Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC)
- Results Matrix
- Terms of Reference for activities/components to be procured

- Procurement Plan

[Request from the Client - GY-T1173](#)

[Results Matrix - GY-T1173](#)

[Terms of Reference - GY-T1173](#)

[Procurement Plan - GY-T1173](#)