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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 6.7 MILLION (US$9.6 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GUYANA

FOR A

POVERTY REDUCTION AND PUBLIC MANAGEMENT OPERATION

March 23, 2006

Poverty Reduction and Economic Management
Caribbean Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

$US1.00 = $G200 (January 2006)

FISCAL YEAR

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

BNTF	Basic Needs Trust Fund
CAS	Country Assistance Strategy
CIDA	Canadian International Development Agency
CDB	Caribbean Development Bank
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
DFID	Department for International Development (UK)
ECLAC	Economic Commission for Latin America and the Caribbean (UN)
EFA/FTI	Education for All/Fast Track Initiative
EU	European Union
FIAS	Foreign Investment Advisory Service (IFC)
GDP	Gross Domestic Products
GEF	Global Environment Fund
GEMP	Government Expenditure Management Project (CIDA)
GNCB	Guyana National Cooperative Bank
GOINVEST	Guyana Office of Investment
GPL	Guyana Power and Light
GRA	Guyana Revenue Authority
GUYSUCO	Guyana Sugar Corporation
GWI	Guyana Water, Inc.
HIPC	Highly Indebted Poor Countries (program of debt relief)
ICA	Investment Climate Assessment
IDB	Inter-American Development Bank
IMF	International Monetary Fund
JSA	Joint Staff Assessment
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MIS	Management Information System
MLHSSS	Ministry of Labor, Human Services and Social Security
MOF	Ministry of Finance
NDC	Neighborhood Democratic Council
NPTA	National Procurement and Tender Administration
NPAS	National Protected Areas System
OAG	Office of the Auditor General
PCPMU	Policy Coordination and Program Management Unit
PEPFAR	The President's Emergency Plan For AIDS Relief
PHRD	Japanese Policy and Human Resources Development
PRPMO	Poverty Reduction and Public Management Operation
PRGF	Poverty Reduction and Growth Facility (IMF)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit
PSTAC	Public Sector Technical Assistance Credit (IDA)
PSIP	Public Sector Investment Program
RDC	Regional Democratic Council
SIMAP	Social Impact Amelioration Program (social fund)
SPS	State Planning Secretariat
STI	Sexually Transmitted Infections
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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GUYANA
POVERTY REDUCTION AND PUBLIC MANAGEMENT OPERATION

TABLE OF CONTENTS

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POVERTY REDUCTION AND PUBLIC MANAGEMENT OPERATION

PROGRAM SUMMARY

Recipient:	Republic of Guyana.
Amount:	SDR 6.7 million (US$ 9.6 million equivalent).
Terms:	IDA grant terms.
Implementing Agencies:	The Office of the President coordinates the implementation of the grant, working with the Ministry of Finance and several line ministries and agencies.
Objectives:	The proposed Poverty Reduction and Public Management Operation (PRPMO) supports the implementation of critical reforms in public sector management identified in the country's 2001 Poverty Reduction Strategy Paper (PRSP) and the 2004 and 2005 Progress Reports. In particular, the proposed operation will contribute to improving the transparency, accountability, and efficiency with which overall resources are utilized across the public sector. The operation follows and builds on the support provided under the Poverty Reduction Support Credit I (PRSC-I), approved by the Board in December 2002.
Description:	The PRPMO focuses on select reform measures in the following main areas: (i) ensuring a sound macroeconomic framework; (ii) improving the quality, transparency and accountability of public sector management; and (iii) improving the climate for environmentally-sustainable development. Technical assistance for the implementation of the reform measures supported by the PRPMO is being provided by IDA through an ongoing Public Sector Technical Assistance Credit (PSTAC, US$4.8 million), a Japanese Policy and Human Resources Development (PHRD) grant (US$595,000), and a Trust Fund for Statistical Capacity Building (TFSCB) grant (USD 285,000).
Benefits:	The PRPMO supports the implementation of the Government's poverty reduction strategy laid out in the PRSP and the PRSP Progress Reports, and for reaching the Millennium Development Goals. In particular, the proposed operation will contribute to improving the transparency, accountability, and efficiency with which public resources are utilized. In addition, the PRPMO will help improve the Government's institutional capacity to monitor progress under the PRSP, evaluate the impact of poverty reduction programs, and improve the statistical information for poverty analysis and targeting. Finally, the operation will support actions to strengthen environmental management and regulations to ensure the sustainable use of Guyana's natural resources.
Risks:	The proposed operation faces a number of risks detailed in the Program Document. In addition to the country's vulnerability to external shocks, two critical risks are: (i) the uncertain political environment in the run-up to general elections due by August 2006; and (ii) weak implementation

capacity. Political risks for program implementation arise from the social and ethnic tensions that divide the two main political parties, and have periodically erupted into violence and hampered the implementation of reform measures. While this is a difficult risk to mitigate, the donor community, including the Bank, remains engaged in assisting the Government in improving the dialogue, notably on issues related to key development challenges, both with the opposition parties, as well as with civil society and Non-Governmental Organizations (NGOs). Institutional risks for program implementation remain due to important capacity constraints in conceiving, executing, monitoring, and evaluating government programs. To address this risk, the Bank is providing technical assistance for key actions supported by the PRPMO under an ongoing Public Sector Technical Assistance Credit (PSTAC), a Japanese Policy and Human Resource Development (PHRD) grant (US$595,000) and a Trust Fund for Statistical Capacity Building (TFSCB) grant (USD 285,000) and has closely coordinated with other donors, in particular the IMF and the IDB, in supporting the implementation of the Government's reform program.

Possible spending pressures from the forthcoming general elections, Guyana's hosting of the 2007 Cricket World Cup and wage demands, as well as exposure to external economic and natural shocks are also possible risks. The Government's macroeconomic program supported by the IMF PRGF arrangement and the preparation of five-year PSIPs will help maintain public finances on a sustainable path. Also, in the past, the authorities have demonstrated readiness to adjust policies to meet the targets in the macroeconomic program, and are committed to make additional adjustment if the external environment deteriorates.

Schedule of Disbursements: Single-tranche of US$9.6 million to be disbursed upon effectiveness and based on actions already taken by the Government prior to Board presentation, as listed in para. 64.

Closing Date: March 31, 2007

Project ID Number: P078703

**INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT FOR A PROPOSED
POVERTY REDUCTION AND PUBLIC MANAGEMENT OPERATION
FOR GUYANA**

I. INTRODUCTION

1. This program document proposes a Poverty Reduction and Public Management Operation (PRPMO) for Guyana, in the amount of SDR 6.7 million (US$9.6 million equivalent). The overall purpose of the grant is to support the implementation of critical reforms in public sector management identified in Guyana's 2001 Poverty Reduction Strategy Paper (PRSP) and the 2004 and 2005 Progress Reports. The operation continues the earlier support provided by the International Development Association (IDA) to Guyana under the Poverty Reduction Support Credit I (PRSC-I), approved by the Board in December 2002, and the strategy outlined in the Country Assistance Strategy (CAS) of 2002.[1]

II. COUNTRY CONTEXT

A. Country Background

2. Guyana is a low-income, commodity-based small economy which faces significant development challenges. After rapid growth in the 1990s, following the transformation from a planned to a market economy, economic activity has stagnated in recent years as a result of external and internal shocks, as well as weak governance and a resulting poor investment climate. A difficult security situation and social and political tensions, including tensions between the two major political parties which are deeply divided along racial lines, have contributed to hampering growth and poverty reduction efforts, weakened investor confidence and resulted in high migration of Guyana's skilled manpower abroad.[2] Given Guyana's dependence on sugar and the price liberalization in the EU sugar market planned to take place in 2006-2010, the restructuring of the sugar sector and the diversification of Guyana's economy are critical for improving its medium-term growth prospects. In this context, establishing an environment for sustained growth remains the main challenge for the Government in the future. Critical for this is the need to improve public sector efficiency, transparency and governance in order to increase the impact of public resource use and provide an efficient and transparent framework within which the private sector can operate. Also important is the need to strengthen environmental management and regulations to ensure the sustainable use of Guyana's natural resources which are a major source of economic growth.

B. Guyana's Poverty Reduction Strategy and Implementation Performance

3. **Guyana's Poverty Reduction Strategy (PRS).** In 2001, Guyana committed itself to fundamental reforms to re-orient its economic and social policies towards poverty reduction and the achievement of the Millennium Development Goals (MDGs). In the Poverty Reduction Strategy Paper (PRSP) of November 2001 Guyana laid out a comprehensive strategy that rested on seven strategic pillars:

- broad-based, jobs-generating economic growth;
- environmental protection;
- stronger institutions and better governance;
- investment in human capital, with emphasis on basic education and health;
- investment in physical capital;

[1] The Country Assistance Strategy for Guyana was discussed by the Board on September 19, 2002.

2 Guyana has one of the highest rates (89 percent) of skilled migration in the world (see World Bank (2006) International migration, remittances, and the brain drain, Report no. 33988).

- improved safety nets; and
- special intervention programs to address regional pockets of poverty.

4. Based on the issues raised during the consultation process, the PRS placed emphasis on the need to improve governance and public sector accountability. It also called for expanded spending on basic social services, including primary health care, primary and secondary education, water and sanitation, and housing. With economic growth being essential to poverty reduction, the PRS focused on increasing public sector efficiency through institutional, policy and regulatory reforms, re-orienting the public sector to support private sector investment and improving infrastructure to complement economic growth. The goal of the PRS was to attain an average growth of about 2.7 percent per annum during 2002-2005, and 5 percent thereafter. It also projected the attainment of the MDGs by 2015. Since the preparation of the PRSP in 2001 and the reaching of the Enhanced HIPC Initiative Completion Point in December 2003, two Progress Reports (PRs) on the implementation of the PRS have been prepared by the Government – the first discussed by the IDA and IMF Boards in July 2004 and the second expected to be discussed by the Boards in April 2006.

5. **Assessment of PRS Implementation.** As noted in the two PRS Progress Reports and accompanying Joint Staff Advisory Notes (JSANs), Guyana has made progress in implementing its PRS, but achievements fell short of expectations. Despite a difficult domestic and external environment, macroeconomic stability was maintained and progress was made in implementing structural reforms, but Guyana's growth has been weaker than projected. In terms of social indicators, of the 25 PRS goals, 14 were attained or exceeded, with shortfalls in access to treated water and adequate sanitation, infant mortality, the distribution of house lots and land titles, the percentage of trained teachers in secondary schools, and HIV/AIDS, where the goal of reducing the infection rate has been frustrated by the growth in the epidemic, although part of this may reflect better reporting. At the same time, spending for the social sectors in the budget at 17.1 percent of GDP exceeded the HIPC target by 2.4 percent points in 2004. The 2005 PRS Progress Report indicates that there is a significant risk that Guyana may not attain all the MDGs by 2015 at the current pace, although the report does not identify which of the goals will not be met.

6. On the **macroeconomic side**, since 2002 the Government has implemented a macroeconomic program supported by the IMF through a SDR54.55 million Poverty Reduction and Growth Facility (PRGF) arrangement, under which the fifth review was successfully completed at end-January 2006.[3] Public savings increased from 7 percent of GDP in 2002 to above 10 percent in 2004, reflecting revenue efforts, wage moderation and the restructuring of loss-making public entities, with the overall fiscal deficit (after grants) reduced from 6 percent of GDP in 2002 to 4½ percent in 2004 reflecting also delays in capital expenditures on the modernization of the sugar sector. Social spending was maintained at around 18 percent of GDP. Wage policy supported the fiscal effort, as public sector wage increases were kept in line with inflation and attrition in the public enterprises continued, making room for new teachers and nurses. Reflecting prudent monetary policies, average inflation which was 5.4 percent in 2002 and 6 percent in 2003, eased to 4.7 percent in 2004, despite the surge in world oil prices. The external current account deficit narrowed from 15 percent of GDP in 2002 to 10 percent[4] in 2004, significantly better than expected, due to solid export performance, and lower-than-expected sugar modernization-related capital imports. Broad money growth has increased in the past years consistent with a moderate trend decline in velocity. Credit to the private sector remained weak during 2001-04, but recovered in 2005; nonperforming loans declined from 37 percent of total loans in 2002 to 23 percent in 2003 after the privatization of a major commercial bank (see para. 15) and further to 16 percent by June 2005, largely as a result of write-offs. Also, the overall capital adequacy ratio has remained stable at 14 percent and asset quality has improved considerably. The smaller external current account deficit, coupled with inflows of

[3] The PRGF arrangement was extended twice and will expire in September 2006.
[4] After delivery of HIPC assistance and excluding official transfers.

FDI and concessional external resources, allowed official international reserves to remain at 3.2 months of imports in 2004.

7. Despite the maintenance of macroeconomic stability and some progress made in structural reforms (see para. 10-21), growth has remained weak. Real GDP growth fell from an annual average of 7 percent during 1991-97 to 0.6 percent during 2000-04. Terms of trade shocks, adverse weather conditions and the instability that followed the political cycle adversely affected the dominant agriculture and mining sectors, and the economy in general.[5] However, the persistence of weak growth since 1998 also points to more fundamental structural weaknesses, namely a poor investment climate and high migration of entrepreneurial skills, weak governance, and inadequate basic infrastructure.

8. Macroeconomic performance in 2005 was strongly affected by significant exogenous shocks that hit Guyana, notably the closure of OMAI, the largest gold mine of the country, the severe flooding in early 2005[6] and higher-than-expected oil prices. These adverse shocks (anticipated and unanticipated) have led to some deterioration in macroeconomic indicators in 2005, although the outcomes were broadly in line with revised expectations under the IMF program. Real GDP is estimated to have declined by 2¾ percent. This decline was mainly driven by the impact of the floods on the agricultural sector and the OMAI mine closure. Indeed, excluding the agricultural and mining sectors, the economy is estimated to have grown at close to 4 ½ percent in 2005. Average inflation was somewhat higher than expected, having risen to 7.1 percent from 4.7 percent in 2004, mainly as a result of the pass-through of high world fuel prices and flood-related shortages.[7] The current account deficit is estimated to have widened to 23 percent of GDP from 10 percent of GDP in 2004, as a result of the oil price increase and a restocking of consumer goods following the floods. However, sharp increases in remittances and foreign direct investment helped the Bank of Guyana to maintain gross official reserves at three months of imports and contributed to maintain the exchange rate broadly unchanged. Even before the floods, the public sector deficit for 2005 had been programmed to widen markedly compared to 2004, reflecting the large public sector investment program including the restructuring of the sugar sector. The fiscal deficit (after grants) was 13.4 percent of GDP in 2005, well below the targeted 15.1 percent of GDP, due to strong revenues[8] and delays in sugar modernization-related capital expenditures which offset the deterioration in public enterprise operating balances (the result of lower sugar production due to the floods and higher fuel prices), unplanned expenditures for emergency repairs to the sea defense system and delays in grants. The fiscal deficit (after grants) excluding the capital expenditure related to the sugar sector restructuring was 8.6 percent of GDP. The end-year 2005 broad money growth is estimated to be only slightly above target reflecting a rebound in private sector credit, following several years of stagnation.

9. Concerns regarding debt sustainability in Guyana re-emerged prior to the Multilateral Debt Relief Initiative (MDRI). The country reached the Enhanced HIPC (E-HIPC) Completion Point in December 2003 qualifying for US$329 million of debt relief in NPV terms, additional to the debt relief of US$256 million in NPV terms obtained under the original HIPC in May 1999. The external debt burden as measured by the NPV of external debt to revenue ratio declined following the E-HIPC Completion Point, but rose from 195 percent in 2004 to 217 percent in 2005 and was projected to deteriorate further. Total public debt as a percentage of GDP increased from 164 percent in 2004 to 179 percent in 2005 (see table 1). However, improved growth prospects and revenue effort, as well as the MDRI, are expected to significantly improve Guyana's debt outlook (for more details see para. 36 and Annex XIII).

[5] This includes an 11 percent deterioration in the external terms-of-trade due to a cyclical decline in sugar, rice and gold prices.

[6] The floods affected the country's most heavily populated areas, having been the worse of the last 100 years. ECLAC assessed the impact of the floods at 60 percent of GDP.

[7] The Government responded to high fuel costs by reducing the fuel tax from 40 percent in March to 20 percent in September 2005. However, this measure was reversed in November 2005 when the tax was set at 45 percent. Also, the electricity tariff charged by GPL includes a 9 percent fuel surcharge since August 2005.

[8] Consumption tax on non-oil imports and corporate income tax collections were significantly higher than programmed.

Table 1:Guyana - Macroeconomic Framework				
	2002	2003	2004	2005
	(Annual percent change)			
Real GDP Growth	1.1	-0.7	1.6	-2.8
Excluding OMAI mine				0.3
Consumer prices (Average)	5.4	6	4.7	7.1
	(In percent of GDP, unless otherwise indicated)			
Total revenue and grants	40.5	39.6	44	46.8
Capital expenditure	12.6	14.4	16.3	24.5
Overall public sector balance (after grants) 1/	-5.9	-8.7	-4.5	-13.4
Excluding Skeldon 2/			-4.1	-8.6
Primary sector balance 3/	2.1	-2.6	0.9	-4.1
Total public sector debt (end of period)	193.8	173.1	164.4	178.6
External 1/	168	146.4	137	148
Domestic 4/	25.8	26.7	27.4	30.6
External current account 1/5/	-15.2	-11.8	-9.5	-22.6
Gross official reserves (In millions of US dollars)	280	271	225	240
Months of imports	4.4	4.4	3.2	3.0
NPV of debt-to-revenue ratio (in percent) 6/7/	376.1	208	194.9	217.1

Sources: Data provided by the Guyanese authorities; and Fund staff estimates and projections.
1/ Beginning in 2004 reflects interest payments after original HIPC and enhanced HIPC debt relief.
2/ The Skeldon project supports the restructuring of the sugar sector.
3/ Excluding the Skeldon project.
4/ Based on bank holdings of government debt.
5/ Excluding official transfers
6/ Excludes the letter of credit used for financing the GUYSUCO sugar restructuring project.
7/ NPV calculations are based on a discount rate of 5 percent

10. Progress has been made in implementing **structural reforms**, although there have also been significant delays. This was in part due to capacity constraints, and a domestic environment marred by political instability and an outbreak of crime and violence in early 2002. Also, aid inflows did not match expectations, partly because the country did not reach the Completion Point of the Enhanced HIPC until December 2003. Lower inflows of aid reduced the resources available to implement the PRS. Key areas of progress since the PRS was adopted are detailed below.

11. First, a medium-term ***tax reform*** program was initiated in August 2003 to broaden the tax base and increase efficiency, equity and transparency of the tax system. Main actions completed include: (i) adoption by Parliament of the Value-Added Tax (VAT) and Excise Tax Regulations in January 2006;[9] (ii) the elimination of the Minister of Finance's power to grant discretionary tax exemptions and annual publication of exemptions beginning in 2004; (iii) a limit on most income tax holidays to 5 years, except for certain sectors, which were limited to 10 years; (iv) an increase in withholding taxes, consumption taxes for certain services and personal income tax threshold; and (v) progress in strengthening tax

[9] The regulations stipulated a July 1, 2006 implementation date; a 16 percent VAT rate; the VAT threshold; and new excise tax rates—all of which would allow a revenue neutral reform. Following the adoption by Parliament of the VAT and Excise Tax Regulations in January 2006, the Minister of Finance issued the related commencement orders. However, the implementation date for the VAT Act, the Excise Tax Act and the excise tax regulations has been delayed to January 1, 2007, to allow more time for public education and to avoid overlapping with the elections, which are constitutionally due by August 2006.

administration, particularly in the Guyana Revenue Authority (GRA), with senior management being put in place, autonomy granted to the GRA in its human resource strategy and new accountants hired for audit departments. Improvements have also been made to increase local tax bases through the revaluation of real properties, and by permitting local governments to seize and sell properties of tax defaulters.

12. Second, to strengthen ***fiscal management and accountability*** a new National Procurement Act (July 2003) and a Fiscal Management and Accountability Act (the organic budget law, December 2003) were enacted. Program budgeting is being gradually introduced in key ministries. Progress has also been made in improving public expenditure management with the introduction of a computerized integrated financial management system (IFMAS) in all Ministries and several agencies. While the Government has restricted staff recruitment to essential services, there has been some delay in a major reform of the civil service. The IDB is currently supporting the Government in the initial steps of this reform program.

13. Third, in the areas of ***public enterprise restructuring***, the state-owned sugar company, GUYSUCO, implemented measures to strengthen its financial viability, including introducing a new wage policy limiting wage increases to inflation starting from 2001, gradually downsizing its workforce over the last three years, and implementing a profit-oriented management contract in February 2004.[10] An agreed plan to reduce costs by shifting production to high-productivity areas and critical investments for the construction of a modern sugar processing plant and of a co-generation plant are also being undertaken.[11] An environmental management plan for the new factory has been completed and is being implemented, and the construction of the factory has begun. The loss-making state-owned bauxite company, LINMINE, was restructured in 2003 with the laying-off of its workforce and the signing of a management contract to eliminate losses and prepare the company for privatization. The privatization was completed in December 2004 (with the Government retaining 30 percent ownership) and the private investor is currently undertaking a significant investment program. BERMINE, after the laying-off of its workforce in 2002, was closed in December 2003, and the remaining state bauxite company, AROAIMA, has remained cash neutral to the budget, and in December 2004 signed a management contract to prepare for its privatization expected in 2006.

14. Guyana Power Limited (GPL) is the main supplier of electricity in the country, with total installed capacity of 225 MW serving 82 percent of the population. The quality of the electricity service is deficient and characterized by important voltage fluctuation and frequent service interruption. GPL was returned to the Government in April 2003, after an unsuccessful privatization. The Government is committed to securing private investment in the company and has recently announced that resources from the Unserved Areas Electrification Programme will be used to finance legal, financial and technical advisory services in developing a restructuring strategy. The Government has also completed a major reorganization of the water sector with support of IDA (PRSC-I) and DfID, setting up a new legal and regulatory framework, merging the two public water companies into one (Guyana Water Inc., GWI) and bringing in a private operator under a management contract which is now beginning its third year of operation. The Government also launched a program to increase service access, particularly in urban squatter neighborhoods and rural hinterlands. Following an initial disappointing performance and frictions between the Government, GWI Board and the Management Contractor during 2003 and 2004, the parties developed, with support from the donor community, a way out of the impasse formalized in a Memorandum of Understanding in December 2004. Most of the agreements reached have been met and there is now a shared vision between the Government, GWI Board and the Management Contractor for the development of the utility and the sector. GWI is implementing a combined plan to increase revenues

[10] Guyana is the lowest cost Caribbean sugar producer and parts of its industry may, if restructured to improve efficiency, become competitive in the global free sugar market (see World Bank (2005) A Time to Choose: Caribbean Development in the 21st Century, Report no. 31725-LAC).

[11] In December 2004, an agreement was reached with China for a US$32 million concessional loan for the construction of a new sugar factory and a co-generation plant in Skeldon.

and reduce costs, through a 2005 tariff review, the procurement of a new billing system, improved collection performance, and reduction in non-revenue water through distribution network repair and rehabilitation. These efforts and the Government's goal of achieving universal access to safe water are being supported by the ongoing IDA Water Sector Consolidation Project approved by the Board in July 2005. Under this Project, it has been agreed that by the end of 2006, the Government's strategy for the long-term development of the sector will be discussed with IDA – with the involvement and participation of other key donors. The discussion will be focused on the future management of the utility, the financial sustainability and financing mechanisms, and medium-term targets under GWI's operating license.

15. Fourth, in the ***financial sector***, the state-owned commercial bank, Guyana National Cooperative Bank (GNCB), was privatized in March 2003, eliminating annual losses of about 0.8 percent of GDP. The Financial Institutions Act and the Bank of Guyana Act were amended in November 2004 to bring supervision and prudential regulations in line with international best practices; and on-site inspections of four banks were completed by end-2005. Revised anti-money laundering legislation is also being drafted with the support of the IMF. A Financial Sector Assessment Program (FSAP) mission took place in November 2005. The mission's preliminary findings are that the financial sector's high degree of segmentation limits financial development and access to credit by low-income households and small businesses. Also, lending is hampered by the lack of credit information, a recent history of high non-performing loans and a weak judicial system. The mission concluded that systemic stability is adequate, although the concentrated ownership and loan exposure of several banks may render them vulnerable. Furthermore, Guyana is largely compliant with the Basel Core Principles for Effective Banking Supervision but the mission identified weaknesses in risk management and information sharing among supervisory agencies and developed key policy recommendations to strengthen them.

16. Fifth, as described in the PRS and related Progress Reports, key issues in the social sectors are low quality of education and health services, inadequate access to services in remote and economically-deprived regions, and high HIV/AIDS prevalence (about 2.5 percent, the second highest in the Caribbean).[12] This is mainly due to the fact that human resources in the sector are inadequate in numbers, insufficiently skilled and poorly distributed. ***Education*** has been clearly articulated as a national priority in the PRSP. The Government's Strategic Plan for Education (SPE) for 2003-07 builds on the earlier five-year plan for education that was carried out between 1995 and 2000. The SPE focuses on reducing repetition rates, increasing secondary school enrollment, reducing overcrowding, reducing student and teacher absenteeism, improving teacher training and beginning the process of decentralization of school administration. The plan places special attention on previously underserved students and remote and economically-deprived regions. Guyana is one of the 17 countries receiving assistance in its education reform as part of the Education For All-Fast Track Initiative (EFA-FTI). Implementation of the SPE is proceeding broadly satisfactorily. Recently, second year funding for the implementation of the EFA-FTI was approved, based on progress made so far. Actions in the next year will focus on implementing a community-based school-feeding program at the primary level and upgrading hinterland schools. This will complement the remote areas incentive payment scheme launched by the Government in 2005 to help retain teachers by topping up the hard-living allowance.

17. In response to the constraints in providing adequate ***health*** services, the Government is undertaking a major sector reform. To guide this process, it developed the National Health Plan 2003-2007 which outlines strategies for meeting the health sector goals in the Government's Poverty Reduction Strategy and the Millennium Development Goals, including providing a standard package of minimal services to all citizens and beginning the process of decentralization to the regions. The Government has made progress in increasing the number of health workers, increased the spending on essential drugs and medical supplies by 25 percent from 1998 to 2003, increased the local production of drugs at reduced

[12] This national average disguises the high HIV prevalence found in high risk groups, e.g. commercial sex workers (45 percent in 1997) and attendees of sexually-transmitted-diseases clinics (15.1 percent in 2002).

cost, and rehabilitated the Georgetown Public Hospital. The Government is also implementing its National Strategic Plan for ***HIV/AIDS*** (2002-2006) which seeks to reduce the risk of vulnerability to infection through prevention and control of the transmission of STIs; promote sexual health; and improve the quality of life of persons living with AIDS and STIs. The Government has recently completed a revision and updating of the National HIV/AIDS Strategic Plan through a broad consultative process involving key stakeholders in Government, civil society and external donors and multi-lateral agencies. This program is being supported by the Guyana HIV-AIDS Prevention and Control project which is financed by an IDA grant, the Global Fund, CIDA, programs of the United States (including PEPFAR), and other bilateral and UN agencies.

18. Guyana implements a range of social insurance and social assistance programs which, in combination, attempt to address the critical risks and vulnerabilities faced by the population. They are roughly divided into three broad areas: (i) programs of the Ministry of Labor, Human Services and Social Security (MLHSSS); (ii) programs in the Ministries of Education and Health; and (iii) two social funds.[13] Guyana's ***social protection system*** is characterized by: (i) lack of an adequate targeting mechanism and criteria; (ii) low benefit levels; (iii) understaffing and outdated and inefficient service delivery systems; (iv) manual recording of program records and deficiencies in the documentation of procedures and financial management; and (v) outdated social security legislation. The major thrust of the Government's efforts is to strengthen its capacity through improved systems, processes and training to better manage its existing social protection programs, before expanding them or starting new ones. To this end, the Government has carried out, with support from IDA, four studies that provided recommendations in the areas of management information system, targeting, risk and vulnerability, labor market assessment, social legislation, and MLHSSS needs assessment. On the basis of these recommendations, the Government has adopted and started implementing a time-bound reform program to rationalize and improve the impact and cost-effectiveness of the social protection programs of the MLHSSS. The program has been costed and possible sources of financing for its implementation have been identified. The program includes the development of a beneficiary identification system to target households, strengthening the capacity to monitor social protection programs through the use of household survey data, updating of the Poor Relief and Old Age Pension Laws and harmonization of other legislation as it relates to social protection. An Inter-ministerial Committee has been constituted under the MLHSSS to oversee implementation of the action plan.

19. With about 98 percent of land area in Guyana being state-owned[14], policies and transparent procedures to provide ***access to land*** and allow for simple cost-effective title and title transfer for all tenure groups are critical for the country's economic development.[15] In 1997, the Government launched a program of policy, institutional and legislative reforms to relax leasehold restrictions and provide occupants of public land with the option of converting from leasehold to freehold property (for parcels up to 15 acres in size). In 2000, a 5-year land tenure regularization program was introduced to update land information and secure existing rights of people and organizations over public lands and to formalize informal occupation into legally recognized and duly registered land rights. The Guyana Lands and Surveys Commission (GLSC), which became operational in 2001, has established a land information database to create and maintain up-to-date lease and land use records and to facilitate rent billing and collection. In 2005, the Land Registry was moved to GLSC complete with staffing and equipment. As a

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[13] The MLHSSS manages three principal programs providing cash assistance to the most vulnerable: Public Assistance, Old Age Pensions, and Difficult Circumstances. MLHSSS is also responsible for the social security program for formal sector workers, and the National Insurance Scheme (NIS). The Ministry of Education provides a number of programs aimed at the poor, including school feeding covering about 30 percent of those eligible, and subsidies for examination fees and school uniforms. The Ministry of Health provides assistance for medical care and, when necessary, travel expenses abroad for poor patients. The social funds, the Social Impact Amelioration Programme (SIMAP) and the Basic Need Trust Fund (BNTF) are largely funded by donor loans and grants (IDB and CDB).

[14] Within the productive coastal plain, the percentage of public land is 78 percent.

[15] For a fuller discussion of this issue, see background paper on file *Guyana: Land Tenure and Land Administration*, Kevin Barthel, 2004.

result, land and property information is available at one physical location, making the GLSC a one-stop shop for property transactions, and the time required for land registry transfers by private land owners has been reduced from 4 weeks to 14 days. Also, land registry records were computerized in 2005. In addition, GLSC has careful consultation procedures in place with the Environmental Protection Agency, the Forestry Commission, the National Parks Commission, the Mining Commission, the Ministry of Amerindian Affairs, and the National Trust to prevent the issuing of agricultural leases or freehold titles within existing and officially proposed protected areas, State Forests, areas with Amerindian populations, or significant historical sites.

20. Despite recent measures taken to improve the ***investment climate***, significant factors continue to constrain private sector development and Guyana's competitiveness. At the request of the Government, an Investment Climate Assessment (ICA) is presently being finalized to identify remaining critical constraints to private investment, based on a survey of private sector participants. According to the ICA, in addition to the difficult security and crime situation, there are impediments to clearing goods through customs (e.g. exporters spend an average of 14 days in customs with a maximum time of 23 days), and the legal and judicial systems are cumbersome and judicial enforcement is lengthy.[16] Infrastructure is a serious bottleneck: Guyana lacks a deep-water port, its road system is deficient, electric power is unreliable and expensive, and telecommunications services are limited. Qualified workers and managers are scarce because of emigration. The Government has recently taken a number of institutional and legal steps to improve the investment climate so as to promote private sector development. On the institutional side, the investment promotion agency (GOINVEST) has been revived by the appointment of a new chief executive officer. The passage of the new procurement law (July 2003), and two acts to reform the tax system will help improve the investment climate. The tax reform broadens the tax base, improves the overall efficiency of the system, and reduces the scope for discretion. An Investment Act and a Small Business Act were passed by Parliament in March 2004 to improve the investment climate. This new legislation establishes basic guarantees and rights for investors (e.g., against expropriation) and makes incentives more transparent. A Competition and Fair Trading Bill, which establishes a National Competition Commission, was tabled in Parliament in November 2005 and consideration of the Bill by Parliamentary Select Committee was completed in February 2006. The Fair Trading and Competition Bill is expected to be passed by Parliament by April-May 2006. In addition, Guyana joined the Caribbean Single Market and Economy at the beginning of the year. The Government is also preparing a National Competitiveness Strategy in consultation with the private sector and donors to formulate future priority interventions.

21. The analysis of progress made in poverty reduction is hampered by limited advancement made in setting up an efficient ***monitoring and evaluation*** framework and the resulting lack of recent data on poverty levels and trends and by weak social data and data collections systems. A Policy Coordination and Program Management Unit was set up in the Office of the President to coordinate and monitor the poverty reduction strategy, support the implementation of structural reforms, coordinate and support the implementation of social statistics strengthening activities, conduct policy analysis in support of the PRS and produce the annual PRS progress report. However, there has been no poverty survey since 1999, therefore there has not been an update on poverty levels since the PRS was adopted, making it difficult to assess progress in reducing poverty incidence. Also, social data and data collection systems at both national and local levels remain inadequate. As indicated above, the provision of social services and economic opportunities in rural and under-privileged communities remain to be adequately addressed. The 2005 PRS Progress Report details Government's specific interventions and programs to reduce pockets of poverty, especially in the bauxite-producing town of Linden and its environs, and in hinterland rural areas populated largely by Amerindians. However, there is a need to formulate an integrated

[16] According to Doing Business 2006, Guyana ranks 123 out of 155 on the "Enforcing contracts" index.

strategy for more equitable geographic development and a supporting monitoring system, particularly with regards to the development of infrastructure and access to basic health and education.

III. THE PROPOSED OPERATION

A. Consistency with the CAS, Lessons Learned and Linkages to PRSC-I

22. The Country Assistance Strategy (CAS), discussed by the Board in September 2002, marked a fundamental shift in IDA lending strategy for Guyana. Drawing on the PRSP consultations and preparation process, the experience with previous interventions, and guided by the Bank's mandate for poverty reduction and its comparative advantage in policy dialogue, the strategy focused on support for the policy reform agenda of the PRSP. Thus, the CAS made a fundamental shift away from project lending to a program of Poverty Reduction Support Credits (PRSCs), a series of single tranche programmatic credits that were linked together as part of a coherent program in support of Guyana's poverty strategy, as the principal lending vehicle. The pace of reforms was seen as the constraint on how many PRSCs could be provided, but the first PRSC (PRSC-I) program document suggested that it might be possible to proceed at a pace of one PRSC per year.

23. Problems with the PRSC program arose early on when, after Board approval of PRSC-I in December 2002, the Government delayed the revision of the Procurement Act and, as a result, the credit did not become effective until September 2003. At the same time, the macroeconomic program went temporarily off-track, political disruptions accelerated and the implementation of the poverty strategy was hampered. These delays, and the underlying institutional weaknesses they reveal, indicate that that original schedule of one PRSC per year was too optimistic and that the PRSC instrument was ill suited to Guyana's context (as noted by the PRSC-I Implementation Completion Reports (ICRs)).[17]

24. The PRSC program was designed to provide broad-based support for the poverty reduction strategy, focusing on four of the seven main pillars of the PRSP: (i) public administration; (ii) reforms in human resource development; (iii) basic infrastructure services; and (iv) the productive sectors. The development of the reform program supported by PRSC-I provided technical assistance to the Government in areas such as restructuring of the water and sugar sectors, procurement reform, poverty and social impact analysis, and improvements in public accountability and transparency. In addition, a parallel Public Sector Technical Assistance Credit (PSTAC) provided support for implementation of the PRSP and the PRSC.

25. The reforms supported by PRSC-I were implemented prior to the effectiveness of that credit, but the Government has extended and further developed these reforms since then (as detailed in paras. 10-21). Key conclusions and lessons identified in the ICR are:

- the timeframe of future operations should be established with care, taking into account possible political obstacles, as well as capacity constraints in the public service;
- technical assistance, through TA credits/grants or through funding from other donors, is crucial to the program; and
- future operations should focus on fewer areas and drill down more in these, have fewer trigger actions and exclude measures that are expected to be taken as part of other operations, whether by IDA or other donors.

26. The Policy Matrix for PRSC-I identified expected actions for further development as triggers for PRSC-II. The Government made substantial progress with respect to those actions (see Annex IX for an

[17] *Simplified Implementation Completion Report – Guyana Poverty Reduction Strategy Credit,* Report PE-P073851, June 28, 2004 and *Full Implementation Completion Report*, Report 35463, March 17, 2006.

overview of the status of implementation of these triggers). Nonetheless, on the basis of lessons learned from the implementation of the Government's PRSP and the IDA-financed PRSC-I, as described above, the Government and IDA have agreed that annual PRSCs do not provide the best instrument to support Guyana's reform program. Instead, a series of development policy operations, timed to match the speed of the Government's implementation performance, is better suited to support the country's development needs and context. Also, on the basis of the lessons learnt from PRSC-I, the proposed PRPMO is concentrated selectively on fewer policy areas.

27. Continuity between the two operations is, however, maintained. The proposed PRPMO builds on the achievements of PRSC-I and incorporates as prior actions, consistent with its greater selectivity, relevant actions originally established as triggers for an eventual PRSC-II. The greater selectivity in the proposed PRPMO also takes into consideration policy areas being supported by other Bank and donor-financed operations.

B. Objectives and Description

28. **Objectives.** The proposed Poverty Reduction and Public Management Operation (PRPMO) supports the Government's efforts to implement critical reforms in public sector management and poverty reduction programs identified in Guyana's 2001 Poverty Reduction Strategy Paper (PRSP) and the 2004 and 2005 Progress Reports. Building on the reforms supported by PRSC-I, the proposed operation aims to improve the transparency, accountability, and efficiency with which overall resources are utilized across the public sector. In addition, the PRPMO will help improve the Government's institutional capacity to monitor progress under the PRSP, evaluate the impact of poverty reduction programs, and improve the statistical information for poverty analysis and targeting. Finally, the operation will support actions to strengthen environmental management and regulations to ensure the sustainable use of Guyana's natural resources.

29. **Description.** The proposed PRPMO is a single-tranche development policy operation in the amount of US$9.6 million equivalent. It is based on policy measures that have already been implemented by the Government prior to Board presentation. As per the IDA 14 grant eligibility criteria, the operation will be on IDA grant terms. The operation includes select reform measures in the following main areas: (i) ensuring a sound macroeconomic framework; (ii) improving the quality, transparency and accountability of public sector management; and (iii) improving the climate for environmentally-sustainable development. Technical assistance for the implementation of the reform measures supported by the PRPMO is being provided by IDA through an ongoing Public Sector Technical Assistance Credit (PSTAC, US$4.8 million), a Japanese Policy and Human Resources Development (PHRD) grant (US$595,000) and a Trust Fund for Statistical Capacity Building (TFSCB) grant (USD 285,000). The Policy Matrix in Annex VI also details policy actions that could be supported by a follow-up development policy operation (PRPMO-II) to further the Government's reform program in the above areas.

1. Ensuring a Sound Macroeconomic Framework

30. The 2005 PRS Progress Report defines as main goals for Guyana in the medium-term: (i) to reverse the negative or low growth rates of the last five years; (ii) to rehabilitate the infrastructure damaged by the floods and adopt mitigating measures to minimize the impact of future disasters; and (iii) to create an environment that attracts private investment and stems the migration of the country's skilled population and entrepreneurs. Restructuring the sugar sector and diversifying the economy are the critical challenges for improving the country's medium-term growth prospects. Indeed, the country is highly dependent on fuel imports[18] and sugar exports, and the high oil prices and the impending reduction in EU sugar

[18] Guyana has one of the highest oil-intensity in the world and oil imports are estimated to have reached 27 percent of GDP in 2005. This reflects the energy intensity of its industries (e.g., mining, sugar, fishing and timber), high transportation costs and

preferences will require difficult reforms and adjustments. Although the reduction in the EU sugar price is somewhat slower than had previously been anticipated, providing some additional time to restructure the industry, annual export losses could reach as high as 4 percent of GDP. Mining and forestry have recently attracted significant foreign direct investment, thus adding to the opportunities to diversify and spur growth. The country's abundant wildlife could also become a foundation for Guyana's eco-tourism industry. To achieve its medium-term goals of renewed growth and diversification, the Government has a program of reforms and sectoral adjustments. First, it plans to further strengthen the fiscal performance and pursue an external debt strategy that ensures debt sustainability. The 2006 macroeconomic targets and a revised medium-term (2007-10) macroeconomic framework were recently agreed by the Government as part of the fifth review under the IMF PRGF arrangement which was successfully completed at end-January 2006. In addition, the Government intends to continue structural reforms to improve the investment environment by, inter alia, enhancing governance and transparency, and focusing the public investment program on improving infrastructure and increasing access to basic social services. Also, the Government plans to create an adequate legal and regulatory framework to ensure the sustainability of Guyana's natural resources.

31. The economy is projected to recover in 2006 (with an estimated real GDP growth rate of 4 percent), led by a rebound in sugar production and continued expansion in bauxite exports. While the impact of the January 2006 floods is still to be assessed, it is expected that it will be less severe than that of the 2005 floods, given that they have taken place in less populated areas and seem not to have affected the sugar sector in a major way.[19] During 2007-10, growth is projected to average about 3 percent, as a result of the continued recovery of sugar and rice production, ongoing new investment in the bauxite and gold sectors and the positive impact of ongoing reform efforts. The large expansion in public sector investment will also boost the economy. This is broadly in line with the historical ten-year average of 2.3 percent, but represents an acceleration in growth compared to the most recent five year period (2000-04) when growth averaged only 0.6 percent. Such a recovery will however also strongly depend on further progress on structural reforms, particularly improvements in the efficiency of public resource use and in the investment climate, and on a stable security situation. Inflation is projected to remain at 7 percent in 2006 as a result of the pass-through of high world fuel prices to consumers, and to average 3 percent during 2007-2010.

32. Against the background of high oil prices and the impending reduction in the EU sugar preferential regime, the Government intends to pursue fiscal consolidation in 2006. Thus, while the overall deficit (inclusive of grants and spending on the new Skeldon sugar factory) for 2006 is targeted to remain at 13½ percent of GDP as in 2005, the deficit net of Skeldon-related spending would narrow from 8½ percent of GDP in 2005 to about 5¼ percent of GDP. The Government intends to underpin this improvement by maintaining the revenue effort, containing wage and capital spending, and improving the fiscal performance of the public enterprises. In particular, although the authorities have increased the threshold for the income tax to reduce the burden on the poorest households and reduce tax brackets, they plan to offset this by a transfer from semi-autonomous and statutory bodies of about ½ percent of GDP. Furthermore, the public enterprises' operating balances are expected to improve, reflecting a recovery in sugar production and the full-year effect of a recently introduced fuel surcharge on electricity tariffs.[20] Central government expenditures – which were boosted in 2005 by flood-related expenditure – are projected to decline in 2006. To permit an increase in old-age pensions, the authorities agreed to limit the growth in the wage bill to 1 percent in real terms, which would still permit some increase in the number

low fuel efficiency, particularly in the production of electricity. The authorities are seeking to reduce technical losses of the electricity system with IDB assistance. Also, a co-generation facility has been included in the Skeldon modernization project and is expected to provide 8 percent of the country's energy needs.

[19] An ECLAC assessment took place in February 2006 and a final report is expected shortly.

[20] Moreover, the authorities agreed that the consumption tax rate on petroleum (currently at 45 percent) would be adjusted as necessary to achieve the budget revenue target.

of teachers and strengthening of the police force to combat a recent upsurge in crime. Election-related expenses (associated with voter registration, training, and security) would be contained to 0.8 percent of GDP in 2006 in line with commitments made under the IMF PRGF. The MDRI is expected to reduce Guyana's debt service by about 1 percent of GDP per year. The Government has allocated these savings in the 2006 budget to projects that support the achievement of the MDGs and plans to undertake these expenditures only once these resources are made available by the IMF and IDA.

33. Capital expenditures are projected to remain high in 2006 (27 percent of GDP compared to 24.5 percent in 2005) and then gradually decline to 15 percent of GDP in 2010, in line with the historical averages in Guyana. This largely reflects the exceptional investment outlays on the new sugar plant at Skeldon, which is part of a sugar sector restructuring program aimed at improving competitiveness of Guyana's sugar industry. In addition to the capital expenditure on the Skeldon restructuring project (13.9 percent of GDP over 2006-2008), other large public investment projects include a cricket/sports stadium (3.5 percent of GDP over 2005-2007), investment in the Unserved Electrification Program (2.4 percent of GDP over 2006-2010) and works in the Moleson Creek-New Amsterdam road (3.2 percent of GDP over 2006-2010). The cricket stadium is being built to allow Guyana to host the 2007 Cricket World Cup, along with other Caribbean countries. Financing of US$25 million has been secured from the Government of India (a US$5 million grant and a US$20 million concessional loan). Under the PRGF arrangement, the Government has provided assurances that no government finance would be used for ancillary housing and other needs which would be financed by the private sector. Shortfalls in net operating balances for the stadium are to be covered from increases in taxes on liquor and airport departures. Another significant investment, the construction of the Berbice bridge, is being financed mainly by the private sector, with some involvement from the National Insurance Scheme (NIS). The authorities have committed to limit public liability to the investment by the NIS; a private company has been established and a contractor has been selected recently, with construction expected to start by end-April 2006.

34. The Government intends to pursue further fiscal consolidation during 2007-10. Fiscal adjustment, supported by the maintenance of a strong revenue effort, containing growth in wages, gradually reducing other current spending, lower capital expenditure through better prioritization and a successful sugar sector modernization are projected to shift the primary balance of the overall public sector from a deficit of 1 percent of GDP in 2006 (excluding Skeldon) to a primary surplus of 1 percent of GDP by 2010. The overall fiscal deficit (after grants) would fall from 13½ percent of GDP in 2006 to around 2.7 percent by 2010.

35. The current account deficit is expected to widen to 26½ percent of GDP in 2006 as a result of high world oil prices and public investments related to the restructuring of the sugar sector and other large projects. Nevertheless, capital inflows will enable a moderate increase in official reserves, and the remaining financing gap in 2006 of about US$19 million could be closed by US$8 million under the Multilateral Debt Relief Initiative (MDRI) and by additional donor support. During 2007-10, the fiscal adjustment, coupled with a somewhat improved growth outlook and the completion of the Skeldon project, would narrow the external current account deficit to 14 percent of GDP by 2010 and enable international reserves to reach 3½ months of imports. The remaining financing gap would be manageable, and could be covered by MDRI debt relief and some additional balance of payment support from donors.[21] Given the uncertain external environment and the related macroeconomic risks, the Government program may require further fiscal tightening to address unexpected developments.

[21] Guyana has access to concessional financing under the PetroCaribe Accord.

Table 2: Guyana: Selected Economic Indicators

	Estimate	Projected				
	2005	2006	2007	2008	2009	2010
			(Annual percent change)			
Real GDP Growth	-2.8	4.2	3.8	3.5	3.2	2.7
GDP deflator (factor cost)	4.2	3.8	4	3.1	3.0	2.9
Consumer prices (average)	7.1	6.9	4.4	3.1	3.0	3.0
Consumer prices (end of period)	9.0	5.4	3.5	3.0	3.0	3.0
			(In percent of GDP)			
National accounts						
Investment	31.2	34.2	29.6	27.6	26.7	27.2
Private sector	6.7	7.0	8.0	9.8	11.0	12.2
Public sector	24.5	27.2	21.6	17.8	15.7	15.0
National saving	12.4	12.0	12.6	14.3	14.8	14.4
Private sector	5.1	2.4	4.7	5.2	4.7	4.4
Public sector 1/	7.3	9.5	8.0	9.1	10.1	10.0
External Savings 1/	18.8	22.3	16.9	13.3	11.9	12.2
Nonfinancial public sector						
Revenue and grants	46.8	47.6	44.2	43.6	42.8	41.8
Expenditure	60.3	61.2	54.8	50.2	47.2	45.0
Current	35.8	34.0	32.7	31.9	31.0	30.0
Capital	24.5	27.2	22.1	18.3	16.2	15.0
Excluding Skeldon	19.7	18.8	17.8	17.1	16.2	15.0
Overall balance (after grants) 2/	-13.4	-13.6	-10.1	-6.1	-3.9	-2.7
Excluding Skeldon		-5.2	-5.8	-4.9	-3.9	-2.7
Total public sector debt (end of period, without MDRI)	178.6	175.4	166.8	159.9	152.8	146.8
External 2/	148.0	148.0	144.0	139.2	136.8	133.2
Domestic 3/	30.6	27.4	22.8	20.7	16.0	13.6
External public sector debt (end of period, with MDRI)	148	115	115	113	113	112
			(In million U.S. dollars, unless otherwise indicated; end of period)			
External sector						
External current account balance (in percent of GDP) 2/ 4/	-22.6	-26.5	-19.5	-15.4	-13.8	-14
Gross official reserves	240.0	250.0	269.4	286.4	303.2	309.9
Months of imports	3.0	3.2	3.3	3.4	3.5	3.5
			(In percent, unless otherwise indicated)			
NVP of external debt-to-revenue ratio 5/6/7/	217.1	190.0	197.0	197.0	201.0	203.0
Debt-service ratios 2/						
Exports of goods and nonfactor services	3.4	2.8	2.9	3.4	3.0	3.3
Memorandum items:						
Nominal GDP (G$ billion)	157.9	170.8	184.5	196.9	209.3	221.2

Sources: IMF

1/ Includes official current transfers.

2/ Beginning 2004 reflect interest payments after original HIPC and enhanced HIPC debt relief.

3/ Based on bank holding of government debt.

4/ Excluding official transfers.

5/ Excludes the letter of credit used for financing the GUYSUCO sugar restructuring project.

6/ From 2006, projections assume MDRI relief.

7/ NPV calculations are based on a discount rate of 5 percent

36. Guyana's debt sustainability is projected to improve under the revenue and growth outlook described above. Before accounting for the MDRI, the NPV of external debt-to-revenue ratio is projected to peak at about 238 percent in 2007,[22] compared with 260 percent in the IMF PRGF Fourth Review (September 2005).[23] The Joint World Bank/IMF DSA paper (Annex XIII) concludes that Guyana's risk of debt distress after the implementation of the MDRI is moderate since the initiative would significantly reduce its level of indebtedness. With MDRI, the NPV of external debt-to-revenue ratio would decline to a peak ratio of about 203 percent. This improvement would need to be sustained through prudent and effective fiscal Government policies to avoid a re-emergence of debt sustainability concerns in the future, notably through containing new borrowing and better prioritizing the public sector investment program.

2. Improving the Quality, Transparency and Accountability of Public Sector Management

37. The process of structural reform that started in 1989 affected various aspects of public sector management. The wide-ranging privatization program reduced the size of the public sector, while the management of certain enterprises that remained in state hands was transferred to the private sector. Some government agencies were made semi-autonomous (e.g. Guyana Revenue Authority (GRA) and Office of the Auditor General (OAG)). Significant strides were made in strengthening public financial management, a process that is ongoing (see below). Finally, as part of an IDB-funded Public Sector Modernization program, some overview studies were conducted of public service functions as well as of the ministerial structure of government.

38. Despite these positive developments, the organization and functioning of the Government remains weak. Decision making is highly centralized, in part a response to institutional weaknesses. The resulting inefficiencies are exacerbated by a poorly qualified and motivated public service and high turnover. Since the late 1990s, Guyana's public sector has undergone a series of modernization and renewal initiatives, some directed to individual ministries and agencies, others more broadly based. However, notwithstanding some incremental improvements, further efforts would be required to ensure that the public sector plays its full role in supporting the private sector as the main engine of growth. Furthermore, the existence of discretionary powers can create opportunities for inefficient use of public resources and corruption. Indeed, Guyana ranked 117 out of 159 countries in Transparency International's 2005 survey. The IDB is currently providing technical assistance for the development of an overall public sector modernization program. Under this assistance, the Government is preparing institutional and organizational capacity assessments for each ministry, reviewing human resource needs and undertaking staff audits as inputs for the Public Management Modernization Program to be implemented over the medium term.

39. The proposed PRPMO supports the Government's efforts in four critical areas for improving the quality of, and transparency and accountability in, public resource management: (i) improving the quality of the Public Sector Investment Program (PSIP); (ii) strengthening public financial management; (iii) continuing the public procurement reform process; and (iv) improving the ability of the Government to monitor progress under the PRS and undertake evaluation of programs.

Improving the quality of the PSIP

40. ***Issues***. The State Planning Secretariat (SPS) within the Ministry of Finance (MOF) is responsible for preparing, and annually rolling over, a Public Sector Investment Program (PSIP). However, during

[22] Without MDRI.

[23] The NPV of external debt is computed using a uniform 5 percent discount rate, in line with the methodology of joint Fund-Bank low-income country debt sustainability framework.

2001-2004 only one PSIP was prepared in the context of the PRSP in 2001 and there was no update since. During this period the Government pursued an ambitious program of public sector investment – expanded from the 2001 PRSP and mainly aimed at upgrading infrastructure and restructuring public enterprises, but most recently including a cricket stadium for which it has received significant concessional financing from the Indian government. However, the high level of public investments was not accompanied by improved growth performance, thus raising questions about efficiency and transparency of public resource use. Also, in early 2005, the IMF and IDA started to raise concerns about Guyana's debt sustainability in light of the external borrowing required to finance the public investment program. In addition, the new organic budget law enacted in 2003 required the preparation of a PSIP as an essential input into the medium-term expenditure framework (MTEF). The Government, therefore, undertook to prepare and publish a new five-year rolling PSIP and establish clearly-stated assumptions and methodologies and a transparent ranking system for project selection.

41. ***Government program and PRPMO support***. In August 2005, the authorities prepared and published, with IDB and World Bank technical assistance, a five-year rolling PSIP consistent with the PRS objectives. On the basis of the results of the IMF-World Bank joint Debt Sustainability Analysis (DSA), in September 2005 the authorities revised the five-year PSIP to ensure its consistency with macroeconomic and debt sustainability. The revised PSIP was made public and integrated into the 2006 budget (submitted to Parliament on January 23, 2006)—this is a PRPMO prior Board condition. As stated in the PRS 2005 Progress Report, the Government intends to revise on an annual basis the five-year PSIP in light of macroeconomic and debt sustainability considerations. In addition, feasibility studies will be completed for all new projects of over US$10 million (net of grants), excluding those financed by multilateral financial institutions, and submitted to the IDB or the World Bank for an assessment of their economic, environmental and financial viability. Policy actions by the Government before PRPMO-II are: (i) satisfactory execution of the 2005-2009 PSIP; (ii) annual publication of updated five-year rolling PSIPs, consistent with PRS objectives, debt sustainability and project selection and ranking methodology contained in the 2005-2009 PSIP, and their integration in the annual budgets; and (iii) preparation of feasibility studies for all new projects above US$10 million (net of grants), excluding those financed by multilateral financial institutions, and their submission to the IDB or the World Bank for an assessment of their economic, environmental and financial viability. A program of technical assistance to strengthen the Government's capacity at the Ministry of Finance to produce annual rolling PSIP is ongoing with IDB support.

Financial Management

42. ***Issues***. The Country Financial Accountability Assessment (CFAA), completed in 2002 as part of the preparation of PRSC-I, considered Guyana's public audit and financial management systems and processes as basic and fragmented (see Box 1 for a summary of the main CFAA findings). It pointed to a number of critical weaknesses in budgeting, accounting, audit and oversight of the Government's finances. While the IDB and CIDA have been assisting the Government with reform of the budget and accounting systems, progress has been slow. More recently, however, significant steps have been taken to modernize financial management in the public sector.

Government program and PRPMO support

43. **Audit.** The new Audit Act was prepared by the Government and enacted by Parliament in April 2004—this is a PRPMO prior Board condition. It makes the Office of the Auditor General a semi-autonomous agency responsible to the Parliament. As stated in the Act, the Auditor General (AG) is the external auditor of the public accounts of Guyana. In that capacity, he has "complete discretion in examining and reporting on the receipt, disbursement and control of public money, and on the economy, efficiency and effectiveness in the use of such monies." In other words, the AG has the power to conduct performance and value-for-money audits and reports to the Public Accounts Committee (PAC) in

Parliament. Regulations detailing rules, policies and procedures regarding the management and operation of the Audit Office and the conduct of audits were prepared by the Government and, following approval by Parliament in May 2005, were gazetted in July 2005—this is a PRPMO prior Board condition.

Box 1: Summary of the CFAA Main Findings

The main findings of the CFAA (2002) were:

- The country's public financial management systems and processes are basic and fragmented.
- The best developed Government's financial management systems relate to budget preparation. While efforts have been made to move the recurrent budget to a program basis, capital budgets are still presented on a line item basis, and are not coordinated with the recurrent budget.
- The Government's accounting system in place is a throwback to British colonial times. It is used to track government accounts in the aggregate and not as a management tool by individual ministries.
- Given that there is *ad hoc* integration between the budget and accounting systems, and no uniform government-wide approach to modern financial management methods, the internal control systems in place are the tailored creations of some agencies. They are not adaptable for widespread use, and they are not useful for centralized oversight.
- The Office of the Auditor General (OAG) has demonstrated genuine professionalism and a refreshing independence, but its resources are often insufficient. The resources and independence of OAG need to be increased.
- The Parliament has a constitutional role to oversee public sector management; however, it is unable to exercise this function.
- In the absence of integrated systems, respect for operating rules, a functioning public oversight mechanism, and a recognized medium for enforcement, political leaders exercise considerable discretion in running public agencies.

44. In 2004, the Office of the Auditor-General's (OAG) report identified a number of key deficiencies in the financial operations of the Government and the reform program supported by the proposed PRPMO has drawn upon major findings in the report to strengthen targeted reforms in related areas. The first is the need for increased transparency and accountability in the use of the proceeds from the Guyana Lotteries[24] (also flagged in previous OAG reports). Specifically, the report identified the need to define clear criteria for the selection of activities to be financed from the Lotteries Fund, regularly disclose information on activities proposed and funded, including funding amounts, and carry out annual audits of the Fund's operations. Second, the Auditor-General's report recommended that the Wildlife Division funds be accounted for and remitted to the Consolidated Fund, and the organization be transferred from the Office of the President to the Environmental Protection Agency (EPA).[25] The Wildlife Division should be an integral part of the EPA operations and all revenues, expenditures, assets and liabilities relating to this division should be recorded in the books and accounts, and hence reflected in the financial reporting, of the EPA. Other key deficiencies identified in the Auditor-General's report are: (i) the need to make public (i.e. send to the Parliament) the audits of the Guyana Revenue Authority (GRA) (this had not been done since 1999); (ii) the fact that the Commissioner and Deputy-Commissioner of the GRA held short-term contracts, which resulted in lack of job security and decreased ability to provide frank advice; and (iii) the need to table all external loans in the National Assembly (action required by the law), thereby increasing transparency. As part of the PRPMO-supported reform agenda, the Government has addressed these deficiencies (see details in Annex VII). This ensures compliance with the Audit Act provision that the Government act on the Auditor General's recommendations and increases the accountability and efficiency in the use of public sector resources. Implementation of the Auditor General's key recommendations, as detailed in Annex VII, is a PRPMO prior Board condition. Further

[24] The amount involved is estimated at G$2.2 billion, or US$10.9 million.

[25] The amount involved is estimated at G$168 million, or US$832,000, representing revenues derived from the operations of the Wildlife Division prior to the Office of the President assuming responsibility of the Division.

progress in public financial management improvement program as evidenced by satisfactory implementation of the new Audit Act is a policy action by the Government before PRPMO-II.

45. **Fiduciary Oversight.** To improve public financial management, the Government agreed, under PRSC-I, and on the basis of the CFAA recommendations,[26] to strengthen fiduciary oversight, which has three elements: (i) ensuring effective parliamentary oversight over public finances (Study 1); (ii) curtailing discretionary powers of public officials (Study 2); and (iii) ensuring effective public disclosure of assets of officials (Study 3). In 2005, consultants financed by the PSTAC prepared studies on each of these elements.[27] The Government reviewed the recommendations of these studies and discussed them with key stakeholders who had also provided input to the consultants during the preparation of the report and which included members of the opposition parties, members of Parliament, public officials, and civil society and private sector representatives. Out of 60 recommendations detailed in the studies, the Government identified 30 for implementation in a first phase (January 2006-December 2007). These include agreement on capacity-building measures for improved oversight of public finances by Parliament; limitation of discretionary powers through internal rules, external reporting and training needs; and improved system for public disclosure of assets through enforcement of existing disclosure rules and definition of the roles and responsibilities of the Integrity Commission and related agencies. The Government's selection of an initial set of 30 recommendations for first phase implementation was informed by the importance of these recommendations for strengthening fiduciary oversight and concerns about overburdening the already heavy Parliamentary agenda. The recommendations related to Parliamentary functions and reforms (from Study 1) were discussed and endorsed by the Parliament in December 2005, with support from the main Opposition Party. The Government has adopted a time-bound action plan for implementation of these 30 recommendations and has already started its implementation with: (i) submission to Parliament of draft revised Standing Orders; (ii) the setting up of a project execution unit in the Office of the President to oversee implementation of the recommendations from Studies 2 and 3; and (iii) preparation of terms of reference for the implementation of recommendations related to reforms on limiting discretionary powers and disclosing public officials' assets (Studies 2 and 3). The Government has committed to reviewing the remaining 30 recommendations for implementation after completion of the first phase. Bi-partisan support of the fiduciary oversight reform agenda represents an unprecedented and encouraging development in a highly polarized environment, highlights the commitment across the political spectrum to these reforms and contributes to their sustainability. The donor community has also committed to support the implementation of the action plan through the provision of technical assistance. Launching of the first phase of the fiduciary oversight strengthening program is a PRPMO prior Board condition (see details in Annex VIII). Completion of the first phase of the fiduciary oversight reform agenda and launching of the second phase is a policy action by the Government before PRPMO-II.

Procurement

46. ***Government program and PRPMO support.*** In 1999, the Bank carried out a Country Procurement Assessment Report (CPAR), whose recommendations were supported by the PRSC-I (see Box 2). Under PRSC-I, the rules governing public procurement were revised by the 2002 National Procurement Act, which was subsequently amended by the Tender and Procurement Act of 2003. The PRPMO supports continued implementation of the Government's procurement reform program, with a major focus on the adequate application of the recently-passed legislation and strengthening of its institutional framework. As part of this reform agenda, accompanying regulations were adopted in December 2004. The aim of the two Acts and regulations is to make public procurement more efficient, competitive and transparent. The 2003 Act established a National Procurement and Tender Administration (NPTA) headed by a Board and supported by a Secretariat. Members of the National and Regional Tender Administration Boards

[26] See PRSC-I, Annex VIII, Letter from Government Endorsing CFAA Work Program.
[27] Bradford and Associates Ltd, Guyana Fiduciary Oversight Project, July 4, 2005.

have been appointed in 2005 and the NPTA Secretariat is being staffed. Also, standard bidding documents and evaluation criteria have been developed according to international standards. Although the Constitution foresees the establishment of an independent Public Procurement Commission to provide oversight for procurement matters, members of the commission have not yet been appointed. These appointments require action by Parliament where 2/3rd majority is needed, which has not been possible due to lack of agreement on the candidates' list.

Box 2: Summary of the CPAR Main Findings

The main findings of the CPAR (1999) were:

- Prior to the adoption of new legislation in 2002-2003, public sector procurement of goods, works and services was governed by a set of very old and obsolete rules and regulations. The legal procurement framework was deficient and outdated and regulations did not contain the essential aspects for a transparent and efficient procurement system.
- The organizational structure and administrative arrangements and procedures to handle procurement matters at the central level, i.e. the Central Tender Board (CTB), are inadequate to respond in an efficient and transparent way to the procurement requirements of the executing agencies.
- Under the present regulations, within the approval limits authorized by law, the CTB and Regional Tender Boards are responsible, among other matters, for the appointment of the members of the evaluating committees who make their independent evaluation of the given tenders. Then the evaluators meet as a group to discuss separate evaluations and submit a report and recommendations for award. Since the tender board is in charge of approving the award, such an arrangement creates a situation of conflict of interest.

47. In order to assess actual progress made so far in the reform of the procurement framework, the Government requested the Office of the Auditor General to review procurement practices used since the enactment of the new Procurement Act and regulations. The review conducted in late 2005 identified some delays in staffing the National and Regional Tender Boards and some weaknesses in compliance with record-keeping requirements. As indicated in the Government's Letter of Development Policy (see Annex V), the Government intends to act on these recommendations in 2006. PRPMO prior Board action is continued satisfactory implementation of the regulatory and institutional public procurement framework reform as evidenced by the adoption of the amended National Procurement Act and of Regulations and their dissemination, appointment of staff for the National and Regional Tender Boards and Secretariat, adoption of standard bidding documents and evaluation criteria, and completion of first annual audit of procurement operations. Additional actions are underway with IDA financing under PSTAC including strengthening institutional capacity, carrying out a comprehensive training program, and developing other implementing tools such as a procurement monitoring and evaluation system, and an e-procurement strategy. The existence of a functional procurement monitoring and evaluation system providing adequate information for performance assessment and feedback into policy-making and the conduct of annual audits of procurement operations are actions expected before PRPMO-II. The medium-term outcomes for procurement reform are: (i) improvement in the scoring of the OECD baseline indicators; and (ii) better value for money and improvement in the perception of increased transparency, efficiency and service delivery quality. The first will be measured on the basis of the Baseline Indicator System (BIS).[28] A baseline for Guyana is being developed as part of a joint exercise of the Government of Guyana, the World Bank and the Inter-American Development Bank. The exercise will be repeated in 2008 in order to measure improvement in the medium-term. The baseline for value for money and perception of increased transparency, efficiency and service delivery quality will be provided by an

[28] The BIS was developed by the OECD-DAC/World Bank Roundtable on Strengthening Procurement Capacities in Developing Countries. This tool has several purposes: (i) ensure consistent diagnostics by all donors; (ii) help formulate strategies to strengthen systems; (ii) enable self-assessment and monitoring; (iii) monitor progress periodically against agreed benchmarks; and (iv) measure progress in meeting the Paris Declaration goals.

assessment of the purchasing strategy of the Government which measures its efficiency and cost effectiveness, and by simple, statistically relevant private sector surveys which will be repeated in 2008 to measure progress.

Monitoring and Evaluation

48. ***Issues and Government program.*** As indicated above, the analysis of progress made in poverty reduction has been hampered by lack of an effective monitoring and evaluation framework. In 2002, the Government prepared a monitoring plan for the PRS. However, during 2002-04, implementation of that plan was slow due to delays in establishing and staffing the monitoring unit and creating a viable system of incorporating civil society into the monitoring process, and limited progress made in strengthening the statistical data collection system. The Policy Coordination and Program Management Unit (PCPMU) in the Office of the President was finally established and staffed in 2003. The Government also set up five structures to implement its monitoring and evaluation strategy: a PRS M&E unit; PRS focal points in line ministries and agencies; a PRS steering committee; regional committees; and thematic groups. The PRS M&E Unit is responsible for facilitating links among the other four monitoring structures and for reporting on progress in the poverty reduction program. However, the role of the Steering and of the Regional Committees needs to be strengthened, ensuring that they are adequately equipped and fully institutionalized to monitor the implementation of the PRS. The Statistics Bureau, which has the main responsibility for national accounts, the census and household surveys, remains under-equipped and poorly staffed. A plan for strengthening it has been developed, and is being carried out with the support of the PSTAC, as well as assistance from the IDB and the UNDP and a World Bank TFSCB grant. There has not been an update on poverty levels since the PRS was adopted in 2001, making it difficult to assess progress in reducing poverty incidence. Also, a critical challenge going forward is the lack of a good system for tracking budget expenditure that would permit monitoring of government programs by sector and by major poverty-related programs and inform the budget preparation program.

49. ***PRPMO Support.*** Under the support of the proposed operation, in 2005 the Government accelerated its efforts to set up a monitoring and evaluation system. Specifically, it: (1) published a summary of 2002 Census data (2) has launched the Household Income and Expenditure Survey which is expected to be completed by end-2006; (3) started publishing on a semi-annual basis executed current and capital public expenditures by sector and priority poverty-related programs (first publication took place in January 2006); and (4) prepared a map outlining distribution of access to basic services. The IDB, UNDP, DfID and IDA are among those donors providing support to the Government in these areas. The above four measures are PRPMO prior actions.

3. Improving the Climate for Environmentally-Sustainable Development

Sugar Sector

50. ***Issues.*** As indicated in para. 2, restructuring of the sugar sector is critical for Guyana's continued growth. Sugar accounts for 16 percent of GDP, 25 percent of foreign exchange earnings, and directly or indirectly affects the livelihoods of over 75,000 people. Industry profitability is based on preferential market access and prices, with the bulk of production going to the European Union under special protocols. With the price liberalization in the EU sugar market envisaged to start in 2006, many producers in the Caribbean will become uncompetitive and face closure. Guyana is one of the few countries in the region which has the potential to remain competitive in sugar production in a liberalized environment.

51. ***Government plan and implementation progress.*** The Government is undertaking a major restructuring and modernization of the sugar industry to enhance productivity and diversify products and

markets. Given the strategic importance of sugar in the economy, the Government has decided to retain ownership of industry assets while relying on private sector management of the Guyana Sugar Corporation (GUYSUCO) and increasing the share of privately-grown cane. One of the major elements of this strategy consists of placing emphasis on production in the Berbice area, through the recently started construction of a new, larger sugar mill in Skeldon, capable of producing 110,000-120,000 tons of sugar per year, along with expansion of sugar cane cultivation by some 10,000 hectares. Approximately half of this cane expansion area would be on lands owned by the Guyana Sugar Corporation (GUYSUCO) and the other half on private farmers' lands. Some of the planned sugar cane expansion area is currently freshwater swamp forest and other wetlands, which would be drained and cleared for cane cultivation. The Government has recently presented to the EU an Action Plan detailing the sector restructuring program to qualify for EU financial support.

52. ***PRPMO Support.*** The operation supports the Government's commitment to sustainable development and improved environmental management through the preparation and implementation, by GUYSUCO, of an Environmental Management Plan (EMP) for the new sugar mill and associated canefields expansion. The EMP has been prepared by GUYSUCO and carefully reviewed by IDA, which found it to be satisfactory (after specific recommended changes had been made). In particular, the EMP now requires that GUYSUCO manage the Halcrow and Guysuco Conservancies (comprising some 7,500 hectares of freshwater swamp and reef forest) in a manner consistent with wildlife and biodiversity conservation, thereby effectively mitigating the natural habitat loss associated with expanding cane cultivation. The two conservancies are considered to be of higher biodiversity conservation value than the roughly 10,000 hectares to be converted to cane production. The PHRD grant for the proposed PRPMO provided technical assistance for a site selection study of the new landfill that GUYSUCO will need for wastes generated by construction and operation of the Skeldon facilities, as well as for a Rapid Biological Assessment of the conservancy area to provide useful baseline data for biodiversity monitoring and management. GUYSUCO has also prepared, and is systematically implementing, a detailed Pest Management Plan that emphasizes integrated pest management, careful selection of compounds, safe pesticide use and storage, and free pest management technical assistance to private farmers who are (or will be) providing cane for the new Skeldon factory. These activities are all closely coordinated with the Skeldon Bagassse Cogeneration Project (Community Development Carbon Fund) and the environmental and social components of the monitoring plan required by the Clean Development Mechanism of the Kyoto Protocol for all funds to receive verification/certification as Emission Reduction credits. Monitoring of broader developments in the sugar sector is also being done by a DFID-financed consultant, in close consultation with the IMF and IDA. The adoption and satisfactory progress made in the implementation of the EMP for the Skeldon sugar factory and associated canefield expansion is a PRPMO prior action. Continued satisfactory implementation of the EMP is a policy action before PRPMO-II.

Forestry

53. ***Issues.*** The development and use of Guyana's considerable forestry resources are critical for Guyana's future exports and growth. However, development of forestry resources needs to be pursued on a sustainable basis, with adequate controls to prevent over-harvesting, minimize environmental damage and recognize the land claims of indigenous peoples. Existing legislation (from 1953) does not adequately ensure that these objectives are met and does not provide the private sector with a clear regulatory environment.

54. ***Government plan and implementation progress.*** The Government has revised the Forests Bill, with technical assistance from DFID, that also reflects detailed technical comments from IDA. It is anticipated that the new Forests Bill will substantially improve the legal basis for sustainable and environmentally sound management of Guyana's forests. For example, the new law will provide for improved environmental and forestry controls, increased transparency and public involvement, reduced

opportunities for corruption, new forest conservation concessions and special protected areas, and enhanced respect for Amerindian rights and opportunities for community-based forestry on Amerindian lands.

55. ***PRPMO Support.*** The Government finalized and submitted to Parliament a revised Forests Bill that improves the legal basis for sustainable and environmentally sound management of Guyana's forests, prior to presentation of the proposed PRPMO to the Board. The Bill is expected to ensure the sustainable development of Guyana's forest resources, while protecting the environment and advancing land tenure and the rights of indigenous peoples. The satisfactory implementation of the Forests Law, including updating the Code of Practice, is a policy action by the Government for PRPMO-II.

Mining

56. ***Issues.*** Bauxite, gold and diamond have historically been an important part of Guyana's economy and source of export earnings. Public intervention in the bauxite sector is being wound down, as the Government has privatized LINMINE, closed down BERMINE and is preparing AROAIMA for privatization in 2006. As a result, bauxite exports increased from US$35 million in 2002 to US$67 million in 2005 and are projected to reach over US$100 million in the next three years driven by ongoing foreign direct investment. Output of gold has declined due to the closure of the Omai mine but is projected to recover gradually over the coming years as a result of new foreign direct investment (including the IFC-supported Guyana Goldfields hard-rock mine) and increased gold declaration by informal small mining operations.

57. ***Government plan and PRPMO support.*** The Government intends to draft and table in Parliament a new Mining Bill improving the regulatory environment for the mining sector (including issues such as environmental impact, taxation, and the rights of Amerindian communities). While the Mining Bill is likely to help attract new large-scale mining by international companies, such investments will need to minimize and mitigate a range of possible adverse environmental impacts. Accordingly, the PHRD grant for the proposed operation supports the Government by providing technical assistance for the preparation of a Strategic Environmental Assessment (SEA) of the mining sector to serve as a basis for the drafting of the new legislation (see Annex XII for further details). Submission to Parliament of a new Mining Bill, based on technical and stakeholder input provided through the SEA and acceptable to IDA, is a policy action by the Government for PRPMO-II.

C. Rationale

58. As discussed in paras. 22-27, the proposed operation is consistent with the strategy defined in the 2002 Country Assistance Strategy and takes into account lessons learned from the implementation of the PRSC-I.

Complementarities with Guyana's Other Development Partners

59. The Bank has worked very closely with the IMF, IDB and Guyana's other development partners to coordinate its support for the program of reforms contained in the proposed PRPMO. Guyana is presently implementing a macroeconomic program under a SDR54.55 million Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF.[29] The IMF mission for the fifth review under the PRGF arrangement took place in November 2005 (with IDA staff participation) in which agreement was reached with the authorities on a 2006 budget and the macroeconomic targets, the structural agenda for the remainder of the PRGF program and a revised medium-term macroeconomic framework. The fifth

[29] The PRGF arrangement was extended twice and will expire in September 2006.

review under the PRGF arrangement was successfully completed in January 2006, allowing the disbursement of a further SDR9.27 million under the arrangement.

60. The IDB is currently Guyana's major source of concessional financing, with projects spanning most sectors.[30] The IDB's pipeline for 2006 contains projects to support citizen security, justice, competitiveness, bridge rehabilitation, solid waste management and agricultural diversification, for a total of US$103 million. IDB ongoing support for public sector modernization is closely related to the program of reforms supported by the PRPMO and close coordination between the two institutions is ongoing. Specifically, the IDB and IDA (through the PRPMO and PSTAC) are coordinating in the areas of strengthening Government capacity for preparation and implementation of the five-year rolling PSIP, public procurement, Guyana Revenue Authority, fiduciary oversight and Bureau of Statistics. Also, following the disbursement of PRPMO, the IDB intends to continue to support the implementation of fiduciary oversight reforms and has directly linked its disbursements to progress in this area.

61. Guyana has also become a threshold country under the US Millennium Challenge Account and was identified as a "Development Partner" by Canada. DFID is providing support to the Government for water sector reform in collaboration with IDA and is financing a consultant to monitor broad developments in the sugar sector in coordination with the IMF and IDA.

Analytical Underpinnings and Complementarity with Other Bank Activities

62. The proposed operation draws on a wide range of Bank and other development partners' analytical work, both formal and informal. A Development Policy Review was completed by the Bank in 2003 and discussed with the Government. It stressed the need to enhance public sector efficiency, transparency and governance and improve the business environment. Other important pieces of Economic and Sector Work (ESW) include the Public Expenditure Review (PER, 2002) and the Country Financial Accountability Assessment (CFAA, 2002) which highlighted needed actions to improve transparency and efficiency of public expenditure and strengthen financial management. While the Country Procurement Assessment Report (CPAR) dates back to 1999, subsequent work by Bank specialists for the preparation of the PRSC-I and PRPMO updated the information and supported the dialogue on procurement reform. As indicated in para 45, the PSTAC, together with trust funds, provided funding for analytical work informing the strengthening of fiduciary oversight and the reform of the social protection system. The PSTAC and trust funds also supported the preparation of two poverty and social impact analyses (PSIA)—see para. 67—, as well as the strengthening of the monitoring and evaluation system through the preparation of an M&E plan, a diagnostics of the Bureau of Statistics, and the provision of technical assistance for the preparation of a poverty map and the ongoing Household Income and Expenditure Survey. The Bank engaged actively in the development of the PRSP and subsequent Progress Reports, and the content of the PRPMO reflects this work. An IMF (CARTAC) study provided the background for the reforms in the Guyana Revenue Authority. The analytical work for the new Audit Act derived from work funded by the IDB.

Participatory Arrangements

63. The key reform measures supported by the proposed operation were presented in the Government's 2005 draft Annual Progress Report (APR) of the Poverty Reduction Strategy as integral elements of its development agenda. The draft APR was broadly disseminated, including by its posting on the web, its presentation in several public meetings in various locations throughout the country and to Parliament. The meetings were well attended and provided an opportunity for Government officials to engage with a broad range of stakeholders (including donors, non-governmental organizations, civil society, members of

[30] Since 1977, the IDB has approved loans amounting to US$970 million. Outstanding debt stands at US$462 million (excluding undisbursed HIPC debt relief), while the undisbursed portfolio totals US$225 million (as of November 2005).

political parties, members of Parliament, and neighborhood democratic councils) on the draft APR in an open forum. The consultations broadly confirmed the importance and direction of these reforms, in particular the need to strengthen Government capacity for monitoring and evaluation.

D. Prior Conditions

64. The policy matrix in Annex VI lists the policy measures the Government has undertaken under the proposed PRPMO (PRPMO-I), indicative actions under a follow-up operation (PRPMO-II) and medium-term expected outcomes. The following are the key actions implemented by the Government prior to Board presentation of the PRPMO:

1. Maintain a stable macroeconomic framework;
2. Prepare and publish a 5-year PSIP, consistent with PRSP objectives and debt sustainability, including a methodology for selecting and ranking future projects, and committing to subject all new public investment projects appraised after June 2005, estimated to cost above US$10 million (net of grants), excluding those financed by multilateral financial institutions, to a detailed feasibility study reviewed by the World Bank or IDB for economic, environmental and financial viability; and integrate the PSIP into the 2006 budget;
3. Continue improvement of public financial management as evidenced by: the enactment of new Audit Act and gazetting of regulations; implementation of the Auditor General's key recommendations contained in his 2004 report (see details in Annex VII); and launching of first phase of fiduciary oversight strengthening program (see details in Annex VIII);
4. Continue satisfactory reform of the regulatory and institutional public procurement framework consistent with established international standards, as evidenced by: adoption of amended National Procurement Act and of Regulations, and their dissemination; appointment of staff for National and Regional Tender Boards and Secretariat; adoption of standard bidding documents and evaluation criteria; and the completion of the first annual audit of procurement operations;
5. Improve monitoring and evaluation of PRS activities as evidenced by: issuing of the first semi-annual publication of executed current and capital public expenditures by sector and priority poverty-related programs; publication of a summary of the 2002 census; launching the Household Income and Expenditure Survey; and completion of the mapping of access to basic services;
6. Adopt and make satisfactory progress in the implementation of an Environmental Management Plan (EMP) for the Skeldon sugar factory and associated canefield expansion;
7. Submit to Parliament a revised Forests Bill, improving the legal basis for sustainable and environmentally sound management of Guyana's forests.

E. Implementation Monitoring and Evaluation

65. The Policy Coordination and Program Management Unit (PCPMU) in the Office of the President is the principal executing agency and has responsibility for coordinating and overseeing all aspects of the program supported by the proposed PRPMO. The head of the PCPMU reports to the Head of the Presidential Secretariat, who in turn is advised by a separate steering committee composed of civil society representatives, government and the private sector. The Unit has three broad divisions: policy, monitoring and evaluation, and social statistics development. The latter is charged with the task of monitoring the implementation of important structural reforms, including those included under the HIPC, PRGF and PRSP, as well as IDA-financed PRPMO. The PCPMU is also in charge of producing the annual progress reports on PRSP implementation.

F. Poverty and Social Impacts

66. The proposed operation is expected to have a significant positive impact on poverty reduction. The PRPMO supports the implementation of the Government's poverty reduction strategy laid out in the PRSP and the PRSP progress reports, and for reaching the Millennium Development Goals. In particular, this operation would contribute to improving the transparency, accountability, and efficiency with which overall resources are utilized across the public sector. Improvements in financial administration, audit and procurement will increase efficiency and transparency in public resource use and reduce opportunities for rent-seeking in the public sector. Also, the PRPMO would help improve the Government's institutional capacity to monitor progress under the PRSP, evaluate the impact of poverty reduction programs, and improve the statistical information for poverty analysis and targeting. The operation would also indirectly have a positive impact on poverty and social conditions through its support for sustainable, private sector-driven development of natural resources, with adequate controls to prevent over-harvesting, minimize environmental damage and recognize the land claims of indigenous peoples.

67. It is not expected that the policy changes supported by this operation will have any negative poverty or social impacts. Parallel to this operation, the Bank has supported, through the PSTAC and with trust fund resources, analysis of the poverty and social impact (PSIA) of key adjustments in the bauxite and sugar sectors and related recommendations. While neither the bauxite nor the sugar sector are part of the present operation (except that the PRPMO addresses the environmental mitigation requirements of the Skeldon sugar expansion which was promoted under the PRSC-I), it is expected that the PSIA for the sugar sector which is being completed will help the Government mobilize donor funding to address possible impacts of this sector's restructuring.

68. The PRPMO is also expected to have a significant positive impact on improving the social conditions of Guyana's Amerindian population, through its support for sustainable development of natural resources, with adequate controls to prevent over-harvesting, minimize environmental damage and help further the recognition of the land claims of indigenous peoples. In particular, IDA has reviewed provisions relating to indigenous people in the draft Forests Bill and considers these to be favorable compared with the prior legislation with respect to their economic and social advancement (including improved recognition of their land claims). IDA also reviewed in detail the terms of reference for the PHRD-funded Strategic Environmental Assessment (SEA) of Guyana's mining sector (currently underway) as a basis for improving national mining regulations; these terms of reference (copy in PRPMO Files) explicitly cover indigenous peoples' issues. IDA will review the SEA, once it is available, to verify that it provides a good basis for addressing relevant indigenous peoples issues in the planned new Mining Bill.

G. Environmental Aspects

69. In accordance with OP 8.60, the PRPMO was prepared with careful analysis of the likely impacts on the environment, forests, and other natural resources. The PRPMO has been designed so as to be significantly positive from an environmental standpoint, when compared to the status quo and expected trends. Environmental management concerns have been systematically mainstreamed within the PRPMO design, through: (i) ensuring that the country's sugar restructuring (through construction of a new, modern sugar factory and associated expansion of cane cultivation) follows good environmental practices, in terms of proper management of solid and liquid wastes from the factory, conserving two specific natural habitat areas to compensate for the expanded cane cultivation, and integrated pest management in the cane fields; (ii) ensuring that the revised Forests Bill will promote improved forest management, in terms of environmental sustainability as well as advancing the interests of Amerindian communities; (iii) supporting (through the PHRD Grant) a Strategic Environmental Assessment of Guyana's mining sector, to help ensure that the future Mining Bill will more adequately address a diverse range of environmental

and social issues; (iv) promoting improved wildlife management, through increased transparency in the financial transactions and administrative actions of the Wildlife Division; and (v) ensuring that future large public projects (over US$10 million, net of grants, and excluding those financed by multilateral financial institutions) are reviewed for their environmental (as well as financial and economic) implications by the World Bank or IDB. IDA also carried out due diligence with respect to the land administration activities of the Lands and Surveys Commission, to verify that a robust screening system is in place to avoid issuing new leases or individual titles in protected areas, State Forests, and Amerindian lands. These items are explained in greater detail in Annex XII (Environmental Analysis), and backed up by a series of analytical reports (in the PRPMO Files) on the environmental management of sugar, forestry, mining, wildlife, and land administration.

H. Fiduciary Arrangements

Financial management and procurement

70. From a fiduciary point of view, the control environment, procedures and regulations governing Bank of Guyana's (BoG) operations are generally adequate. In response to vulnerabilities facing the Bank of Guyana identified in 2003 and relating to financial statement preparation in accordance with internationally recognized accounting standards, improved oversight, and audits, the Government enacted in 2004 modifications in the BoG Act that addressed these vulnerabilities, including the adoption of accounting standards mandated by the Institute of Chartered Accountants of Guyana and staffing arrangements for BoG government bodies in line with international best practices.

71. As indicated in para. 42, the World Bank's CFAA, completed in 2002, also identified a range of weaknesses and issues relating to: fragmentation of the public financial management system; deficiencies in budget preparation; antiquated governmental accounting system with limited internal controls; poor Parliamentary oversight; and considerable discretion in the running of public agencies. Since the publication of the CFAA, the Government has taken steps to implement its recommendations. Since 2003, fiscal management and accountability have been considerably strengthened, with the enactment of the Fiscal Management and Accountability Act. Furthermore, regulations under the Audit Act were put in place in 2005. Program budgeting is being gradually introduced in key ministries. In addition, public expenditures are expected to improve with the completed introduction of a computerized integrated financial management system in all Ministries and several agencies.

72. The Government agreed under the PRSC-I to strengthen fiduciary oversight and engaged consultants under the PSTAC project to undertake three studies to: (i) strengthen parliamentary oversight over public finances; (ii) curtail the discretionary powers of public officials; and (iii) ensure effective public disclosure of assets of officials. The studies were completed in 2005 and contain some 60 recommendations. With support from the donor community through technical assistance, the Government has adopted a time-bound action plan for implementing 30 of these recommendations as part of fiduciary strengthening program supported by the PRPMO. The launching of the fiduciary strengthening program as a prior Board condition of the proposed operation, together with the actions that the Government has undertaken to strengthen the operations of the BoG and improve public financial management and accountability, provide reasonable assurance regarding the adequacy of the disbursement and flow-of-funds arrangements. The objective of the proposed program is to take further the reforms already initiated.

73. As indicated in para. 46, a CPAR was completed in 1999, and implementation via a new Procurement Law was a major component of PRSC-I. PRPMO supports continued implementation of procurement reforms, including the adoption of amended National Procurement Act and regulations, and of standard bidding documents. Additional actions are underway with IDA financing including strengthening institutional capacity, carrying out a comprehensive training program, and developing other

implementing tools such as a procurement monitoring and evaluation system, and an e-procurement strategy.

Disbursement and Auditing

74. This operation would consist of a single tranche grant of US$9.6 million equivalent. The entire amount would be disbursed upon effectiveness. Upon the Bank's formal notification to the Borrower that the single tranche was available for withdrawal, the borrower would be able to submit withdrawal application for the grant, so that the proceeds of the tranche would be deposited by the Bank into an account to be established in the BoG to be used in accordance with the Grant Agreement. Disbursements would not be linked to specific purchases, and supporting evidence for disbursement is therefore not required. The proceeds of the grant would not be used to finance expenditures excluded under the Grant Agreement. In accordance with Bank policy,[31] the deposit account would be audited on terms of reference acceptable to the Bank within six months of grant disbursement in accordance with International Standards on Auditing, by an independent firm acceptable to the Bank and using terms of reference acceptable to the Bank.

75. In addition, in 1996, the Government of Guyana obtained a Project Preparation Facility (PPF) Advance to finance certain expenditures required for the preparation of a planned Secondary Towns Infrastructure Development project. This PPF advance was approved on October 25, 1996 for an amount of $850,000. Upon closure of the PPF on June 30, 2000, US$547,095 of the PPF advance had been disbursed and the remaining US$302,904 was cancelled. The project preparation activities financed with the PPF advance were in line with the purposes established in the corresponding agreement. However, in mid-2000 the planned Secondary Towns Infrastructure Development project was dropped due to the Bank's and Government's reprioritization of areas for Bank support. The PPF would be refinanced with the proceeds of the proposed PRPMO for which an additional disbursement category has been included in its Financing Agreement.

I. Risks and Risk Mitigation

76. The proposed operation entails a high level of risk, given the present economic and political situation in the country. Critical risks are:

- **National consensus, ethnic and political tensions, and security.** The PRSP suffered from delayed implementation in 2002-2003 because of social and political tensions, coupled with rising crime and political violence. While some violence was politically or racially motivated, much of it was caused by criminal elements often linked to international drug smuggling. The situation markedly improved in 2004-05, but remains problematic, particularly with general elections constitutionally due by August 2006. The principal source of the problem continues to be the political structure of the country, wherein voting patterns and the major political parties generally reflect the major ethnic divisions. Indeed, the polarized nature of Guyanese politics raises concerns of possible election violence, a stalling of reform and fiscal pressure. While these are difficult issues to mitigate, the PRPMO has been designed as a one-tranche operation disbursed on the basis of actions implemented prior to Board presentation. An IDA operation (PRPMO-II) would follow to support continuation of the Government reform program and would be timed to match the speed of Government's implementation performance for further reforms. It should also be noted that the PRPMO agenda of reforms has broad buy-in from across the political parties.

[31] Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities, June 2003.

- **Implementation and institutional capacity.** A major risk centers around Guyana's historically weak implementation capacity, which was a key factor in the past delays in PRSP implementation. The Government has had problems in recruiting and retaining qualified professionals in the public sector. Although public service salaries have increased in recent years, these adjustments have been across-the-board and therefore not adequate to attract and retain skilled persons in key positions, such as technical staffs in the civil service as well as senior and middle level management. Moreover, decision-making authority remains highly centralized. The ongoing PSTAC and a PHRD grant are providing technical assistance for the implementation of several measures supported by the PRPMO. IDA is also coordinating closely with other development partners (notably the IMF and IDB) that are providing technical assistance in the areas related to the proposed operation (see para. 59-61).
- **Public spending pressures.** The forthcoming general elections and Guyana's hosting of the 2007 Cricket World Cup may put pressure on public spending and jeopardize fiscal and debt sustainability. However, the Government has provided assurances that no government finance would be used for ancillary housing and other needs which would be financed by the private sector. Shortfalls in net operating balances for the stadium are to be covered from increases in tax revenues. Also, the civil service unions continue to press for across-the-board wage increases following the sizeable wage increases granted in 1999 and 2000. While a rather modest adjustment was agreed in 2004, it is possible that wage pressures may again mount in the future. The 2005 and 2006 floods also highlighted the significant water conservancy rehabilitation works needed to prevent flood-related damage in addition to those already included in the PSIP. The Government's macroeconomic program supported by the IMF PRGF arrangement includes measures to maintain public finances on a sustainable path and the NVP of external debt-to-fiscal revenue ratio to below 250 percent threshold. In addition, the preparation of five-year rolling PSIPs (a prior action for the proposed PRPMO and an indicative action for PRPMO-II) will help the Government prioritize the investment program to maximize results and ensure its consistency with Guyana's debt sustainability. It will also be important for the authorities to monitor closely the implementation of the largest planned infrastructure projects (i.e., construction of the sugar factory, the cricket stadium and the Berbice bridge) to avoid cost increases.
- **Developments in the world economy.** Guyana's economic outlook is subject to considerable risks associated with high world oil prices, the planned liberalization in EU sugar prices and other external (economic and natural) shocks. Managing these risks will require steadfast implementation of the Government's fiscal and structural reform program, as well as continued support from the donor community. In the past, the authorities have demonstrated readiness to adjust policies to meet the targets in the macroeconomic program supported by the IMF PRGF arrangement, agree that the significant risks over the medium term would require cautious policies in the future and are committed to make additional adjustment if the external environment deteriorates.

77. In IDA's assessment, the above risks are worth taking at this juncture of Bank-Guyana cooperation. Guyana has made progress over the past decade, and continues to move in the right direction. The slow pace of reform reflects institutional weaknesses which are being addressed, in part by this operation, but also through coordinated technical assistance from IDA and other development partners, in particular the IMF and the IDB. The proposed operation will contribute to improving transparency, accountability and efficiency with which overall resources are utilized across the public sector. Also, by strengthening the Government's M&E system, IDA's assistance would help the country's institutional capacity to monitor progress under the PRSP, evaluate the impact of poverty reduction programs, and improve the statistical information for poverty analysis and targeting. Finally, developing the legal framework to ensure that private sector–led development in Guyana is environmentally sustainable will help preserve Guyana's natural resource endowment that, in the long run, is key to sustainable economic development.

ANNEXES

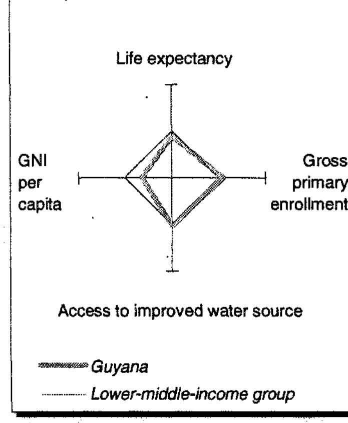
Annex I

Guyana at a glance

3/24/06

POVERTY and SOCIAL	Guyana	Latin America & Carib.	Lower-middle-income
2004			
Population, mid-year *(millions)*	0.77	541	2,430
GNI per capita *(Atlas method, US$)*	990	3,600	1,580
GNI *(Atlas method, US$ billions)*	0.77	1,948	3,847
Average annual growth, 1998-04			
Population *(%)*	0.4	1.4	1.0
Labor force *(%)*	1.3	0.9	0.7
Most recent estimate (latest year available, 1998-04)			
Poverty *(% of population below national poverty line)*	35	..	..
Urban population *(% of total population)*	38	77	49
Life expectancy at birth *(years)*	62	71	70
Infant mortality *(per 1,000 live births)*	52	28	33
Child malnutrition *(% of children under 5)*	14	..	11
Access to an improved water source *(% of population)*	83	89	81
Literacy *(% of population age 15+)*	..	89	90
Gross primary enrollment *(% of school-age population)*	125	123	114
Male	126	126	115
Female	123	122	113

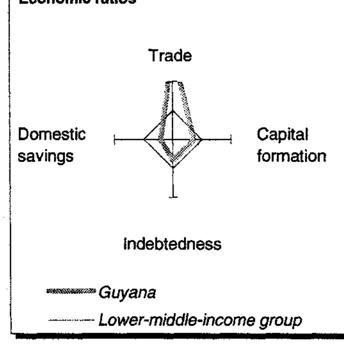
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1984	1994	2003	2004
GDP *(US$ billions)*	0.44	0.54	0.74	0.79
Gross capital formation/GDP	27.4	27.2	21.0	22.1
Exports of goods and services/GDP	44.2	105.0	89.8	95.8
Gross national savings/GDP	..	8.4	12.1	17.5
Current account balance/GDP	-22.6	-14.9	-8.9	-4.6
Interest payments/GDP	..	..	5.8	5.0
Total debt/GDP	298.8	378.9	173.1	164.4
Total debt service/exports	24.2	15.7	7.2	5.9
Present value of debt/GDP	..	..	65.5	64.6
Present value of debt/exports	..	..	72.9	67.4

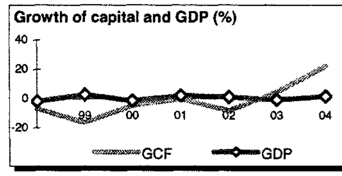
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	1.1	1.9	-0.7	1.6	2.1
GDP per capita	1.4	1.5	-1.2	1.2	1.7
Exports of goods and services	7.0	1.0	3.6	0.3	4.6

Economic ratios*



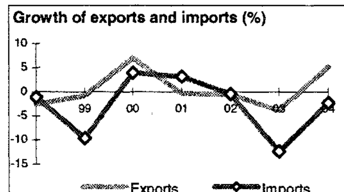
STRUCTURE of the ECONOMY	1984	1994	2003	2004
(% of GDP)				
Agriculture	24.7	37.0	29.0	30.0
Industry	24.4	36.7	29.0	29.0
Services	50.9	26.3	41.0	41.0
Household final consumption expenditure	61.7	70.3	60.9	59.0
General gov't final consumption expenditure	18.1	15.5	28.1	27.2
Imports of goods and services	51.4	117.9	99.8	105.7

Growth of capital and GDP (%)



	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	2.1	1.8	-1.3	2.9
Industry	0.5	1.5	-2.8	-0.2
Manufacturing	-2.0	0.9	-3.0	2.3
Services	0.9	2.4	1.4	1.9
Household final consumption expenditure	-1.4	3.0	-3.4	4.9
General gov't final consumption expenditure	7.9	10.7	13.3	5.2
Gross capital formation	8.4	-2.7	4.5	21.9
Imports of goods and services	7.0	1.6	-1.2	14.7

Growth of exports and imports (%)

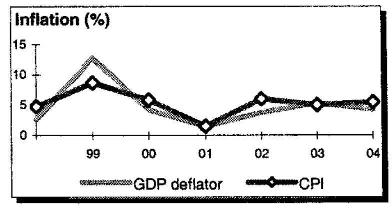


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

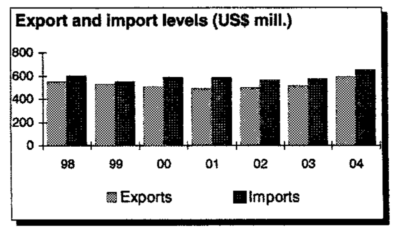
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	..	9.4	5.0	5.5
Implicit GDP deflator	19.3	19.7	5.4	4.3
Government finance[a]				
(% of GDP, includes current grants)				
Current revenue	..	36.6	36.1	39.6
Current budget balance	..	11.0	2.3	7.4



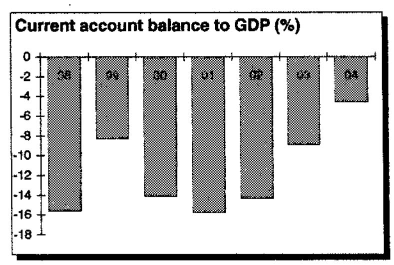
TRADE

	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	217	447	513	589
Rice	..	56	45	55
Sugar	71	116	129	137
Manufactures	19	48	..	..
Total imports (cif)	211	506	572	646
Food	8	32	..	..
Fuel and energy	..	136	147	169
Capital goods	31	164	116	136



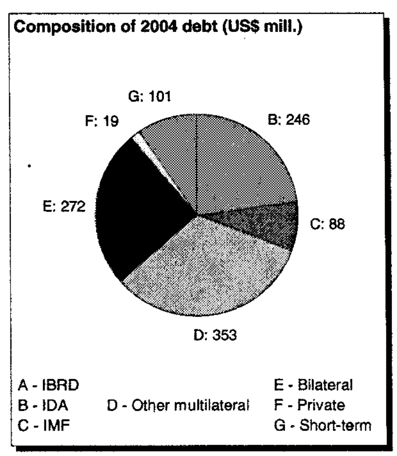
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	246	568	670	753
Imports of goods and services	301	638	744	831
Resource balance	-55	-70	-74	-77
Net income	-45	-59	-58	-43
Net current transfers	..	63	65	93
Current account balance[b]	-99	-81	-66	-36
Changes in net reserves	..	23	-9	-47
Memo:				
Reserves including gold *(US$ millions)*	..	269	271	225
Conversion rate *(DEC, local/US$)*	3.8	138.3	193.9	198.3



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	1,308	2,049	1,084	1,079
IBRD	54	39	1	0
IDA	25	182	232	246
Total debt service	60	97	49	44
IBRD	6	9	3	1
IDA	0	2	2	3
Composition of net resource flows				
Official grants	7	32	5	..
Official creditors	18	-1	43	46
Private creditors	-6	-4	-1	-1
Foreign direct investment (net inflows)	5	107	26	30
Portfolio equity (net inflows)	0	1	-27	-14
World Bank program				
Commitments	0	20	17	0
Disbursements	5	12	20	7
Principal repayments	2	6	3	2
Net flows	3	6	17	5
Interest payments	4	5	2	2
Net transfers	-1	2	16	3



Development Economics 3/24/06

a. Central Government.
b. Including official transfers.

Annex II

Guyana - Key Economic Indicators

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual				Estimate			Projected		
National accounts (as % of GDP)										
Gross domestic product[a]	100	100	100	100	100	100	100	100	100	100
Agriculture	29	29	29	30	29	30	30	31	31	31
Industry	31	31	29	29	29	27	28	28	28	28
Services	40	40	41	41	43	42	42	42	41	41
Total Consumption	94	92	89	86	93	96	97	96	96	96
Gross domestic fixed investment	22	21	21	22	31	34	30	28	27	27
Government investment	14	13	15	16	25	27	22	18	16	14
Private investment	8	8	7	6	7	7	8	10	11	12
Exports (GNFS)[b]	95	93	90	96	92	92	91	89	87	84
Imports (GNFS)[b]	111	105	100	106	123	122	115	109	105	102
Gross national savings[c]	4	8	12	18	12	12	13	14	15	14
Memorandum items										
Gross domestic product (US$ million at current prices)	696	723	745	786	782	823	876	933	988	1040
GNI per capita (US$, Atlas method)	840	860	890	990	..	..	..	..	..	..
Real annual growth rates (%, calculated from 1988 prices)										
Gross domestic product at market prices	2.2	1.1	-0.7	1.6	-2.8	4.2	3.8	3.5	3.2	2.7
Real annual per capita growth rates (%, calculated from 1988 prices)										
Gross domestic product at market prices	..	0.4	-1.2	1.2	-3.1	3.9	3.5	3.2	2.9	2.3
Balance of Payments (US$ millions)										
Exports (GNFS)[b]	662	668	670	753	719	754	797	833	863	873
Merchandise FOB	490	496	513	589	556	582	614	638	657	656
Sugar		120	129	137	131	144	147	146	135	122
Gold		136	131	145	106	70	82	95	112	122
Imports (GNFS)[b]	777	759	743	831	962	1004	1005	1015	1042	1065
Merchandise C.I.F	584	563	572	646	774	806	794	792	806	818
Capital Goods		114	116	136	157	206	184	169	165	157
Of which for Skeldon		0	0	0	8	59	36	17	0	0
Consumer Goods		157	149	155	194	161	164	168	172	177
Fuel and Lubricants		126	147	169	210	238	243	245	252	257
Resource balance	-114	-91	-74	-77	-243	-250	-208	-182	-179	-192
Net current transfers	68	53	65	93	143	122	116	117	121	127
Current account balance	-109	-97	-66	-37	-147	-176	-140	-116	-110	-118
Net private foreign direct investment	56	44	26	30	70	55	50	54	57	60
Long-term official loans (net)	47	25	43	55	80	69	78	68	78	52
Change in reserves[d]	-12	-5	-9	-47	15	10	19	17	17	7
Memorandum items										
Resource balance (% of GDP)	-16.4	-12.6	-9.9	-9.8	-31.1	-30.4	-23.7	-19.5	-18.1	-18.4
Real annual growth rates (YR88 prices)	2.3	1.1	-0.7	1.6	-2.8	4.2	3.8	3.5	3.2	2.7
Merchandise exports (FOB)[e]	-1.8	0.8	0.3	12.5	-4.6	4.8	5.8	4.4	3.7	1.1
Merchandise imports (CIF)[e]	-0.3	-2.3	-2.1	11.7	15.8	4.4	0.1	1.0	2.6	2.2

(Continued)

Guyana - Key Economic Indicators
(Continued)

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
		Actual			Estimat			Projected		
Public finance (as % of GDP at market prices)[f]										
Current revenues	40.0	40.5	36.1	39.6	43.1	44.6	42.7	41.7	40.6	40.4
Current expenditures	34.6	33.7	33.8	32.2	35.8	35.0	33.3	32.5	31.5	30.5
Current account surplus (+) or deficit (-)	5.4	6.8	2.3	7.4	7.3	9.6	9.4	9.2	9.1	9.9
Capital expenditure	12.7	11.4	11.0	15.9	17.7	17.1	15.8	15.1	14.2	13.0
Foreign financing (net)	..	..	6.2	-0.1	15.3	21.7	16.6	13.3	15.3	9.5
Monetary indicators										
M2/GDP	71.3	71.3	73.9	73.5	79.7	77.4	..	..	..	..
Growth of M2 (%)	8.9	5.5	8.3	7.8	9.9	5.0	..	..	..	..
Private sector credit growth (%)	..	-1.1	-17.2	-0.4	6.6	8.0	..	..	..	..
Price indices(YR82=100)										
Merchandise export price index	94.9	97.2	99.7	106.6	114.3	115.0	108.4	105.8	103.1	104.0
Merchandise import price index	132.5	133.4	148.6	169.9	191.4	193.3	192.1	191.0	190.8	190.8
Merchandise terms of trade index	71.6	72.8	67.1	62.7	59.7	59.5	56.5	55.4	54.0	54.5
Consumer price index (% change)	1.5	5.4	6.0	4.7	7.1	6.9	4.4	3.1	3.0	3.0
GDP deflator (% change)	-1.9	3.7	5.4	4.3	4.2	3.8	4.0	3.1	3.0	2.9

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. US Dollar terms, in percent.
f. Consolidated central government.
g. Percentage change, 12-month basis.

Annex III

Guyana - Key Exposure Indicators

	Actual			Estimate			Projected			
Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total debt outstanding and disbursed (TDO) (US$m)[a]	1193.0	1246.4	1083.8	1078.8	1153.3	947.1	1005.1	1055.7	1119.1	1164.0024
Net disbursements (US$m)[a]	..	25	43	55	80	69	78	68	78	52
Total debt service (TDS) (US$m)[a]	52.8	58.4	48.9	44.1	25	29	25	30	29	35.5
Debt and debt service indicators (%)										
TDO[b]/XGS[c]	180.1	186.6	161.8	143.2	160.4	125.6	126.1	126.7	129.7	133.3
TDO[b]/GDP	171.4	172.5	145.4	137.0	148.0	115.0	115.0	113.0	113.0	112.0
TDS/XGS[c]	7.9	8.7	7.3	5.9	3.4	2.8	2.9	3.4	3.0	3.3
IBRD exposure indicators (%)										
IBRD DS/public DS	7.0	5.0	4.4	1.9	..	..	..	..	..	..
Preferred creditor DS/public DS (%)[d]	75.4	51.4	62.3	74.2	..	..	..	..	..	..
IBRD DS/XGS	0.4	0.4	0.3	0.1	..	..	..	..	..	..
IBRD TDO (US$m)[e]	5	3	1	0	..	..	..	..	..	..
Of which present value of guarantees (US$m)	..	..	..	..	..	..	..	..	..	..
IDA TDO (US$m)[e]	178	196	232	246	..	..	..	..	..	..
IFC (US$m)										
Loans	0	0	0	0	0	..	..	..	..	..
Equity and quasi-equity[f]	0	0	0	0	0	5	..	..	..	..
MIGA										
MIGA guarantees (US$m)	0	0	0	0	0	..	..	..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital. Excludes the letter of credit used for the financing of the Guysuco project.

b. Foreign currency denominated debt.

c. "XGS" denotes exports of goods and services, including workers' remittances.

d. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

e. Includes present value of guarantees.

f. Includes equity and quasi-equity types of both loan and equity instruments.

Annex IV

Timetable for Key Processing Events

Steps	Dates
Identification mission	April 4-16, 2004
Concept review meeting	September 30, 2004
Preparation mission	February 21-15, 2005
Review meeting	April 18, 2005
Pre-appraisal mission	May 23-June 3, 2005
ROC meeting	February 27, 2006
Appraisal mission	March 6-7, 2006
Negotiations	March 8-10, 2006
Board Presentation	April 27, 2006
Effectiveness	May 4, 2006

IN REPLYING QUOTE DATE
HEREOF AND No....................

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

Letter of Development Policy

Georgetown, March 2, 2006

Mr. Paul Wolfowitz
President
The World Bank
1818 H Street, NW
Washington, DC 20433

Dear Mr. Wolfowitz:

1. I am writing to request on behalf of the Government of the Republic of Guyana a Poverty Reduction and Public Management Operation (PRPMO) of US$9.6 million equivalent in support of our Poverty Reduction Strategy (PRS). This letter sets out the critical actions that the Government has already undertaken as well as those it intends to adopt in the future to improve the transparency, accountability and efficiency with which overall resources are utilized across the public sector, improve the institutional capacity to monitor progress under the PRS, evaluate the impact of poverty reduction programs undertaken, improve statistical information for poverty analysis and targeting, as well as to strengthen environmental management and regulations. In addition, I am attaching a policy matrix we have prepared in collaboration with the IDA team and other donors and which sets out the contents of this letter in summary form.

Recent Developments in Guyana

Main Macroeconomic Trends

2. Guyana enjoyed rapid growth in the 1990s, after transitioning from a planned to a market economy. However, the economy has stagnated in recent years due to a difficult domestic and external environment. After growing at an average rate of 0.6 percent from 2000 to 2004, the economy is expected to have contracted by 2.8 percent in 2005, due to the closure of the OMAI mine (the largest gold mine of the country), severe floods and high oil prices. As a consequence of these shocks, macroeconomic indicators worsened in 2005, as the overall public deficit of 13.5 percent illustrates. The worsening of

macroeconomic indicators reflects also the need to increase capital expenditures to restructure the sugar sector, in preparation for the forthcoming liberalization of the EU sugar preferential regime.

3. Guyana has been implementing a macroeconomic program supported by the IMF through an SDR54.55 million Poverty Reduction and Growth Facility (PRGF) introduced in 2002. The fifth review was successfully completed on January 30, 2006. Macroeconomic targets were broadly met and although with delays, the structural reform program was also advanced.

4. Guyana benefited from a total of US$329 million of debt relief in NPV terms, after reaching the Enhanced HIPC (E-HIPC) Completion Point in December 2003, in addition to the relief of US$256 million in NPV terms granted under the original HIPC in May 1999. However, debt sustainability concerns remained given that debt was projected to increase in the medium-term in response to an ambitious investment program, almost picking at the threshold of 250 percent of NPV of debt-to-revenue ratio. Improved revenue performance and additional Multilateral Debt Relief Initiative (MDRI) debt relief has led to an improvement in Guyana debt sustainability prospects, but this will require stable macroeconomic conditions and higher growth.

Progress in the Structural Reform Program

5. Guyana has been implementing an ambitious reform program that has as its main objectives to improve the efficiency of the public sector, foster growth by improving the environment for private investment, and to address weaknesses in the provision of social services.

6. In 2003, a medium-term tax reform program was launched, to broaden the tax base and increase the equity, efficiency and transparency of the tax system. Main actions completed include: (i) enactment of the VAT and Excise Tax legislation with draft regulations submitted to Parliament for consideration in October 2005;[1] (ii) the elimination of the Minister of Finance's power to grant discretionary tax exemptions and annual publication of exemptions beginning in 2004; (iii) a limit on most income tax holidays to 5 years, except for certain sectors, which were limited to 10 years; (iv) an increase in withholding taxes, consumption taxes for certain services and personal income tax threshold; and (v) progress in strengthening tax administration, particularly in the Guyana Revenue Authority (GRA).

[1] The regulations stipulated a July 1, 2006 implementation date; a 16 percent VAT rate; the VAT threshold; and new excise tax rates—all of which would allow a revenue neutral reform. In January 2006, the Guyanese Parliament approved the implementing regulations of the VAT Act and Excise tax law. In addition, the related commencement orders have been issued by the Minister of Finance. However, the implementation date for the VAT Act, the Excise Tax Act and the excise tax regulations has been delayed to January 1, 2007, to allow more time for public education and to avoid overlapping with the elections, which are constitutionally due by August 2006.

7. Another ongoing important reform in the public sector aims to improve the fiscal management and accountability framework, by addressing legal and regulatory issues as well as improving human and technical capacity. Specifically, a new National Procurement Act (July 2003) and a Fiscal Management and Accountability Act (the organic budget law, December 2003) were enacted. Progress was also made in improving public expenditure management with the introduction of a computerized integrated financial management system (IFMAS) in all Ministries and several agencies.

8. In addition, the government has dedicated particular attention to restructuring public enterprises, having closed loss making companies, privatized pivotal enterprises such as Linmine[2] in the bauxite sector, and a large commercial bank (GNCB). The Government has also reorganized the water sector, with support form IDA and DfID. Actions undertaken in this area include the adoption of a new legal and regulatory framework, the merger of the two public operators in the water sector and the introduction of a private management contractor. After an unsuccessful privatization of Guyana Power and Light (GPL), the public electricity company, efforts to mobilize private investment in the company continue.

9. In preparation for the erosion of the sugar preferential regime, the government is restructuring GUYSUCO - the state owned-sugar company. Besides having introduced a profit-oriented contract management in early 2004, the restructuring plan includes gradual downsizing of the labor force, shifting production to high productivity areas, increasing participation of the private sector in growing sugar cane, and the construction of a new sugar processing plant, Skeldon, which will also have cogeneration facilities.

Progress in the Social Areas

10. Despite the difficult domestic and external environment, which has led to disappointing growth, Guyana has made progress in the implementation of its PRS, having attained or exceeded 56 percent of the social indicators established to monitor progress in the implementation of the strategy. Also, the Government has ensured budgetary allocations for social expenditures consistently above the HIPC target of 15 percent. In 2005, social expenditures corresponded to 19 percent of GDP.

11. Key problems facing Guyana in social areas are migration of trained teachers and falling standards in primary and secondary education, low quality of health services, and inadequate access to social services. To address the broader problems facing the education sector, the Government launched a Strategic Plan for Education for 2003-07. The SPE focuses on reducing repetition rates, increasing secondary school enrollment, reducing overcrowding, reducing student and teacher absenteeism, improving teacher training and beginning the process of decentralization of school administration. The plan places special attention on previously underserved students and remote and economically-deprived regions. The reforms in the sector are benefiting from assistance as part of the Education for All Initiative and satisfactory progress is being made.

[2] Another bauxite mine, AROAIMA is in the late stage of privatization, expected to be completed by 2006.

12. Reforms in the health sector are guided by the National Health Plan 2003-07, which includes the provision of a standard package of minimal services to all Guyanese as well as measures to spur decentralization. Finally, the government has completed a broad consultative process and updated its Strategic Plan for HIV/AIDS (2002-06), which is expected to be submitted to Parliament for adoption. Main goals of the HIV/AIDS Plan include increased awareness and prevention, improved quality of life of those affected, as well as reduced stigmatization.

13. Guyana has a social protection system which includes social insurance and social assistance. The Government is implementing a reform program to reduce the weaknesses of the system, including poor targeting mechanisms, inefficient delivery of services and inadequate monitoring and evaluation. To this end, the Government has carried out, with support from IDA, four studies that provided recommendations in the areas of management information system, targeting, risk and vulnerability, labor market assessment, social legislation, and Ministry of Labor, Human Services and Social Security (MLHSSS) needs assessment. On the basis of these recommendations, the Government has adopted and started implementing a time-bound reform program to rationalize and improve the impact and cost-effectiveness of the social protection programs of the MLHSSS.

The Challenges Ahead

14. Difficult challenges face Guyana in the next few years. Guyana is highly dependent on the exports of sugar, which will face price reductions in the context of the erosion of the EU sugar preferential regime. Also, Guyana is highly dependent on oil imports, which have seen increasing prices in international markets. This implies that the Government will have to adopt difficult measures in its macroeconomic and structural reform program to contain the pressures for widening fiscal and external gaps. The medium-term macroeconomic framework for 2006-10 recently agreed with the IMF, the revised PSIP and the ongoing structural reform program illustrate the government's resolve to improve the macro-economic framework, and encourage private investment, crucial for the much needed growth in the economy.

Medium-Term Macroeconomic Framework

15. The economy is expected to recover in 2006, with real GDP expected to grow by about 4 percent, driven by the recovery of the sugar sector and the expansion of the bauxite sector. For the period 2007-10, growth is projected to be on average of about 3 percent a year. Inflation is expected to remain at about 7 percent in 2006, reflecting continued high oil prices. However, the Government intends to reinforce its stabilization policies so as to achieve a gradual decline towards an inflation rate of 3 percent in 2010.

16. The 2006 budget recently approved by Parliament illustrates the government's resolve to pursue fiscal consolidation. Although the overall deficit after grants will remain high at 13.6 percent of GDP, the deficit net of Skeldon will decline from 8.6 percent of GDP in 2005 to about 5 percent, and the primary balance of the overall public sector (excluding Skeldon) will decline from a deficit of 4 percent of GDP in 2005 to 1 percent. Medium-term projections indicate a decline of the overall deficit to about 2.7 percent of GDP in 2010, and of the primary balance of the overall public sector from a deficit of 1 percent of GDP in 2006 (excluding Skeldon) to a primary surplus of 1 percent of GDP by 2010. These outcomes will be achieved by maintaining the revenue effort, containing wage and capital expenditures and improving the balances of public enterprises.

17. The Government intends to achieve a revenue collection of 38 percent of GDP in 2006 and intends to maintain a strong revenue effort until 2010, while gradually reducing current and capital expenditure. In 2006, current expenditures are projected to be reduced to 34 percent of GDP, and are expected to decline to 30 percent in 2010. As for capital expenditures, the 2006 budget sets them at 27 of GDP in 2006 (including 8 percent of GDP for the Skeldon project), and are projected to gradually decline to 14 percent in 2010, as the large investments related to the Skeldon project, the cricket stadium and other large projects are completed.

18. Guyana's external current account deteriorated from a deficit of 10 percent of GDP in 2004 to 23 percent in 2005, and projections suggest that it will deteriorate further to 27 percent of GDP in 2006. This trend reflects the oil price shock, extraordinary imports in the aftermath of the floods and the ambitious public investment program, notably for the restructuring of the sugar sector. Nevertheless, capital inflows are expected to enable a moderate increase in official reserves, and the remaining financing gap is expected to be closed by the MDRI debt relief and donor support. During 2007-10, the fiscal adjustment, coupled with a somewhat improved growth outlook and the completion of the Skeldon project, would narrow the external current account deficit to 14 percent of GDP by 2010. The remaining financing gap would be manageable, and could be covered by MDRI debt relief and some additional balance of payment support from donors.[3] Given the uncertain external environment and the related macroeconomic risks, the Government program may require further fiscal tightening to address unexpected developments.

19. The Government intends to maintain debt sustainability in the medium term, by maintaining the revenue effort and stimulating stronger growth. This aim was much helped by the relief provided under MDRI.

Structural Reforms in the Public Sector

20. The government intends to deepen its reform agenda initiated in 2002, which includes tax administration, public expenditure management, governance and

[3] Guyana has access to concessional financing under the PetroCaribe Accord.

transparency, PRS monitoring and evaluation, and measures to strengthen private sector development.

21. The Government intends to implement the VAT and a new Excise tax on January 1, 2007. The Minister of Finance has issued the orders providing that the VAT, the Excise Tax Act and their regulations come into effect at that date and preparatory work for the new taxes is now ongoing. The Government also commissioned a study on the tax system, which recommended steps to reduce the complexity of the system and to improve its efficiency and equity. The Government is now considering the study, which may inform future measures to be undertaken.

22. The Government intends to introduce measures to improve the quality, transparency and accountability of the public sector. With IDB assistance, the government intends to develop and implement a framework to classify the semi-autonomous agencies and statutory bodies by end-May 2006. The Government also plans to undertake a pilot program to strengthen management and accountability in six entities, and intends to complete a study of the context within which regular transfers of net earnings can be made by large generating statutory bodies to the consolidated fund.

23. The modernization of the public sector is another important component of the Government reform program. With assistance from the IDB, the Government is conducting an assessment of the institutional and organizational capacity of each Ministry, which will provide important inputs for the public sector modernization program to be implemented over the medium-term.

24. To improve expenditure management and under the support of the PRPMO, in August 2005 the Government prepared and published, with IDB and World Bank technical assistance, a five-year rolling Public Sector Investment Program (PSIP) consistent with the PRS objectives. On the basis of the results of the IMF-World Bank joint Debt Sustainability Analysis (DSA), in September 2005 the Government revised the five-year PSIP to ensure its consistency with macroeconomic and debt sustainability. The revised PSIP was made public and integrated into the 2006 budget (submitted to Parliament on January 23, 2006). The Government intends to revise and publish on an annual basis the five-year PSIP, consistent with PRS objectives, debt sustainability and project selection and ranking methodology contained in the 2005-2009 PSIP, and to integrate it in annual budgets. Also, to improve the management of capital expenditure the Government requires that all new projects with costs (net of grants) exceeding US$10 million, excluding those financed by multilateral financial institutions, have a feasibility study reviewed by the IDB or the World Bank for economic, environmental and financial viability.

25. As part of the program to modernize financial management in the public sector also supported by PRPMO, a new Audit Act was prepared by the Government and enacted by Parliament in April 2004. It makes the Office of the Auditor General a semi-autonomous agency responsible to the Parliament. Regulations detailing rules, policies and procedures regarding the management and operation of the Audit Office and the

conduct of audits were prepared by the Government and, following approval by Parliament in May 2005, were gazetted in July 2005.

26. In 2004, the Office of the Auditor-General's (OAG) report identified a number of key deficiencies in the financial operations of the Government and the reform program supported by the PRPMO has drawn upon major findings in the report to strengthen targeted reforms in related areas. First, the Government intends to clearly define, submit to Parliament and publish the criteria for the selection of projects to be financed from the Lotteries Fund. In addition, the Lottery Fund will be subject to annual financial audits, which will be tabled in Parliament. The financial audit for 2004 has been completed and tabled in Parliament. In addition, reports of all projects submitted and selected for financing, including the amounts provided, will be submitted to Parliament and published biannually. The Government has also completed a compliance audit of the terms of the Lottery Agreement including validation of the calculation basis for determining the amounts owed to the Government.

27. Second, on the basis of the Auditor-General's recommendations, the revenues derived from the operations of the Wildlife Division (1998-2002) have been transferred to the Consolidated Fund, and the Wildlife Division has been transferred from the Office of the President to the Environmental Protection Agency (EPA). The Wildlife Division is now an integral part of the EPA operations and all revenues, expenditures, assets and liabilities relating to this division will be recorded in the books and accounts, and hence reflected in the financial reporting, of the EPA.

28. Third, the audit of the Guyana Revenue Authority (GRA)'s operations for 2003 has been completed and tabled in the National Assembly. In addition, the Government has appointed the commissioner and deputy commissioner of the GRA as required by the law. Fourth, the Government has undertaken to table all existing external loans in the National Assembly, thereby increasing transparency. The actions mentioned above ensure compliance with the Audit Act provision that the Government act on the Auditor General's recommendations and increase the accountability and efficiency in the use of public sector resources. The Government is committed to continue to make progress in the public financial management improvement program as evidenced by satisfactory implementation of the 2004 Audit Act.

29. Another set of measures to strengthen financial management are in the area of fiduciary oversight. The Government commissioned a series of studies, which made recommendations in three mains areas: (i) effective parliamentary oversight over public finances; (ii) curtailing discretionary powers of public officials; and (iii) effective public disclosure of assets of public officials. The recommendations were subject to broad consultations and the Government has selected 30 of the 60 recommendations detailed in the studies, for first phase implementation until end 2007. These include capacity-building actions for improved oversight of public finances by Parliament, the adoption of internal rules, external reporting and training to limit discretionary powers, and the enforcement of existing public asset disclosure rules and definition of the roles and responsibilities of the Integrity Commission and related agencies. The Government has adopted a time-bound action plan for implementation of these 30 recommendations and

has already started its implementation with the drafting of Standing Orders. The Government is committed to reviewing the remaining 30 recommendations for implementation after completion of the first phase.

30. The Government has also continued the reform of its regulatory and institutional public procurement framework. Notably, it has adopted and disseminated the amended National Procurement Act and Regulations, appointed staff for the National and Regional Tender Boards and Secretariat, adopted standard bidding documents and evaluation criteria, and had the Office of the Auditor General complete the first annual audit of procurement operations to review procurement practices used since the enactment of the new Procurement Act and Regulations. The Government intends to act on the recommendations of this audit in 2006. The Government also intends to conduct annual audits of procurement operations and act on their recommendations.

31. One additional set of measures supported by the PRPMO is aimed at improving the Government's ability to monitor and evaluate the impact of policies introduced in the context of its PRS. Actions that have been undertaken, with the support from IDA, IDB, UNDP and DfID, include: (i) the strengthening of the Statistics Bureau; (ii) publication of 2002 census data; (iii) launching of the Household Income and Expenditure Survey in September 2005; (iv) publication of the executed public current and capital expenditures by sector and by priority poverty-related programs on a bi-annual basis; and (v) preparation of a map describing access to basic services, which will be updated regularly. The Government intends to further strengthen its monitoring and evaluation of its PRS implementation, including by expanding its public expenditure tracking system and using census and household income and expenditure survey results to inform PRS progress reports and budget allocations.

Improving the Climate for Environmentally-Sustainable Development

32. The Government is undertaking a major restructuring and modernization plan to improve the competitiveness and viability of its sugar industry after the erosion of the EU preferential regime. The Government had adopted and is implementing, through Guysuco, an Environmental Management Plan (EMP) for the new sugar mill and associated canefields expansion. The EMP has been prepared by GUYSUCO and carefully reviewed by IDA, which found it to be satisfactory. In particular, as per the EMP, GUYSUCO will manage the Halcrow and Guysuco Conservancies, comprising some 7,500 hectares of freshwater swamp and reef forest, in a manner consistent with wildlife and biodiversity conservation, thereby effectively mitigating the natural habitat loss associated with expanding cane cultivation. In addition, the PHRD grant for the PRPMO provided technical assistance to the Government for a site selection study of the new landfill that GUYSUCO will need for wastes generated by construction and operation of the Skeldon facilities, as well as for a Rapid Biological Assessment of the conservancy area to provide useful baseline data for biodiversity monitoring and management. GUYSUCO has also prepared, and is systematically implementing, a detailed Pest Management Plan that emphasizes integrated pest management, careful

selection of compounds, safe pesticide use and storage, and free pest management technical assistance to private farmers who are or will be providing cane for the new Skeldon factory.

33. The Government has tabled in Parliament a new Forests Bill that has been drafted with the assistance of DfID that also reflects detailed technical comments from IDA staff. The new Forests Bill aims at improving the legal basis for the sustainable and environmentally sound management of Guyana's forests. Among other features, the new law will increase transparency in the establishment of conservation concessions and special protected areas, while respecting Amerindian rights and allowing for opportunity for community-based forestry on Amerindian lands. The Government also intends to update the Code of Practice to support implementation of the new Forests Bill.

34. The Government intends to draft and submit to Parliament a new Mining Bill aimed at improving the regulatory environment for the mining sector, which is undergoing expansion, after the demise of the OMAI mine. The new legal and regulatory framework will also provide the basis for controlling the informal gold and diamonds activities involved in environmentally destructive practices. In this respect, the Government is receiving technical assistance under the PHRD grant for the PRPMO for the preparation of a Strategic Environmental Assessment (SEA) of the mining sector to serve as a basis for the new Mining Bill.

35. The Government also intends to submit to Parliament an updated Wildlife Bill improving the legal basis to protect and sustainably manage wildlife.

36. The Government of Guyana is fully committed to the improvement of the living conditions of the Guyanese people, through the successful implementation of the PRS and the reform program that it encompasses. On behalf of the Government of Guyana, I wish to thank IDA for the assistance already provided for the implementation of the PRS, in particular of the important reforms in public sector management. This support has been critical in assisting the Government to improve the quality, transparency and accountability of public sector management, and as well as to strengthen environmental management and regulations. I trust that this request for additional assistance through the proposed PRPMO will receive your favorable consideration.

Yours sincerely,

Saisnarine Kowlessar

Saisnarine Kowlessar
Minister of Finance

ANNEX VI – POLICY MATRIX FOR THE POVERTY REDUCTION AND PUBLIC MANAGEMENT OPERATION

(Actions listed here should be satisfactory to IDA when adopted by Government)

OBJECTIVE	POLICY ACTIONS: PRPMO-I	POLICY ACTIONS: INDICATIVE ACTIONS BEFORE PRPMO-II	MEDIUM TERM OUTCOME (by end 2008)
I. MAINTAIN MACROECONOMIC STABILITY			
Macroeconomic stability	Maintain stable macroeconomic framework.	Maintain stable macroeconomic framework.	Maintain budget deficit on a downward trajectory in 2005-08; maintain NPV of external debt-to-revenue ratio below 250% during 2005-2008.
II. IMPROVE THE QUALITY OF PUBLIC SECTOR MANAGEMENT			
Improve the quality of public sector investment program	Prepare and publish a 5-year PSIP, consistent with PRSP objectives and debt sustainability, including a methodology for selecting and ranking future projects, and committing to subject all new public investment projects appraised after June 2005, estimated to cost over US$10 million (net of grants), excluding those financed by multilateral financial institutions, to a detailed feasibility study reviewed by the World Bank or IDB for economic, environmental and financial viability; and integrate PSIP in the 2006 budget.	Satisfactory execution of the 2005-2009 PSIP, and annual publication of updated 5-year rolling PSIPs, consistent with PRSP objectives, debt sustainability, and project selection and ranking methodology contained in the 2005-2009 PSIP; integrate PSIP in annual budgets. Subject all new projects of over $10 million (net of grants), excluding those financed by multilateral financial institutions, to a detailed feasibility study reviewed by the World Bank or IDB for economic, environmental and financial viability.	Improved targeting of public investment for poverty reduction and growth enhancement consistent with debt sustainability.
Improve transparency and efficiency of public resource use	Continue improvement of public financial management as evidenced by: enactment of new Audit Act and gazetting of regulations; implementation of Auditor General (AG)'s key recommendations contained in his 2004 report (see details in Annex VII); and launching of first phase of fiduciary oversight strengthening program (see details in Annex VIII).	Further progress in public financial management improvement program as evidenced by satisfactory implementation of new Audit Act. Completion of first phase and launching of second phase of fiduciary oversight reform agenda.	Enhanced public financial management performance, as evidenced by timely follow-up on the AG's findings and issuance of treasury memoranda within 6 months of tabling of AG's reports in Parliament; and the implementation of the fiduciary oversight reform.

II. Improve the Quality of Public Sector Management			
Objective	**Policy Actions**		**Medium Term Outcome**
	PRPMO-I	**Indicative Actions before PRPMO-II**	**(by end 2008)**
	Continue satisfactory reform of regulatory and institutional public procurement framework consistent with established international standards, as evidenced by: adoption of amended National Procurement Act and of Regulations, and their dissemination; appointment of staff for National and Regional Tender Boards and Secretariat; adoption of standard bidding documents and evaluation criteria; and completion of the first annual audit of procurement operations.	Procurement monitoring and evaluation system functional and providing adequate information for performance assessment and feedback into policy-making. Annual audits of procurement operations.	Strengthened transparency and efficiency in public procurement, as measured by improvement in the scoring of the OECD baseline indicators; better value for money and improvement in the perception of increased transparency, efficiency and service delivery quality.
Improve monitoring and evaluation of PRS implementation	Improve monitoring and evaluation of PRS activities as evidenced by: issuing of the first semi-annual publication of executed current and capital public expenditures by sector and priority poverty-related programs; publication of a summary of the 2002 Census; launching Household Income and Expenditure Survey; and completion of the mapping of access to basic services.	Further improvements in monitoring and evaluation by: completing the household income and expenditure survey; continuing publication of current and capital expenditure execution; expanding public expenditure tracking system; using census and household income and expenditure survey results to inform PRS Progress Reports and budget allocations.	Information available to assess targeting of public resources and progress in reducing poverty, and to adjust public policy for poverty reduction.
III. Improve the Climate for Environmentally-Sustainable Development			
Improve environmental management and regulations	Adopt and make satisfactory progress in the implementation of Environmental Management Plan (EMP) for the Skeldon sugar factory and associated canefield expansion. Submit to Parliament a revised Forests Bill, improving the legal basis for sustainable and environmentally sound management of Guyana's forests.	Satisfactory implementation of the Environmental Management Plan for the Skeldon sugar factory and associated canefield expansion. Satisfactory implementation of the Forests Law, including updating the Code of Practice. Submit to Parliament updated Wildlife Bill, improving legal basis to protect and sustainably manage wildlife. Submit to Parliament a new Mining Bill, facilitating mining investments while improving environmental management.	Continued good environmental management of the Skeldon sugar factory, canefields and conservancies, in accordance with the EMP. Legal and regulatory framework for environmentally sound forest management is in place and functioning.

Annex VII

Policy actions relating to the Auditor General Recommendations

(Audit Report 2004 for Fiscal Year ending December 31, 2003)

In September 2004, the Office of the Auditor-General's (OAG) report covering fiscal year 2003 (January-December 2003) identified a number of deficiencies in the financial operations of the Government and the reform program supported by the proposed PRPMO has drawn upon major findings in the report to strengthen targeted reforms in related areas. The following are key deficiencies identified in the OAG report, which the Government has addressed as part of the PRPMO reform agenda:

- Clearly define, submit to Parliament and publish the criteria for the selection of projects to be financed from the Lotteries Fund.
- Conclude a compliance audit with the terms of the Lottery Agreement including validation of the calculation basis for determining the amounts owed to the Government. (24 percent)
- Carry out an annual financial audit of the Lottery Fund (for 2004) and table it in Parliament.
- Submit to Parliament and publish a first report on all projects proposed and those selected for financing and the amount of funding provided and agree to publish such a report semi-annually.
- Arrange for the transfer to the Consolidated Fund of the revenues derived from the operations of the Wildlife Division (1998-2002). Transfer the Wildlife Division from the Office of the President to the Environmental Protection Agency.
- Appoint commissioner and deputy commissioner of the Guyana Revenue Authority, as required by the law.
- Ensure that all existing external loans have been tabled in the National Assembly.
- Audit of the GRA's operations for 2003 completed and tabled in the National Assembly.

Annex VIII

Improving Fiduciary Oversight in Guyana

To improve public financial management, the Government agreed, under PRSC-I, and on the basis of the CFAA recommendations,[35] to strengthen fiduciary oversight, which has three elements: (i) ensuring effective parliamentary oversight over public finances (Study 1); (ii) curtailing discretionary powers of public officials (Study 2); and (iii) ensuring effective public disclosure of assets of officials (Study 3). In 2005, consultants financed by the PSTAC prepared studies on each of these elements.[36] Out of 60 recommendations detailed in the studies, the Government identified 30 for implementation in a first phase (January-June 2006):

Study I: **STRENGTHENING FIDUCIARY OVERSIGHT**

1. Parliament must be in control of its own Budget.
2. An oral question time should be set down each sitting day, and Ministers must answer OQs in the House within a time frame to be defined.
3. Ministers should be required to respond in writing to Written Questions within a time frame to be defined.
4. Bills passed by Parliament should be given Presidential Asset in accordance with the Constitution.
5. Key members of Parliament should be given training in how to undertake Fiduciary Oversight Role.
6. Debates, OQs and written questions and answers, accountability documents, reports from the Auditor General and Ombudsman, Committee reports, and reports should be posted on the Parliamentary website.
7. Members should be able to petition the Speaker for Urgent (i.e. same sitting day) Debate on a matter of national importance.
8. Resource each Committee with: a full time analyst; a full time research assistance; an experienced writer drawn from the Clerk's office; and a committee clerk
9. Fund the committees to allow engagement of specialist advisers (e.g. on tax or financial matters.)
10. The Committees should use their enquiry powers to undertake in depth investigators of government matters, with the requirement they report to Parliament within 6 months of commencing investigation.
11. The Committees should use their powers to call officials and Ministers as well as witnesses outside government, before them to question any matter. Ministers and officials should be required to attend, and if not, submit their reasons in writing expeditiously to the chair of the committees.
12. Ministers and officials should be required to respond to requests for information by the committees in a timely manner, as if they do not, the committee chair should report this formally to the house.
13. Following an Oversight Committee Report to Parliament which has recommendations for action, the Executive must report in writing to Parliament within three (3) months the action it proposes to make or reasons why action has not or cannot be taken.
14. The President should be asked to present an Annual State of the Nation Speech to Parliament at the beginning of each year.
15. All Bills should be reviewed and certify for Constitutional consistency by the Attorney General

[35] See PRSC-1, Annex VIII, Letter from Government Endorsing CFAA Work Program.
[36] Bradford and Associates Ltd, Guyana Fiduciary Oversight Project, July 4, 2005.

16. Minister should make major policy statements in the House if they are not foreshadowed in the President's Annual State of the Nation Speech, or the Budget.
17. Recommendations made by the Auditor General in his annual reports to the PAC should be addressed and acted on by Parliament expeditiously.
18. The Executive should report to Parliament not later than 2 months after the Auditor General's report is tabled and approved in Parliament on action taken on particular recommendations made by the AG.
    The above original formulation has been revised to read as follow:
    The Executive should report to Parliament not later than 2 months after the PAC's report on its examination of the Auditor General Report is adopted by Parliament.
19. Ombudsman's Report should be table in the House through the Speaker and become the subject of Parliamentary debate.
20. The Ombudsman office should be resourced adequately to ensure it can employ investigatory and prosecutorial staff to undertake inquiries on its own behalf.

Study II: **<u>LIMITING USE OF DISCRETIONAY POWERS</u>**

21. On the basis of this report and the detailed materials in the annexes to Study 2 on decisions, rights and process, develop specific recommendations in respect to each agency to be considered by the office of the focusing on:
    - Rights of Ministers and the President to override and give exemptions to laws and the case for removing some of these;
    - Clarifying independent powers of commissioners that are not subject to higher authorities;
    - Transparency of processes for taking agency decisions to higher authority
    - Rationalization of functions where there are overlapping jurisdictions between agencies and Ministers to clarify lines of accountability e'g' utility regulation, licensing and competition;
    - Providing requirements and process that enable greater transparency and oversight by Parliament in accordance with the Constitution.
22. Using the material in the annexes to volume 3 develop specific recommendations for the Office of the President and Minister to clarify roles, responsibilities and relationships between President, Ministers, boards, Chief Executives offices/ Commissioners and remove people from conflicted roles in a practical way over time.
23. Formulate improved procedures for accountability of agencies for their discretionary decisions within the Executive and under the Constitution:
    - Office of the President and Ministry of Finance work jointly to develop an integrated process for strategic planning, service commitments , budgeting and performance reporting;
    - Establishing the obligation for all regulations to be tabled in the House.
    - Strengthening the capacity and resources of the select committees and the Attorney general to scrutinize the performance and practices of the semi autonomous agencies.
    - Providing Parliament with sufficient resources needed to conduct its business according to the Constitution.
24. Strengthening the capacity of agency boards: the Government should develop a code of principles, standards and good practices for the conduct of board members and a program to train and develop board members in good governance practices.
25. Develop and promulgate proper principles for setting fees and changes.
26. Strengthen the rights of review and appeal to discretionary decisions of agencies and make them transparent.

27. Review and rationalize rights to impose penalties.
28. Review rights to grant exemptions from laws administered by the agencies.

Study III: **DISCLOSURE OF PUBLIC OFFICIALS' ASSETS**

29. The Office of the Auditor General should be nominated as the liaison agency for the Integrity Commission.
30. The Commission should be expanded along the lines of the T&T Commission to take on four roles; Prevention; Investigation; Enforcement and Enlistment of public support.

Under the PRPMO reform agenda, the Government has:

- Held stakeholder consultations to agree on reforms and implementation process based on the recommendations contained in packages 1 to 4 of studies 1, 2 and 3 of the consultant's final report of the fiduciary oversight project;
- issued press release specifying reforms agreed to with stakeholders during the consultations process (the 30 actions listed above);
- agreed with the World Bank and published an action plan for the implementation of the reforms agreed to with stakeholders, including a timeline, technical assistance requirements and funding sources;
- Responsible Ministers made policy statements in the National Assembly specifying reforms agreed to with stakeholders; and
- Submitted to Parliament draft revised Standing Orders .

Annex IX

STATUS OF TRIGGERS FOR PRSC-II

	POLICY ACTIONS		
	ACTIONS COMPLETED FOR PRSC-I	TRIGGERS FOR PRSC-II	CURRENT STATUS
BROAD BASED, JOBS GENERATING ECONOMIC GROWTH			
MACRO ECONOMY	**Agreement on a macro-economic program with performance targets for fiscal and Balance of Payments deficits, monetary growth (in context of IMF PRGF)**	**Adherence to Program**	Fifth review under the IMF supported PRGF was successfully completed at end-January 2006.
INVESTMENT	**Complete overall review of tax system and administration with IMF assistance, with a view to:** • **Broadening tax base;** • **Reducing rates;** • **Improving tax administration, including enhanced transparency in the application of the tax system to private investors.**	Develop a timetable for the implementation of findings of tax study.	A timetable was developed in 2003 and the government is implementing the action plans. Main actions completed include: (i) enactment of the VAT and Excise Tax legislation (2005) and subsequent approval by Parliament of the implementing regulations (January 2006). VAT is scheduled to be introduced January 1, 2007; (ii) the elimination of the Minister of Finance's discretionary powers to grant exemptions; (iii) limit on most tax holidays to 5 years; (iv) increase in the income tax threshold.
	Review laws governing mining and forestry sectors to ensure that they provide adequate incentives for investors, as well as sufficient environmental protection. Begin drafting new Forestry Law.	**Introduce and pass Amended Forests Law, after undertaking appropriate public consultations.** Redraft mining legal framework and undertake sector environmental assessment.	The Forestry Law has been tabled in Parliament. A Strategic Environmental Assessment of the mining sector has been launched. This will be an input to the Mining Bill, which is being drafted. Submission to Parliament of a new Mining Bill is a policy action for PRPMO-II.
SUGAR	Full environmental impact assessment for the new Skeldon sugar mill and associated land development has been conducted.	Eliminate sugar levy and substitute dividend scheme	The levy has been eliminated.
	Issue tender for construction of Skeldon sugar mill; agree to provide any needed environmental mitigation for new land development affecting natural habitats.	**Complete agreement between GoG and GUYSUCO on sector performance and profitability.**	Done.

	Agreement with Government on a three year program to reduce redundant workers and to limit salaries and bonuses in the sugar sector.	Revise current management contract and shift performance indicators to measures of profitability	The new management contract has 3 elements in its fee structure: contractor's reimbursable (expatriate related expenses), a fixed fee and a fee tied to success in meeting profit targets.
		Amend Cane Payment System Act	Guysuco is seeking to implement a new cane payment formula that will reduce the payments to cane growers.
		Complete Environmental Impact Assessment of Skeldon Mill and land development, including an agreed Environmental Management Plan, before signing civil works contract.	The Environmental Management Plan for the Skeldon sugar factory and associated canefield expansion has been adopted and satisfactory progress is being made in its implementation.
		Base worker remuneration and bonuses on inflation and productivity gains	Discussions between Guysuco and the trade union are ongoing.
		Develop and implement GUYSUCO land divesture program.	Land divesture program has been prepared but land sales are proceeding below expectations.
BETTER INVESTMENTS IN HUMAN CAPITAL			
HEALTH –HIV/AIDS	**Formulation and approval of a national strategic plan for HIV/AIDS.**	**Establish management arrangements for the implementation of HIV/AIDs. program including program execution through multiple ministries, NGOs, community groups and civil society organizations.**	Ongoing. The Ministry of Health has hired a civil society coordinator and 11 CBOs have been identified for funding under the World Bank program.
	Establish a program management unit in the Ministry of Health (National AIDS Programme Secretariat) and appoint core staff.	Establish program costing and financial protocols.	Program costing has been done. Financial protocols to be established.
		Develop institutional arrangements for program monitoring and impact evaluation.	Work has begun with the aim of harmonizing a list of measurable indicators. The Ministry of Health is in the process of engaging a long term consultant to develop monitoring and evaluation capacity for HIV/AIDS and other health programs.

		HIV/AIDS project prepared and presented for IDA financing under the regional HIV/AIDS APL; - first year action plan approved; - operational manual approved	Project was approved in April 2004. The action plan was discussed at the Thematic group meeting and approved in April 2004. Operational Manual approved by Ministry Policy Committee.
EDUCATION	Develop action plan, including monitoring and incentive mechanism, for reaching PRSP goals in terms of reduced repetition rates in primary schools, increased enrolment in secondary schools, reduced overcrowding, reduced absenteeism of students and teachers, increased non- teacher recurrent expenditures, and improvements in teacher training	Expand the coverage of SMIS (School Information Management System) in order to strengthen monitoring & tracking capacity, and equity.	Government has made some progress in expanding SMIS.
		Actively promote stakeholder participation at the school level through the organization and strengthening of school board or equivalent mechanism.	About 80% of schools have PTS which meet at least once a year.
		Construction of new schools / rehabilitation of existing schools according to the action plan	Over 150 primary schools were rehabilitated at the cost of more than US$3.25 million.
		Increase the number of trained teachers through pre-service and in-service training	Training Centers established in Hinterland Regions to facilitate training of teachers using distance education methods. The total number of trained teachers has increased from 555 in 2002 to 707 in 2004.
		Increase the availability of textbook ks and other learning materials to students	Procurement of textbooks began in 2004 with assistance of the World Bank EFA-FTI.
	Design a formula based system for allocation of financial resources to schools.	**Prepare and undertake pilot trials in 6 schools in 2 regions.**	The formula is completed. School Boards are managing resources at 3 schools in Region 2 and 3 schools in Region 4 with preliminary accounting,
	Complete system design and the selection of pilot implementation sites.	Establish preliminary version of accounting, resource transfer, financial reporting and auditing procedures.	This has not been implemented

STRONG PUBLIC SECTOR INSTITUTIONS AND BETTER GOVERNANCE			
FINANCIAL MANAGEMENT	Prepare draft of new National Audit Act.	Enact new Audit Act and begin implementing its provisions	New Audit Act was passed by the National Assembly in April 2004 and implementing regulations were gazetted in May, 2005.
	Agree on a program to implement the findings of the CFAA report (see Annex VIII), including:	Implement agreed programs based on CFAA recommendations.	
	1. A program to strengthen the Auditor General's Department, with respect to staffing, salaries and training;		Auditor General's key recommendations in the 2004 report have been implemented (see details in see details in PRPMO Program Document).
	2. Establishment of financial oversight of the public sector within the existing Economic Affairs Committee of the Parliament.		First phase of fiduciary oversight strengthening program has been launched (see details in PRPMO Program Document).
	3. Analysis of ways to reduce discretionality in 6 government agencies;		
	4. Take steps to make effective the Government's policy of public disclosure of the financial affairs of by public officials.	Take steps to integrate capital and recurrent expenditures, and introduce program budgeting in at least two ministries (GEMP program).	IFMAS and BPRS implemented.
		Parliament approval of new Financial Administration Act	A Financial Management and Accountability Act was enacted in December 2003.
PROCUREMENT	**National Procurement Act 2002 has been passed by the National Assembly.**	**Pass amended version of National Procurement Act.**	Amended National Procurement Act was passed by the National Assembly in July 2003 and gazetted in November 2004.
	Circular No. 0802 regarding administrative procedures has been issued by the Ministry of Finance.		
	Create National Procurement and Tender Administration (NPTA) Secretariat and appoint required staff.	Appoint members of the Public Procurement Committee (PPC) and its secretariat.	Members not appointed. The names of the persons for consideration are with the Public Accounting Committee of Parliament.
		Introduce and pass enabling legislation to operationalize PPC	Not required by the Constitution of Guyana.
		Adopt and disseminate new rules and regulations to make Procurement Act effective.	Regulations were adopted in December 2004 and disseminated.

		Prepare and adopt standard bidding documents and evaluation criteria for both national and regional tenders.	Standard bidding documents were completed and disseminated in a pilot phase in 2005.
		Appoint members of the NPTB.	Board members for National and Regional Tender Boards and Secretariat have been appointed.
		Start nationwide training program.	One round of training program was completed in July 2005; another round is being programmed
		Start implementation of public information system.	As part of IDB CAS condition, procurement discussions will be published on the GINA website. Work is ongoing on an e-procurement system
LOCAL GOVERNMENT	**Complete revaluation of immovable properties in four municipalities in Guyana; begin process of incorporating revised valuations into tax rolls.**	**Issue report of Local Government Task Force, and hold adequate consultations.**	Report completed in 2005 and is currently awaiting cabinet's approval.
	Re-institute the power to seize and sell real property of tax defaulters (re- institute sections of law 28.01 and 28.02 which have been suspended).	Begin revaluation of immovable properties for remaining municipalities.	Valuation completed in 4 municipalities in 2004 – Linden and Georgetown ongoing (2005)
		Revise LG laws to: **1. Implement a system of self-accounting where each local government holds individual accounts.** 2. Allow NDCs to hold property users and proprietors liable for taxes	Directive sent to all NDC's in March 2003 to establish separate bank accounts.
		Develop a simple formula-based system for providing subventions from central government to local government (LG) units	Valuation for Rating Purposes Amendment Act 2005 assented to by the President July 2005. Municipal and District Council Amendment Bill presented to Parliament in April 2005, now with the Parliament Select Committee
		Enforce auditing protocols of local government bodies	Fiscal Transfer Bill – pending the approval of the Joint Task Force Report

		Agree on a mechanism so that citizens can access the financial records of LGs and minutes and voting records of LG meetings.	Capacity building workshops ongoing throughout the NDC's/IMC's in 2006 –07. Developed improved financial management guidelines for NDC's in 2005. Consultations to be held with stakeholders and Minister. Local Government Regulations require only a Ministerial Order once agreement is reached.
MONITORING AND EVALUATION	Establish a new Policy Coordination and Program Management Unit (PCPMU) in the Office of the President, consisting of a Monitoring& Evaluation and Policy units. Appoint coordinator and core staff to, *inter alla,* oversee implementation and monitoring of the PRSP. Agree to carry out overall monitoring and evaluation plan (as shown in Annex VI), which includes civil society participation. Approve plan to strengthen the Bureau of Statistics, supported by IDA TAC	PCPMU established and functioning. Monitoring plan being implemented. Implementation of plan with help of external technical assistance	The PCPMU is now fully operational. Monitoring plan is being implemented as evidence by: publication on a semi-annual basis of executed current and capital public expenditures by sector and priority poverty-related programs; publication of 2002 census data; launch of Household Income and Expenditure Survey; and preparation of map of access to basic services.
HUMAN RESOURCES	Agree with IMF on the total amount to be spent on public sector wages in the budget for 2002.	**Agree on a mechanism for future public sector wage adjustments, and apply to increases for 2003.**	Wage discipline has been maintained and staff recruitment has been restricted to essential services.
	BROADER AND BETTER PROVISION OF BASIC SOCIAL SERVICES		
WATER	**Implement new legal and regulatory framework through passage of new water act and issuance of operating license for Guyana Water and new regulations.** Establish national water quality standards.	Satisfactory implementation of the legal and regulatory framework as per the new water act, including capacity building for key institutions. Maintain pricing and subsidy agreements so as to achieve 100% cost recovery for Operation and Maintenance expenditures.	Government progress has been broadly satisfactory (see para 14 in the document). Pricing and subsidy agreements are being observed. Completed review of Georgetown Water and Sewerage Master Plan

	Complete merger of the two existing utilities, forming Guyana Water. **Management contract for private operator of Guyana Water has been tendered and a preferred bidder has been selected. Tariffs adjusted and subsidy levels for 2002 agreed.**		
		Create Hinterland unit in Guyana Water and have it in operation Implement second phase of water supply program for poor squatter developments	Hinterland Strategy has been approved, Department established and is in operation. A program to increase access to water services in urban squatter neighborhoods and rural hinterland is ongoing. Over 40,000 people have benefited form improved services in regions 1, 2, 3, 5, 6 and 10.

ANNEX X
GUYANA—FUND RELATIONS

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/20
FOR IMMEDIATE RELEASE
February 1, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review of Guyana's PRGF Arrangement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of Guyana's economic performance under its SDR 54.55 million (about US$78.7 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Releases No. 02/42). Completion of the review makes a disbursement in an amount equivalent to SDR 9.27 million (about US$13.4 million) immediately available to Guyana. The Executive Board also approved Guyana's request for waivers of non-observance of three performance criteria.

Following the Executive Board's discussion of Guyana, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

"Guyana has continued to make progress under the PRGF arrangement. The exchange rate remained stable, the external current account position was better than anticipated, and the structural reform agenda moved ahead. However, economic activity declined sharply in 2005, owing largely to adverse shocks, and inflation was higher, reflecting the pass-through of world oil prices.

"The 2005 macroeconomic program was on track, seen in particular in a solid fiscal performance. Strong revenues and delayed spending for the Skeldon sugar modernization project more than offset an increase in current and other capital spending and a shortfall in grant disbursements.

"However, there have been slight delays in completing the tax exemption study and the five-year rolling Public Sector Investment Program (PSIP), and in adopting implementing regulations for the VAT and the excise tax. Progress has now been made in all these areas.

"A key focus of the 2006 program is fiscal retrenchment. This will require maintaining the revenue effort, keeping a tight rein on current and capital spending, and improving the balance sheets of the public enterprises. It will be critical for the authorities to resist pressures for additional spending—especially related to the Cricket World Cup—and to monitor fiscal developments closely.

"Monetary and exchange rate policies will continue to be geared to meeting the program's inflation objectives and maintaining competitiveness. The recent increase in inflation underscores the importance of careful adherence to the program's monetary targets.
The authorities are encouraged to develop an action plan to strengthen the financial sector, on the basis of the FSAP recommendations.

"The 2006 program maintains the momentum of structural reforms. Preparatory work for the introduction of the VAT will be intensified to ensure its smooth implementation after the elections. Wide-ranging reforms planned in other key areas will lay the basis for private sector-led growth.

"Sustained fiscal adjustment and a restructuring of the sugar sector will be critical to cope with pressures on the balance of payments coming from high world oil prices and the reform of EU sugar import policies. While Guyana's debt indicators have improved—reflecting a better revenue and growth outlook, as well as the delivery of debt relief under the Multilateral Debt Relief Initiative (MDRI)—prudent fiscal policies will be needed to maintain debt sustainability into the future, and to enable the resources set free under the MDRI to be used effectively in support of poverty reduction," Mr. Kato said.

Annex XI
Guyana – Relations with the Inter-American Development Bank
(As of February 6, 2006)

The IDB is currently Guyana's major source of concessional financing, with projects spanning most sectors. Since 1977, the IDB has approved loans amounting to US$970 million. Outstanding debt stands at US$473 million (excluding undisbursed HIPC debt relief), while the undisbursed portfolio totals US$218 million. IDB disbursements from ongoing operations fell to 4.3 percent of GDP and 9 percent of public expenditure in 2002–03, but have since risen steadily and are expected to reach an average of around 8.5 percent of GDP (15 percent of public expenditure) in 2005-08.

The IDB's Guyana Country Strategy for the 2002–05 period was approved in December 2002. The baseline scenario envisions total lending of US$244 million in the areas of economic policy reform and the enhancement of productive infrastructure; governance and public sector efficiency; and social programs. The IDB's pipeline for 2006 contains projects to support citizen security, justice, competitiveness, bridge rehabilitation, solid waste management and agricultural diversification, for a total of US$103 million.

Summary Statement of Active Loans, January 31, 2006
(Amounts in millions of U.S. dollars)

Loan or Credit No.	Approval Year	Purpose	Amount Approved	Undisbursed
999/SF	1997	Bridges Rehabilitation Loan	41.0	12.3
1021/SF	1998	Urban Development Program	20.0	5.6
1042/SF	1999	Air Transportation Reform	9.8	0.2
1044/SF	1999	Low Income Settlements	27.0	6.5
1047/SF	1999	Georgetown II Water Supply & Sewerage	27.0	23.7
1085/SF	2001	Social Impact Amelioration Program—III	20.0	12.9
1094/SF	2001	Mahaica-Rosignol road	33.0	4.2
1103/SF	2002	Unserved Areas Electrification Program	27.4	21.1
1107/SF	2002	Basic Education, Access and Management Support Program	30.0	18.7
1120/SF	2002	Basic Nutrition Program	5.0	3.9
1487/SF	2003	PEF: Georgetown Solid Waste Management Program	1.5	0.4
1516/SF	2003	Social Statistics and Policy Analysis	3.5	3.1
1541/SF	2004	PEF: Health Sector Program	0.5	0.1
1544/SF	2004	PEF: Health Sector Program	1.0	0.7
1548/SF	2004	Health Sector Program	21.5	21.3
1550-51/SF	2004	Fiscal and Financial Management Program	28.0	20.4
1554/SF	2004	Moleson Creek-New Amsterdam Road	37.3	35.5
1558/SF	2004	Agricultural Support Services	22.5	20.9
1604/SF	2004	Public Management Modernization Program	5.0	4.8
1649/SF	2005	PEF for the Support for Competitiveness Program	0.8	0.2
1653/SF	2005	PEF: Citizen Security Program	1.0	1.0
Total number of credits=21			**362.8**	**217.5**

Source: Inter-American Development Bank.

Annex XII

ENVIRONMENTAL ANALYSIS

1. Guyana's successful development depends on the sustainable management of its natural resource endowment and the adequate protection of the environment. Accordingly, this Poverty Reduction and Public Management Operation (PRPMO) strategically addresses some major environmental issues, as they relate to key economic sectors. Consistent with OP 8.60 on Development Policy Lending, the PRPMO was prepared with careful consideration of the environment, forests, and other natural resources. During PRPMO preparation, IDA examined the likely environmental impacts of the policies supported by PRPMO, involving (i) environmental management of the Skeldon sugar expansion; (ii) a revised Forests Bill; (iii) public financial management reforms involving the Wildlife Division; and (iv) international review (by World Bank/IDA or IDB) of large new public investments. For the reasons explained below, all of these PRPMO-supported policy changes are expected to be significantly positive from an environmental standpoint. Additional policy reforms would be supported under PRPMO-II, involving a new Mining Bill and a new Wildlife Bill; it is expected that these would also be significant and designed to be positive in terms of net environmental impacts.

2. **Skeldon Sugar Expansion.** To modernize Guyana's sugar sector and make it more internationally competitive, a new, larger sugar factory is planned to replace the existing one at Skeldon on the east coast. To supply the new sugar factory, a significant expansion of cane cultivation is planned (some is already underway) in the Skeldon area. The PRSC-I included as a policy condition the bidding for construction of the new sugar factory, along with agreement to provide any needed environmental mitigation for new land development affecting natural habitats (see the November 20, 2002 PRSC-I Program Document, Annex II). Since then, the Guyana Sugar Corporation (GUYSUCO), the parastatal enterprise responsible for the Skeldon expansion, has: (i) awarded the construction contract for the sugar factory; (ii) prepared an Environmental Impact Assessment (EIA) report; and (iii) received an Environmental Permit from Guyana's Environmental Protection Agency.

3. The most significant adverse environmental impact of the Skeldon sugar expansion is the conversion of some 10,400 hectares (ha) of land to sugar cane cultivation. This land comprises about 5,500 ha of public land leased to GUYSUCO (known specifically as Blocks 1, 2, 3, 4, and 10) and 4,900 ha of land held by small farmers and cooperatives (known as the Jackson Creek and Moleson Creek farmers, the Johannesburg, Babylon, and Leeds Pioneering Land Cooperatives, and the Hunter Rice Scheme) who have agreed to convert their lands to sugar cane and sell their production to GUYSUCO. In terms of vegetative cover, at least 3,000 ha of the GUYSUCO-held land is generally intact freshwater swamp and natural forest; the 880 ha comprising Block 1 has recently been entirely cleared and planted to cane; and the remaining GUYSUCO and small farmer/cooperative land is semi-natural savanna land which has been drained in the past but is now covered with natural vegetation at different stages of succession. As demonstrated by GUYSUCO's maps of available lands for expanding sugar cane cultivation, alternative sites of lower environmental sensitivity are not available within an economic transport distance of the Skeldon factory. As noted in the EIA report, the freshwater swamp, forest, and savanna lands are rich in biodiversity, although ecologically similar lands are still widespread on the coastal plain of Guyana. Although the lands to be converted harbor some species of conservation interest, such as Jaguars *(Panthera onca)*, they are not considered to be critical for the global (or national) survival of any species.

4. As ecological compensation for the loss of natural habitats through expanded cane cultivation, GUYSUCO has agreed to the long-term conservation of 7,500 hectares (ha), contained within the Halcrow Conservancy (6,000 ha) and Guysuco Conservancy (1,500 ha). These two conservancies comprise state-owned land under GUYSUCO management; in the case of the Halcrow Conservancy,

GUYSUCO's management responsibilities are outlined in a long-term agreement (signed March 2004) between GUYSUCO and the National Drainage and Irrigation Board. Both conservancies serve primarily as water storage areas for nearby sugar cane and other irrigated cultivation, and both comprise relatively natural ecosystems with a mosaic of open water, marsh, freshwater swamp, upland reef forest, and related wetland habitats. When adjusted for natural habitat quality, the 7,500 ha within the conservancies are of greater biodiversity conservation value overall than the (largely drained) lands to be cleared for expanded cane cultivation. Under GUYSUCO's management, the fundamentally natural character of these areas will remain, although there might be some change in the proportions of each habitat type due to (relatively slight) water level changes. To help ensure effective wildlife conservation at both conservancies, GUYSUCO will prohibit all hunting and wildlife capture, and will restrict fishing to traditional, small-scale activities. GUYSUCO will enforce these restrictions through: (i) placement of signs in strategic locations at the conservancy edges; (ii) control of vehicle and pedestrian traffic along the limited access roads that pass through GUYSUCO-managed lands; and (iii) the on-the-ground presence of at least 8 conservancy rangers.

5. GUYSUCO is presently carrying out a Rapid Biological Assessment (RBA) to obtain baseline data on the animal and plant life of the two conservancies, which will be useful for future monitoring and management activities. The RBA will also serve to increase awareness, within Guyana and internationally, of the biodiversity significance of these two conservancies. GUYSUCO has also carried out a site selection study of a sanitary landfill which it will establish for the solid waste generated by construction and operation of its Skeldon facilities.

6. Another significant environmental issue inherent in large-scale cane cultivation is pest management. GUYSUCO has produced a detailed Pest Management Plan (PMP) that is already under implementation. The PMP emphasizes integrated pest management, careful selection of compounds, and safe pesticide use and storage. In addition to following the PMP in their own cane cultivation, GUYSUCO provides free technical assistance in pest management to the adjacent small farmers who are, or will be, producing cane for the new Skeldon factory.

7. As a Board prior action for the proposed PRPMO, the Government (through GUYSUCO) has adopted and undertaken implementation of an Environmental Management Plan (EMP) for the Skeldon sugar factory and associated canefield expansion, including effective wildlife conservation at the Halcrow and Guysuco conservancies. The EMP encompasses the above-mentioned conservancy management practices, the PMP, and other environmental management activities at Skeldon. IDA has carefully reviewed the EMP and considers it to be of good technical quality. During PRPMO preparation, GUYSUCO's institutional capacity and commitment to implement the EMP was assessed by IDA and found to be more than adequate.

8. **Forestry.** The development and use of Guyana's important forestry resources on a sustainable basis remains a key issue in terms of future economic growth, and for exports. However, development of forestry resources needs to be done on a sustainable basis, with adequate controls to prevent over-harvesting, minimize environmental damage, and recognize the land claims of indigenous peoples. Existing legislation (from 1953) does not adequately ensure that these objectives are met, and does not provide the private sector with a clear regulatory environment. The PRPMO supports the development of new legislation covering this sector, which has been drafted with technical assistance from DFID and also reflects detailed technical comments from IDA. Specifically, a Board prior action for the PRPMO is the submission to Parliament of a revised Forests Bill that improves the legal basis for sustainable and environmentally-sound management of Guyana's forests. It is expected that the new law will provide for improved environmental and forestry controls, better transparency and public involvement, reduced opportunities for corruption, new forest conservation concessions and special protected areas, and greater protection for Amerindian rights and opportunities for community-based forestry on Amerindian lands.

The satisfactory implementation of the Forests Bill, including updating the Code of Practice, is a policy action by the Government for PRPMO II.

9. IDA has reviewed the draft Forests Bill which includes a variety of substantive changes, to help ensure that the new law would be environmentally friendly and a significant improvement over the present situation, making clear provisions for the rights of Amerindian indigenous communities.

10. **Mining.** Bauxite, gold and diamonds have historically been an important part of Guyana's economy and source of export earnings. Public intervention in the bauxite sector is slowly being wound down, as the Government either closes or sells unprofitable mines. Output of gold and diamonds have declined over time, as existing resources are exhausted. The Government seeks to improve the regulatory environment for the mining sector, covering issues such as environmental impact, taxation and the rights of Amerindian communities. This includes strengthening the regulatory framework and capacity to control ongoing environmentally damaging mining activities, (such as the often destructive informal placer mining for gold and diamonds). The Government also has noted its intent to ensure that new, large-scale mining by international companies (such as the IFC-supported Guyana Goldfields hard-rock gold mine) is carried out using the modern technologies and practices needed to minimize and mitigate adverse environmental impacts.

11. With PHRD Grant support, the Government is undertaking a Strategic Environmental Assessment (SEA) of the mining sector in Guyana. The detailed terms of reference for the SEA (copy in PRPMO files) have been reviewed by IDA and found satisfactory, as have the bidding documents. The SEA will assess the full range of mining-related environmental issues in Guyana (through a process that includes extensive public consultations), and evaluate the policy options and recommended actions for addressing them. It is expected to recommend appropriate Government policies to address a broad range of environmental and related social problems associated with ongoing and likely future mining activities in Guyana, including those that should be incorporated within the new Mining Bill. Submission to Parliament of the new Mining Bill, based on technical and stakeholder input provided through the SEA and acceptable to IDA, is a policy action by the Government for PRPMO II.

12. **Wildlife.** Guyana's wildlife is diverse and still abundant in many areas, owing to the large remaining areas of forests and other natural habitats. Subsistence hunting of many wild animal species remains important to the livelihoods of poor rural people, especially indigenous populations in the hinterland. Abundant wildlife populations form the foundation of Guyana's eco-tourism industry, which has considerable growth potential within the tourism sector. At the same time, there is considerable concern that many Guyanese wild animal species are being depleted, particularly those which are exported internationally (both legally and illegally).

13. The proposed PRPMO is expected to improve Governmental policy involving Guyana's wildlife. As a policy action for the PRPMO, the Wildlife Division is to be transferred from the Office of the President to the Environmental Protection Agency (EPA), which is its appropriate institutional home, in accordance with the Environmental Protection Act of 1996. This would substantially increase the transparency of financial transactions and administrative actions taken by the Wildlife Division, according to the 2003 Auditor General's report. In the past, revenues obtained by the Office of Wildlife in the Office of the President were not publicly accounted for; as a PRPMO Board prior action, these revenues were transferred to the Consolidated Fund (i.e., the national budget). These reforms, carried out in the context of improving public financial management, will serve to increase the transparency of this agency's activities, especially related to wildlife utilization and export permits. It is thus reasonable to expect that these reforms will also help to reduce the flow of illegal wildlife exports. A policy action for the PRPMO-II will be the submission to Parliament of an updated Wildlife Bill that should improve the legal basis for protection and sustainable management of Guyana's wildlife.

14. **Large Public Investments.** The proposed PRPMO requires that all future projects of over US$10 million (net of grants), excluding those financed by multilateral financial institutions, have their detailed feasibility studies reviewed by the World Bank or the IDB in terms of their environmental, as well as economic and financial, viability. This measure is largely intended to ensure that fungible donor funds are spent on high-priority investments from a poverty reduction standpoint. Nonetheless, it is also important from an environmental standpoint, as it helps to ensure adequate environmental review (including analysis of alternatives and careful consideration of mitigation measures) for large-scale, environmentally-sensitive future projects.

15. **Land Administration.** In the course of PRPMO preparation, IDA reviewed the environmental implications of the ongoing program of the Guyana Lands and Surveys Commission (GLSC) to regularize many rural and urban landholdings, and to convert some leasehold properties to freehold (full private title) status. Although changes in land administration (cadastre, titling, and registry) activities can have a wide range of environmental implications (both positive and negative), these GLSC activities appear to be rather benign from an environmental standpoint. GLSC has careful consultation procedures in place with the EPA, Forestry Commission, National Parks Commission, Mining Commission, Ministry of Amerindian Affairs, and National Trust to prevent the issuing of agricultural leases or freehold titles (to individuals or corporations) on lands not suited for agricultural or urban uses; these include lands within existing and officially proposed protected areas, State Forests, areas with Amerindian populations, or significant historical sites. In addition to these formal consultation procedures, GLSC staff in each of the ten Regions visit each parcel to verify the absence of potential conflicts, such as Amerindian land claims.

16. It is worth noting that, because freehold lands typically have fewer use restrictions than leased lands, the conversion of leasehold to freehold properties might encourage urban expansion onto some existing agricultural lands (where driven by market forces). Guyana does not have special rules for land administration in areas highly prone to natural hazards, because the risks of flooding (the main natural hazard in the country) are perceived to be relatively uniform across the entire coastal plain (where about 90 percent of the population lives). However, the GLSC is in the process of preparing official Land Use Plans, one Region at a time. Thus far, the Land Use Plan for Region VI has been approved by Cabinet, while the one for Region IX is about 80 percent complete. GLSC consults widely with stakeholders (including environmental NGOs) before each regional Land Use Plan is finalized.

ANNEX XIII
INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

GUYANA

Joint World Bank/IMF Debt Sustainability Analysis 2005[37]

Prepared by the staffs of the International Development Association
and the International Monetary Fund

Approved by Caroline Anstey, Ernesto May, and Vikram Nehru (IDA), and
Christopher Towe and Juha Kähkönen (IMF)

January 18, 2006

1. **Guyana's risk of debt distress after the implementation of the Multilateral Debt Relief Initiative (MDRI) is moderate since the initiative would significantly reduce its level of indebtedness.** Under the baseline scenario, which assumes no delivery of MDRI debt relief, the NPV of external debt-to-revenue ratio is projected to rise from 195 percent in 2004 to 238 percent in 2007. This would be just under the 250 percent threshold and leave only a small buffer against shocks.[38, 39] With MDRI—which would provide Guyana with approximately US$237 million in debt relief—the NPV of external debt-to-revenue ratio is projected to peak at about 205 percent in 2011, significantly below its indicative debt burden threshold of 250 percent.[40] Guyana's external debt service burden is projected to remain low over the medium term, below 17 percent of revenues and 7 percent of exports throughout the projection period in the baseline, and lower after the implementation of MDRI. Domestic debt is projected to gradually decline over the medium term, from 28 percent of GDP in 2004 to below 14 percent in 2010, and remain low over the entire projection period.

Background

2. **Guyana's debt-to-GDP ratio increased almost without interruption throughout the socialist period that lasted until the late 1980s (Figure 1).**[41] As financing constraints became more severe, Guyana defaulted on its external debt in 1982 and started to accumulate arrears. In 1985, the IMF declared Guyana ineligible for IMF support, and the World Bank followed suit in

[37] This is the first debt sustainability analysis for Guyana prepared under the joint World Bank/IMF Debt Sustainability Framework for Low Income Countries. Further details on the macroeconomic program for 2006–10 can be found in the accompanying staff report on the Fifth Review of Guyana's PRGF arrangement.

[38] All debt burden indicators assume full delivery of Enhanced HIPC assistance unless stated otherwise.

[39] The World Bank's Country Policy and Institutional Assessment (CPIA) rates Guyana as a medium performer. Under the joint World Bank/IMF debt sustainability framework, the corresponding thresholds are 40 percent for the NPV of debt-to-GDP ratio, 150 percent for the NPV of debt-to-exports ratio, 250 percent for the NPV of debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 30 percent for the debt service-to-revenue ratio (Operational Framework for Debt Sustainability Assessments in Low-Income Countries–Further Considerations, SM/05/109, 3/29/05).

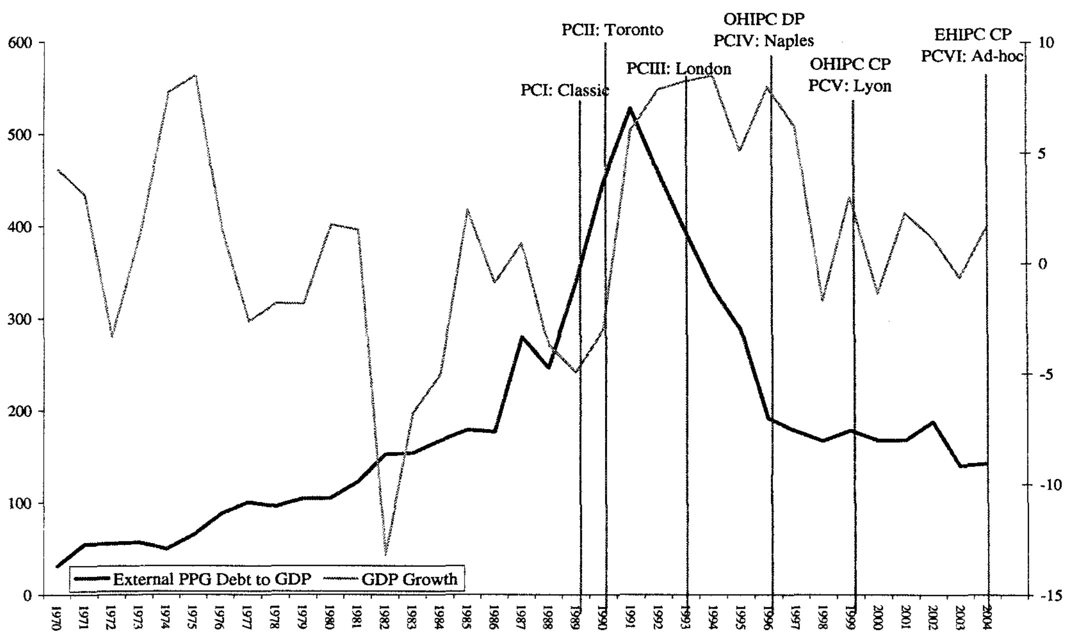
[40] The estimate for MDRI relief refers to cumulative debt service savings resulting from the implementation of the initiative for the IMF on January 1, 2006 and for the World Bank on July 1, 2006. These estimates are preliminary.

[41] Unless otherwise stated, "debt" in the remainder of this note refers to external public and publicly guaranteed debt.

March 1986. By 1988, Guyana's external public and public guaranteed (PPG) debt had reached about US$1.02 billion (246 percent of GDP) in nominal terms.

3. **In 1989, the government launched an Economic Recovery Program, which marked a shift from a socialist to a market-oriented regime.** After floating the currency, debt peaked at 562 percent of GDP and debt service payments equaled 46 percent of export earnings.

Figure 1. Guyana: Evolution of External Debt and GDP Growth



The left axis refers to external PPG Debt to GDP and the right axis to GDP Growth. Values are in percent.
PC refers to Paris Club debt treatment, OHIPC to Original HIPC Initiative, EHIPC to Enhanced HIPC Initiative, DP to decision point and CP to completion point.
Source: WDI and IMF Staff Estimates.

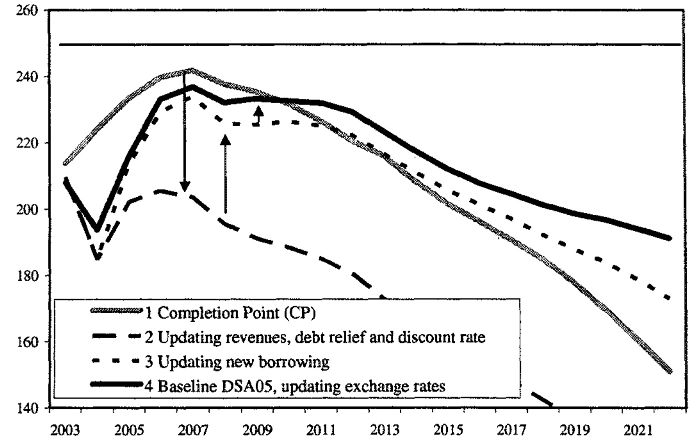
4. **Beginning in 1989, Guyana approached the Paris Club on six occasions to restructure its official external debt.** With the exception of the 1989 rescheduling, all Paris Club debt treatments were concessional and the terms improved successively. Following Guyana's first two Paris Club agreements, several bilateral creditors wrote-off about US$249 million of ODA debt between 1990 and 1996. During the same period, Guyana bought back about US$93 million of commercial debt. In 1998, it cleared US$56 million of arrears owed to commercial creditors under the External Payments Deposits Scheme.[42]

5. **Guyana reached the Completion Point under the Original HIPC Initiative in May 1999 and under the Enhanced HIPC Completion Point in December 2003.** As a result, the country received HIPC debt relief totaling US$585 million in NPV terms.

[42] This scheme was created in 1978 in order to assist Guyana in meeting its external liabilities.

The Evolution of Debt since E-HIPC Completion Point

Figure 2: Completion Point versus Joint WB/IMF DSA
(NPV of debt-to-revenue ratio)



6. **Guyana reached completion point under the Enhanced HIPC Initiative in December 2003.** As a result of the ensuing debt relief, the NPV of debt-to-revenue ratio declined to 214 percent at end-2003 but was projected to increase in the medium term to a peak of almost 250 percent in 2007, and decline thereafter.[43]

7. **Higher revenues and additional debt relief have led to an improvement in the DSA indicators relative to completion point projections (Table 1).** For 2004, the NPV of debt-to-revenue ratio was at 195 percent, about 30 percentage points below the completion point projection of 224 percent. Key factors underlying this improvement are stronger-than-expected central government revenue and additional debt relief from non-Paris Club creditors, partially offset by the effect of the depreciation of the U.S. dollar against major currencies since the completion point.[44]

Table 1. Guyana: Evolution of NPV of Debt-to-Revenue Ratio: From HIPC Completion Point to end-2004 1/

NPV of debt-to-revenue ratio (as projected at Completion Point) 2/ 3/	**224.0**
Total change in ratio 3/	**-29.1**
1. Due to changes in the parameters	10.9
Of which: due to changes in the discount rates	-0.5
Of which: due to changes in the exchange rates	11.4
2. Due to unanticipated new borrowing	-1.0
Of which: due to higher than expected disbursements	-0.1
Of which: due to lower concessionality of loans	-0.8
3. Due to unanticipated change in revenues	-18.4
4. Other factors 4/	-20.6
Actual NPV of debt-to- revenue ratio	**194.9**

Source: WB/IMF staff estimates
1/ NPV of debt-to-revenue ratio under assumption of full delivery of HIPC assistance in percent.
2/ See Guyana: Enhanced HIPC Debt Initiative: Completion Point Document (IDA/R2003-0226).
3/ Changes are expressed in percentage points.
4/Other factors capture implementation of actual debt relief agreements.

8. **The revisions to the debt profile since completion point are illustrated in Figure 2.** Line 1 shows the profile projected at completion point and line 2 shows the effect of revisions to the revenue path, additional debt relief, and the change in the discount rate. However, higher projected new borrowing largely offsets this decline in the NPV of debt to revenue ratio (line 3) while the depreciation of the U.S. dollar against major currencies pushes the debt profile still higher (line 4).

[43] See "Guyana: Enhanced HIPC Initiative: Completion Point Document," December, 2003, IDA/R2003-0226.

[44] A depreciation of the U.S. dollar against other currencies increases the U.S. dollar value of debt denominated in these currencies.

Debt Sustainability Analysis [45]

9. **The macroeconomic framework assumes a modest recovery in economic activity over the medium and long term (Box 1).** Guyana has been affected in recent years by a number of adverse shocks, most recently the flood, but has also suffered from deeply-rooted obstacles to growth, including a poor investment climate, deficient infrastructure, and lack of security. As a result, growth averaged only 0.6 percent per annum over the past five years. Over the medium term, it is expected that growth will recover, as the effects of the negative shocks dissipate, and economic activity is supported by ongoing reform efforts. These include enhancing the investment climate, by inter alia, strengthening governance and transparency, and focusing the public investment program on improving infrastructure and increasing access to basic social services. A high investment rate is assumed in the long-run, leading to growth of about 2.5 percent. Key risks to the macroeconomic framework arise from political uncertainty related to the 2006-elections, a slowdown in the pace of structural reforms, and an adverse external environment, including further increases in world oil prices.

10. **Different debt burden indicators provide divergent signals regarding Guyana's debt sustainability (Figure A1).** The NPV of debt-to-exports ratio remains comfortably below its threshold under both baseline and stress test scenarios, and the debt service indicators are also well below their respective thresholds. However, the NPV of debt-to-GDP

[45] The debt measure used in the analysis is the net present value (NPV) of public and publicly guaranteed external debt. Data on private external debt is not available. For the NPV calculation, a 5 percent discount rate is used and debt service payments are converted to U.S. dollars using WEO exchange rate projections consistent with requirements of the joint World Bank/IMF Low-Income Countries Debt Sustainability Framework.

Box 1. Guyana: Macroeconomic Assumptions Underlying the Debt Sustainability Analysis

Real GDP growth is projected to average about 2.5 percent over 2005–25. This is roughly in line with the historical 10-year average of 2.3 percent, but represents an acceleration in growth compared to the most recent five-year period (2000–04), when growth averaged only 0.6 percent:

- **Growth in recent years** has been weak on account of a difficult security situation and political tensions; failed privatizations; and the winding down of bauxite and gold production; but also because of deeper-rooted issues such as poor investment climate, lack of access to private sector credit, and poor infrastructure. In 2005, the economy is expected to contract by almost 3 percent because of the flood and the closure of a large gold mine.
- **Over the medium term**, several of these factors are expected to recede. Sugar and rice production, for example, were severely affected by the flood in 2005 but are projected to rebound in 2006–07, while bauxite and gold production will benefit over the medium term from significant foreign investments currently under way. The large expansion in public sector investment and improvements in the investment climate will also boost the economy.
- **Over the long run**, a real growth rate of about 2.5 percent is consistent with standard growth accounting framework, i.e., labor force growth of about 0.5 percent per annum, total factor productivity growth of about 1 percent per annum, and a gross domestic investment rate of about 26 percent of GDP, in line with the historical average for the past 10 years.

Inflation is projected to fall from 4.7 percent in 2004 to 3 percent by 2009 and remain at this level thereafter. The pass-through of high world fuel prices to consumers, however, would increase inflation temporarily to 7 percent in 2005–06. The **real exchange rate** relative to the U.S. dollar is expected to remain broadly unchanged, in line with the relative stability observed over the past five years.

Export growth in 2005–10 is projected to average about 2 percent, below the 3 percent average of the past 10 years, reflecting the effects of the closure of a large gold mine and the planned reduction in EU sugar prices by about 36 percent from 2008 to 2010. Thereafter, overall export growth is expected to accelerate to 5 percent over 2011–25, broadly in line with nominal GDP growth.

The **external current account deficit** (excluding interest payments) is expected to increase from an average of 8 percent in terms of GDP in the past five years to an average of approximately 14 percent in 2005–10, exceeding the historical 10-year average of about 10 percent significantly. This primarily reflects the capital imports related to the Skeldon sugar modernization project and high oil prices (oil imports increased from 17 percent of GDP in 2003 to 27 percent in 2005). After the completion of the Skeldon project, the non-interest current account deficit would decline again, averaging approximately 8 percent of GDP in 2011–25.

ratio exceeds the relevant threshold under the baseline projections by a large margin, and the NPV of debt-to-revenue ratio is only just below its threshold at its peak in 2007.

11. **In the staff's view, however, the NPV of debt-to-revenue ratio is the most informative debt burden indicator for assessing Guyana's debt sustainability.** Guyana received debt relief under the HIPC Initiative on the basis of its NPV of debt-to-revenue ratio. The fiscal window was introduced into the HIPC Initiative in recognition of the fact that the NPV of debt-to-exports ratio is likely to understate the debt burden of a small open economy. The debt-to-export ratio is not informative in the case of Guyana's as its export-to-GDP ratio averaged almost 100 percent between 2000 and 2004, but most of these earnings are needed to finance Guyana's imports, including inputs for Guyana's very fuel- and capital-intensive export industries, and are therefore not available to service Guyana's debt. Guyana's NPV of debt-to-GDP ratio, in contrast, understates the country's debt servicing capacity, because the government's strong revenue effort tends to offset the small size of the economy, and this indicator could be somewhat unreliable given the uncertainty that surrounds the GDP estimate.[46]

12. **Without the MDRI, Guyana's debt sustainability outlook would be very vulnerable to a variety of shocks.** Since Guyana's NPV of debt-to-revenue ratio under the baseline scenario is projected to increase to 238 percent in 2007, it leaves little buffer against shocks. Indeed, the threshold is breached under all stress tests and the alternative scenario which assumes public sector borrowing on less favorable terms (Table A2).

13. **Country-specific alternative scenarios show that Guyana's debt sustainability outlook is vulnerable even to modest shocks.** Should the revenue-to-GDP ratio remain over the medium term at its average level over 2000–04, the NPV of debt-to-revenue ratio would breach the indicative threshold by a modest margin for a sustained period (Figure 3). Likewise, should real GDP grow over the medium term at the average growth rate over 2000–04, i.e., 0.6 percent, then the NPV of debt-to-revenue ratio would also breach the indicative threshold. An exchange rate depreciation of 10 percent in 2006 would lead to a similar outcome.

14. **Nevertheless, all debt service indicators remain well below their respective thresholds under the stress test and in the alternative scenarios, indicating that debt service payments are manageable.** The debt service-to-revenue ratio remains low throughout the projection horizon, averaging about 13 percent over 2005–25 (without MDRI relief) compared to a corresponding threshold of 30 percent.

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[46] Guyana's central government revenue-to-GDP ratio averaged about 32 percent over 2000–04, which compares to an average ratio of 15 percent for PRGF-eligible countries, and 27.5 percent for high-income countries (see Appendix Table 4 in The Macroeconomic Challenges of Scaling-Up Aid to Low-Income Countries, mimeo).

Figure 3: NPV of debt-to-revenue ratio - Country-specific alternative scenarios, before MDRI

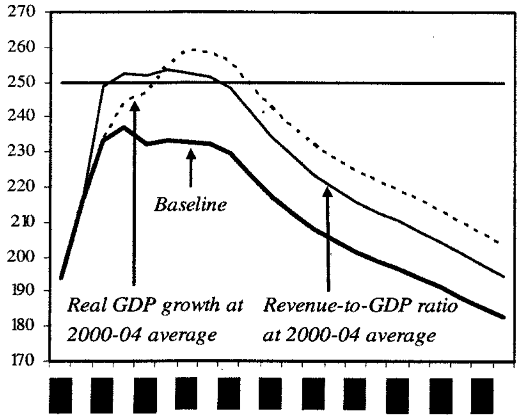
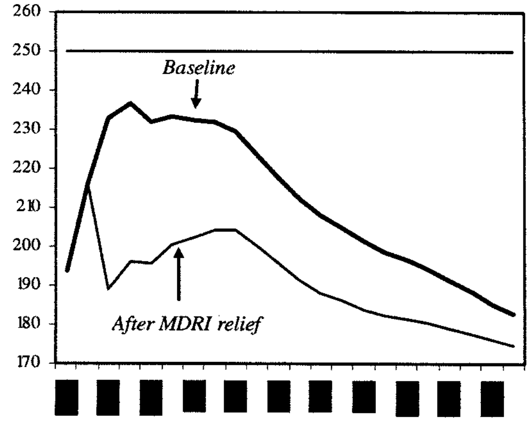


Figure 4: NPV of debt-to-revenue ratio - After MDRI debt relief



15. **Debt relief to be provided under the MDRI by the Fund and the World Bank would substantially lower Guyana's risk of debt distress.** Under the initiative, the Fund would cancel all debt incurred before end-2004 that remains outstanding as of January 1, 2006, and the World Bank would cancel all debt incurred before end-2003 that remains outstanding as of July 1, 2006. This would imply debt relief of about US$237 million for Guyana, in addition to the debt relief to be provided under the Enhanced HIPC Initiative. As a result, the NPV of debt-to-revenue ratio would drop by about 35 percentage points over the medium term relative to the baseline (Figure 4). Debt service savings are expected to average almost US$10 million per annum over 2006–10, equivalent to about 1 percent of GDP.

16. **Nevertheless, even after MDRI, Guyana's debt sustainability outlook would remain vulnerable to exogenous shocks.** The application of standardized alternative scenarios and stress tests to the scenario after MDRI shows that a large depreciation or public sector borrowing on less favorable terms would still lead to a breach of the indicative threshold (Table A4).[47] However, the other standardized stress tests do not cause a breach of the threshold, illustrating the considerable reduction in Guyana's vulnerability to shocks relative to the baseline scenario (before MDRI).[48]

Public Debt Sustainability Analysis

17. **Guyana's public debt (including domestic debt) is expected to be gradually reduced over the medium term under the baseline scenario.** Strong fiscal adjustment—supported by the maintenance of a high revenue effort, containing growth in wage and other current spending, and lower capital spending through better prioritization—are projected to shift the primary fiscal balance from a deficit of 8.9 percent of GDP in 2005 to a primary surplus of 1 percent of GDP in 2010 (Table A5).[49] As external disbursements are expected to continue at relatively high rate and

[47] The tests were conducted considering a one-time 30 percent nominal depreciation to the baseline in 2006.
[48] The stress test representing a combination of the standardized stress tests still leads to a breach of the threshold, but by a much more modest margin than under the baseline without MDRI.
[49] The large primary deficit in 2005 also reflects extraordinary investment in sugar modernization.

more than cover the fiscal financing needs, domestic debt is projected to decline from about 28 percent of GDP in 2004 to below 14 percent of GDP by 2010.[50]

18. **The evolution of public debt remains robust across broad categories of bound tests.** However, the large proportion of external debt makes the debt projection extremely vulnerable to an exchange rate depreciation. Moreover, low growth could reverse the debt trajectory leading to an increase of 7 percentage points in the NPV of debt-to-GDP ratio between 2005 and 2015 rather than to a decline of about 33 percentage points as projected under the baseline scenario (Table A6).[51]

19. **The delivery of debt relief under the MDRI would further reduce the public debt burden.** With the MDRI, NPV of public debt would be about 10 percentage points of GDP lower by 2010 compared to the baseline scenario (Table A7). While the fiscal program envisages that resources provided by the MDRI would be used on poverty-reduction spending (therefore the public sector deficit would be unchanged after MDRI relative to the baseline scenario), the reduction in external debt indicators remains significant.

Conclusion

20. **The analysis above suggests that Guyana should be considered to be at moderate risk of debt distress after the implementation of the MDRI.** However, even after MDRI, Guyana remains vulnerable to exogenous shocks, and prudent debt management and donor support on highly concessional terms will be crucial. Moreover, debt sustainability will also require a continued emphasis on containing new borrowing, better prioritizing public sector investment, and fostering growth by improving the investment climate.

[50] Domestic debt increased since 2003 reflecting bonds issued to replace the nonperforming loans of a public sector bank (privatized in 2003) and changing of hands of some external bonds to local investors in 2004.
[51] Under the stress test, real GDP would contract by 0.9 percent in 2006 and 2007.

Table A1. Guyana: External Debt Sustainability Framework, Baseline Scenario, Without MDRI, 2002–25 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	Average 2005–10	2015	2025	Average 2011–25
External debt (nominal) 1/	**172.5**	**145.4**	**137.2**			**147.2**	**147.8**	**143.9**	**139.1**	**136.5**	**132.8**		**113.4**	**96.3**	
Of which: public and publicly guaranteed (PPG)	172.5	145.4	137.2			147.2	147.8	143.9	139.1	136.5	132.8		113.4	96.3	
Change in external debt	1.3	-27.0	-8.2			9.9	0.6	-3.9	-4.8	-2.5	-3.7		-3.4	-1.2	
Identified net debt-creating flows	1.3	0.1	-6.7			13.8	9.6	5.9	2.8	1.9	3.0		0.9	1.2	
Non-interest current account deficit	**10.3**	**6.6**	**3.3**	**10.2**	**6.4**	**17.6**	**20.8**	**15.4**	**11.6**	**10.4**	**10.6**		**8.0**	**8.1**	8.3
Deficit in balance of goods and services	12.6	9.9	9.8			31.1	30.4	23.5	19.4	17.8	18.3		15.2	15.2	
Exports	92.4	89.9	95.8			92.0	91.6	91.0	89.2	87.4	83.9		82.0	82.1	
Imports	105.0	99.8	105.7			123.1	122.0	114.5	108.6	105.2	102.2		97.1	97.3	
Net current transfers (negative = inflow)	-7.4	-8.8	-11.8	-8.5	2.0	-18.4	-14.0	-12.2	-11.5	-11.2	-11.1		-10.0	-9.6	-10.1
Other current account flows (negative = net inflow)	5.0	5.5	5.2			4.9	4.4	4.1	3.8	3.7	3.5		2.8	2.6	
Net FDI (negative = inflow)	**-6.0**	**-3.5**	**-3.8**	**-7.1**	**4.5**	**-9.0**	**-6.7**	**-5.8**	**-5.8**	**-5.8**	**-5.8**		**-5.8**	**-5.8**	-5.8
Endogenous debt dynamics 2/	**-2.9**	**-3.0**	**-6.1**			**5.1**	**-4.5**	**-3.8**	**-3.1**	**-2.7**	**-1.9**		**-1.3**	**-1.2**	
Contribution from nominal interest rate	3.1	2.2	1.4			1.2	1.4	1.5	1.6	1.6	1.6		1.6	1.3	
Contribution from real GDP growth	-1.9	1.1	-2.2			3.9	-5.9	-5.3	-4.8	-4.3	-3.5		-2.9	-2.5	
Contribution from price and exchange rate changes	-4.2	-6.3	-5.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.0**	**-27.1**	**-1.5**			**-3.8**	**-9.0**	**-9.7**	**-7.6**	**-4.5**	**-6.7**		**-4.3**	**-2.4**	
Of which: exceptional financing	0.0	-27.9	-4.1			-4.3	-3.9	-3.3	-2.7	-2.2	-1.6		-0.6	0.0	
NPV of external debt 4/	...	...	64.6			75.0	80.2	81.3	81.0	81.6	81.2		73.2	62.4	
In percent of exports	...	...	67.4			81.5	87.6	89.3	90.8	93.4	96.8		89.3	76.1	
NPV of PPG external debt	**...**	**...**	**64.6**			**75.0**	**80.2**	**81.3**	**81.0**	**81.6**	**81.2**		**73.2**	**62.4**	
In percent of exports	...	...	67.4			81.5	87.6	89.3	90.8	93.4	96.8		89.3	76.1	
In percent of revenues	...	...	194.9			217.1	234.1	237.8	232.9	234.0	233.2		212.1	182.7	
Debt service-to-exports ratio (in percent)	8.7	7.3	5.9			3.4	3.9	4.0	4.5	4.2	4.6		6.3	4.9	
PPG debt service-to-exports ratio (in percent)	8.7	7.3	5.9			3.4	3.9	4.0	4.5	4.2	4.6		6.3	4.9	
PPG debt service-to-revenue ratio (in percent)	25.0	20.9	17.0			9.0	10.5	10.7	11.5	10.5	11.1		15.1	182.7	
Total gross financing need (millions of U.S. dollars)	89.0	71.9	40.0			92.1	145.7	116.2	92.5	81.8	91.0		99.0	143.4	
Non-interest current account deficit that stabilizes debt ratio	8.9	33.6	11.5			7.7	20.2	19.3	16.4	12.9	14.3		11.4	9.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.1	-0.7	1.6	2.3	3.2	-2.8	4.2	3.8	3.5	3.2	2.7	2.4	2.6	2.7	2.6
GDP deflator in US dollar terms (change in percent)	2.5	3.8	3.9	1.6	4.6	2.3	1.0	2.5	2.9	2.6	2.5	2.3	2.5	2.5	2.5
Effective interest rate (percent) 5/	1.9	1.3	1.0	1.8	0.7	0.9	1.0	1.1	1.2	1.2	1.2	1.1	1.4	1.4	1.4
Growth of exports of G&S (U.S. dollar terms, in percent)	0.8	0.3	12.5	2.8	6.7	-4.6	4.8	5.8	4.4	3.7	1.1	2.5	5.0	5.3	5.1
Growth of imports of G&S (U.S. dollar terms, in percent)	-2.3	-2.1	11.7	2.4	6.0	15.8	4.4	-0.1	1.0	2.6	2.2	4.3	4.7	5.3	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.6	37.2	47.9	50.8	52.2	53.6	46.7	53.4	53.5	53.4
Memorandym item:															
Nominal GDP (millions of US dollars)	722.6	745.2	786.1			781.6	822.9	875.8	932.9	988.3	1039.8		1334.2	2228.7	

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments devided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A2. Guyana: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline, Without MDRI, 2005–25
(In percent)

	Est.	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	75	80	81	81	82	81	**73**	62
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	75	76	76	76	77	77	**73**	76
A2. New public sector loans on less favorable terms in 2006-25 2/	75	83	86	88	90	91	**91**	91
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	75	84	90	89	90	89	**81**	69
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	75	84	92	92	92	92	**83**	67
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	75	84	90	89	90	89	**81**	69
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	75	85	89	89	89	89	**80**	66
B5. Combination of B1-B4 using one-half standard deviation shocks	75	90	106	105	105	105	**95**	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	75	114	116	115	116	116	**104**	89
NPV of debt-to-exports ratio								
Baseline	82	88	89	91	93	97	**89**	76
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	82	83	83	85	88	92	**89**	93
A2. New public sector loans on less favorable terms in 2006-25 2/	82	90	95	98	103	109	**111**	111
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	82	88	89	91	93	97	**89**	76
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	82	100	122	124	127	131	**122**	99
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	82	88	89	91	93	97	**89**	76
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	82	93	98	99	102	106	**98**	80
B5. Combination of B1-B4 using one-half standard deviation shocks	82	99	116	118	121	125	**116**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	82	88	89	91	93	97	**89**	76
NPV of debt-to-revenue ratio								
Baseline	217	234	238	233	234	233	**212**	183
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	217	221	221	218	222	221	**211**	224
A2. New public sector loans on less favorable terms in 2006-25 2/	217	242	252	252	259	262	**263**	266
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	217	246	262	257	258	257	**234**	201
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	217	245	270	264	264	263	**241**	197
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	217	244	262	257	258	257	**234**	201
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	217	248	261	255	256	255	**232**	193
B5. Combination of B1-B4 using one-half standard deviation shocks	217	264	309	302	302	301	**275**	224
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	217	333	338	331	333	332	**302**	260
Debt service ratio								
Baseline	3	4	4	4	4	5	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	3	4	4	5	4	5	**7**	6
A2. New public sector loans on less favorable terms in 2006-25 2/	3	4	4	5	5	5	**7**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	3	4	4	4	4	5	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	3	4	5	6	5	6	**8**	7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	3	4	4	4	4	5	**6**	5
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	3	4	4	5	4	5	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	5	5	5	5	**8**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	3	4	4	4	4	5	**6**	5
Debt service-to-revenue ratio								
Baseline	9	11	11	12	11	11	**15**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	9	11	11	12	11	12	**16**	14
A2. New public sector loans on less favorable terms in 2006-25 2/	9	11	11	12	12	12	**16**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	9	11	12	13	12	12	**17**	13
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	9	11	11	12	11	12	**16**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	9	11	12	13	12	12	**17**	13
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	9	11	11	12	11	12	**16**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	12	14	13	13	**18**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	9	15	15	16	15	16	**21**	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51	51	51	51	51	51	**51**	51

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A3. Guyana: External Debt Sustainability Framework, MDRI Scenario, 2002–25 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	Average 2005–10	2015	2025	Average 2011–25
External debt (nominal) 1/	**172.5**	**145.4**	**137.2**			**147.6**	**115.1**	**114.8**	**113.2**	**113.2**	**111.9**		**101.3**	**93.6**	
Of which: public and publicly guaranteed (PPG)	172.5	145.4	137.2			147.6	115.1	114.8	113.2	113.2	111.9		101.3	93.6	
Change in external debt	1.3	-27.0	-8.2			10.3	-32.5	-0.3	-1.6	0.1	-1.3		-1.9	-0.6	
Identified net debt-creating flows	1.3	0.1	-6.7			13.8	8.7	6.2	2.9	1.9	2.7		0.9	0.8	
Non-interest current account deficit	**10.3**	**6.6**	**3.3**	**10.2**	**6.4**	**17.6**	**20.1**	**14.7**	**11.0**	**9.7**	**9.9**		**7.7**	**7.7**	7.8
Deficit in balance of goods and services	12.6	9.9	9.8			31.1	30.4	23.7	19.6	18.0	18.5		15.2	15.2	
Exports	92.4	89.9	95.8			92.0	91.6	91.0	89.2	87.4	83.9		82.0	82.1	
Imports	105.0	99.8	105.7			123.1	122.0	114.7	108.8	105.4	102.4		97.1	97.3	
Net current transfers (negative = inflow)	-7.4	-8.8	-11.8	-8.5	2.0	-18.4	-14.9	-13.3	-12.5	-12.2	-12.2		-10.4	-10.1	-10.6
Other current account flows (negative = net inflow)	5.0	5.5	5.2			4.9	4.5	4.3	4.0	3.9	3.7		2.9	2.6	
Net FDI (negative = inflow)	**-6.0**	**-3.5**	**-3.8**	**-7.1**	**4.5**	**-9.0**	**-6.7**	**-5.8**	**-5.8**	**-5.8**	**-5.8**		**-5.8**	**-5.8**	-5.8
Endogenous debt dynamics 2/	**-2.9**	**-3.0**	**-6.1**			**5.1**	**-4.7**	**-2.8**	**-2.4**	**-2.1**	**-1.5**		**-1.1**	**-1.1**	
Contribution from nominal interest rate	3.1	2.2	1.4			1.2	1.3	1.3	1.4	1.4	1.4		1.5	1.3	
Contribution from real GDP growth	-1.9	1.1	-2.2			3.9	-6.0	-4.1	-3.8	-3.5	-2.9		-2.5	-2.4	
Contribution from price and exchange rate changes	-4.2	-6.3	-5.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.0**	**-27.1**	**-1.5**			**-3.4**	**-41.1**	**-6.5**	**-4.5**	**-1.8**	**-4.0**		**-2.8**	**-1.4**	
Of which: exceptional financing	0.0	-27.9	-4.1			-4.0	-37.8	-2.6	-2.1	-1.9	-1.3		0.0	0.0	
NPV of external debt 4/	...	...	64.6			75.0	65.1	67.5	68.4	70.1	70.9		66.3	59.9	
In percent of exports	...	...	67.4			81.5	71.1	74.1	76.6	80.3	84.4		80.9	73.0	
NPV of PPG external debt	...	...	**64.6**			**75.0**	**65.1**	**67.5**	**68.4**	**70.1**	**70.9**		**66.3**	**59.9**	
In percent of exports	...	...	67.4			81.5	71.1	74.1	76.6	80.3	84.4		80.9	73.0	
In percent of revenues	...	...	194.9			217.1	190.1	197.4	196.6	201.1	203.4		192.1	175.2	
Debt service-to-exports ratio (in percent)	8.7	7.3	5.9			3.4	2.8	2.9	3.4	3.0	3.3		5.9	4.4	
PPG debt service-to-exports ratio (in percent)	8.7	7.3	5.9			3.4	2.8	2.9	3.4	3.0	3.3		5.9	4.4	
PPG debt service-to-revenuesratio (in percent)	20.0	20.9	17.0			9.0	7.5	7.6	8.6	7.5	8.0 #		13.9	175.2	
Total gross financing need (millions of U.S. dollars)	89.0	71.9	40.0			92.1	131.3	101.5	77.4	64.9	72.4		89.8	122.9	
Non-interest current account deficit that stabilizes debt ratio	8.9	33.6	11.5			7.3	52.6	15.1	12.6	9.6	11.2		9.6	8.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.1	-0.7	1.6	2.3	3.2	-2.8	4.2	3.8	3.5	3.2	2.7	2.4	2.6	2.7	2.6
GDP deflator in U.S. dollar terms (change in percent)	2.5	3.8	3.9	1.6	4.6	2.3	1.0	2.5	2.9	2.6	2.5	2.3	2.5	2.5	2.5
Effective interest rate (percent) 5/	1.9	1.3	1.0	1.8	0.7	0.9	0.9	1.2	1.3	1.3	1.3	1.1	1.5	1.4	1.5
Growth of exports of G&S (U.S. dollar terms, in percent)	0.8	0.3	12.5	2.8	6.7	-4.6	4.8	5.8	4.4	3.7	1.1	2.5	5.0	5.3	5.1
Growth of imports of G&S (U.S. dollar terms, in percent)	-2.3	-2.1	11.7	2.4	6.0	15.8	4.4	0.1	1.0	2.6	2.2	4.4	4.7	5.3	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.6	37.2	47.9	50.8	52.2	53.6	46.7	53.4	53.5	53.4
Memorandym item:															
Nominal GDP (millions of U.S. dollars)	722.6	745.2	786.1			781.6	822.9	875.8	932.9	988.3	1039.8		1334.2	2228.7	

Source: Staff simulations.

1/ Includes both public and private sector external debt. Debt stock reduction in 2006 assumes cancellation of IDA debt as of end-2003 and of IMF debt as of end-2004.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A4. Guyana: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, MDRI Scenario, 2005-25
(In percent)

	Est.	Projections						
	2005	2006	2007	2008	2009	2010	**2015**	2025
NPV of debt-to-GDP ratio								
Baseline	75	65	67	68	70	71	**66**	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	75	61	62	64	66	67	**68**	76
A2. New public sector loans on less favorable terms in 2006-25 2/	75	68	72	75	79	81	**84**	88
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	75	68	74	75	77	78	**73**	66
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	75	69	79	79	81	81	**76**	65
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	75	68	74	75	77	78	**73**	66
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	75	70	76	77	79	79	**74**	64
B5. Combination of B1-B4 using one-half standard deviation shocks	75	75	91	92	94	94	**88**	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	75	93	96	97	100	101	**94**	85
NPV of debt-to-exports ratio								
Baseline	82	71	74	77	80	84	**81**	73
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	82	67	68	71	76	80	**82**	93
A2. New public sector loans on less favorable terms in 2006-25 2/	82	74	79	84	90	96	**103**	108
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	82	71	74	77	80	84	**81**	73
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	82	82	104	107	111	116	**111**	95
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	82	71	74	77	80	84	**81**	73
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	82	77	84	86	90	94	**90**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	82	82	100	103	107	112	**108**	90
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	82	71	74	77	80	84	**81**	73
NPV of debt-to-revenue ratio								
Baseline	217	190	197	197	201	203	**192**	175
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	217	178	182	183	190	193	**196**	223
A2. New public sector loans on less favorable terms in 2006-25 2/	217	198	212	216	226	232	**243**	259
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	217	200	217	217	222	224	**212**	193
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	217	201	230	228	232	234	**221**	190
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	217	198	218	217	222	224	**212**	193
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	217	205	223	221	225	227	**215**	187
B5. Combination of B1-B4 using one-half standard deviation shocks	217	219	267	264	269	271	**255**	217
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	217	270	281	280	286	289	**273**	249
Debt service ratio								
Baseline	3	3	3	3	3	3	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	3	3	3	3	3	3	**6**	5
A2. New public sector loans on less favorable terms in 2006-25 2/	3	3	3	4	3	4	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	3	3	3	3	3	3	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	3	3	4	4	4	4	**8**	6
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	3	3	3	3	3	3	**6**	4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	3	3	3	4	3	4	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	3	4	4	4	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	3	3	3	3	3	3	**6**	4
Debt service-to-revenue ratio								
Baseline	9	8	8	9	8	8	**14**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	9	8	8	9	8	8	**15**	13
A2. New public sector loans on less favorable terms in 2006-25 2/	9	8	8	9	9	9	**14**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	9	8	8	10	8	9	**15**	12
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	9	8	8	9	8	9	**15**	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	9	8	8	10	8	9	**15**	12
B4. Net nondebt creating flows at historical average minus one standard deviation in 2006-07 4/	9	8	8	9	8	8	**15**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	9	11	9	10	**17**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	9	11	11	12	11	11	**20**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51	51	51	51	51	51	**51**	51

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A5.Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, Without MDRI, 2002–25
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	Average 2005–10	2015	2025	Average 2011–25
Public sector debt 1/	215.6	168.2	165.6			179.8	176.7	166.8	159.9	152.8	146.8		114.6	80.8	
Of which: foreign-currency denominated	172.5	145.4	137.2			147.2	147.8	143.9	139.1	136.5	132.8		113.4	96.3	
Change in public sector debt	19.1	-47.4	-2.6			14.1	-3.1	-9.9	-6.9	-7.1	-6.1		-5.7	-2.6	
Identified debt-creating flows	-1.5	1.2	-4.6			14.7	3.5	-2.2	-4.1	-5.0	-4.8		-4.3	-2.5	
Primary deficit	-2.1	2.8	-0.4	-3.7	3.6	8.9	9.6	5.9	2.0	0.0	-0.9	4.3	-0.8	0.6	-0.3
Revenue and grants	40.6	39.7	44.0			46.8	47.4	44.2	43.6	42.8	41.8		40.4	39.0	
Of which: grants	8.2	4.6	6.5			8.6	9.3	7.4	5.9	4.6	4.6		3.5	2.8	
Primary (noninterest) expenditure	38.5	42.5	43.6			55.8	57.0	50.1	45.7	42.8	40.9		39.6	39.6	
Automatic debt dynamics	0.6	-1.6	-4.2			5.8	-6.1	-8.2	-6.2	-5.0	-4.0		-3.5	-3.1	
Contribution from interest rate/growth differential	1.7	-1.7	2.8			15.2	-6.2	-6.6	-6.7	-5.5	-3.7		-3.0	-2.9	
Of which: contribution from average real interest rate	4.0	-3.2	5.4			10.4	1.2	-0.1	-1.0	-0.5	0.2		0.0	-0.7	
Of which: contribution from real GDP growth	-2.2	1.4	-2.6			4.8	-7.3	-6.5	-5.7	-5.0	-4.0		-3.0	-2.2	
Contribution from real exchange rate depreciation	-1.1	0.1	-6.9			-9.4	0.1	-1.6	0.5	0.5	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	20.6	-48.6	2.0			-0.6	-6.6	-7.6	-2.8	-2.1	-1.2		-1.4	0.0	
NPV of public sector debt	165.4	88.9	94.9			107.6	109.1	104.3	101.9	97.9	95.1		74.4	46.9	
Of which: foreign-currency denominated	122.3	66.2	66.5			75.0	80.2	81.3	81.0	81.6	81.2		73.2	62.4	
Of which: external	122.3	66.2	66.5			75.0	80.2	81.3	81.0	81.6	81.2		73.2	62.4	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	34.5	37.8	32.5			41.8	43.3	37.0	29.2	24.8	19.5		7.4	-9.3	
NPV of public sector debt-to-revenue ratio (in percent) 3/	407.1	224.1	215.6			229.6	230.1	236.0	233.4	228.5	227.7		184.0	120.4	
Of which: external	301.0	166.7	151.0			160.0	169.1	184.1	185.6	190.4	194.4		181.0	160.2	
Debt service-to-revenue ratio (in percent) 3/ 4/	32.3	23.8	17.6			12.5	11.9	12.8	13.4	12.4	12.5		12.7	9.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-21.2	50.2	2.1			-5.2	12.7	15.8	8.9	7.1	5.2		4.9	3.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.1	-0.7	1.6	2.3	3.2	-2.8	4.2	3.8	3.5	3.2	2.7	2.4	2.6	2.7	2.6
Average nominal interest rate on forex debt (in percent)	2.9	2.3	2.3	2.9	0.4	1.9	1.9	1.9	1.9	1.9	1.8	1.9	1.7	1.5	1.7
Average real interest rate on domestic currency debt (in percent)	8.1	-0.5	2.2	7.2	6.2	2.2	1.6	1.8	4.0	4.3	5.1	3.2	13.0	-0.1	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.7	0.1	-4.7	-0.8	3.6	-6.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	5.4	6.7	5.6	3.7	4.2	3.8	4.0	3.1	3.0	2.9	3.5	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.2	9.4	4.1	7.5	11.6	24.4	6.5	-8.7	-5.6	-3.2	-2.0	1.9	2.6	2.7	2.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.6	37.2	47.9	50.8	52.2	53.6	46.7	53.4	53.5	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Nonfinancial public sector, gross basis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A6.Guyana: Sensitivity Analysis for Key Indicators of Public Debt, Without MDRI, 2005–25

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt-to-GDP Ratio								
Baseline	108	109	104	102	98	95	74	47
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	108	99	86	80	74	69	36	-22
A2. Primary balance is unchanged from 2004	99	91	81	77	73	71	53	24
A3. Permanently lower GDP growth 1/	108	110	106	105	103	102	93	106
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	108	117	120	121	120	120	114	114
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	108	100	90	88	84	82	61	35
B3. Combination of B1-B2 using one half standard deviation shocks	108	102	93	90	86	83	60	31
B4. One-time 30 percent real depreciation in 2006	108	143	137	134	129	126	104	70
B5. 10 percent of GDP increase in other debt-creating flows in 2006	108	118	113	111	107	104	83	55
NPV of Debt-to-Revenue Ratio 2/								
Baseline	230	230	236	233	228	228	184	120
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	230	207	195	182	171	163	89	-57
A2. Primary balance is unchanged from 2004	211	193	184	176	170	169	132	60
A3. Permanently lower GDP growth 1/	230	232	240	241	240	244	229	269
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	230	244	268	274	277	285	280	290
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	230	211	204	202	197	195	151	90
B3. Combination of B1-B2 using one half standard deviation shocks	230	214	208	205	199	197	148	79
B4. One-time 30 percent real depreciation in 2006	230	302	310	307	302	303	258	179
B5. 10 percent of GDP increase in other debt-creating flows in 2006	230	250	256	254	249	248	205	140
Debt Service-to-Revenue Ratio 2/								
Baseline	12	12	13	13	12	12	13	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	3	2	3	5	5	-14
A2. Primary balance is unchanged from 2004	12	5	3	4	5	8	9	1
A3. Permanently lower GDP growth 1/	12	12	13	14	14	14	17	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	12	12	16	18	18	19	22	30
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	12	12	6	6	9	10	11	5
B3. Combination of B1-B2 using one half standard deviation shocks	12	12	5	4	8	10	11	3
B4. One-time 30 percent real depreciation in 2006	12	13	16	17	16	16	17	16
B5. 10 percent of GDP increase in other debt-creating flows in 2006	12	12	20	17	14	14	14	13

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Table A7. Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, With MDRI, 2002–25

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	Average 2005–10	2015	2025	Average 2011–25
Public sector debt 1/	215.6	168.2	165.6			179.8	176.6	166.8	159.9	152.8	146.8		113.8	81.9	
Of which: foreign-currency denominated	172.5	145.4	137.2			147.6	115.1	114.8	113.2	113.2	111.9		101.3	93.6	
Change in public sector debt	19.1	-47.4	-2.6			14.1	-3.1	-9.8	-6.9	-7.1	-6.0		-5.6	-2.1	
Identified debt-creating flows	-1.5	1.2	-4.6			14.7	3.5	-2.4	-4.2	-5.1	-4.9		-4.3	-2.0	
Primary deficit	-2.1	2.8	-0.4	-3.7	3.6	8.9	9.6	5.9	2.1	0.0	-0.9	4.3	-0.7	1.1	-0.2
Revenue and grants	40.6	39.7	44.0			46.8	48.4	45.3	44.7	43.9	42.8		40.8	39.0	
Of which: grants	8.2	4.6	6.5			8.6	10.4	8.5	6.9	5.7	5.6		3.9	2.8	
Primary (noninterest) expenditure	38.5	42.5	43.6			55.8	58.0	51.2	46.7	43.9	41.9		40.1	40.1	
Automatic debt dynamics	0.6	-1.6	-4.2			5.8	-6.0	-8.3	-6.2	-5.1	-4.1		-3.5	-3.2	
Contribution from interest rate/growth differential	1.7	-1.7	2.8			15.2	-6.2	-7.1	-6.6	-5.5	-3.9		-3.1	-2.9	
Of which: contribution from average real interest rate	4.0	-3.2	5.4			10.4	1.2	-0.6	-1.0	-0.5	0.1		-0.1	-0.7	
Of which: contribution from real GDP growth	-2.2	1.4	-2.6			4.8	-7.3	-6.5	-5.7	-5.0	-4.0		-3.0	-2.2	
Contribution from real exchange rate depreciation	-1.1	0.1	-6.9			-9.4	0.1	-1.2	0.4	0.4	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	20.6	-48.6	2.0			-0.6	-6.6	-7.5	-2.7	-2.0	-1.1		-1.3	0.0	
NPV of public sector debt	165.4	88.9	94.9			107.2	126.6	119.5	115.2	109.7	105.7		78.8	48.1	
Of which: foreign-currency denominated	122.3	66.2	66.5			75.0	65.1	67.5	68.4	70.1	70.9		66.3	59.9	
Of which: external	122.3	66.2	66.5			75.0	65.1	67.5	68.4	70.1	70.9		66.3	59.9	
NPV of *contingent liabilities (not included in public sector debt)*	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	34.5	37.8	32.5			41.8	42.5	36.2	28.5	23.9	18.6		6.3	-8.6	
NPV of public sector debt-to-revenue ratio (in percent) 3/	407.1	224.1	215.6			228.8	261.5	264.1	257.8	250.0	247.0		192.9	123.5	
Of which: external	301.0	166.7	151.0			160.0	134.4	149.1	153.1	159.7	165.5		162.4	153.6	
Debt service-to-revenue ratio (in percent) 3/ 4/	32.3	23.8	17.6			12.5	9.9	10.7	11.3	10.1	10.0		11.7	8.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-21.2	50.2	2.1			-5.2	12.7	15.8	8.9	7.1	5.2		4.9	3.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.1	-0.7	1.6	2.3	3.2	-2.8	4.2	3.8	3.5	3.2	2.7	2.4	2.6	2.7	2.6
Average nominal interest rate on forex debt (in percent)	2.9	2.3	2.3	2.9	0.4	1.9	1.9	2.4	2.4	2.3	2.2	2.2	1.9	1.5	1.9
Average real interest rate on domestic currency debt (in percent)	8.1	-0.5	2.2	7.2	6.2	2.2	1.7	-1.2	0.1	0.3	0.5	0.6	0.3	0.7	0.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.7	0.1	-4.7	-0.8	3.6	-6.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	5.4	6.7	5.6	3.7	4.2	3.8	4.0	3.1	3.0	2.9	3.5	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.2	9.4	4.1	7.5	11.6	24.4	8.4	-8.3	-5.5	-3.1	-1.8	2.3	2.6	2.7	2.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.6	37.2	47.9	50.8	52.2	53.6	46.7	53.4	53.5	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Nonfinancial public sector, gross basis.

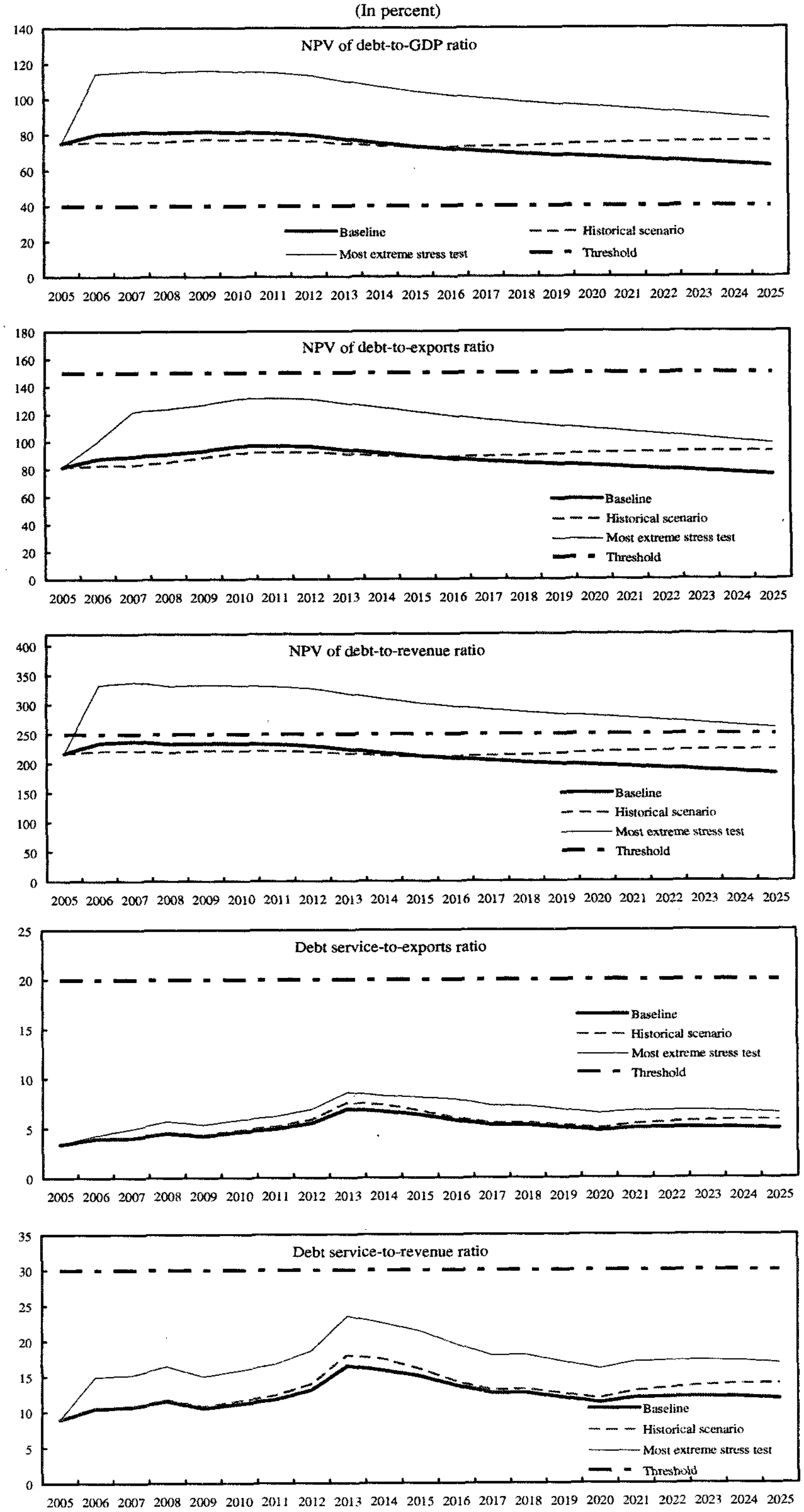
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

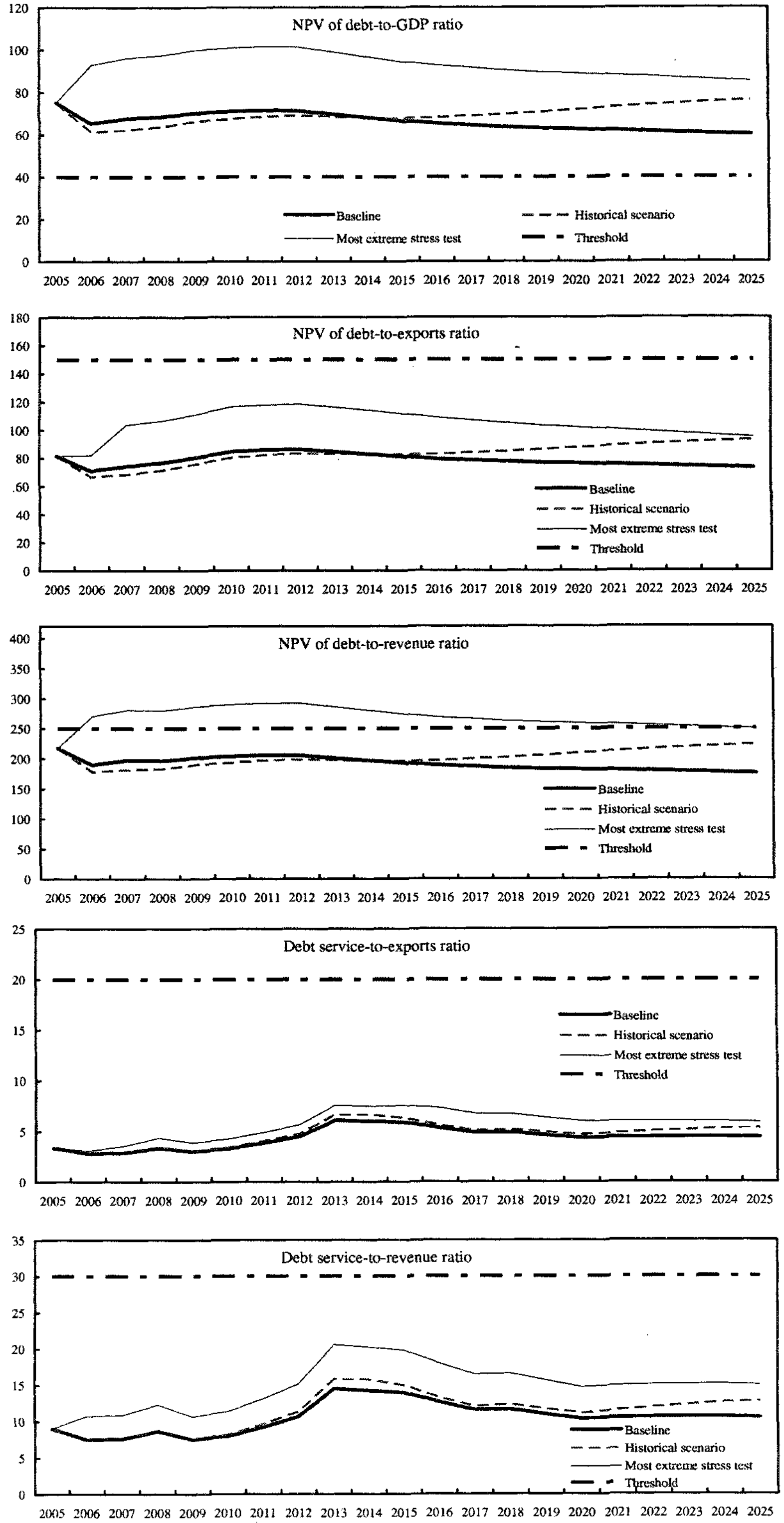
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Figure A1. Guyana: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, Baseline - Without MDRI, 2005-25
(In percent)



Source: Staff projections and simulations.

Figure A2. Guyana: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, MDRI scenario, 2005-25
(In percent)



Source: Staff projections and simulations.