



RE-331

***Country Program Evaluation
Guyana 2002-2006***

Office of Evaluation and Oversight, OVE

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TABLE OF CONTENTS

[ACRONYMS](#)

[PREFACE](#)

[EXECUTIVE SUMMARY](#)

I.	BACKGROUND	1
A.	Economic Context	1
B.	Social Challenges	7
C.	Political and Institutional Challenges.....	9
II.	THE BANK'S PERFORMANCE: PROGRAM AND DELIVERY	10
A.	The IDB's Relevance as Development Partner to Guyana	11
B.	The Bank's Program.....	14
C.	Delivery	18
III.	PROGRAM RESULTS	23
A.	Determining the Development Impact of the IDB's Strategy with Guyana ...	23
1.	Strengthening Social Programs	25
2.	Achieving Sustainable Economic Growth	28
3.	Improving Governance and Public Sector Efficiency	29
B.	General Comments	30
IV.	CONCLUDING REMARKS	31

ACRONYMS

CARICOM	Caribbean Community
FSO	Fund for Special Operations
GUYSUCO	Guyana Sugar Cane Corporation
HIPC	Highly Indebted Poor countries
IDB	Inter-American development bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin American Countries
MIF	Multilateral investment fund
NDS	National Development Strategy
ODA	Official Development Assistance
PAIS	Project Alert Information System
PCR	Project Completion Report
PEU	Project Executing Unit
PPMR	Project Portfolio Management Report
PRSP	Poverty Reduction Strategy Paper
SIMAP	Social Amelioration Program
TC	Technical Cooperation

PREFACE

The Office of Evaluation and Oversight (OVE) is required by Board mandate to conduct country program evaluations serving two evaluation functions: bringing to the attention of Management and the Board critical issues of past activities of the Bank in the country providing an account of the results of its interventions, as well as creating an opportunity for reflection and lesson learning to improve future programs. In doing so, the CPE is guided by four core evaluative questions: the *relevance* of the program to the development challenges of the country; the *coherence* between the definition of a programmatic focus, the integration across Bank instruments in support of program objectives, and the coordination with other actors; the *efficiency* measured both in terms of administrative costs and timeliness of execution; and the *effectiveness* of individual interventions and at the level of program as a whole, with particular attention devoted to investigating the sustainability of results and the contribution of the program to the institutional development of the borrower.

The accuracy of the CPE findings depends critically on the collaboration of relevant actors in the Bank and the country. Collaboration reduces the probability of errors of fact, omission, and interpretation. This CPE is a product of an exceptional collaborative effort between OVE, the Administration, and the country. OVE appreciates the assistance of the persons interviewed for this report.

This evaluation follows the guidelines of the Protocol for the conduct of country program evaluations (RE-271), and complements the previous Country Program Evaluation for Guyana 1989-2001 (RE-266).

EXECUTIVE SUMMARY

This report presents an evaluation of the Inter-American Development Bank's program of engagement with Guyana for the 2002-2006 period, from its intent expressed mainly in the *Country Strategy with Guyana* (GN-2228) and other Bank documents, to the actual delivery of the program.

A. Background

Guyana has experienced a period of economic stagnation over the recent years, with average growth rates of 0.2% due to a combination of factors including domestic and external shocks, political instability, and the end of the initial boost produced by the 1990s first generation round of reforms. As a result, the Guyanese per capita income has been the second lowest in Latin America and the Caribbean over the last twenty years, second only to Haiti.

Throughout the period under review, the Guyanese authorities have maintained macroeconomic stability and a relatively low inflation rate, despite supply side shocks in the form of higher oil prices, extensive flooding, and a spike in food prices due to climate effects. The risk of debt distress remains considerable even with the significant improvement in debt indicators when compared to the previous two decades, as the public sector to GDP ratio is five times larger than the average for LAC countries, and has not significantly reduced over the past seven years.

Historically the Guyanese economy has been concentrated around the production of a handful of primary products: sugar, bauxite, rice, timber, gold, among few others. This has made the economy vulnerable to the fluctuations of international export markets. The gradual loss of trade preferences in the sugar industry, which accounts for 15% of GDP and 25% of exports, is the main short-term challenge of Guyana.

The prioritization and increase efficiency and efficacy of public spending are important challenges for Guyana. Public expenditure has continuously expanded despite the recent large-scale privatization efforts to reduce the public sector's involvement in the economy.

Guyana has a healthy rate of savings compared to other countries with a similar level of development and population. However, the private-credit-to-deposit ratio is low compared to CARICOM and other commodity-based economies.

The quest for a new sustainable force that can effectively produce growth is the major economic challenge faced by Guyana and its development partners. A further challenge comes from the negative effect on foreign and domestic investment flows over the period, resulting from the perception of an adverse business climate. Moreover, governance and procurement difficulties have likely reduced Guyana's ability to effectively use the ample volume of resources that were channeled into the country.

It is unlikely that Guyana will attain most of its MDGs by 2015 according to the most recent *Report on Progress Towards the Achievement of the Millennium Goals*.. Such is

the case for the indicators on poverty and extreme poverty, child and maternal mortality rates, of HIV prevalence, malaria and other diseases, improvements of low-income and threatened neighborhoods, as well as the indicators for creating a global partnership for development. Moreover, the report indicates weak statistical capability to follow-up on the indicators for monitoring and evaluation, as well as low incorporation of analysis to formulation of policies and resource allocation in the country.

High and selective emigration has depleted Guyana's human capital and debilitated the country's institutional capacity, affecting both private and public sectors.

B. Program and Delivery

1. The IDB's relevance as development partner to Guyana

The Bank's relevance as development partner to Guyana is evident: it was the largest donor, largest creditor, and largest provider of technical assistance over the period under analysis. It consistently financed between 35% and 49% of net official development aid. The total debt of Guyana to the IDB represented 59% of the country's GDP in 2005. Further, the Bank wrote-off US\$203.5 million of debt in nominal terms under the last two HIPC initiatives, and most recently US\$467 million. Moreover, the active portfolio was considerable in proportion to the country's economy: loan approvals for each FSO cycle corresponded on average to 12% of Guyana's GDP, while average Bank's disbursements represented 35.7% of the total capital expenditure of the GoG, 13.0% of its total revenues, or 22.4% of its tax revenues.

Most of the Bank's lending to Guyana is determined by the *Fund for Special Operations (FSO)*. In July 2002, the introduction of new performance-based allocation criteria had an unintended effect of vastly increasing the available resources relative to what the country would have received under the previous allocation criteria, representing an increase of 6.8% to 10% of the annual per capita income. Guyana's allocation was almost 8 times the per capita allocation to Haiti, and approximately 7 times that to Bolivia in the 2004-2005 FSO cycle.

The magnitude of the increase in available resources to Guyana, paired with the FSO allocation deadline created a negative incentive structure that damaged programming, dimensioning, and coordination with other donors. The recent developments of the Multilateral Debt Relief (IDB-07) have prompted the Administration to present a request for adjustments to the allocation of administrative expenses between Ordinary Capital and FSO (CF-147, May 15th 2007). If approved by the Board of Directors, the total available FSO resources would be reduced over the following years. The corresponding reduction may provide incentives for the Bank to prioritize the upcoming operations.

2. The Bank's program

This section analyzes the Bank's program as stated in the Country Strategy and other relevant documents.

The diagnostic of the Country Strategy was adequate and consistent with the National Development Strategy. Despite the lack of prioritization of actions based on development outcome measures, resulting in a program that was not concentrated and that lacked strategic thrust, planned operations were consistent with the challenges identified.

The main objective of the Strategy was to “collaborate with the country to reduce its level of poverty in the medium term, while simultaneously addressing chronic institutional and human resource problems that must be alleviated in order for the country to achieve sustainable, equitable growth in the long term”. Three clearly identified areas were chosen to pursue this objective: (i) attaining sustainable economic growth, (ii) improving governance and public sector efficiency, and (iii) strengthening social programs; through a proposed program of 14 operations for US\$244.3 million. Emphasis was placed on “growth-oriented” programs (60.9% of resources) such as information and communication technologies, a trade and investment facility, agriculture, ports, road projects, and an environmental loan. Social programs accounted for 23.2% of the planned resources, while 15.9% was proposed for improving governance and public sector performance. Technical Cooperations were planned to support project preparation, institutional development and capacity building, as well as the creation of an enabling environment for private sector development. Prominence was placed in the support of operations “assigned in areas where Bank had already developed experience...” with 55.5% of total resources.

Following the recommendation of the previous *Country Program Evaluation: Guyana 1989-2001* (RE-266) and the *Country Paper Guidelines* (GN-2020-6), the Country Strategy made provisions for program assessment through the inclusion of 46 unranked indicators to monitor progress within the different development dimensions identified. Most of the indicators corresponded to *output indicators* (63%), of which the majority did not provide a baseline value, and only 66% had quantifiable targets. The *outcome indicators* presented baseline data in the majority of the cases, including clear and quantifiable targets. There was no baseline for *any* of the transport and electricity sector indicators, while baseline data was absent from *most* health, environment, and telecommunications indicators.

The Strategy specifically conditioned the approval of major infrastructure projects “...until such time as satisfactory annual progress on performance indicators has been achieved. For example, the Bank would seek approval of the first growth project only after the measures agreed for 2002/2003 have been completed” while the public sector and social programs were to continue “in order to provide the authorities with the financing and technical assistance tools required to address the critical public sector and poverty reduction challenges”. Satisfactory progress in the reform agenda would be necessary for the maintenance of the baseline-lending scenario of US\$244.3 million, otherwise triggering a gradual shift towards a low-lending scenario of US\$111.3 million.

There was no explicit description in the Country Strategy as to the process by which the selection of these specific infrastructure projects took place, or why the need to condition their approval arose. In fact, the 2002 Programming Mission Report (CP-2402-1) mentions the President of Guyana “... requested further clarification of the relationship

between the CIPE methodology and the new Country Strategy lending scenarios”, followed with an explanation for the need of such benchmarks and their purpose. It is evident that the Administration viewed them as a useful mechanism to monitor the actions of the proposed public policy agenda. Further documents express the collaboration efforts between the GoG and the Bank to achieve the benchmarks.

3. Delivery

This section describes and evaluates the implementation of the Bank’s program, from the adequacy of the Country Strategy as an effective planning instrument, to whether the outputs to which the Bank committed to were delivered in a timely and efficient manner.

Though the general objectives identified in the Country Strategy were maintained, the Strategy was not implemented as planned. The percentage of proposed actions that did not take place supercede those that were projected and executed, leading to a low prediction rate.

The implementation of the operations identified by the Strategy to attain its main objectives faired as follows. First, the *“growth oriented”* programs were only partially delivered: absent were a Trade and Investment Facility, Agriculture Diversification, Information and Communication Technologies, Deep-water Port Program, and Environmental support. Roads, Bridges, Air Transport Security, Urban Basic Infrastructure, Electrification of Underserved Areas, and Sanitation activities took place - the latter after severe delays. Secondly, most of the foreseeable actions to *strengthen social programs* were implemented, albeit many were delayed, restructured or re-dimensioned. Thirdly, the Strategy emphasized improving *governance and public sector efficiency*: two sector facility loans, two hybrid loans, and six Technical Cooperations were implemented; some with delays, restructuring and redimensioning. Further, emergency assistance following the 2005 extensive flooding was provided.

The Strategy mentions that in the previous program *“delays were encountered by the need to redesign various projects”*, and where therefore going to be addressed for this period. However, the current evaluation found this is an ongoing problem, which indicates that the Bank has not been able to find a way to improve this situation. Even if some delays appear to have been the product of efforts to improve the quality of the projects, the fact is that operations were not delivered in the projected timeline. The delays of preparation-to-approval of many projected operations constitute an irrecoverable opportunity cost for the Guyanese if one takes the timing in which the Country Strategy suggested they should take place as the adequate one and given the relevance of the IDB as development partner.

If the analysis included in the Country Strategy is correct, then an incontrovertible lost opportunity comes from the operations that were identified, yet did not take place within the scope of the Strategy: the Deep Water Port Program (PRI/IIC), Information and Communication Technologies (MIF TC), Remittances Technical Cooperation (MIF), the Development of a Framework for Eco-Tourism Development (MIF TC), Development of

a Credit Bureau TC, and the cancelled Increasing Net Usable Yields in the Fishery Sector (MIF TC).

As one would expect by the conditions and challenges of the private sector in the country, the private sector windows of the Bank had difficulties identifying suitable private sector partners in Guyana. Though the situation improved slightly from the previous programming period, which lacked private sector lending operations. There were few private-sector operations during the analyzed period, and most were beleaguered with difficulties and delays mostly of legal nature.

To date, the Bank has responded to implementation and execution difficulties through the establishment of executing units parallel to the main line ministries –at the time of this study 26 executing units were operating IDB-financed operations- and by introducing monthly portfolio-review meetings to boost communication with the government. While this seems to have reduced execution delays, it does not foster long-term sustainability and capacity building in Guyana as agreed to by the Bank and the country when signing the Paris Declaration on Aid Effectiveness which states that donors should “*Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes*”. Moreover, the Country Strategy recognized “*A Bank’s assessment... revealed that PEUs operated independently and with little oversight, resulting in inefficiencies, duplication and high costs*”.

An interesting PEU model that has been used and may be worth considering for future operations is that of the BEAMS Project where considerable responsibility for execution remains within the line ministry. Recently, the GoG has informed the Bank that it has began exploring options to institutionalize and integrate the BEAMS activities into the Ministry’s regular operations so that functions can continue with activities once BEAMS comes to an end.

The Bank needs to explore the development of innovative risk management mechanisms in order to provide reasonable incentives for firms to invest in Guyana. Where pertinent, new procurement schemes need to be developed to make the participation of local and foreign firms more attractive.

As the IDB moves towards a country-focused and country-based approach, the Country Office will need to fulfill additional tasks beyond the traditional role of country offices. It will need to strengthen its analytical capabilities to provide policy advice at the strategic level at the request of the GoG. The Bank should concede the creation of an incentive mechanism that allows and provides incentives for the best staff to rotate temporarily to the country to reinforce the local office with professionals solely focused on development results by overseeing the empirical application of the economic and sectoral work that is being produced by the Bank and other donors in the overall dynamic picture of Guyana.

C. Determining the Development Impact of the IDB's Strategy with Guyana

From the available information, one would be inclined to conclude that the Bank's actions were ineffectual in the three main pillars of the Strategy as Guyana's situation has deteriorated over the period for almost all of the tracked indicators, and given the IDB was the largest development partner over the period.

The Bank did not collect suitable information on its individual operations impeding detailed analysis of the reasons for which actions appear to have been ineffective. It is imperative that the preparation of the upcoming strategy has this priority in mind. As the *Report on Progress towards the Achievement of the Millennium Goals (2003)* indicates, the biggest challenge of Guyana and its development partners are “*weak data collection capability, lack of statistical follow-up capability, reduced capability for incorporating analysis to policy planning and resource allotment, as well as weak monitoring and evaluation mechanisms*”.

The issue of timing mentioned earlier had a bold repercussion in the observed lack of development impact, as not all identified programs were delivered, and those delivered were in some cases delayed. The time lost is reflected in the low results observed thus far, and is conceded in the following quote from the Region's Consolidated comments to this document “*The report concludes that the Country program for Guyana 2002-2005 failed to produce development impacts and results.... Many of the loan operations have not been implemented, nor even disbursed, including the Social Statistics loan to generate data to measure the results*”.

The decomposition of the CIPE indicator for Guyana describes a clear decline in most areas. While the sub-component of *public sector management and institutions* improved; *social inclusion/equity, structural policies, and economic management*, have decreased towards the end of the period. The indicators for *control of corruption* and *violent crimes* have remained relatively stable; however the latter experiences variations from year to year. The remaining governance indicators have suffered a full decline over the period: *voice and accountability, political stability, regulatory quality, and rule of law*. Thus, the Bank should incorporate each of these factors in future interactions with Guyana, and redouble its current efforts working directly with Parliament to incorporate all political actors working towards social inclusion, voice, and accountability improvements.

D. Concluding Remarks

The quest for a new sustainable force that can effectively produce growth is the major economic challenge faced by Guyana and its development partners. A further challenge comes from the negative effect on foreign and domestic investment flows over the period, resulting from the perception of an adverse business climate. Moreover, governance and procurement difficulties have likely reduced Guyana's ability to effectively use the ample volume of resources that were channeled into the country.

Guyana's complex institutional and political contexts, coupled with ongoing potential debt distress risk despite the significant improvement in the country's debt indicators,

constitute a difficult environment for IDB's engagement and for the attainment of the Millennium Development Goals by 2015. A country like Guyana needs for the Bank to address challenges in an *"out of the box"* manner beyond the traditional instruments and approaches that may prove useful in other settings, so as to provide an effective development partnership.

The broad range and dimensioning of Bank activities over the analyzed period were partially a result of the vast increase in FSO allocation resources that took place as a consequence of the introduction of a new performance-based allocation criteria in 2002. The magnitude of the increase, paired with the FSO allocation deadline, created a negative incentive structure that distorted programming, dimensioning, development effectiveness, as well as coordination with other donors.

The recent developments of the Multilateral Debt Relief (IDB-07 Relief) have prompted the Administration to present a request for adjustments to the allocation of administrative expenses between Ordinary Capital and FSO (CF-147, May 15th 2007). If approved by the Board, the total available FSO resources would be reduced over the following years. The corresponding reduction would provide incentives for the Bank to prioritize its operations, in contrast to what happened over the period under review.

In terms of the basic evaluative criteria for Country Program Evaluations, this report concludes that the Bank's presence in Guyana has been **relevant** to the development challenges of the country as the programming analysis indicates that it adequately identified the need to implement structural reforms in order to promote long-term development goals, supporting some operations in this realm. However, it did not prioritize interventions based on expected development returns, resulting in a program that was not concentrated and that lacked strategic thrust.

Regarding the second evaluative criteria of **coherence** between the definition of a programmatic focus, the integration across Bank instruments in support of program objectives, and the coordination with other developmental actors; the analysis herein presented concludes that while the Bank used most of its available instruments, supported by non-reimbursable and generally program-embedded technical cooperations, there are still challenges to address as it needs to concentrate on fewer areas of intervention where it can build a more effective partnership with Guyana and coordinate more effectively.

No explicit provision to embrace leadership through ex-ante articulation was made to embrace leadership from the outset, leaving donor coordination mainly to the Thematic Groups and the efforts of individual project teams, despite the Country Strategy having recognized the Bank's preeminent position as the main development partner to Guyana. Further, the Bank did not take advantage of its natural leadership position given the large increase in FSO resources. Basic donor coordination was achieved, although harmonization among donors is still a pending issue.

The **efficiency** of the program measured both in terms of administrative costs and timeliness of execution portrays mixed results. The Strategy mentions that in the previous program *"delays were encountered by the need to redesign various projects"*, and were

therefore going to be addressed for this period. The current evaluation found this is an ongoing problem, indicating that the Bank has not been able to fully tackle this challenge. However, there was a constant improvement of the rate of disbursement of the active portfolio throughout the period, placing it close to Bank averages and above HIPC disbursement curves. The next Country Strategy must improve the analysis that conveys risk identification and mitigation concerning the feasibility and timing of planned operations, in order to implement them in an effective and efficient manner.

In terms of the **effectiveness** of the program as a whole and of the individual interventions, the conclusion stemming from the available information is that the Bank's actions were ineffectual in the three main pillars of the Strategy as Guyana's situation has deteriorated over the period for almost all of the tracked indicators while the Bank was the largest development partner. Though it may be too soon for the final judgment of the effectiveness of the actions given the general delays experienced throughout the program, the deterioration is evident and the lost time irrecoverable. Further, the Bank is not collecting suitable information on its individual operations to allow a detailed analysis of the reasons for which actions appear to have been ineffective. It is imperative that the Bank prepares the upcoming strategy with this priority in mind as it is inconsistent with a development approach, compromising the Government's and the Bank's ability to prioritize sectors and actions based on those that yield the highest returns to the population, as well as hampering the possibility of learning from prior experience.

The inclusion of 46 matrix indicators to track the Country Strategy's progress was a positive measure towards gauging the development effectiveness of actions, yet the large number of indicators and lack of ranking must be corrected for future engagement. Further, the lack of data collection must be addressed in order to make this a fully operational instrument. Only indicators that can realistically have a baseline value, and can be tracked should be included.

The benchmarks introduced to maintain a high-lending scenario proved to be a useful tool in keeping the public policy agenda present, and represent a creative and tailored approach of engagement with Guyana. The next Country Strategy should continue with this approach while maintaining a general perspective, the Bank should focus on a few, locally owned, and realistically attainable benchmarks –in scope and timing– concentrated on data collection, transparency and accountability to the Guyanese citizens of the development effectiveness of the interventions.

As the IDB moves towards a country-focused and country-based approach, the Country Office will need to fulfill additional tasks beyond the traditional role of country offices. It will need to strengthen its analytical capabilities in order to provide policy advice at the strategic level at the request of the GoG, thus a careful assessment of the skills inventory and requirements should be undertaken to determine the profile that it requires to meet this challenge. Further, the Bank should consider conceding the creation of an incentive mechanism that allows for the best staff to rotate temporarily to the country to reinforce the local office with professionals solely focused on development results by overseeing the empirical application of the economic and sectoral work being produced by the Bank and other donors in the overall dynamic picture of Guyana.

Guyana and the IDB endorsed the Paris Declaration on Aid Effectiveness, recognizing that donors must support the partner country efforts to strengthen governance and improve development performance. Therefore, the Bank must work towards weaning the implementation of projects via executing units in order to strengthen the country's sustainable capacity by establishing safeguards that support -rather than undermine- government structures. It must assess the best way to support Guyana in this respect undertaking new models at a small scale at the beginning, learning from the experience, and thus minimizing exposure of all involved parties. The Bank's present engagement has provided a few interesting examples of possible solutions.

I. BACKGROUND

- 1.1 Guyana is a small, open, highly indebted, low-income and thinly populated country whose per capita income has been ranked amongst the lowest in the Region over the past twenty years, second only to Haiti.¹ It faces considerable challenges over the medium and long term. These remain broadly the same as those that prevailed at the outset of the period under review: lack of sustained economic growth, poverty reduction, governance, large infrastructure and social investment needs, weak private sector; complicated further by the need to bridge the social and ethnic divide that currently distinguishes the country.²
- 1.2 The quest for a new sustainable force that can effectively produce growth is the major economic challenge faced by the country. Despite the significant improvement in Guyana's debt indicators when compared to the previous two decades –partly as a result of successive debt rescheduling agreements- the risk of debt distress remains considerable as the public sector to GDP ratio is five times larger than the average for LAC countries, and has not significantly reduced over the past seven years.

A. Economic Context

- 1.3 Analyzing the economic context of Guyana presents a challenge in the light of persistent problems in the estimation of national accounts, as well as the presence of shadow economic activities. The importance of this challenge is expressed by the following quote “*Due to incomplete coverage and inaccuracies in the valuation of the economic activity, Guyana’s official national income statistics understate the true size of the economy.... For this reason, ratios expressed as a share of GDP, but also growth rates in individual years, must be interpreted with caution*”.³ There is no official estimation of the bias. However, Faal (2003) suggests the official GDP may be understated by 30% to 90%.⁴ Graph 1.1 exemplifies the need to rebase the official GDP by looking at the high correlation between the GDP and rice exports which account for an average of 10% of Guyana's total exports. The GoG has recently expressed its intention to rebase the GDP in the near future. Further, though no official estimates on the weight of the shadow economy in the overall Guyana GDP have been produced, assessment by

¹ Guyana is 214,970 sq km, with 768,888 inhabitants mostly concentrated in three urban areas. The GDP per capita is estimated to be \$942, concentrated 37% in the agriculture sector, 20.3% industrial sector, and 42.7% in services.

² According to the preliminary figures of the 2002 Census, 43% of the population considers itself from East-Indian heritage, while 30% report being Afro-Guyanese. Further, 17% of the population self-reported to be of mixed origin, and almost 10% Amerindian.

³ Ex-post Assessment of Long-Term Program Engagement, IMF (2006).

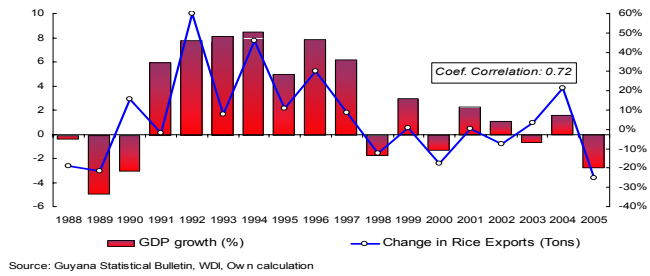
⁴ Faal, E. (2003) “*Currency demand, the underground economy and tax evasion: The case of Guyana*”. IMF, Working Paper WP/03/7.

indirect sources estimate its size at 40% of the official economy in the 1970's, 71% for the 1980s, falling to 47% for the 1990s.

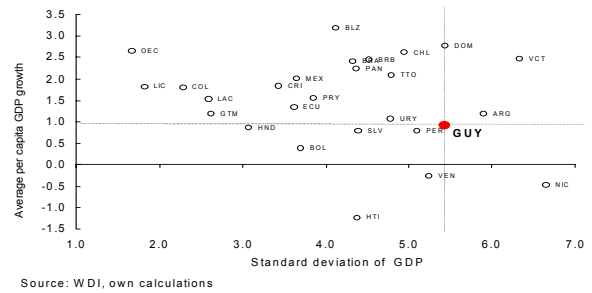
- 1.4 **Debt sustainability risk.** Guyana's risk of debt distress remains considerable as the net present value of external public sector debt to GDP ratio is currently five times larger than the average ratio for LAC countries, and has not significantly declined over the past seven years despite the impressive improvement in Guyana's debt indicators over the past two decades, mostly as a result of successive debt rescheduling agreements (in Venice, Toronto, London, Naples, and Lyon terms), as well as HIPC and HIPC-E initiatives (Graph 1.8). The sustainability gains achieved so far could be adversely affected by unsound fiscal policies, pervasive external gaps, or adverse changes in the concessional terms of new financing. The challenges ahead suggest prudent debt management and increase quality of expenditure are key for the country's development.
- 1.5 **Growth.** Three distinct episodes of growth can easily be identified in Guyana during the past twenty years. First, a period of negative economic growth (1977-1990) with rates averaging -2.7%, a collapse often associated with the effects of a central-planned-socialist economy. Second, a period of rapid economic growth (1991-1997), with average growth rates of 7.1% when Guyana became one of the fastest growing economies in the world following the introduction of stabilization measures, debt relief, structural reforms, and favorable external conditions. Finally, a period of stagnation (1998-2005) with average growth rates of 0.2%, due to a combination of factors including domestic and external shocks, political instability, and the end of the initial boost produced by the 1990s first generation round of reforms. As a result, the Guyanese per capita income has been the second lowest in Latin America and the Caribbean over the last twenty years.
- 1.6 **Volatility.** Historically the Guyanese economy has been concentrated around the production of a handful of primary products: sugar, bauxite, rice, timber, gold, among few others. This has made the economy vulnerable to the fluctuations of international export markets.⁵ The gradual loss of trade preferences in the sugar industry, which accounts for 15% of GDP and 25% of exports, is the main short-term challenge of Guyana (Graph 1.2).

⁵ First, we simply inspected the standard deviation of the rate of change of the variables. Second, we inspected the standard deviation of the residuals of constructed OLS Univariate Autoregressive Models AR(1) for all the variables. The assumption behind this technique is that any unexpected innovation is reflected in the residuals. Finally, we de-trended all the series using a HP filter and calculated the standard deviation of the unexpected shocks, measured as the difference between the cyclical (unexpected) and the trend (permanent) components of the time series. These methodological approaches produce two different measures of volatility: by using the standard deviation of the rate of change of the variable we can obtain a measure of volatility in a percentage base, the AR(1) and HP Filter permit the appraisal of a sense of volatility in terms of the variables units of measure.

Graph 1.1: Guyana: Growth Dynamics and Rice Exports

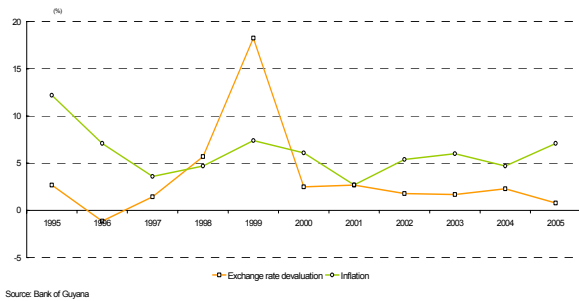


Graph 1.2: Growth and Volatility: Performance of LAC Countries (1960 – 2004)

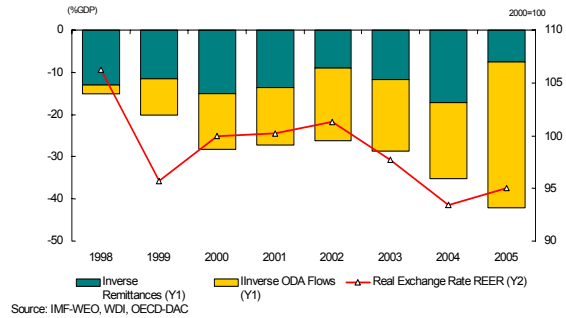


1.7 Throughout the period under review, the Guyanese authorities have maintained macroeconomic stability and a relatively low inflation rate (Graph 1.3). Despite supply side shocks in the form of higher oil prices, extensive flooding, and a spike in food prices due to climate effects, the CPI inflation rate remained below 8% throughout the period. Stability of the exchange rate can be partly attributed to the relative abundance of external inflows of remittances, foreign aid, foreign direct investment, and high demand for foreign exchange to finance imports mostly for the construction of the Skeldon Sugar Factory and flooding related spending (Graph 1.4). However, the inflation rate is still high relative to international levels, placing the policy sub-product of the stabilization effort in a minor but steady appreciation tendency. This could constitute a competitiveness challenge for the Guyanese productive sector.

Graph 1.3: Guyana CPI Inflation Rate and Annual Devaluation of the Nominal Exchange Rate



Graph 1.4: Guyana Remittances, External Aid Flows as a Percentage of GDP and Appreciation of the Real Exchange Rate



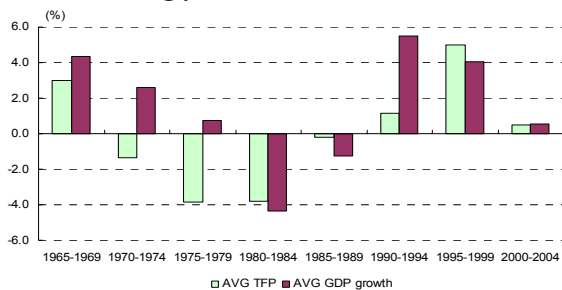
1.8 **Productivity.** From the standard growth accounting point of view, productivity dynamics measured in terms of Total Factor Productivity seem to be strongly associated with the average GDP growth rates for different periods (Graph 1.5).⁶

⁶ We performed an exercise of growth accounting to observe the weighted contribution of changes in the accumulation of factor inputs (Labor and Capital), and the Solow Residual reflecting technological progress, also known as Total Factor Productivity (TFP). A detailed breakdown of the factorial sources of growth can be useful in absence of analysis of other fundamental determinants of economic growth, assuming certain degree of independence between such determinants and the technological dynamics reflected in the Solow Residual. Using an alternative approach to assess the evolution of our measure of technical progress, we used data from 1965 to 2004 to construct a rolling regression within a ten-year window to estimate the regression of output growth rates on input growth rates. The results of both

OVE's empirical analysis suggests that the period of robust growth performance was related to productivity gains, more in the reallocation of productive factors after decades of distorting policies, than productivity gains in the technological progress sense of the term; with the subsequent economic slowdown related to the depletion of such gains. The average growth rate of TFP is estimated to be negative before 1990, around 5.0% per annum for the period of 1995-1999, and only 0.5% in average per annum for the period 2000-2004.⁷

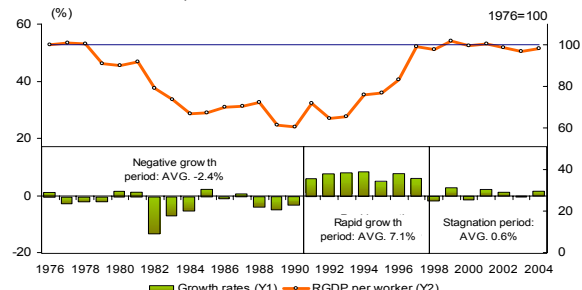
1.9 The correction of some of the distortions of the centrally planned economy of the 1980s seems to have produced productivity gains, becoming the growth engine of the early 1990s boom -without discounting the importance of export growth, debt relief and the large inflow of foreign aid and investment over the period. Since then, productivity gains appear to have been depleted. That is, mainly organized around the same traditional commodity sectors, in absence of new dynamic productive activities or sectors, and with the full force of the initial reforms past, Guyana's economy appears to be close to levels of human and physical capital use prior to the 1980s, partially explaining its recent stagnation episode.

Graph 1.5: Guyana: Productivity Gains (TFP) Strongly Associated with Growth



Source: WDI, Penn tables, own calculations

Graph 1.6: Guyana: Real GDP per Worker (index 1976=100) and Real GDP Growth Rates



Source: WDI, Penn Tables, own calculations

1.10 Observing the evolution of GDP per worker as a measure of the aggregate productivity of the economy provides additional empirical support for this hypothesis. Observed output per worker is closely correlated with the differentiated growth episodes of the Guyanese economy. As seen in Graph 1.6, the current stagnation period is consistent with a similar output level to that of the last peak in the mid 1970s. In sum, Guyana's quest for a new sustainable growth force that can effectively move the economy out of this "low-equilibrium" is the most important economic challenge faced by the country. It is important to recognize that recently some diversification has taken place towards non-traditional agricultural products like shrimp and diamonds.

1.11 **Fiscal dynamics.** The structural weakness of the fiscal position jeopardizes the ability to meet the multiple development needs of the country, exerting additional

methodologies ratified the hypothesis of productivity gains as a contributing factor of the recent growth performance in Guyana.

⁷ Negative Total Factor Productivity (TFP) growth rates may represent major disruptions in the productive process and declining allocation efficiency of the markets due to policy changes or other factors.

financial pressure over the debt dynamics of the economy. During the 2001-2005 period, the fiscal balance position of the GoG continued the downward trend observed in the recent past. As seen in Graph 1.7, the overall fiscal result of the GoG reached an average of -8.7% of GDP during this period, despite the positive effects of a strong tax revenue collection level (on average 35.3% of GDP), and an important infusion of financial external grants (7.2% of GDP on average). The introduction of the Value-Added Tax -originally planned during the 1998-2001 arrangements with the IMF, delayed until 2007- will likely broaden the tax base by including most services and adding the wholesale and retail sectors. Further, it may allow leeway to reform income taxes and customs duties.

1.12 **Public Expenditures.** Prioritizing and increasing efficiency and efficacy of public spending are important challenges for Guyana.⁸ Public expenditure has continuously expanded –at its highest 56% of GDP in 2005 including large capital investments in the sugar industry- despite the recent large-scale privatization efforts to reduce the public sector’s involvement in the economy. Most privatization efforts have suffered delays, or have been unsuccessful: the bauxite mining companies continue to be a pressure on the budget as a result of slow restructuring, the privatization of the state bank was delayed until 2003, the privatization of the electricity company was unsuccessful with the resulting failure in expected infrastructure and cost improvements, and the government still controls the sugar sector which accounts to one quarter of total exports.^{9 10}

1.13 **External Balance.** So far, Guyana has been unsuccessful in reverting the widening tendency of its external gap, yet in the presence of vast inflows of international unilateral transfers and relatively good export performance.¹¹ As seen in Graph 1.7, the Guyanese current account appears to follow a long term negative trend, averaging -15.7% of the GDP during the period under review. It is important to note that the referred erosion of the external balance coincides in time with a phase of relative stagnation in output -therefore economic activity has not exerted much import pressure. The sustainability of the Guyanese external gap has been partially reached taking into account the generous infusions of remittances and external aid that the country has enjoyed during the period. The IMF projects the current account deficit could be reduced to 14% by 2009 as the phasing out of large capital imports related to the construction of the new cricket stadium and the Skeldon Sugar plant take place. However, pressure on the external balance could arise from new infrastructure projects, changes in financial inflows to the country or renewed economic activity-related imports.

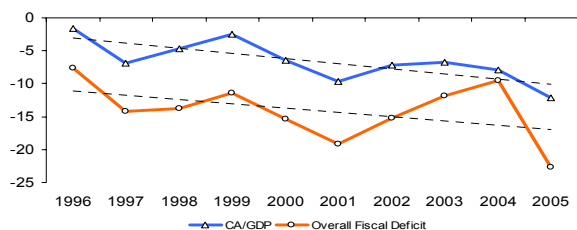
⁸ Significant increases in public spending have coincided with low economic growth in Guyana, suggesting there may have been some inefficiency and inefficacy of public spending.

⁹ BERMINE was closed in 2003, followed by LINMINE in 2004, AROIMA is still in control of the public sector with plans to be privatized in the near future.

¹⁰ The IMF recently (2006) estimated that the reduction of preferential EU sugar prices will be reflected in large export losses that could reach to 6% of GDP.

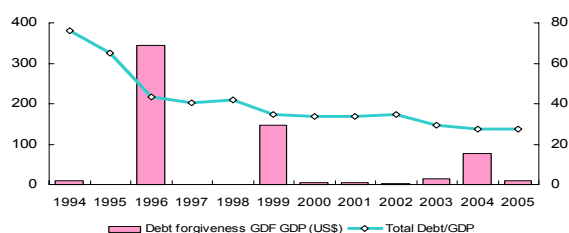
¹¹ BOP figures reported that total exports of goods and services, as well as income grew from US\$ 668 million to US\$ 696 million in current terms between 2000 and 2005.

Graph 1.7: Guyana: Overall Fiscal and Current Account Deficits as a Percentage of GDP



Source: IMF-WEO, WDI

Graph 1.8: Guyana: NPV of External Public Sector Debt-to-GDP Ratio and Debt Forgiveness as a Percentage of GDP



Source: IMF, WDI, GDF

1.14 **Financial Sector.** Guyana has a healthy rate of savings compared to other countries with a similar level of development and population.¹² However, the private-credit-to-deposit ratio is low compared to CARICOM and other commodity-based economies. That is, financial institutions are unwilling to take credit risk and thus transform the high saving rate into financing viable projects to drive growth.¹³ This ensuing excess liquidity would at first glance appear to give the financial system stability, yet the balance sheets of the banks are highly concentrated in slow recovery non-performing loans from the 1990s.¹⁴ Further, they have increased their exposure to sovereign securities in recent years contributing to raising the potential risks of the sector.¹⁵

1.15 Some of the factors that have led to this excess liquidity are inherent to the Guyanese economy which given its size does not allow economies of scale. Nevertheless others can be addressed, such as the lack of accurate financial reporting and disclosure required to efficiently assess risk, increasing the communication between financial institutions, developing consistent bank risk management supervisory standards, the automation of pension and public assistance funds, the creation of a single Land Registry—crucial for collateral, strengthening creditor rights, which are currently perceived as weak despite the recent establishment of the Commercial Court, addressing the demand for transfer and payment services, as well as reinforcing the capacity of the Financial Intelligence Unit to reassure the integrity of the Guyanese financial system.¹⁶

1.16 **Private Sector.** The perception of an adverse business climate has had a negative effect on investment flows –domestic and foreign direct investment- over the period. The reasons most commonly cited are: political tensions and lack of

¹² The ratio of banking system deposits to GDP is similar to that of other CARICOM countries. There are over 100,000 deposit clients in the banking system, a high number considering Guyana’s population. Credit is highly concentrated: the three main borrowers represent twenty percent of all banking system loans.

¹³ This assertion is reinforced by the large interest rate spread, and the high liquidity of the financial institutions.

¹⁴ The BOG uses Treasury Bills to absorb the excess liquidity of the banking system: financial assets are 153 percent of GDP, accounted mostly by commercial banks.

¹⁵ Financial Sector Assessment IMF – WB (2006).

¹⁶ The largest financial intermediary of remittances to Guyana is Western Union, which reports processing monthly over G\$10 million to the country; other payments within the country are usually done through the postal service.

security, the perception of corruption,¹⁷ and lack of transparency in public procurement in the form of substantial bribes paid out by firms to secure public contracts,¹⁸ favoritism towards certain ethnic groups, high business taxes subject to complicated and –widely perceived- opaque exemptions and discretionaryities despite the improvements brought by the Fiscal Amendments Act of 2003,¹⁹ the perception of political interference in judicial decisions,²⁰ lack of access to suitable land –the government owns or leases 90% of the total land, the existence of *de facto* monopolies due to privatization without regulatory safeguards to ensure competition, the requirement of Cabinet’s approval for external investment, low access to services such as electricity and telecommunications, as well as the lack of entrepreneurs and professionals due to high migration.

- 1.17 The majority of Guyana’s private sector is composed of small –mostly- informal-operations with little room for growth in size and wealth; generally retail, and household based. Over 80% of their financing comes from internally generated funds, due to the lack of access to financial services. A small number of medium firms have developed supply partnerships with exporting firms, some through the assistance of Go-Invest, IPED and SBDFT. There is a high concentration of productive assets in a few groups, mainly located in the capital.

B. Social Challenges

- 1.18 The most recent *Report on Progress Towards the Achievement of the Millennium Goals* indicates that it is unlikely that Guyana will attain most of its MDGs by 2015.²¹ Such is the expectation for the indicators on poverty and extreme poverty, child and maternal mortality rates of HIV, malaria and other diseases, improvements of low-income and threatened neighborhoods, as well as the indicators for creating a global partnership for development.²² Moreover, the report indicates weak statistical capability to follow-up on the indicators for monitoring and evaluation, as well as low incorporation of analysis to formulation of policies and resource allocation in the country.

¹⁷ The 2005 Transparency International Corruption Perception Index rated 2.5 for Guyana (scale from 1 worst to 10 best), placing it in the 117th place of 159 countries.

¹⁸ On average reported bribes are estimated at 15.3% of the contract’s value, amongst the highest reported worldwide. *Investment Climate Survey*, World Bank (2002-2003).

¹⁹ For example, the Corporate Income Tax is 45% for trade and services –the highest for Western countries, being 30% the Latin American average-, and 35% for manufacturing –also amongst the highest-.

²⁰ “*The constitution provides for an independent judiciary, but law enforcement officials and prominent lawyers questioned the independence of the judiciary and accused the Government of intervening in certain cases*”, *Investment Climate Statement* US Department of State 2005. The World Economic Forum, World Bank, and the Heritage Foundation, all address this matter in recent reports.

²¹ United Nations (2003).

²² The indicators for universal primary education, and access to improved water sources are on track; while other indicators –such as gender equity, sanitation, and environmental sustainability- show improvement despite being far from the goal.

- 1.19 **Poverty.** In 1999, the share of the Guyanese population living in poverty was estimated at 36%. There is currently no available data to estimate the evolution of poverty through the recent years.²³ However, it is unlikely that poverty decreased significantly despite the slight increase in public spending directed to social programs given the economic stagnation observed over the period under review. The Country Strategy with Guyana mentions a study by Dollar (2002), which estimated the elasticity between growth and poverty for Guyana for 1993 and 1999.²⁴ Even though direct extrapolation is not adequate, had the elasticity remained somewhat constant, poverty would have increased by 2.3% in the 2002-2005 period. Studies indicate that inequality in Guyana has remained fairly stable since the 1950s, with the most critical poverty being predominantly rural.²⁵
- 1.20 **High and selective emigration** has depleted Guyana's human capital and debilitated the country's institutional capacity.²⁶ The shortage of skilled workers affects both private and public sectors, with the highest impact amongst those with higher education.²⁷ Although high migration rates affect all Caribbean countries, Guyana ranks as the country with the highest migration rate worldwide, according to the *Brain Drain Rank* of the Global Competitiveness Report 2005-2006.²⁸
- 1.21 The increase in the rate of **crime** in Guyana has been high compared to other LAC countries. Despite having stabilized over the past few years, the increase in crime from the 1990s undoubtedly has affected the perceptions of both international and local investors, which in several sources rank crime amongst the first five constraints for conducting business in the country.²⁹ One of the most cited origins of this surge is the apparent increase in organized crime, which has been met by the government with the publication in June 2005 of a five-year counter-narcotics strategy.³⁰

²³ A household income survey and an expenditure survey were recently collected, but are not yet publicly available.

²⁴ Country Strategy with Guyana, pp. 2 (2002).

²⁵ "...to reduce poverty rapidly in Guyana economic growth needs to be pro-rural, broad based and labor absorbing; and the State should not indulge in activities that the private sector can do more efficiently... Per capita GDP needs to grow at a rate of at least 3 percent per year for a long period (decades) in order to reduce poverty significantly; redistribution policies would not work in Guyana since there are very few people who are well off, the vast majority live on less than US\$2 a day. " Gafar, John (2004) *Income Distribution, Inequality, and Poverty During Economic Reforms in Guyana*, Journal of Developing Areas. Vol. 38, No.1. (Fall 2004).

²⁶ The net migration rate is estimated to be -7.49 migrants/1,000 pop (est. 2006)

²⁷ *Guyana Investment Climate Assessment World Bank* (2005) pp.6.

²⁸ World Economic Forum, (2006).

²⁹ *Guyana Investment Climate Assessment World Bank* (2005); Criminal Investigation Department Guyana; *Statistical Bulletin* Bureau of Statistics Guyana (2006); and *Guyana Business Outlook Survey* (2006).

³⁰ According to the *International Narcotics and Law Enforcement Strategy Report* of the US Department of State, Bureau for International Narcotics and Law Enforcement (2004), pp. 243. Between 2002 and 2004, high profile seizures of cocaine in the US, UK, and other countries involved shipments of timber, frozen fish, molasses, rice, and coconuts from Guyana "Every commodity that Guyana exports has been used to

C. Political and Institutional Challenges

- 1.22 **Governance.** Participatory consultations carried out as part of the preparations for the PRSP, identified poor governance as one of the key constraints to poverty reduction. The five main issues identified were: poor performance of the regional and national democratic councils, insecurity and inadequate access to justice, corruption and lack of accountability, discrimination, and insufficient attention to decentralization. The World Economic Forum ranks Guyana 115 out of 117 on centralization of economic policymaking.³¹ Further, the presence of civil unrest around the previous two elections, followed by ongoing disputes between the government and the opposition, complicated the implementation of the post-election agreement to undertake a process of dialogue and constitutional reform, despite the establishment of parliamentary oversight committees and independent commissions.³²
- 1.23 Despite a lower than average turnout, and pre-election fears of violence, the 2006 election has so far been the most peaceful and orderly electoral process in Guyana's recent history. The People's Progressive Party (PPP/C) remains in power, giving incumbent president Bharrat Jagdeo another five-year term with a stronger presence in parliament as the opposition votes were divided among more parties.³³ The political challenge of sustaining the partisan dialogue enabling parliament to play a dynamic role in a democratic system with checks and balances is more present than in the previous years: "*..the frustration and fear that exists across society must be acknowledged and mitigated through actions of political leaders over the coming days and beyond*" (September 1, 2006, Carter Center).
- 1.24 Despite the improvements in **procurement** that have supervened the parliamentary approval of the 2003 Procurement and Tender Bill which sought to provide regulation of the procurement of goods and services while promoting competition among suppliers and contractors in a framework of fairness and transparency, yet implementation has not been as agile as was expected. Most groups of local contractors and service providers perceive the conditions for competition are not yet present in Guyana, citing the extensive use of

ship cocaine out of the country" See also Thomas, C. (2006): *Guyana and the wider world: The rise of the phantom economy and social decline*. Institute of Development Studies at the University of Guyana.

³¹ *Global Competitiveness Report 2005-2006*, World Economic Forum.

³² The People's Progressive Party (PPP) –in power since 1992- has been traditionally associated with the community of East-Indian heritage; while the People's National Congress (PNC) which governed the country during the previous 25 years, is closely identified with the Afro-Guyanese.

³³ The People's Progressive Party (PPP/C) secured 36 seats in the National Assembly –for the first time, it will have at least one seat in all of the 10 geographic constituencies-; while the main opposing party, the People's National Congress Reform (PNC-R) will have 22 seats. Three other parties will also seat in Parliament: newcomers Alliance for Change (AFC) will occupy 6 seats, the alliance of the Guyana Action Party and Rise Organize and Rebuild (GAP-ROAR) 1 seat, and The United Force 1 seat.

discretionary tax concessions as a major obstacle.³⁴ This is accentuated by the perception that the Office of the Auditor General needs to be truly independent from government to improve transparency, and reinforced by the delay in making the Audit Law passed in 2004 operational. The *Corruption Perception Index* (2006) compiled by Transparency International, ranks Guyana 121 out of a total of 168 countries worldwide; placing it as the fourth worst ranked country of the LAC.³⁵

- 1.25 **Donor-Government Coordination.** Formal coordination mechanisms between donors and line ministries were established in Guyana in 2001 with the creation of thematic groups for health, education, water and housing. Their main objective was to review plans and develop project pipelines to minimize duplication of efforts. Although the groups have helped address communication bottlenecks, interviews with the involved parties reveal general perception that most of the groups have not worked as originally expected. The largest hurdle appears to be the lack of decentralization for policymaking, which hampers the capacity of the groups to organize and prioritize actions and programs.
- 1.26 In conclusion, the current composite of internal conflicts reflected in institutional problems, crime, and high migration generate a challenging surrounding to foster economic growth and poverty reduction.

II. THE BANK'S PERFORMANCE: PROGRAM AND DELIVERY

- 2.1 This chapter presents the evaluation of the IDB's program of engagement with Guyana, as well as its actual delivery over the 2002-2006 period.³⁶ The first section positions the Bank as Guyana's main development partner. The second section evaluates the intent, expressed mainly in the Country Strategy and other Bank documents considering program outputs, development goals, and coordination with other external donors. The third section analyzes the delivery of the program based on data from the Bank's reporting systems.
- 2.2 The programming analysis indicates that the Bank adequately identified the need to implement structural reforms in order to promote long-term development goals, supporting some operations in this realm. However, it did not prioritize

³⁴ A tax reform program was introduced in 1991 to simplify the tax base and improve tax administration. This was followed by the creation of the Guyana Revenue Authority (GRA) in 1996, which was not fully operational until 2000. The extensive use of discretionary tax concessions continued until 2003 when the power to grant them was shifted from the Minister of Finance to the commissioner of the GRA. Most concessions are now made public.

³⁵ Preceded by Haiti, Venezuela and Ecuador. Transparency International, (2006).

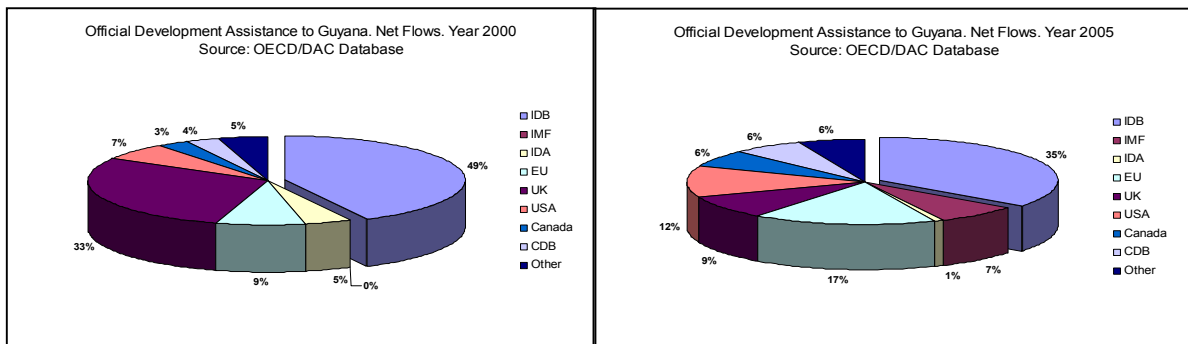
³⁶ The first Country Program Evaluation for Guyana was presented to the Board of Directors in 2002 (RE-266). The present study comprises activities that took place between 2002 and the FSO allocation of 2006, in some cases information about operations that were approved prior, yet had most incidence during the period under review was included.

interventions based on expected development returns, resulting in a program that was not concentrated and that lacked strategic thrust. The range and dimensioning of Bank activities were a consequence of the increase in FSO allocation resources that took place over the period.

A. The IDB's Relevance as Development Partner to Guyana

2.3 The Bank's relevance as development partner to Guyana is evident: it was the largest donor, largest creditor, and largest provider of technical assistance. It consistently financed between 35% and 49% of official development aid (Net flows, Graph 2.1). The total debt of Guyana to the IDB represented 59% of the country's GDP in 2005. Further, the Bank wrote off US\$203.5 million of debt in nominal terms under the last two HIPC initiatives, and most recently US\$467 million. Moreover, the active portfolio was considerable in proportion to the country's economy: loan approvals for each FSO cycle corresponded on average to 12% of Guyana's GDP,³⁷ while average Bank's disbursements represented 35.7% of the total capital expenditure of the GoG, 13.0% of its total revenues, or 22.4% of its tax revenues.

Graph 2.1: Official Development Assistance to Guyana (2000 and 2005)



2.4 Most of the Bank's lending to Guyana was determined by the allocation under the **Fund for Special Operations (FSO)**. In July 2002, the introduction of new performance-based allocation criteria had an unintended effect of vastly increasing the available resources to Guyana by 47% in 2002, and 58% in 2003, relative to what the country would have received under the previous allocation criteria.^{38 39} This represented approximately an increase of 6.8% to 10% in the

³⁷ The 2002-2003 FSO approvals (US\$68.3 million) represented 9.3% of GDP, the 2004-2005 approvals (US\$119.1 million) were 15.2% of GDP, and the 2006 approvals (US\$92 million) constituted 11.1% of GDP.

³⁸ *Proposal for a performance based allocation of FSO resources*, revised version. GN-1856-31 (June 11, 2002).

³⁹ This was equivalent to US\$176 for every citizen (compared to \$119 in 2000/01). It contrasted with an average allocation of US\$31 per capita for the other 4 FSO countries (down from US\$33 per capita in 2000-02). In fact, if FSO finance had been allocated on an equal per capita basis, Guyana would have received just \$27m in 2002-03.

annual per capita income of Guyana.⁴⁰ For the 2004-2005 FSO cycle, Guyana's per capita allocation represented almost 8 times the per capita allocation to Haiti, and approximately 7 times that to Bolivia.

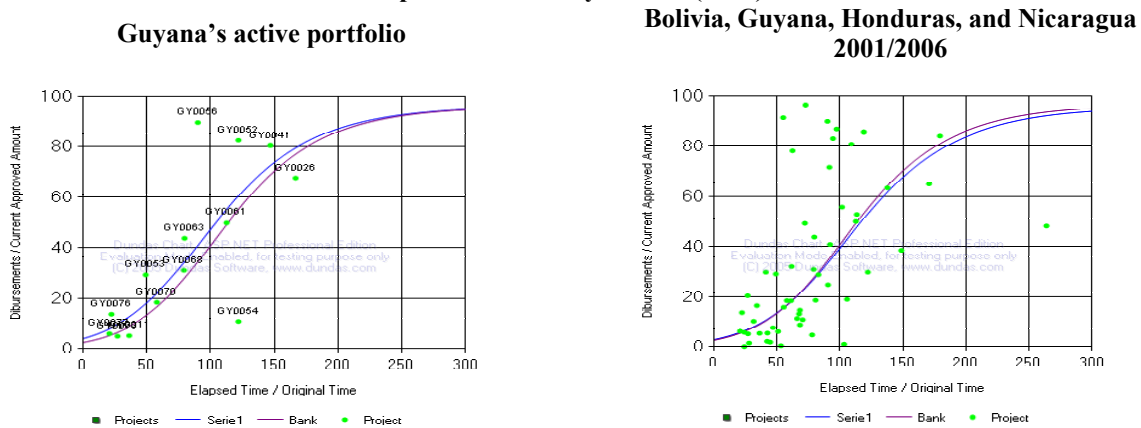
Table 2.1: FSO Approvals to Guyana: disbursements and outstanding balance as percentage of GDP

(US\$ million)	Approvals	Disbursements	Undisbursed Balance	Balance as % GDP
2002-2003	68.3	62.6	162.25	22.2%
2004-2005	119.1	96.0	181.85	23.2%
2006*	92.0	23.8	259.4	31.3%

* up to July 2006

2.5 Inference as to the effect that the sudden increase of available resources had on the undisbursed balance observed in prior programming cycles –as observed in the previous CPE- is straightforward. Despite the constant improvement of the rate of disbursement of the active portfolio throughout the period -placing it close to Bank averages, and above HIPC disbursement curves (Graph 2.2), the undisbursed balance remained on average around 23% of Guyana's GDP.⁴¹ The proportion of the approvals to the Guyanese economy, as well as the fact that they were approved over short periods of time -for example, the Bank approved the equivalent to 15% of Guyana's GDP over the lapse of 3 months in 2004- reduced the probability that resources could be used in a manner consistent with development effectiveness. At present, almost 35% of the total undisbursed balance of Guyana corresponds to IDB aid.

Graph 2.2: Efficiency Curves (2006)



2.6 The magnitude of the increase in available resources to Guyana paired with the FSO allocation deadline created a negative incentive structure that distorted programming, dimensioning, development effectiveness, as well as coordination

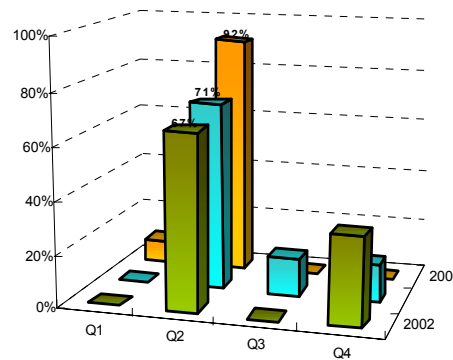
⁴⁰ Oversight note on the performance criteria for allocating concessional resources (RE-279), pp. 9, Office of Evaluation and Oversight (2003).

⁴¹ The outstanding balance as a percentage of GDP for the period 2002-2003 was 22.3 %; increasing to 23.2% for the 2004-2005 period.

with other donors.⁴² Interviews with all involved parties attested to these complications.⁴³

2.7 Empirical evidence of this is that project preparation was hampered by lack of progress and resolution followed by a busy closure moment that resulted in a clear pattern of project presentation to the Board of Directors for approval just prior to the Fund’s deadlines. Most approvals from 2002 to 2006 took place from April to June every two years, followed by re-dimensioning of the approved projects.⁴⁴ ⁴⁵ Had this been a temporal adjustment phenomenon to the

Graph 2.3: Guyana: FSO approvals are highly concentrated around the deadline quarter



Source: IADB

new performance-based allocation criteria, one would not observe an increasing tendency to approve around the deadline, like the one that took place (Graph 2.3). The acknowledgement in the Country Strategy that “*project dimensioning requires special attention*” could not be addressed given the incentives that the allocation provided. It has been an ongoing challenge for the Bank throughout its engagement with Guyana that must be addressed in the upcoming strategy.

2.8 Other FSO countries did not present this pattern of approval concentration around the second quarter. Only in the case of Bolivia one can observe that second quarter presentation to Board increased over the last three cycles.

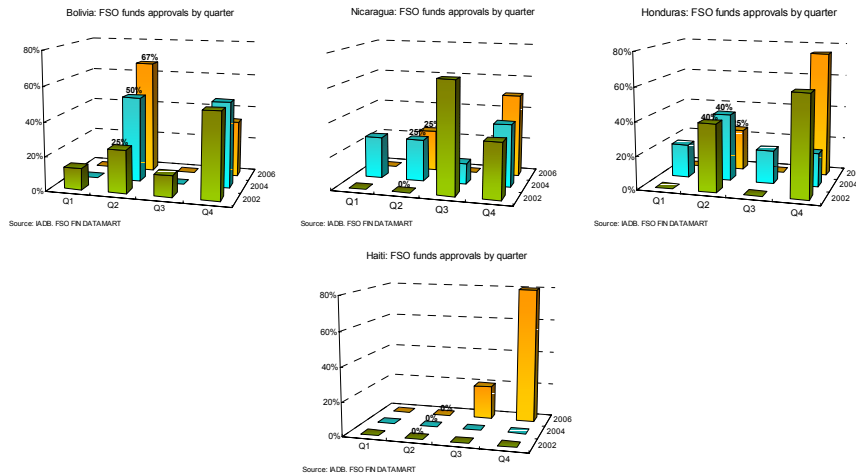
⁴² “It is possible that some of the projects identified as likely approvals in the reallocation exercise in year 2 would not be approved during the remainder of the year. In such cases, the resources corresponding to those projects would remain as part of a country’s allocation, provided that those projects are presented for Board approval within the first six months of the following allocation period. Unused funds from projects not approved in the first six months of the cycle would be added to the FSO “reserve” Allocation Parameters, pursuant to GN-1856-31 and GN-1856-25.

⁴³ Opinions or subjective evaluative judgment of individuals involved with the program shall be reported as deemed relevant by OVE. GN-2077 and RE-271-1.

⁴⁴ The exception to this pattern took place the last quarter of 2003, when 12 out of the 14 benchmarks set in the CS to delay infrastructure projects were achieved. The Board’s “*substantial completion*” approval, resulted in 5 operations presented over the subsequent months.

⁴⁵For example, 91.7% of the active portfolio in 2003 was reformulated and restructured; while over 42% of active projects were reformulated and restructured in 2004.

Graph 2.4 other countries FSO approvals



2.9 When the Board of Directors adjured Management to work on a new FSO performance-based allocation criteria, its key assertion was that the changes would allot scarce concessional resources “in a fashion designed to maximize their development impact” in coherence with the New Lending Framework. However, the allocation criteria generated an unintended bias favoring Guyana in such manner that was difficult to reconcile with a development approach. The bias was pointed out in the 2003 *Oversight note on the performance criteria for allocating concessional resources (RE-279)* “It appears, however, that *ceteris paribus*, the method chosen has an unintended bias against (relatively) lower – income and/or more populous countries”. Moreover, though the immediate theme of this deliberation would be “*absorptive capacity*”,⁴⁶ the missing gauging of development impact and prioritizing of actions is also important to reckon a part of the discussion on performance-based allocation for Guyana.

2.10 The recent developments of the Multilateral Debt Relief (IDB-07 Relief) have prompted the Administration to present a request for adjustments to the allocation of administrative expenses between Ordinary Capital and FSO (CF-147, May 15th 2007). If approved by the Board, the total available FSO resources would be reduced over the following years. The corresponding reduction may provide incentives for the Bank to prioritize with the GoG the upcoming operations.

B. The Bank’s Program

2.11 The diagnostic of the current Country Strategy is consistent with the main objectives of the *National Development Strategy* of the GOG.⁴⁷ The Bank further

⁴⁶ The Country Strategy identified “*project dimensioning required special attention*” and a “*lack of absorptive capacity*” having recognized that the Bank had continued to approve large amounts of resources, with further re-dimensioning and redesigning the majority of projects.

⁴⁷ The *National Development Strategy* was the first formal attempt of Guyana to prioritize sector and policy strategy towards development. First drafted by the Guyanese government in 1996, subsequently revised and

- agreed with the Guyanese authorities to align its own program with the PRSP, hence benefiting from consultations and sources of information available during the PRSP's preparation period.⁴⁸
- 2.12 The main objective of the Strategy was to “*collaborate with the country to reduce its level of poverty in the medium term, while simultaneously addressing chronic institutional and human resource problems that must be alleviated in order for the country to achieve sustainable, equitable growth in the long term*”. Three clearly identified areas were chosen to pursue this objective: (i) attaining sustainable economic growth, (ii) improving governance and public sector efficiency, and (iii) strengthening social programs; through a proposed program of 14 operations for US\$244.3 million. Emphasis was placed on “*growth-oriented*” programs (60.9% of resources) such as information and communication technologies, a trade and investment facility, agriculture, ports, road projects, and an environmental loan. Social programs accounted for 23.2% of the planned resources, while 15.9% was proposed for improving governance and public sector performance. Technical Cooperations were planned to support project preparation, institutional development and capacity building, as well as the creation of an enabling environment for private sector development. Prominence was placed in the support of operations “*assigned in areas where Bank had already developed experience...*” with 55.5% of total resources.⁴⁹
- 2.13 Following the recommendation of the previous *Country Program Evaluation: Guyana 1989-2001* (RE-266) and the *Country Paper Guidelines* (GN-2020-6), the Country Strategy made provisions for program assessment through the inclusion of 46 indicators to monitor progress within the different development dimensions identified.⁵⁰ Though no ranking or priority was assigned to the large number of indicators, particular relevance was given in the document to tracking the Country Institutional and Policy Evaluation (CIPE) ratings, some of the indicators of the HIPC initiative, and a subset of the PRSP indicators towards the Millennium Development Goals. Indicators shared with other donors proved useful for coordination purposes.
- 2.14 Most of the 46 indicators corresponded to *output indicators* (63%), of which the majority did not provide a baseline value -only 41% included baseline data-, and

updated until its final adoption at Parliament in 2001. Its main objectives are to i) achieve sustainable growth rates, ii) reduce poverty, iii) achieve geographical unity, iv) ensure equitable geographical distribution of economic activity, and v) diversify the economy. However, it does not specify an action plan for implementation, and financing requirements.

⁴⁸ Poverty Reduction Strategy Papers (PRSP) are prepared by the member countries through a participatory process involving domestic stakeholders and external development partners including the World Bank and the International Monetary Fund. Updated every three years, with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a three-year or longer horizon to promote broad-based growth and reduce poverty, as well describe the associated external financing needs.

⁴⁹ Country Strategy with Guyana 2002. pp. 28 paragraph 4.45.

⁵⁰ Ibid, Annex 1.

- only 66% had quantifiable targets. The *outcome indicators* presented baseline data in the majority of the cases, including clear and quantifiable targets. There was no baseline for *any* of the transport and electricity sector indicators, while baseline data was absent from *most* health, environment, and telecommunications indicators.
- 2.15 Granted that the Country Strategy recognized that “*the project and sector-specific knowledge requirements suggest that project teams and/or the country office have comparative advantage in monitoring progress*”, one would expect that observing the Evaluability Completeness Index of individual projects -which determines whether objectives and components have metric indicators with clear baselines, milestones and targets, would fare better results than those observed in the Strategy document. Notwithstanding, the average evaluability index is 50.9% for objectives and 52.3% for components, reflecting a scarcity of numerical indicators by which to assess the progress and development effectiveness of the projects.
- 2.16 The Strategy specifically conditioned the approval of major infrastructure projects “*...until such time as satisfactory annual progress on performance indicators has been achieved. For example, the Bank would seek approval of the first growth project only after the measures agreed for 2002/2003 have been completed*” while the public sector and social programs were to continue “*in order to provide the authorities with the financing and technical assistance tools required to address the critical public sector and poverty reduction challenges*”. Satisfactory progress in the reform agenda would be necessary for the maintenance of the baseline-lending scenario of US\$244.3 million, otherwise triggering a gradual shift towards a low-lending scenario of US\$111.3 million.
- 2.17 In this realm, the 2002-2003 FSO allocation cycle included 14 benchmarks derived from the public policy agenda. Their expected function was to support fiscal sustainability, improvement of public sector accountability arrangements, efficient use of public and HIPC resources, and improved conditions for private sector development. By the end of 2003 half of the indicators had been achieved, and a further 4 were completed by mid 2004. At this point, the Bank went ahead with the infrastructure projects and allocated the pending indicators to the additional 6 that were introduced for the 2004-2005 cycle. The GoG requested technical assistance to support the fulfillment of the indicators in 2005, and agreed to hold monthly meetings to review their progress.
- 2.18 There was no explicit description in the Country Strategy as to the process by which the selection of these specific infrastructure projects took place.⁵¹ The

⁵¹ “*It is true that the CSP did not explicitly discuss the reasons that it was deemed necessary to condition the approval of the infrastructure projects, although from the discussions of the slowing reform effort (paragraphs 2.5 and 2.7), the need for comprehensive public sector reform in the section on Governance and Public Sector Modernization (2.14-2.15), and delays in the implementation of the Bank’s earlier public sector strengthening program (3.2), those reasons could be deduced fairly easily*”. pp. 7 Region III Consolidated Comments on OVE Guyana Country program Evaluation 2002-2006 (April 24th, 2007).

- 2002 Programming Mission Report (CP-2402-1) mentions the President of Guyana “... requested further clarification of the relationship between the CIPE methodology and the new Country Strategy lending scenarios”, followed with an explanation for the need of such benchmarks and their purpose. It is evident that the Administration viewed them as a useful mechanism to monitor the actions of the proposed public policy agenda. Further documents express the collaboration efforts between the GoG and the Bank to achieve the benchmarks.
- 2.19 The Country Strategy recognized the Bank’s preeminent position as the main development partner to Guyana, yet it made no provision to embrace leadership through ex-ante articulation, leaving donor coordination mainly to the Thematic Groups created in 2001, and the efforts of individual project teams.⁵²
- 2.20 Throughout the Country Strategy, implicit assumptions about the links between some interventions and expected outcomes that were not necessarily direct consequences are included, leaving space for implementation deviation from the originally envisioned. Such is the case of social interventions that generate short-term welfare gains, yet were expected to directly reduce poverty and inequality. In other cases, the provision of services was expected to reduce poverty, without analysis of the sustainability of these services: “*To support... poverty reduction, and improved living conditions, the strategy seeks integration for rural areas through affordable accessibility to local communities...*” Another example is the proposal to use “*education reform*” as a way to “*combat the deleterious effects of migration*”, when Guyanese individuals have a higher probability of migrating as their education level increases. Finally, economic diversification was considered the by-product of an intensification of dialogue on policy and institutional reforms to enhance private sector development, agriculture and rural development. In fact, it was assumed that increased productivity and exports had to rely on the basic commodities already produced –like sugar, rice- and nontraditional products – fruits and vegetables, arts and crafts- without any rationale as to why this had to be so.
- 2.21 The Country Strategy recognized “*Guyana’s private sector is small, fragile and in the midst of stagnation*”. Its proposed actions were geared towards policy reforms to “*reduce transaction cost; promote trade, investment and competitiveness; and foster private sector participation, opportunities and diversification*”. Following a Private Sector Conference (April 2002) where the available Bank instruments to support private sector investments were presented, the GOG requested a Trade Facility Loan subject to fast-track approval, and a complementary MIF program to Strengthen Trade, Investment and Business

⁵² “...played a key role in assisting the authorities with donor coordination on policy and project matters” as well as “*At the project level, the Bank as leading donor is systematically consulted by other donors regarding planned activities in Guyana*”. The Country Strategy with Guyana (2002) specifically mentions a few previous instances of direct collaboration and coordination with the World Bank, the IMF, and DFID. No explicit reference of prior direct collaboration with other donors is mentioned, nor of plans to collaborate during the scope of the strategy.

Environment. Two Technical Cooperations were planned to support the GOG efforts to address the weaknesses in the legal regime: the Establishment of a Commercial Court TC, to prosecute and speedily resolve commercial disputes, and the Establishment of a Credit Bureau TC.

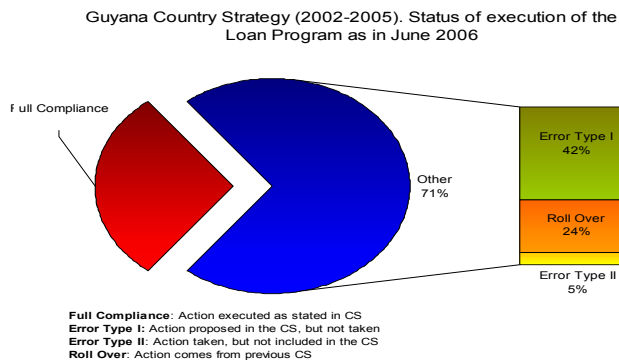
2.22 Summarizing, the diagnostic of the Country Strategy was adequate and consistent with the NDS. Despite the lack of prioritization of actions based on development outcome measures in order to obtain the best possible overall results, planned operations were consistent with the challenges identified. The inclusion of indicators to track the Country Strategy’s progress was a positive measure towards gauging the development effectiveness of actions, yet the large number of indicators and lack of ranking must be corrected for future engagement. Only indicators that can realistically have a baseline value, and can be tracked should be included. The benchmarks introduced to maintain a high-lending scenario proved to be a useful tool in keeping the public policy agenda present, and represent a creative and tailored approach of engagement with Guyana.

C. Delivery

2.23 This section describes and evaluates the implementation of the Bank’s program, from the adequacy of the Country Strategy as an effective planning instrument, to whether the outputs to which the Bank committed were delivered in a timely and efficient manner.

2.24 Despite the general objectives identified in the Country Strategy were maintained, the data reviewed shows that the Strategy was not implemented as planned. Graph 2.5 shows that the percentage of planned operations that did not take place superseded those that were projected and executed, leading to a low prediction rate. Defining full compliance as projected actions that were implemented -with or without modifications, we observe that only 29% of the actions fall within this category and most operations were amply modified. The remaining 71% are divided as follows: activities considered within the Country Strategy that were not implemented amount to 42%, while realized activities that were not planned as part of the Strategy constitute 5%, rollover operations from the previous Strategy represent 24%.

Graph 2.5: Prediction error of the IDB Country Strategy with Guyana (2002-2005) as of June 2006



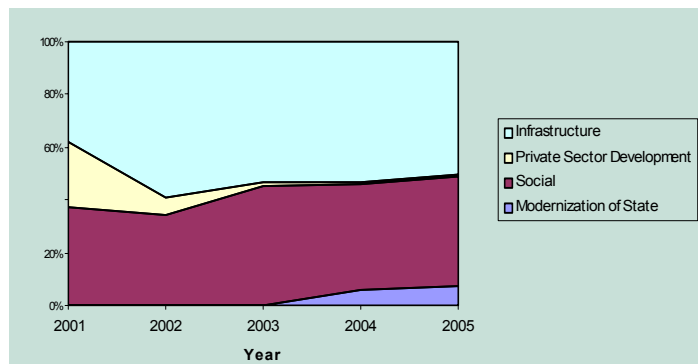
2.25 Though small in number, the activities that took place but were not included in the Strategy (Error II, Graph 2.5) represent flexibility in reevaluating the Bank

activities stemming from the marked deterioration that was taking place in private investment. Originally the Strategy proposed to support the private sector by promoting transparency in government spending and procurement, without direct operations to promote private sector development. Alerted to the need of increasing direct efforts, the Bank prepared the *Support for Competitiveness Program*. This mid-stream reorientation was a proactive response to the developments in private sector investment of the first half of the strategy implementation period.

2.26 The implementation of the operations identified by the Strategy to attain its main objective fared as follows. First, it emphasized what it regarded as “*growth oriented*” programs which were only partially delivered: absent were a Trade and Investment Facility, Agriculture Diversification, Information and Communication Technologies, Deep-water Port Program, and Environmental support. Roads, Bridges, Air Transport Security, Urban Basic Infrastructure, Electrification of Underserved Areas, and Sanitation activities took place -the latter after severe delays. Secondly, most of the foreseeable actions to *strengthen social programs* were implemented, albeit many were delayed, restructured or re-dimensioned. Thirdly, the Strategy emphasized improving *governance and public sector efficiency*: two sector facility loans, two hybrid loans, and six Technical Cooperations were implemented; some with delays, restructuring and redimensioning. Further, emergency assistance following the 2005 extensive flooding was provided.

2.27 The composition of the Bank’s actual portfolio (Graph 2.6) heavily reflects the role of the IDB in supporting Guyana’s infrastructure. The proportion of the portfolio destined to programs categorized as *social* have remained somewhat constant, yet

Graph 2.6: Portfolio composition (2001-2005)



it is important to note that most of this expenditure is used for infrastructural purposes; while the efforts directed towards private sector development have been reduced during the period under review (prior to 2001 these had been supported through policy based loans). It is positive -and coherent with the presented analysis- to observe that modernization of the state has been introduced. This has been mostly a result of the efforts from the previous two strategies coming to fruition with the approval of the Fiscal and Financial Management Program, and the Public Management Modernization Program in 2004. Public sector reform and agricultural reforms were carried over from the previous Country Strategy.

- 2.28 A large number of non-reimbursable Technical Cooperations (27) for a total of US\$6.72 million were approved over the period. These were largely directed towards institutional strengthening and policy reforms, as well as for loan preparation and design. Less than 30% of the approved Technical Cooperation portfolio was financed by MIF, focusing on strengthening public sector entities towards improving the conditions for private sector development.⁵³ The Country Office also managed a regional technical cooperation portfolio executed by the CARICOM Secretariat in Georgetown.
- 2.29 The private sector windows of the Bank had difficulties identifying suitable private sector partners in Guyana. Though the situation improved slightly from the previous programming period, which lacked private sector lending operations.⁵⁴ There were few private-sector operations during the analyzed period, and most were beleaguered with difficulties and delays. In 2004 the IIC Board approved an equity investment of US\$200,000 to provide financing and enterprise development services to create and maintain successful micro, small, and medium size enterprises in Guyana and Suriname. The proceeds of this investment were intended to assist in the development and expansion of at least 60 SMEs and 2,500 micro-enterprises. This operation was not identified in the Country Strategy. Further, towards the end of the period, PRI attempted financing a project for US\$18 million to support private mobile telecommunications, yet it did not proceed, mainly due to legal issues and continuously deferred legal ruling.
- 2.30 The Strategy mentions that in the previous program “*delays were encountered by the need to redesign various projects*”, and were therefore going to be addressed for this period. However, the current evaluation found this is an ongoing problem, which indicates that the Bank has not been able to find a way to improve this situation.
- 2.31 Even if some delays appear to have been the product of efforts to improve the quality of the projects, the fact is that operations were not delivered in the projected timeline.⁵⁵ The delays of preparation-to-approval of many projected operations constitute an irrecoverable opportunity cost for the Guyanese if one takes the timing in which the country strategy suggested they should take place as the adequate one, and given the relevance of the IDB as development partner; or alternatively reinforces the argument of the inadequacy of the country strategy as a planning instrument, as a number of operations have only recently been approved outside of the Strategy’s scope. Such is the case of the only operation in the private sector development category originally proposed Trade Facility Loan which did not take place; three operations to improve governance and public sector efficiency (Citizen Security Program; Justice Administration System

⁵³ These have included regulatory frameworks for electricity and telecommunications, property rights, and airport security.

⁵⁴ Only a couple of technical cooperations were financed by the MIF.

⁵⁵ The pipe-start-to approval median is 13 months (average is 18.5 months), but the standard deviation is very high: 19.8 months.

- Program, Strengthening of the Pension System TC), an Agricultural Export Services TC to support the preparation of an Agriculture Diversification Loan, and the Georgetown Solid Waste Management Program. The latter as a result of the delayed infrastructure programs due to lack of compliance of 2 out of the 14 Public Policy Agenda benchmarks, agreed within the 2002-03 FSO framework.⁵⁶
- 2.32 If the analysis included in the Country Strategy is correct, then an incontrovertible lost opportunity comes from the operations that were identified, yet did not take place within the scope of the Strategy: the Deep Water Port Program (PRI/IIC), Information and Communication Technologies (MIF TC), Remittances Technical Cooperation (MIF), the Development of a Framework for Eco-Tourism Development (MIF TC), Development of a Credit Bureau TC, and the cancelled Increasing Net Usable Yields in the Fishery Sector (MIF TC).
- 2.33 According to the Bank's supervisory system, there has been improvement in the execution of the portfolio over the period reviewed. The percentage of projects that reported (Project Performance Monitoring Reports, PPMRs) *Institutional Capacity*, *Bank-related*, and *Commitment* problems in 2002 was over 50%, falling to 24.7% in 2003, 20.6% in 2004, and 15.8% in 2005. In 2002, 70% of the active projects reported *Implementation Progress* problems. By 2005 this figure was reduced to 23.5%, even though the number of active projects had almost doubled. This may appear incongruent with the fact that a large proportion (64.7%) of the active projects during the 2002-2005 period were on Project Alert Information System (PAIS) alert at some point as most of these alerts had to do with *low disbursement*, *disbursement extensions* and *eligibility delays*. At least 35% of the active projects over the period had an overdue Audited Financial Statement (AFS): this figure peaked in 2002 with 50% of projects, and since, decreased to 35.3% in 2004 and 2005. The delayed AFS were mostly for a short period (maximum of 90 days), 1.6% were overdue more than 180 days, and 3.2% were never delivered.
- 2.34 To date, the Bank has responded to implementation and execution difficulties through the establishment of executing units parallel to the main line ministries – at the time of this study 26 executing units were operating IDB-financed operations, and by introducing monthly portfolio-review meetings to boost communication with the government. While this seems to have reduced execution delays –if measured by the execution time of projects, and the reduction of projects with PAIS alerts-, it does not foster long-term sustainability and capacity building in Guyana as agreed to by the Bank and the country when signing the Paris Declaration on Aid Effectiveness which states that donors should “*Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes*”.

⁵⁶ Other delayed infrastructure programs were the Rural Transport Program, Georgetown to Diamond Road, and the Bridges Rehabilitation Program II (although this program was not originally included in the Country Strategy under review).

Moreover, the Country Strategy recognized “*A Bank’s assessment... revealed that PEUs operated independently and with little oversight, resulting in inefficiencies, duplication and high costs*”.

- 2.35 An interesting PEU model that has been used and may be worth considering for future operations is that of the BEAMS Project, where considerable responsibility for execution remains within the line ministry. Recently, the GoG has informed the Bank that it has begun exploring options to institutionalize and integrate the BEAMS activities into the Ministry’s regular operations so that functions can continue once BEAMS comes to an end. Other examples to analyze are those provided by the Works Service Group and Health Multidonor PEUs.
- 2.36 Other implementation challenges that the Bank needs to address are those reflected by the opinions expressed in interviews with different parties involved with the execution of Bank-financed programs, which reveal a perception of unclear and complicated Bank procurement procedures, as well as unpredictable timing when processing changes due to project restructuring, and when issuing legal opinions.⁵⁷ Furthermore, the Bank needs to explore the development of innovative risk management mechanisms in order to provide reasonable incentives for firms to invest in Guyana. Where pertinent, new procurement schemes need to be developed to make the participation of local and foreign firms more attractive.
- 2.37 Positive steps towards the compliance with the Paris Declaration commitments are efforts to align project startup activities to the annual budget exercise in order to ensure the timely availability of adequate counterpart were addressed through technical assistance financed by the C&D Action Plan. Nevertheless, further work needs to be undertaken before all projects are effectively aligned to the annual budget exercise.
- 2.38 As the IDB moves towards a country-focused and country-based approach, the Country Office will need to fulfill additional tasks beyond the traditional role of country offices which generally had been of supervision of operations in execution and fiduciary tasks, providing a ring fence around IDB funds. Contributing to Guyana’s development by accompanying this crucial role with other tasks that create a wider ring-fence around whole budget lines or sectors and not only around IDB resources will pose enormous challenges for the Country Office, which will need to be reengineered in order to meet them.⁵⁸

⁵⁷ Opinions or subjective evaluative judgment of individuals involved with the program shall be reported as deemed relevant by OVE. GN-2077 and RE-271-1.

⁵⁸ “*The increased emphasis on country focus and country systems implicit in the adoption of the Bank’s new lending framework, for example, means that Country Offices must streamline their internal procedures and processes in order to focus more attention on risk management and the development of country capacity*” IDB Annual Report, 2005.

- 2.39 The Country Office will need to strengthen its analytical capabilities in order to provide policy advice at the strategic level at the request of the GoG, with the perspective of “*spending more time participating in programming dialogue, project preparation and problem solving on substantive issues in project execution*”.⁵⁹ Thus a careful assessment of the skills inventory and requirements should be undertaken to determine the profile that the Country Office requires to meet this challenge. Further, the Bank should concede the creation of an incentive mechanism that allows for the best staff to rotate temporarily to the country to reinforce the local office with professionals solely focused on development results by overseeing the empirical application of the economic and sectoral work that is being produced by the Bank and other donors in the overall dynamic picture of Guyana.
- 2.40 In conclusion, the Bank used most of its available loan instruments, supported by non-reimbursable and program-embedded technical cooperations in its engagement with Guyana over the period. Projects were being prepared, implemented or closed during this period in every sector. The next Country Strategy must improve analysis of risk identification and mitigation concerning the feasibility and timing of planned operations, in order to implement them in an effective and efficient manner.

III. PROGRAM RESULTS

- 3.1 This section should analyze the development effectiveness of Bank-financed actions in Guyana over the period by estimating the impact of individual projects, as well as that of the Strategy as a whole. Full analysis of the design, effect and operational characteristics of interventions that reaped the most benefit would be valuable for the Guyanese when planning, and negotiating future engagement with the Bank. Unfortunately, the lack of comprehensive and updated data for the IDB-financed operations impedes a full evaluation. An overview of project-level results is presented where available. However, for the most part the review presented is based on the available aggregate country-level information. Finally, throughout this section we also address the Bank’s role in promoting meaningful reform, and its ability to maximize its comparative advantage for promoting governance in the country.

A. Determining the Development Impact of the IDB’s Strategy with Guyana

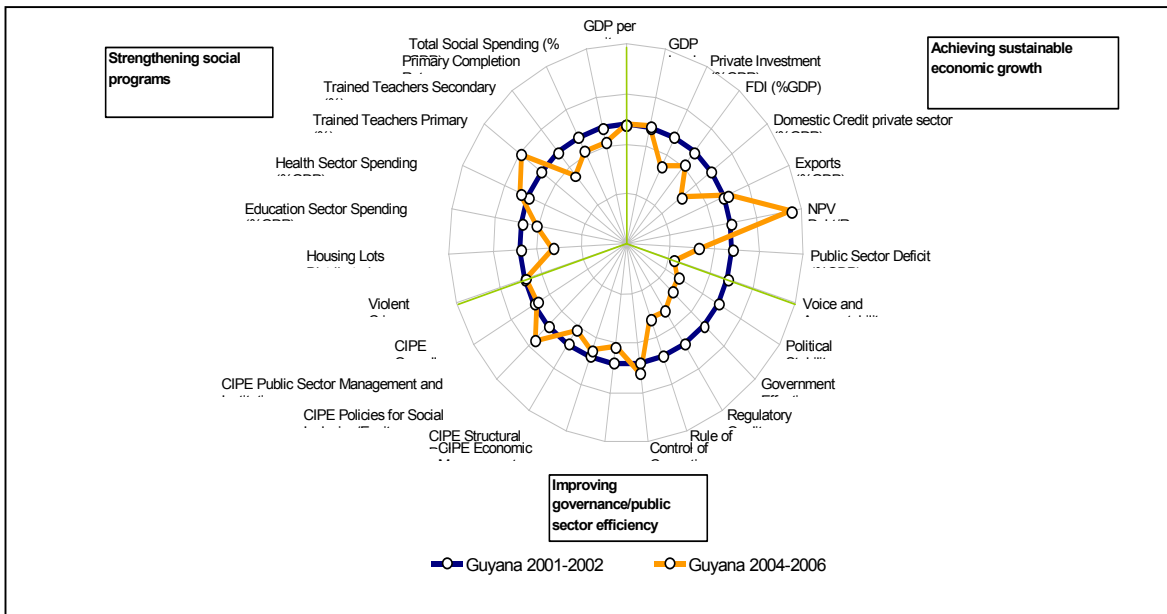
- 3.2 The Country Strategy mentions a set of outcomes and outputs that were to be tracked over the 2002-2005 period. Graph 3.1 plots the subset of indicators for which information is available. The baseline values correspond to the year when the strategy was presented, while the value of the indicators with the most recent

⁵⁹ Ibid.

data point available shows the evolution of the indicators over the period. All the target indicators are in index number form; therefore, indicators that tend to the center of the graph have worsened over the period under analysis.

- 3.3 The three main “*areas of strategic emphasis*” identified in the Strategy divide the graph: a) the first section corresponds to actions that were planned to improve and strengthen social programs, b) the second section of the graph represents those outputs and outcomes corresponding to actions aimed at achieving sustainable economic growth, while c) the third section corresponds to the indicators chosen to track the actions aimed at improving governance and public sector efficiency.⁶⁰

Graph 3.1: Guyana 2002-2006 Tracking Country Strategy Outcomes / Targets



Sources: *Growth and Economic Performance: WDI, IMF, IDB /Governance: WB's Kaufmann, Kraay and Mastruzzi / CIPE: IDB's Country Institutional and Policy Evaluations / Social Programs: IDB, PRSP progress report, PSIP-PRSP, Guyana Statistical Bulletin.*

- 3.4 From the available information in Graph 3.1, one would be inclined to conclude that the Bank’s actions were ineffectual in the three main pillars of the Strategy, as Guyana’s situation has deteriorated over the period for almost all publicly available measures and the Bank was the largest development partner over the period. The Bank has not collected suitable information on its individual operations so a more detailed analysis of the reasons for which actions appear to have been ineffective is not possible. It is imperative that the Bank prepares the upcoming strategy with this priority in mind. As the *Report on Progress towards the Achievement of the Millennium Goals (2003)* indicates, the biggest challenge of Guyana and its development partners are “*weak data collection capability, lack of statistical follow-up capability, reduced capability for incorporating analysis to*

⁶⁰ *Country Strategy with Guyana 2002-2005*, pp. 14. Inter-American Development Bank (2002).

*policy planning and resource allotment, as well as weak monitoring and evaluation mechanisms”.*⁶¹

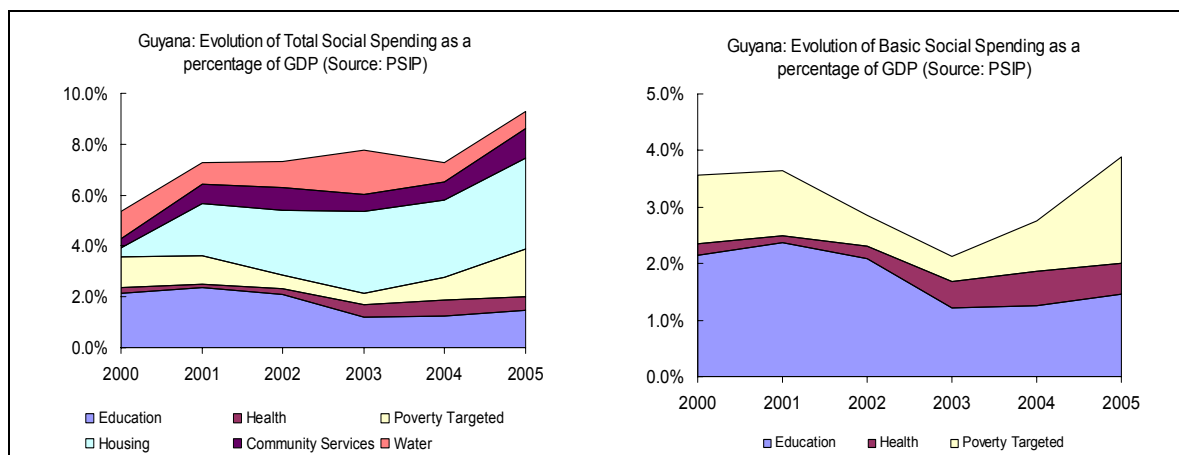
1. Strengthening Social Programs

- 3.5 A large number of social programs currently operate in Guyana funded mainly by development donors, with the IDB being the only donor that has financed operations in all social sectors over the period. As can be observed in Graph 3.1, most indicators for the social sector category declined during the period under review. Only the percentage of trained teachers that have completed primary school improved, and one can observe a slight increase in Health Sector spending as a percentage of GDP. It is highly improbable that a positive development impact of the interventions took place when basic output indicators prove to have worsened over time.
- 3.6 Although efforts to improve data collection and its integration into budgeting procedures have been made by the GoG and its development partners, it is not currently possible to fully assess the impact of debt relief initiatives in creating extra leverage for social spending. There is little insight on the beneficiaries of social programs, as well as on the extent of the development results of the interventions. Further, detailed analysis of resources destined to poverty alleviation is hampered by limited access to expenditure data, and some inconsistencies in publicly available information.⁶² Complicating the identification is the fact that most expenditure cannot be geographically tracked, and that the separation between investment expenditure and current spending is not always clearly stated. Observing data from the Public Sector Investment Program (PSIP) prepared for the PRSP review of 2005, an increment in “broadly” defined social expenditure (from 5.4% of GDP in 2000, to 7.5% of GDP in 2005) would lead to the conclusion that “pro-poor” expenditures have indeed increased. However, when one observes spending on “basic” social expenditures (education, health and poverty-related), spending remained constant over the period: expenditures in 2005 (3.9% of GDP) were approximately at the same level of 2000 (3.6% of GDP), recovering from a dramatic dip in the period 2002-2003 albeit debt relief initiatives (Graph 3.2).

⁶¹ United Nations, (2003).

⁶² Sources compared were: Statistical Bulletin of the Bank of Guyana (2006), 2005 PRSP Progress Report, 2005 Public Sector Investment Programme Review (PSIP), Annual Reports of the Office of the Auditor General, and the Priority Poverty Expenditure Tracking Report (prepared by the Monitoring and Evaluation Unit of the Presidency, 2006).

Graph 3.2: Evolution of Total/ Basic Social Spending as a Percentage of GDP (investment expenditure)



3.7 The Country Strategy with Guyana recognizes that “*lack of baseline information makes it difficult to estimate social returns a priori*”, yet despite the interventions that took place during the period -some specific for addressing this issue- the evident lack of data continues to be a problem *a posteriori*.⁶³ For example, given that the last official figure on poverty dated back to 1999, reports such as the 2005 Ministry of Labor’s *Risk and Vulnerability Assessment*, the *Public Expenditure Management Country Assessment and Action Plan (AAP)*, the *IDB Country Strategy with Guyana 2002*, and the *PRSP Progress Reports*, were all based on outdated poverty data. Furthermore, the national poverty figure for 1999 did not allow for measurement territorial disparities, so initiatives on this sector were blindfolded as to the targeting they should have been aiming for. Recently, the World Bank –whose official development assistance to Guyana has on average represented less than 5% of total assistance over the period- has produced a poverty map using the IDB-financed 2002 Census data. Despite the Bank’s operation to strengthen the capacity of the Bureau of Statistics, at present it does not have access to disaggregated 2002 Census data.

3.8 The Office of Evaluation and Oversight (OVE) and RE3 carried out a Data Quality Audit (DQA) of administrative data for relevant poverty reduction outcome indicators as part of this evaluation.⁶⁴ ⁶⁵ A sample of indicators on the

⁶³ *Country Strategy with Guyana 2002-2005*, Inter-American Development Bank, (2002).

⁶⁴ Originally created for the Global Alliance for Vaccines and Immunization (GAVI), the Data Quality Audit (DQA) method comprises a multi-method approach including structured interviews, secondary data collection and analysis, often combined with qualitative field work, over multiple levels of geographical aggregation to allow for data flow analysis and accuracy throughout the data generation reporting chain.

⁶⁵ The study’s main objective was to provide instruments and recommendations to improve outcome measurement and institutional capacity to inform subsequent phases of strategic planning between Guyana and the multilateral development community.

education sector were selected and verified for several regions in Guyana.⁶⁶ The conclusions reflect what interviews with diverse actors in Guyana and abroad pointed out: although the Ministry of Education is making an effort to collect data and generate statistics with the collaboration of the Bureau of Statistics this is not yet fully organized into a reporting system that provides timely, accurate data for accountability and policymaking purposes. Moreover, it observed regional gaps which are not properly represented in the current reporting system, and *“ratios are not captured due to the lack of population data, this study observed quite large fluctuations of the total numbers of school enrollment and teacher/student ratios”*. Furthermore, it pointed out that *“the regional office is not currently monitoring these changes, even as such changes in data imply inaccuracy of the data presented”*.

- 3.9 Attempting to estimate the targeting accuracy of the Bank’s operations for the social sector is ambitious considering the lack of data, yet it is important to raise the issue as most are labeled *“poverty targeted”* interventions, and given that the main objective of the Country Strategy with Guyana was to *“reduce its level of poverty in the medium term”*. For example, the goal of the BEAMS program is *“to contribute to sustainable economic development and equitable poverty reduction”*. It is comprised of three main components, being the largest one destined to *“enlarging the stock of schools in communities where unmet needs is highest”*, yet the seven schools that have so far received support for facility improvement from the BEAMS program are located in urban areas, as secondary schools are not considered cost-effective in rural areas. The only information known is the physical location of the schools, no information on the characteristics of the beneficiaries is collected, and no secondary source of information that would facilitate targeting assessment is publicly available. Given the schools’ location, it is impossible to discern if they serve the poorest families in the area.
- 3.10 The Social Impact Amelioration Program (SIMAP) -the longest running social program in Guyana- has improved in data collection and targeting accuracy over the three phases that have been implemented in the past 18 years. The evaluation of SIMAP I indicated that a higher share of investments was assigned to higher income communities. The second phase therefore introduced a targeting mechanism developed by the Bank. However, the impact of the program on beneficiaries has not been adequately addressed in the evaluations done to date. Given that SIMAP was intended to be a transitional program during the adjustment years, it may be that its design and implementation cannot fully

⁶⁶ Originally the Health and Water sectors were to be included in the study. However, the consultant faced reluctance to gain access to these sectors as *“concerns about overlapping efforts and the prospective burden on officers to assist with this research”* were expressed.

respond to the current social challenges that Guyana faces, so the Bank must explore its involvement in the program in the context of other interventions.⁶⁷

- 3.11 In the interest of increasing efficiency and realizing economies of scale in the social sector and given the Bank's relevance as Guyana's main development partner, it is compelling that it take a proactive leadership role in assisting the Guyanese authorities promote the prioritization and coordination of multiple interventions that currently take place in this sector. The urgent need for updated information on incidence, depth, and geographical distribution of poverty, as well as data to provide further insight on the beneficiaries and effects of programs should be given the uttermost priority in the upcoming Country Strategy with Guyana. The IDB must however keep in consideration that this does not appear to be a problem stemming from a lack of resources or technical assistance for statistical strengthening, as these are widely available from diverse sources - including the IDB- but of planning, coordination, political will, and prioritization of actions to achieve timely transparency in the disclosure and availability of information.

2. Achieving Sustainable Economic Growth

- 3.12 The Country Strategy states that "*Accelerating economic growth to sustainable levels is the centerpiece of the Bank's strategy for Guyana*", planning the majority of resources for this purpose. It further recognized it as the main instrument for poverty reduction. If measured solely by these two assertions and the prominence of the Bank in Guyana, the Strategy has failed as one can observe it is the pillar that experienced the worst decline (Graph 3.1). The economy has not grown over the period, private investment and foreign direct investment have drastically decreased, and public-sector debt as a percentage of GDP has increased. Only the net present value of the debt with respect to revenue improved, mostly as a direct result of debt relief initiatives. There is no doubt that this continues to be the biggest challenge for Guyana and for the IDB as the most involved donor. The issue of timing mentioned earlier had repercussions in this pillar, as not all identified programs were delivered, and those delivered were in some cases delayed. The time lost is reflected in the low results observed.
- 3.13 The Bank should intensify efforts to carefully analyze the vast number of studies that have been produced in recent years, with the objective to transfer their recommendations into clearly outlined actions in the framework of the National

⁶⁷ SIMAP currently focuses on infrastructure projects in communities that have not received prior support, and has a well-organized Management Information System (MIS) that records project details, mostly outputs, yet collects no information on sustainability of the infrastructure financed. No analysis on whether the chosen projects are indeed the ones that would produce the highest yield for the communities takes place given its demand driven nature, in spite of the loan document presenting it as having the objective to "*to improve the living standards and economic opportunities of the poorest and most vulnerable communities of Guyana and increase the capacity of poor communities to identify and act upon their priority needs*".

Development Strategy. Two areas where this has not occurred as planned are the *diversification of the economy*, and the *enabling of private sector development*. The strategy's intent to provide diversification for the economy is plagued with lack of prioritization of the Bank's actions and abandoned initiatives, such as the work originally planned under a technical cooperation to develop a *Framework for Eco-Tourism Development* originally set for 2002/2003. Despite the progression in the conditions to improve the environment for private sector development with the establishment -and recent implementation- of a Commercial Court, and the analysis for a Credit Bureau -operations in which the IDB was a key player, as well as the mid-Strategy inclusion of the Support for Competitiveness Program, the indicators show a dramatic decrease in private sector participation in Guyana conveying room for improvement.

3. Improving Governance and Public Sector Efficiency

- 3.14 Governance and procurement challenges have likely reduced Guyana's ability to effectively use the ample volume of resources that are being channeled into the country. Although the most worrisome issues were appropriately identified in the Country Strategy document and shared by the Guyanese authorities, the realization has been slow and suffered continuous modifications and setbacks.⁶⁸ For example, the *Citizen Security and Justice Program* planned originally for 2003, and identified in 2002 by the government of Guyana as top priority, was only approved in April 2006, the *Public Sector Modernization Program* planned for 2003, was delayed for over a year, as so was the *Public Financial Management Program*.
- 3.15 The overall CIPE indicator for Guyana has remained fairly constant -experiencing an overall slight decline, yet the decomposition of its elements describes a decline in most areas (Graph 3.1). While the sub-component of *public sector management and institutions* has improved; *social inclusion/equity*, *structural policies*, and *economic management*, have decreased towards the end of the period. The indicators for *control of corruption* and *violent crimes* have remained relatively stable; however the latter experiences variations from year to year. The remaining governance indicators have suffered a full decline over the period: *voice and accountability*, *political stability*, *regulatory quality*, and *rule of law*. Thus, the Bank should incorporate each of these factors in future interactions with Guyana, and redouble its current efforts working directly with Parliament to incorporate all political actors working towards social inclusion, voice, and accountability improvements.

⁶⁸ Three loan operations and six technical cooperations drove the state modernization efforts: a *Public Management Modernization* sector facility loan (2004), *Fiscal and Financial Management* hybrid loan (2004), *Social Statistics and Policy Analysis* sector facility loan (2003). Being the two most prominent technical cooperations the Establishment of Commercial Court (2003), and Strengthening Auditor's General Office (2002).

B. General Comments

- 3.16 The IDB should include measures to determine the development effectiveness of the technical cooperation resources to ensure it is delivering this aid in the most appropriate manner for Guyana. Traditionally, donors have approached governance and public sector efficiency efforts through technical cooperation aid assuming it will promote capacity development. This is yet to be proven. There is little data-based analysis on the effectiveness of technical cooperation as an aid instrument, be it in terms of cost-benefit analysis or effects on growth and fiscal impact. There is also conflicting -and scarce- evidence on the impact of technical cooperations on incentives or organizational capability of recipients. Moreover, empirical evidence does not support the commonly held perception that technical cooperations are correlated with growth, which stems from the fact that more developed recipients tend to receive higher shares of their aid in this manner.⁶⁹ The 2005 meeting of the *DAC Working Party on Statistics* discussed how to improve technical cooperation data recording and statistics to respond to policy demands on transparency, accounting, and effectiveness, and is currently collecting data to evaluate technical cooperation aid.⁷⁰ The IDB must approach future technical cooperation operations with Guyana embedding such results and methodologies in order to proceed with its own assessment of this aid.
- 3.17 The increase of aid flows is an invaluable source of resources for development. Notwithstanding, it can over stress the administrative capacity of the recipient countries. The burden of the imposed administrative procedures, oversight, and meetings with donors can virtually estrange government officials from their main role in the public sector.⁷¹ The Bank has the opportunity -as the main development partner- of accompanying the government of Guyana in transforming the principles stated in the locally owned *National Development Strategy* to organized actions that it can further negotiate with other donors in compliance with the Paris Declaration commitments.⁷²

⁶⁹ Latin America receives 60% of its aid through technical cooperations, while Sub Saharan Africa slightly above 22%, Middle-east and North Africa 39%. *Journal on Development* Vol. 7, No. 1 OECD DAC (2006), available at: <http://dx.doi.org/10.1787/264685877388>

⁷⁰ *The Challenge of Capacity Development: Working towards Good Practice*, OECD (forthcoming), and 2005 *Development Co-operation Report* Vol.7 No.1, OECD (2006)

⁷¹ Roodman (2006) constructs a model to simulate the tension between improving project-level governance (by overburden the recipient countries) and nation-level governance. In the model, assuming fixed costs of monitoring and oversight, large projects are assumed to demand proportionally less from the recipient, and to maximize development by not overburdening recipient administrative capacity. The model shows that multi donor activities (when donors care most about the success of their own projects) tend to sink into competitive proliferation, in which each donor subdivides its aid budget into smaller projects to raise the marginal productivity of the recipient's resources in those projects and attract them away from other donors. As a result, projects proliferate and development falls. Roodman, D. *Competitive Proliferation of Aid Projects: A Model*. Center for Global Development Working Papers. (2006).

⁷² A successful example took place in the framework of the BEAMS project. Bank staff participated with the Ministry of Education in setting and prioritizing actions. The resulting matrix was further discussed with other donors.

IV. CONCLUDING REMARKS

- 4.1 The quest for a new sustainable force that can effectively produce growth is the major economic challenge faced by Guyana and its development partners. A further challenge comes from the negative effect on foreign and domestic investment flows over the period, resulting from the perception of an adverse business climate. Moreover, governance and procurement difficulties have likely reduced Guyana's ability to effectively use the ample volume of resources that were channeled into the country.
- 4.2 Guyana's complex institutional and political contexts, coupled with ongoing potential debt distress risk despite the significant improvement in the country's debt indicators, constitute a difficult environment for IDB's engagement and for the attainment of the Millennium Development Goals by 2015. A country like Guyana needs for the Bank to address challenges in an "*out of the box*" manner beyond the traditional instruments and approaches that may prove useful in other settings, so as to provide an effective development partnership.
- 4.3 The broad range and dimensioning of Bank activities over the analyzed period were partially a result of the vast increase in FSO allocation resources that took place as a consequence of the introduction of a new performance-based allocation criteria in 2002. The magnitude of the increase, paired with the FSO allocation deadline, created a negative incentive structure that distorted programming, dimensioning, development effectiveness, as well as coordination with other donors.
- 4.4 The recent developments of the Multilateral Debt Relief (IDB-07 Relief) have prompted the Administration to present a request for adjustments to the allocation of administrative expenses between Ordinary Capital and FSO (CF-147, May 15th 2007). If approved by the Board, the total available FSO resources would be reduced over the following years. The corresponding reduction would provide incentives for the Bank to prioritize its operations, in contrast to what happened over the period under review.
- 4.5 In terms of the basic evaluative criteria for Country Program Evaluations, this report concludes that the Bank's presence in Guyana has been **relevant** to the development challenges of the country as the programming analysis indicates that it adequately identified the need to implement structural reforms in order to promote long-term development goals, supporting some operations in this realm. However, it did not prioritize interventions based on expected development returns, resulting in a program that was not concentrated and that lacked strategic thrust.
- 4.6 Regarding the second evaluative criteria of **coherence** between the definition of a programmatic focus, the integration across Bank instruments in support of program objectives, and the coordination with other developmental actors; the

analysis herein presented concludes that while the Bank used most of its available instruments, supported by non-reimbursable and generally program-embedded technical cooperations, there are still challenges to address as it needs to concentrate on fewer areas of intervention where it can build a more effective partnership with Guyana and coordinate more effectively.

- 4.7 No explicit provision to embrace leadership through ex-ante articulation was made to embrace leadership from the outset, leaving donor coordination mainly to the Thematic Groups and the efforts of individual project teams, despite the Country Strategy having recognized the Bank's preeminent position as the main development partner to Guyana. Further, the Bank did not take advantage of its natural leadership position given the large increase in FSO resources. Basic donor coordination was achieved, although harmonization among donors is still a pending issue.
- 4.8 The **efficiency** of the program measured both in terms of administrative costs and timeliness of execution portrays mixed results. The Strategy mentions that in the previous program "*delays were encountered by the need to redesign various projects*", and were therefore going to be addressed for this period. The current evaluation found this is an ongoing problem, indicating that the Bank has not been able to fully tackle this challenge. However, there was a constant improvement of the rate of disbursement of the active portfolio throughout the period, placing it close to Bank averages and above HIPC disbursement curves. The next Country Strategy must improve the analysis that conveys risk identification and mitigation concerning the feasibility and timing of planned operations, in order to implement them in an effective and efficient manner.
- 4.9 In terms of the **effectiveness** of the program as a whole and of the individual interventions, the conclusion stemming from the available information is that the Bank's actions were ineffectual in the three main pillars of the Strategy as Guyana's situation has deteriorated over the period for almost all of the tracked indicators while the Bank was the largest development partner. Though it may be too soon for the final judgment of the effectiveness of the actions given the general delays experienced throughout the program, the deterioration is evident and the lost time irrecoverable. Further, the Bank is not collecting suitable information on its individual operations to allow a detailed analysis of the reasons for which actions appear to have been ineffective. It is imperative that the Bank prepares the upcoming strategy with this priority in mind as it is inconsistent with a development approach, compromising the Government's and the Bank's ability to prioritize sectors and actions based on those that yield the highest returns to the population, as well as hampering the possibility of learning from prior experience.
- 4.10 The inclusion of 46 matrix indicators to track the Country Strategy's progress was a positive measure towards gauging the development effectiveness of actions, yet the large number of indicators and lack of ranking must be corrected for future engagement. Further, the lack of data collection must be addressed in order to

- make this a fully operational instrument. Only indicators that can realistically have a baseline value, and can be tracked should be included.
- 4.11 The benchmarks introduced to maintain a high-lending scenario proved to be a useful tool in keeping the public policy agenda present, and represent a creative and tailored approach of engagement with Guyana. The next Country Strategy should continue with this approach while maintaining a general perspective, the Bank should focus on a few, locally owned, and realistically attainable benchmarks –in scope and timing- concentrated on data collection, transparency and accountability to the Guyanese citizens of the development effectiveness of the interventions.
- 4.12 As the IDB moves towards a country-focused and country-based approach, the Country Office will need to fulfill additional tasks beyond the traditional role of country offices. It will need to strengthen its analytical capabilities in order to provide policy advice at the strategic level at the request of the GoG, thus a careful assessment of the skills inventory and requirements should be undertaken to determine the profile that it requires to meet this challenge. Further, the Bank should consider conceding the creation of an incentive mechanism that allows for the best staff to rotate temporarily to the country to reinforce the local office with professionals solely focused on development results by overseeing the empirical application of the economic and sectoral work being produced by the Bank and other donors in the overall dynamic picture of Guyana.
- 4.13 Guyana and the IDB endorsed the Paris Declaration on Aid Effectiveness, recognizing that donors must support the partner country efforts to strengthen governance and improve development performance. Therefore, the Bank must work towards weaning the implementation of projects via executing units in order to strengthen the country's sustainable capacity by establishing safeguards that support -rather than undermine- government structures. It must assess the best way to support Guyana in this respect undertaking new models at a small scale at the beginning, learning from the experience, and thus minimizing exposure of all involved parties. The Bank's present engagement has provided a few interesting examples of possible solutions.