

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**GUYANA**

**STRENGTHENING THE ENERGY SECTOR**

**(GY-L1067)**

**PROJECT PROFILE**

This document was prepared by the project team consisting of: Jaime Sologuren (ENE/CGY) Team Leader; Leopoldo Montanez and Natascha Nunes da Cunha (INE/INE), Alternate Team Leaders; Virginia Snyder, Rodrigo Aragón, Wilkferg Vanegas, Augusto Bonzi, Cecilia Seminario, and Jeanette Bonifaz (INE/ENE); Ramon Espinasa, Lenin H. Balza and Carlos Sucre (INE/INE); Víctor Gauto (CCB/CGY), Luca Marini (VPS/ESG); Derise Williams (CCB/CGY); Paula Louis-Grant (FMP/CGY); Javier Jimenez and Liza Lutz (LEG/SGO).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## PROJECT PROFILE (PP)

### GUYANA

#### I. BASIC DATA

<b>Project Name:</b>	Strengthening the Energy Sector	
<b>Project Number:</b>	GY-L1067	
<b>Project Team:</b>	Jaime Sologuren (ENE/CGY) Team Leader; Leopoldo Montanez and Natascha Nunes da Cunha (INE/INE), Alternate Team Leaders; Virginia Snyder, Rodrigo Aragón, Wilkferg Vanegas, Augusto Bonzi, Cecilia Seminario, and Jeanette Bonifaz (INE/ENE); Ramon Espinasa, Lenin H. Balza and Carlos Sucre (INE/INE); Víctor Gauto (CCB/CGY), Luca Marini (VPS/ESG); Derise Williams (CCB/CGY); Paula Louis-Grant (FMP/CGY); Javier Jimenez and Liza Lutz (LEG/SGO).	
<b>Borrower:</b>	The Co-operative Republic of Guyana	
<b>Executing Agency:</b>	Ministry of Finance	
<b>Financial Plan:</b>	IDB: Ordinary Capital	US\$5,820,000
	IDB (Concessional Ordinary Capital):	US\$5,820,000
	Total:	US\$11,640,000
<b>Safeguards:</b>	Policies triggered:	OP-102, OP-703, OP-761
	Classification:	Not required. Operation under Directive B.13

#### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Macroeconomic and fiscal context.** Guyana is rich in natural resources including predominantly five commodities - bauxite, gold, rice, sugar, and timber, which represent 84% of total exports<sup>1</sup>. 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%. However, while economic performance exceeded the regional average, per capita income remains among the lowest in the English-speaking Caribbean.<sup>2</sup>
- 2.2 Between 2014 and 2017, total expenditure as a share of GDP averaged 29.5%, while revenue as a share of GDP averaged 25.6%. This has contributed to recurrent fiscal deficits and debt financing with an average annual fiscal deficit of 4.0% over the same period.
- 2.3 As the economy prepares to become an oil producer, the fiscal deficit is expected to increase to over 5% of GDP mainly due to greater levels of capital expenditure. The debt-to-GDP ratio is currently estimated at 52.2% and is expected to reach a

<sup>1</sup> Article IV International Monetary Fund (IMF), 2018.

<sup>2</sup> World Economic Outlook, 04/2018.

high of 57.2% by 2019 before decreasing to 41% in 2023 due to expected oil related revenues.<sup>3</sup>

- 2.4 **Sector context.** The Ministry of Public Infrastructure (MoPI) has the overall responsibility for the administration, high-level policy making and regulatory functions of the electricity sector in Guyana. The sector is governed by the Electricity Sector Reform Act (ESRA) of 1999, and its ESRA Amendment 17 of 2010. The MoPI houses the following agencies working on policy development and the operation of the electricity sector: (i) the Guyana Energy Agency (GEA) oversees the provision of the policy support, technical planning, and the development of operating codes and regulations for the development of the energy sector, as well as the import and distribution of the petroleum products; (ii) the Guyana Power and Light (GPL) is the public vertically-integrated utility that operates the Demerara-Berbice Interconnected System (DBIS) covering approximately 80% of the population. Other institutions under the MoPI are the Hinterland Electrification Company Inc., the Public Utilities Commission and the Government Electrical Inspectorate. In the case of Oil and Gas (O&G), the Ministry of Natural Resources was responsible for O&G exploration and production until August 2018, when these responsibilities were transferred to the recently created Department of Energy (DE), which operates under the Ministry of the Presidency.<sup>4</sup> Although the full architecture of the new O&G sector is currently under development, the DE is the national entity that oversees norms, monitors and supervises all related upstream and downstream activities of the O&G sector.<sup>5</sup>
- 2.5 **O&G context.** In 2015, a significant offshore oil discovery was made in the Stabroek block<sup>6</sup>, estimating 4 billion barrels of oil equivalent (boe). Commercial production is planned to commence by 2020, with an initial output of 120,000 boe/day and projected to reach 300,000 boe/day in 2025.<sup>7</sup> Should these production levels be met, the value of oil production could reach approximately US\$3.2 billion in 2020, a figure equivalent to about 89% of the current GDP (Article IV. IMF, 2018). The existing O&G sector is operating under a basic regulatory framework, to regulate the importation and distribution of fossil fuels. Guyana has never been an oil producer and therefore there is an immediate need to start building a regulatory framework for optimal operation of the nascent O&G sector.<sup>8,9</sup>
- 2.6 This new energy scenario represents an important shift in Guyana's development trajectory. It embodies a crucial and unprecedented opportunity for economic growth and sustainable development. There is now an urgent need to improve the

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<sup>3</sup> Article IV International Monetary Fund (IMF), 2018.

<sup>4</sup> The Official Gazette (Extraordinary) of Guyana #120/2018 dated August 2<sup>nd</sup>, 2018 established the Creation of DE. IDB is currently supporting the strengthening of the DE through technical cooperations and an investment loan under preparation (¶3.2).

<sup>5</sup> The newly created DE was established within the Ministry of the Presidency to be responsible for all matter relating to the development of the O&G sector. The DE has started the recruitment of operating staff.

<sup>6</sup> Concession for Esso Exploration and Production Guyana Ltd., a consortium of companies led by ExxonMobil, Hess and China National Offshore Oil Corporation.

<sup>7</sup> IMF Article IV 2018 p-4.

<sup>8</sup> Historically, Guyana has been dependent on import of fossil fuels. In 2016, these imports totaled US\$278 million and represented 24% of the country's total imports. <https://atlas.media.mit.edu/en/profile/country/guy/#Imports>

<sup>9</sup> Guyana is highly dependent on imported oil products for its overall energy supply. Imported fossil fuels account for about half of final energy consumption with the other half coming from combustible renewables and waste products (CR&W). [Espinasa and Malte, 2014](#)

capacity of Guyana's O&G sector ahead of the start of production. Consequently, it is necessary for Guyana to attend immediate needs in strengthening the Production Sharing Agreement model and transparent management, as well as defining the key and short term actions that the country will follow for developing the O&G institutional and regulatory framework.

- 2.7 **Electricity generation context.** Installed capacity in the main Interconnected System is 172.2 Megawatts (MW), of which 135.9 MW is considered effective and operative.<sup>10</sup> This capacity is operated by GPL, which has a regulated monopoly in the transmission, distribution and sale of electricity on the coastal zone of Guyana, where about 80% of the population reside. In 2017, electricity was 100% generated based on imported liquid fossil fuels representing a cost of US\$67 million for GPL. High fuel costs have historically constrained the pace of the country's development while creating balance-of-payments challenges<sup>11</sup>. This represents a major vulnerability for the country since it is exposed to international oil price fluctuations and fuel availability for electricity generation.<sup>12</sup>
- 2.8 Guyana is at a historic juncture to convert its abundant natural resources into sustainable energy. Along with the Stabroek oil block discovery, several wells have shown significant quantities of Natural Gas (NG). Large reserves of associated NG could be brought to shore and together with Renewable Energy (RE) sources could transform the electricity generation sector. The use of NG could help to lower carbon emissions and represents cost savings, benefiting residential and commercial consumers who pay on average US\$0.30/kWh, one of the highest rates in Latin America and the Caribbean<sup>13</sup>. This new scenario presents the possible RE introduction in the generation matrix in the interconnected system, which, in the medium and long-terms, replace liquid fossil fuels and yield a more diversified matrix that will satisfy a 4.3% average annual growth demand. Thus, Guyana becomes an O&G producer while developing a cleaner electricity generation matrix.
- 2.9 **Justification.** In the framework of the current operation, Guyana faces two key challenges: (i) to manage the new O&G sector sustainably; and (ii) to reduce the dependency on imported fossil fuels for electricity generation, while sustainably introducing cleaner RE and NG to the interconnected system. Given that Guyana has never been an O&G producer, it lacks the regulatory and institutional framework and the required capacity to regulate private investors.<sup>14</sup> Additionally, the country lacks a planning mechanism to promote the development of RE and the use of its new sources of NG for electricity generation.
- 2.10 In tandem with the O&G sector development, the Government of Guyana (GoG) has started to develop strategies and policies that can present a vision of becoming a green economy by 2035.<sup>15</sup> Nevertheless, transitioning towards a cleaner energy

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<sup>10</sup> The difference comprises approximately 30 MW biomass generation plant, under the public sugar company Guysuco which is not operational.

<sup>11</sup> Guyana Hinterland electrification program IRENA Project ID: ADFD/2018/2014

<sup>12</sup> Over the last two decades, like prices of other commodities, the price of crude oil experienced wide price swings in times of shortage or oversupply (Balza and Espinasa, 2018).

<sup>13</sup> Tariffs in the region (US\$/kWh): Suriname (0.05), Trinidad and Tobago (0.06); Jamaica (0.24); Barbados (0.26); LAC average (0.18).

<sup>14</sup> International evidence shows that natural resource wealth has the potential to become a real asset to development when coupled with strong public and private institutions (Balza and Espinasa, 2018).

<sup>15</sup> [Green State Development Strategy 2018](#).

mix requires critical infrastructure investments, studies, policies and action plans to respond to a growing electricity demand and to improve local capacities to address the new challenges ahead. The diversification of the energy mix is not only associated to the incorporation of more RE sources, but also to the introduction of indigenous NG associated with oil production. The country needs to prepare existing generation plants for optimal use of available resources, while developing the policy and regulations necessary to govern a diversified and evolving energy sector.

- 2.11 **Project proposal.** In this context, the GoG has requested the IDB's support to strengthen the governance of the O&G sector and to diversify its energy matrix, through the implementation of policy reform measures and institutional changes. This operation will be structured as a Policy Based Loan (PBL) executed in two tranches, the first one to be disbursed in December 2018 and the second in June 2019; each tranche of an equal amount of US\$5.82 million with total of US\$11.64 million. It identifies conditions that consequently result in the realization of policy/institutional change measures, which in turn strengthen the overall energy sector, while keeping the GoG short- and medium-term commitment to the reforms (Policy Matrix, Appendix II).<sup>16</sup>
- 2.12 **Objective.** The general objective is to support the strengthening and sustainability of the energy sector in Guyana by contributing to the development of the O&G sector and the development of cleaner energy sources for electricity generation. The specific objectives are to: (i) develop a robust management framework for the O&G sector; and (ii) contribute toward the development of the policy framework to ensure sustainable electricity generation in Guyana. The general objective will be achieved through the following actions:
- 2.13 **Component I. Macroeconomic stability.** The objective is the maintenance of a stable macroeconomic context consistent with the project's goals, as established in the Policy Matrix and the Sector Policy Letter.
- 2.14 **Component II. Establishment of a governance structure for the Hydrocarbon Sector.** This Component seeks to improve the management and standard mechanisms to safeguard the development and operationalization of the O&G sector. This includes strengthening O&G governance with the establishment and operation of the DE, within the Ministry of the Presidency, to be responsible for all matters relating to the governance and development of the O&G sector. The Component supports the DE in designing actions to build the O&G institutional framework, as well as the design of a contract model for future Production Sharing Agreements (PSA), a PSA economic modelling toolkit, the development of contract administration procedures and protocols; and the development of a hydrocarbon resources depletion policy.
- 2.15 **Component III. Policies for sustainable electricity generation.** This Component will strengthen the electricity sector to achieve a more sustainable energy generation matrix in terms of economic, environmental and technical aspects, that will satisfy growing demand. The Component will support the design and implementation of policies and studies that aim to foster and promote the development of new cleaner energy sources into the electricity generation matrix while Guyana optimizes the use of indigenous natural resources. The Component

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<sup>16</sup> The measures proposed by the project will be coordinated with the others development partner organizations through the Energy Coordination Donor Group, led by the U.S. Embassy in Guyana.

will also support the development of a practical code for a stronger and more reliable national transmission and distribution network management.

- 2.16 **Expected results and beneficiaries.** The expected results are: (i) the strengthening and development of the governance of the O&G sector; and (ii) the development of a vision and plan for a sustainable electricity generation matrix. The beneficiaries of the project will be the Government and citizens of Guyana.
- 2.17 **Donor Coordination.** The project team is coordinating with other donors to ensure complementarity and avoid duplication of efforts.. In oil & gas management, as well as in the electricity sector, the Bank is in dialogue with the World Bank, the International Monetary Fund, and other development partners.
- 2.18 **Strategic alignment.** The project is consistent with the Institutional Strategy Update 2010-2020 (AB-3008) and is aligned with the following development challenges: (i) productivity and innovation by supporting the design and development of a robust regulatory framework for the O&G sector and the development of RE; and (ii) Gender and Diversity (GN-2800-8) by including gender balance considerations in the creation of the DE. The project is aligned with the crosscutting areas of: (i) climate change and environmental sustainability by fostering the development of a cleaner electricity generation; and (ii) institutional capacity and rule of law, as the project will strengthen both planning and governance. It will contribute to the Corporate Results Framework 2016-2019 (GN-2727-6) under the indicator of government agencies benefited by projects that strengthen technological and managerial tools through: (i) improving public service delivery with the creation of the DE; and (ii) establishing contract models needed to manage transparent legal arrangements between the public and private sectors and the development of RE in the power sector. The project is aligned with the IDB Group Country Strategy with the Cooperative Republic of Guyana 2017-2021 (GN-2905), as it supports: (i) establishing a modern national strategy and planning framework; and (ii) strengthening public policies and the framework for managing natural resource revenues. The operation is consistent with the Energy Sector Framework (GN-2830-3) pillars of: (i) energy sustainability; (ii) energy security; and (iii) energy governance by improving the energy sector institutional capacity.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The executing agency will be the Ministry of Finance (MoF) in collaboration with the MoPI and the Ministry of the Presidency (MoP) through the DE in the framework of the establishment of a steering committee with representatives all three entities. The MoF will be responsible for coordinating and reporting compliance with the policy commitments.
- 3.2 The IDB has been actively supporting the GoG efforts in the energy sector: (i) the distribution network rehabilitation and reduction of electricity losses (3238/OC-GY; 3239/BL-GY; 2567/BL-GY); and (ii) the development of RE (GRT/FM-13897-GY). It is also helping to transform the O&G sector through financing institutional strengthening and policy reforms: (i) use of gas for power generation (ATN/OC-16533-GY); and (ii) governance, transparency and accountability of the O&G sector (ATN/OC-16532-GY). An investment operation is under preparation and includes a component for US\$4.5 million that will finance activities geared

towards building the capacity of the GoG to manage the O&G sector<sup>17</sup>, including: (i) the design and development of new O&G institutional and regulatory framework and (ii) high-level training and coaching of government staff, knowledge transfer and workforce development.

#### **IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING**

- 4.1 **Environmental safeguards.** In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), no environmental and social impact classification is required. The proposed reforms do not create negative environmental or social impacts.
- 4.2 **Fiduciary aspects.** The project does not consider procurement of goods and consultancy services, therefore no fiduciary risks associated with the operation were identified.

#### **V. RESOURCES AND TIMETABLE**

- 5.1 The expected preparation timeline includes: (i) distribution of the POD to the QRR by October 1, 2018, (ii) presentation of the proposed project to the IDB Board of Executive Directors by December 5, 2018. Project preparation costs are estimated at US\$42,375 from administrative resources (See Annex V). Staff time anticipated to prepare this project is estimated at 1.7 FTEs.

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<sup>17</sup> The investment operation is expected for IDB Board consideration by November 14, 2018.

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## Safeguard Policy Filter Report

### Operation Information

Operation		
GY-L1067 Strengthening the Energy Sector		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
GUYANA	GY-IICMFNG - MINISTRY OF FINANCE - GY-MFIN - MINISTRY OF FINANCE	
Organizational Unit	IDB Sector/Subsector	
Energy	ENERGY INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING	
Team Leader	ESG Primary Team Member	
JAIME SOLOGUREN BLANCO	LUCA MARINI	
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$11,640,000	0.000 %
Assessment Date	Author	
20 Sep 2018	LMARINI ESG Primary Team Member	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	12 Sep 2018	
QRR (Estimated)	18 Oct 2018	
Board Approval (Estimated)	5 Dec 2018	
Safeguard Performance Rating		
Rationale		



# Safeguard Policy Filter Report

## Safeguard Policy Items Identified

### B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

### B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

### B.3 Screening and Classification

The operation (including [associated facilities](#)) is screened and classified according to its potential environmental impacts.

### B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

### B.13. Noninvestment Lending and Flexible Lending Instruments

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

### B.17. Procurement

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

## Potential Safeguard Policy Items

### B.4 Other Risk Factors

The borrower/executing agency exhibits weak institutional capacity for managing environmental and social issues.

## Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

## Additional Comments

Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this program is a Policy Based Loan. The project does not consider or involve specific investment projects or activities.



## Safeguard Policy Filter Report

## **ENVIRONMENTAL AND SOCIAL STRATEGY**

In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), no environmental and social impact classification is required. The proposed reforms do not create negative environmental or social impacts.

## ANNEX IV – INDEX OF SECTOR OF PROPOSED SECTOR WORK

Area	Description	Estimated Dates	References and electronic links
Technical and economic studies	Policy, Means of Verification, and Results Matrix. Meetings with the relevant authorities of the Government of Guyana will be held in advance to agree both the policy commitments and their means of verification.	September 2018	To be annexed as technical annexes to the POD
	Risk Assessment. A workshop will be carried out with the participation of the relevant authorities responsible for the of the triggers.	September 2018	To be annexed as a Required Electronic Link to the POD
	Economic evaluation. An individual consultant will be hired to prepare the economic evaluation jointly with the team.	September 2018	To be annexed as a Required Electronic Link to the POD
	Monitoring and Evaluation Plan; and PUP (GN-2716-6). These documents will be prepared once the policy matrix triggers have been agreed.	September 2018	To be annexed as a Required Electronic Links to the POD
Operational Design	Draft - Update of the study on system Expansion of the Generation System	May 2018	CONFIDENTIAL
	National Grid Code for the Electricity Sector in Guyana	Q3 2018	CONFIDENTIAL
	Production Sharing Agreement model contract	Q4 2018	CONFIDENTIAL
	Onshore deployment of natural gas and related infrastructure analysis	Q3 2018	CONFIDENTIAL
	Guyana's Emerging Oil & Gas Sector: Getting Institutions Right (GY-T1148)	November 2017	<a href="https://www.iadb.org/en/project/GY-T1148">https://www.iadb.org/en/project/GY-T1148</a>
	Tapping the Promised Land: Guyana's Future as an Oil Producer (GY-T1147)	November 2017	<a href="https://www.iadb.org/en/project/GY-T1147">https://www.iadb.org/en/project/GY-T1147</a>

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