

**GY-T1167**  
**Strengthening the Technical Capacities at the Department of Energy**

**Technical Cooperation Document**

**I. BASIC INFORMATION FOR TC**

▪ Country/Region:	GUYANA
▪ TC Name:	Strengthening the Technical Functions of the Department of Energy
▪ TC Number:	GY-T1167
▪ Team Leader/Members:	Balza Angulo, Lenin Humberto (INE/INE) Team Leader; Sologuren Blanco, Jaime (INE/ENE) Alternate Team Leader; Sucre Pantin, Carlos Gustavo (INE/INE) Alternate Team Leader; Bonifaz Urquizu, Jeanette (INE/INE); Bonzi Teixeira, Augusto Cesar (INE/ENE); Carvajal Blanco, Paola (INE/INE); Chretien, Louis-Francois (LEG/SGO); Clarke, Dillon Dexter (INE/INE); Gauto, Victor (CCB/CGY); Gaviria, Ivan Alonzo (VPC/FMP); Unzueta Saavedra, Adriana (INE/INE); Williams, Derise Avione (CCB/CGY)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	21 Nov 2019.
▪ Beneficiary:	Co-Operative Republic of Guyana
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$606,062.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	December 2019
▪ Types of consultants:	Firm and Individual consultants
▪ Prepared by Unit:	INE-Infrastructure and Energy Sector
▪ Unit of Disbursement Responsibility:	INE-Infrastructure and Energy Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law

**II. OBJECTIVES AND JUSTIFICATION OF THE TC**

- 2.1 The objective of this project is to continue supporting on-going efforts to build strategic capacity management in the Government of Guyana (GoG) to effectively manage the governance of the emerging oil and gas (O&G) sector in the country. This Technical Cooperation (TC) will: (i) provide immediate support to operationalize protocols for management and compliance monitoring of the Stabroek Block Production Sharing Agreement (PSA) through improvements in enforcement standards during administration procedures, production control and

verification processes, reserve certification guidelines, and recordkeeping and information management; (ii) provide general training and support to key agencies within the O&G regulatory framework with specific attention to the use of the contract management systems; and (iii) provide a platform for the dissemination of best practices for IT solutions to compliance monitoring, and for operating requisite internal control systems to maintain data integrity and accuracy in the O&G sector. This technical cooperation will be coordinated by the IDB Guyana Oil & Gas Working group.

- 2.2 Academic literature shows that, when adequately managed, natural resources from the extractive industries (mining or hydrocarbons) can contribute to long-term socioeconomic development (Venables 2016). The risks, however, involved in introducing oil, gas and mining activities without sufficient legal and institutional capacity include major social, environmental and economic risks for stakeholders, including government, industry and civil society (Balza and Espinasa 2015; Kemp, Worden and Owen 2017; Brereton and Parmenter 2006).
- 2.3 In 2015, a consortium of three major oil companies — composed of ExxonMobil, Hess, and Nexen (a subsidiary of the China National Offshore Oil Corporation, CNOOC), — made a significant offshore oil discovery in the Stabroek block,<sup>1</sup> located about 120 miles offshore. Since then, the consortium has found another 13 economically viable deposits within the block and it estimates that the recoverable resources from the Stabroek block stand around 6 billion Barrels of Oil Equivalent (boe).<sup>2</sup> Improved prospects of a wider resource base were made when another 2 commercial discoveries were also made in the neighboring Orinduik block by Tullow Oil in mid-2019.<sup>3</sup> Together, the 16 discoveries in the Stabroek and Orinduik blocks hold more than 6.2 billion boe of recoverable resources. These discoveries have made Guyana the new world's biggest deep-water oil play and placed it among the 30 largest O&G reserves holders in the world.<sup>4</sup>
- 2.4 The consortium plans for commercial production to start in December 2019<sup>5</sup> using a floating production storage and offloading (FPSO) facility that arrived at the site in August 2019, with an initial output of 120,000 boe/day and a projection to reach 750,000 boe/day in 2025. Should these production levels be met, the value of oil production could reach approximately US\$3.2 billion in 2020, a figure equivalent to 89% of current (Article IV. IMF, 2018) and lead the country to grow by an estimated 85.1% in 2020 alone (Article IV IMF, 2019). The existing O&G sector is governed under a regulatory framework that has been enhanced over the past two years through two IDB loan operations (4676/BL-GY, 4676/BL-GY-1, 4676/BL-GY-2 and 4698/BL-GY), accompanied by technical assistance (ATN/OC-16533-GY, ATN/OC-16532-GY, and ATN/OC-17100-GY). Heretofore, Guyana's O&G framework was only designed to regulate the import and distribution of oil products. Guyana has never been an

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<sup>1</sup> The Stabroek block is 26,800 square kilometers where Esso Exploration and Production Guyana Limited acts as the operator, holding a 45% interest in the block. Hess Guyana Exploration Ltd. holds a 30% interest, and CNOOC Nexen Petroleum Guyana Limited holds a 25 percent interest.

<sup>2</sup> [Exxon Mobil, 2019](#)

<sup>3</sup> [Tullow Oil, 2019](#)

<sup>4</sup> [U.S. Energy Information Administration \(2018\)](#)

<sup>5</sup> <https://www.chron.com/business/energy/article/Exxon-Mobil-Hess-move-up-first-Guyana-production-14575600.php>

oil producer and therefore there is a pressing need to continue building its institutional apparatus around the sector.<sup>6,7</sup>

- 2.5 The O&G sector is a data-driven industry in all phases of its operation, from exploration to production (Sage, 2014). The data generated throughout the industry's phases ranges widely, from advanced geological models to environmental sensor data, that informs a project's internal operational variables as well as compliance with contractual obligations and government regulations. Reliable data and proper timely data reporting are then fundamental for both Contractor and Government for compliance, transparency, auditing, monitoring obligations, and detecting and reporting contractual breaches.
- 2.6 While access to oil data from the Guyana continental shelf is contract-dependent and is produced by the operators, information asymmetry is an ever-present problem. Through the introduction of standardized proformas for compliance monitoring, governments gather substantially large and varied data during contract management activities. This data becomes the basis for validating and monitoring operator activities in the sector. However, as operators fulfill regulatory requirements and meet compliance standards, the range of data to be collected, analyzed, and stored becomes both a technology and a human capacity challenge (Farris, 2012).
- 2.7 Given the frequency and volume of data generated, and the complexity of compliance guidelines, effective regulatory oversight requires technology solutions that are responsive, centralized, user-friendly, and secure, in order to mitigate/minimize contract leakages attributed to human error, delays, and other process-related issues. These solutions allow contractors and the GoG to exchange, manage, and classify information, documents, and data in accordance with the conditions set forth by the GoG for every legal and contractual stage and requirement. The analytics of the large pools of data then provides relevant and timely insights to support decision-making processes on the overall wellbeing and performance of the sector.
- 2.8 The activities included in this technical cooperation are aligned to those outlined in the IDB Group's Country Strategy with the Co-operative Republic of Guyana for 2017-2021. The strategy focuses on four areas: natural resource management, sustainable energy, private sector development, and public-sector management. A principal focus across all these areas will be the effective management of O&G sector and how it is situated within the Government's Green State Strategy.
- 2.9 This project is aligned with the Development Challenges and Cross Cutting Themes of the IDB Updated Institutional Strategy (UIS 2010-2020; AB-3008). Institutional Capacity & the Rule of Law are the overarching theme of the technical cooperation. The project aligns with Corporate Results Framework Country Level indicator # 11 as the management of natural capital will be improved. Further, this TC is aligned with OC-SDP Objective 1.i (strengthen the technical and managerial capacity of national and/or subnational governments), Priority 1 (operational capacity and policy dialogue), and with Eligible Activities 2 and 6 (institutional

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<sup>6</sup> Historically, Guyana has been dependent on import of fossil fuels. In 2016, these imports totaled US\$278 million and represented 24% of the country's total imports. [Guyana. Imports/Exports. OEC.](#)

<sup>7</sup> Guyana is highly dependent on imported oil products for its overall energy supply. Imported fossil fuels account for about half of final energy consumption with the other half coming from Combustible Renewables and Waste (CR&W) products. [Energy Matrix Country Briefings. Espinasa and Humpert, 2014.](#)

strengthening activities focused on management capacity and knowledge sharing and dissemination activities).

### **III. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET**

- 3.1 **Component I – Operationalization of PSA Protocols for Contract Management and Governance Standards.** This component supports the operationalization of the PSA set of protocols for contract management recommended to the Department of Energy (DE), the Guyana Geology and Mines Commission Petroleum Unit (GGMC-PU), Environmental Protection Agency (EPA) and other critical agencies in the regulatory framework by ATN/OC 16533-GY, ATN/OC-16532-GY, and ATN/OC-17100-GY for the Stabroek block and all other O&G blocks in existence in Guyana. These protocols include the forms and reports that outlines the tiers compliance commitments of both the GoG and the Operators. Particularly, this component will (i) support contractual compliance monitoring and records management; (ii) facilitate an increase in Guyana’s organizational capability in relation to the O&G sector by adopting best practices and improved interagency information cooperation and communication during the contract management process; (iii) identify control and streamline workflows in the compliance monitoring and enforcement activities, important and beneficial to regulatory performance appraisals (key performance indicators – KPI) to manage the O&G sector; and (iv) provide advice regarding IT platform functionalities for the collection, processing, and retention of contract and regulatory compliance data. The management and retention of the volume of data generated by exploration, appraisal, field development, production, and decommissioning are also important to improve audit capabilities and transparency.
- 3.2 **Component II – Regulators Capacity Building to Use Contract Management Tools:** This component will facilitate an increase in Guyana’s organizational and managerial capability and the construction of handbooks and provision of training for government officials in the DE, GGMC-PU, EPA, and other relevant agency in the use of contract management software and tools for compliance monitoring and enforcement of the Stabroek PSA and all other oil exploration and production agreements in Guyana. The component is intended to improve the operational implementation of the PSA compliance forms and other proformas to increase competencies of designated contract management tools users.
- 3.3 **Component III – Program Management and Knowledge Generation & Dissemination:** This component will help to manage the public interest in the oil and gas sector, as well as ensuring transparency among all key stakeholders. Activities will include: (i) dissemination of products generated under this technical cooperation and other assistance programs from the IDB to the Guyanese O&G sector; and (ii) engagement with stakeholders through conferences, events, brownbag lunches, etc. to discuss the most salient issues in operationalizing the PSA protocols for the O&G sector of Guyana as it evolves from preparation through first oil and beyond.

## Indicative Budget

Component	IDB Funding (US\$)
Component I: Operationalization of PSA Protocols for Contract Management and Governance Standards.	331,062
Component II: Capacity building of Regulators in Use of Contract Management Software	150,000
Component III: Program Management and Knowledge Generation & Dissemination	100,000
Travel contingencies	25,000
<b>Total</b>	<b>606,062</b>

### IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 The Bank, through the Mining, Geothermal Energy, and Hydrocarbons (MGH) and the Energy Division (INE/ENE) of the Infrastructure and Energy Department, will act as the executing agency due to its ability to leverage its extensive network of internal and external subject-matter experts and well-established relationships with involved stakeholders. The bank will contract individual consultants, consulting firms, and non-consulting services in accordance with Bank's current procurement policies and procedures.
- 4.2 The IDB will lead implementation, programmatic oversight of the different activities and coordinate results reporting with other organizations operating in the field.
- 4.3 The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with the Bank's current procurement policies and procedures for Bank-executed operations: Recruitment of individual consultants AM-650; Contracting of consulting firms for services of an intellectual nature GN-2765-1 and its operational guidelines OP-1155-4; and Procurement of logistics services and purchase of goods GN-2303-20.

### V. MAJOR ISSUES

- 5.1 The main risk for the implementation of the technical cooperation is that of insufficient access to qualified information for adequate sector assessment and implementation of governance strengthening activities. To mitigate this, the project team will implement all activities in close coordination with IDB country offices and key country stakeholders, including representatives from government, industry and civil society. Mitigating implementation risks will require extensive and widespread consultation with stakeholders, rapid deployment of administrative reforms, utilization of technology to increase transparency, and a commitment from the highest levels of government. Efforts will be undertaken jointly by the Authorities and the IDB to work with all stakeholders and manage expectations accordingly.
- 5.2 The IDB team will draw from well-established and recognized best practices and methodologies, which will help avoid risks and address potential issues with sector data. The team will also set different layers of peer reviewing throughout the process to ensure quality and relevance.
- 5.3 To mitigate the risk that the project might not exhaustively account for all opportunities to improve extractive sector management in target countries, the team will support counterparts in scoping potential sources of additional financing to extend assessment efforts and address prioritized needs. Active engagement with and awareness of the work of other organizations,

such as the World Bank and the International Monetary Fund, operating in the field will also help avoid any potential overlaps with ongoing efforts.

## **VI. EXCEPTIONS TO BANK POLICY**

6.1 None apply.

## **VII. ENVIRONMENTAL AND SOCIAL STRATEGY**

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

### **Required Annexes:**

[Request from the Client\\_82234.pdf](#)

[Results Matrix\\_97796.pdf](#)

[Terms of Reference\\_71690.pdf](#)

[Procurement Plan\\_70688.pdf](#)