

GUYANA'S EMERGING OIL & GAS SECTOR: GETTING INSTITUTIONS RIGHT

GY-T1148

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Countries (CTY)** through a communication dated November 6, 2017 and signed by Nadine Schiavi (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$5800,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project until December 13th, 2017. 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, represent a risk that will not be absorbed by the Fund.

Original version signed

Sonia M. Rivera

Chief

Grants and Co-Financing Management Unit

ORP/GCM

Dec 01, 2017

Date

Approved:

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Infrastructure and Energy Sector

INE/INE

Dec 04, 2017

Date

GY-T1148 TC Document

Guyana's Emerging Oil & Gas Sector: Getting Institutions Right

I. Basic Information for TC

▪ Country/Region:	Guyana
▪ TC Name:	Guyana's Emerging Oil & Gas Sector: Getting Institutions Right
▪ TC Number:	GY-T1148
▪ Team Leader/Members:	Jose Luis Irigoyen (INE/INE), team leader; Lenin H. Balza, Carlos Sucre, Ramon Espinasa (INE/INE), Jaime Sologuren, Virginia Snyder (INE/ENE), Emily Brearley (CCB/CCB), Gerard Alleng, Graham Watkins (CSD/CCS), Juan Cruz Vieyra (IFD/ICS), Margie-Lys Jaime Ramirez (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 2017
▪ 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\$ 580,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	December 2017
▪ 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 discovery of oil represents a tectonic shift in Guyana's development trajectory. The conversion of short-term oil wealth into long-term growth and well-being hinges on the capacity of the Government of Guyana (GoG) to adequately manage this new sector, prevent and control corruption, and enact productivity-enhancing reforms. Guyana has never been an oil producer, and international experience suggests that, when managed adeptly, extractive industries can contribute to long term socioeconomic development (Venables 2016)¹. However, in the absence of sufficient legal and institutional capacity, activities in the oil and gas sector can trigger major social, environmental, and economic risks (Balza and Espinasa

¹ Venables, Anthony (2016). "Using Natural Resources for Development: Why Has It Proven So Difficult?" *Journal of Economic Perspectives*, Vol. 30, No. 1, Winter 2016. Available [here](#).

2015²; Kemp, Worden and Owen 2017³; Brereton and Parmenter 2006⁴). On the other hand, the lack of transparency in the sector and mechanisms to prevent and control corruption could lead to lack of trust among stakeholders, including civil society and the private sector (Vieyra and Masson, 2014⁵).

- 2.2 The recent discoveries by major international oil companies – through a consortium composed of ExxonMobil, Hess, and CNOOC – of important off-shore oil and gas reservoirs that could place Guyana among the 40 largest reserves holders in the world. Initial projections of production levels estimate daily production of approximately 120,000 barrels by the year 2020, with a production horizon estimated currently at 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.⁶ Oil will have the largest impact on GDP through fiscal revenues.⁷ 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 2021.⁸
- 2.3 The objective of this project is to support the GoG's efforts to build a robust institutional framework for oil and gas governance, achieve concrete results in the promotion of transparency and accountability, and increase the technical capacity of all stakeholders involved in the sector. Given that Guyana has never produced hydrocarbons, and its experience in the sector is limited to importing oil products for transport and electricity generation; project activities will support the full spectrum of required interventions from policy deliberation to technical design and implementation. Specifically, the TC will provide guidance on international best practice on bidding and leasing as well as how to develop a sound framework to strengthen public sector governance through transparency, accountability and sound coordination among public sector entities. It will also propose a new organizational structure for energy governance; conduct capacity building in the Ministry of the Presidency Oil and Gas Team; and design a comprehensive roadmap for necessary infrastructure investments. Given the high public expectations surrounding the find, and the well-documented need for transparency—and with a view to EITI compliance—the final component will focus on knowledge dissemination. This technical cooperation is complemented by GY-T1147 and they are both coordinated by the Guyana Oil & Gas Working Group led by CCB.
- 2.4 The cross-sectoral technical resources that can be provided by the IDB Group are particularly germane to the country's needs at this juncture. Guyana does not have the fiscal or legal framework to manage its oil and gas resource wealth in a sustainable manner. Since taking office in 2015, the new government has worked on the preparation of two new bills to create a petroleum commission and “stabilization fund” (a sovereign wealth fund). Both initiatives are

² Balza, Lenin and Ramon Espinasa (2015). “Oil Sector Performance and Institutions: The Case of Latin America”. IDB Technical Note # 724. January 2015. Available [here](#).

³ Kemp, Deanna; Sandy Worden; John R. Owen (2017). “Differentiated Social Risk: Rebounding Dynamics and Sustainability Performance in Mining.” *Resources Policy*. Vol. 50, December 2016. Available [here](#).

⁴ Brereton, David and Joni Parmenter (2006). “Water, Communities and Mineral Resources Development – Understanding the Risks and Opportunities.” *Proceedings of the Paper Presented at the Water in Mining Conference*, 14-16 November 2006, Brisbane, Australia. Available [here](#).

⁵ Vieyra and Masson (2014). “Transparent Governance in an Age of Abundance. Experiences from the Extractive Industries in Latin America and the Caribbean. IDB, Available here.

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

⁷ 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).

⁸ Ibid. IMF (2017).

still nascent and lack the technical precision or political consensus for final presentation to parliament. More broadly the institutional capacity of the public sector in Guyana has stagnated in recent years with institutional indicators on the World Economic Forum's (WEF) Global Competitiveness Index (GCI), well below the LAC average. 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 sub-region, Guyana outperformed only Haiti (ranked 159/176).⁹ The quality of public administration; transparency and accountability in the public sector; rules-based governance; quality of budgetary, procurement and financial management, and revenue mobilisation have not improved much in recent years.¹⁰

- 2.5 Upstream oil and gas production also presents an entirely distinct set of governance challenges for the resource-owning state from those that Guyana has faced heretofore as an oil importer. In addition, leading up to, and during production, there will be opportunities to boost economic growth through increased foreign direct investment in supporting goods and services. In order to take advantage of these opportunities to diversify its production and trade base through participation in global value chains,¹¹ Guyana will not only need to address institutional weaknesses but design a comprehensive program for urgent infrastructure investment. 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.¹²
- 2.6 The activities envisaged in this technical cooperation directly respond to those outlined in the new 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 new oil revenue and how this can be situated within the Government's overarching Green State Strategy. Under the scope of the strategy, the Government of Guyana and the IDB Group agreed on the following key intervention areas: (i) the establishment of a modern national strategy and planning framework; (ii) delivery of critical infrastructure; (iii) strengthening fiscal policies and the corresponding framework for optimal management of natural resource revenues; and (iv) the creation of a results-driven public sector. The activities planned for this technical cooperation will inform elements of all four intervention areas for the oil and gas sector.
- 2.7 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. The issue of climate change will be mainstreamed throughout the project, and particularly,

⁹ See Country Development Challenges, Chapter 3, Section A, which provides further details, empirical evidence, and references to relevant background studies.

¹⁰ 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.

¹¹ Blyde, J.S. 2014. Latin America and the Caribbean in the Era of Global Value Chains. The Inter-American Development Bank.

¹² 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.

through activities to support energy governance will include options for gas-to-power generation and renewables that can serve to lessen carbon emissions. In addition, the intervention to create a vision and roadmap for associated infrastructure will incorporate the latest geo-mapping technology deployed by the IDB to mitigate the effects of climate-change related weather events and ensure sustainability. Gender equality will be mainstreamed throughout project components as per IDB best practice.

III. Description of activities/components and budget

3.1 Component I – Institutional Strengthening for Oil & Gas Governance: this component supports three activities that aim to create a robust policy framework to manage the sector:

3.1.1 Activity I.A: A review of international best practices on (i) awarding of oil and gas leases; and on (ii) competitive bidding vis-à-vis direct, one-to-one negotiation for oil & gas exploration and/or production contracts. As is normal in jurisdictions with little to no experience in the oil and gas industry, Guyana has heretofore awarded exploration and exploitation permits and leases directly, a practice that international practice has discarded in favor of more competitive systems whereby governments open lands for bidding and then select the most competitive bid based on several criteria, including financial, geological, technical, and economic, to name a few. The report will provide the Government of Guyana with the policy options available for structuring its relationships with international oil companies in the future.

3.1.2 Activity I.B: A proposal for a new government organizational structure for energy governance in Guyana. As noted above, the framework for managing the oil and gas resources is nascent, and needs to be grounded in sound policies and a transparent regulatory body. The proposal will address the following key areas: (i) optimal taxation and administration; (ii) adoption of sound auditing, and procurement practices; (iii) scoping of human resources needed, (iv) flow of key processes needed to support the operation of such structure; and (v) a preliminary proposal of key regulations needed to put the organizational structure in place.

3.1.3 Activity I.C: A diagnostic of public sector information systems to collect, manage, organize and store data on extractive industries; and a roadmap actions to strengthen coordination among public sector agencies towards the implementation of international transparency standards, including a roadmap of crucial aspects to ensure the application of the Santiago Principles as the country advances in the design and implementation of a Sovereign Wealth Fund (SWF).

3.2 Component II – Strategic Sector Planning for the Oil & Gas Sector: This component will strengthen strategic sector planning capacity of the Guyanese Government to govern the oil and gas sector in line with national strategy goals through the provision of sector-specific expertise to advise the President and other high-level authorities. This expertise will be housed in a team of advisors with deep industry experience, including issues like trade, legal matters, tax policy, economic modelling, geology, and other issues. This work will complement the work carried out by the Ministry of Natural Resources in establishing and executing norms for oil & gas sector governance. The component will also seek to improve civil service quality through pertinent training and capacity building activities and throughout the expertise

provision it will emphasize collection and enhanced use of data and implementation of digital solutions.

- 3.3 Component III. Vision and roadmap for associated infrastructure: This component supports the delivery of critical infrastructure for the oil & gas sector through: (i) an assessment of the peripheral infrastructure needed to support and amplify onshore and offshore activity around the oil & gas sector and serve as a backbone for Guyana's projected rapid economic development, particularly around natural gas; and (ii) fostering Guyana's institutional framework for public-private partnership, installing capabilities to select, prioritise, and structure critical infrastructure projects (including through private-public partnerships (PPPs) and the Private Sector Investment Projects (PSIP)) in fiscal-friendly and climate-sustainable ways.
- 3.4 Component IV – Strategic Environmental Assessment: This component will identify concrete priorities for environmental sustainability strengthening in the country; the development of activities to address the weaknesses identified; and studies to assess the potential environmental and social impacts and risks associated with the infrastructure identified as needed to support and amplify activities around the oil & gas sector.
- 3.5 Component V – Knowledge Dissemination: This component will help to manage the high-level of public interest in the oil and gas sector, as well as ensuring transparency among all key stakeholders. Activities will include: (i) digital dissemination of research products generated under the technical cooperation and (ii) coordination with IDB's Caribbean Department (CCB) communications team to develop real-time knowledge products that will contribute to transparency in the sector, and the inclusion of all stakeholders.

Indicative Budget

Component	Activity	IDB Funding (US\$)
Component I: Institutional Strengthening for Oil & Gas Governance	Activity I.A: Review of international best practices	110,000
	Activity I.B: Proposal for a new government organizational structure for energy governance in Guyana.	70,000
	Activity I.C: Diagnostic of public sector information systems and roadmap actions to strengthen coordination among public sector agencies	50,000
Component II: Strategic Sector Planning for the Oil & Gas Sector	Provision of sector-specific expertise to advice the President and other high-level authorities	150,000
Component III: Vision and Roadmap for Associated Oil & Gas Infrastructure	Assessment of the peripheral infrastructure	50,000
	Increase the execution rate of infrastructure investment	50,000
	Fostering the institutional framework for public-private partnership	30,000
Component V: Strategic Environmental Assessment	Identify concrete priorities for environmental sustainability strengthening in the country	20,000
Component IV: Knowledge Dissemination	Digital dissemination of research products generated under the technical cooperation and development of knowledge products	50,000
Total		580,000

IV. Executing agency and execution structure

- 4.1 The Bank will act as the executing agency due to its ability to leverage its extensive network of internal and external subject-matter experts and well-established relationships with involved

stakeholders. The bank will contract individual consultants, consulting firms, and non-consulting services in accordance with Bank's current procurement policies and procedures.

- 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.

V. Major issues

- 5.1 The principal risks to the implementation of technical cooperation activities under both component I, II and III 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—given Guyana's extraordinarily high emigration rate of tertiary-educated nationals.
- 5.2 Mitigating associated political and implementation risks will require extensive and widespread consultation with stakeholders, rapid deployment of legislative and regulatory 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 Group to work with all stakeholders and manage expectations accordingly.
- 5.3 The IDB team will draw from well-established and recognized best practices and methodologies, which will help avoid risks and address potential issues with sector data. The team will also set different layers of peer reviewing throughout the process to ensure quality and relevance.

VI. Exceptions to Bank policy

- 6.1 None apply.

VII. Environmental and Social Strategy

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

Required Annexes:

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