

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

GUYANA

**Joint Staff Advisory Note on the Poverty Reduction Strategy Paper
Second Annual Progress Report**

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

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I. OVERVIEW

1. **Guyana's Poverty Reduction Strategy (PRS) Annual Progress Report (APR) issued in August 2005 provides a fairly comprehensive description of developments since the HIPC Completion Point.** This is the second progress report since Guyana's 2001 PRSP was endorsed by the Boards of the IMF and IDA in September 2002. The first progress report was issued in May 2004, shortly after Guyana reached the Enhanced HIPC Initiative Completion Point in December 2003. The second progress report provides a detailed description of Guyana's achievements and shortcomings in the implementation of the PRS in the recent past, discusses future challenges in the context of a difficult domestic and external environment, and presents an action plan for 2005 and beyond. However, the analysis in the progress report is hampered by the lack of recent data on poverty levels and trends and by weak social data and data collection systems. Also, the progress report would have benefited from a discussion of the linkages between planned actions and the revised PRS targets for 2005-2009.

II. PROGRESS IN IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

A. Consultation Process

2. **The Government conducted extensive consultations in preparing the progress report** (see Chapter 6). The draft progress report 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 political parties, members of Parliament, and neighborhood democratic councils) on the draft APR in an open forum. The main issues raised during the consultations on the draft report and reflected in the final report pertained to shortfalls in attaining the PRS goals in governance and transparency,

crime and security, and access to, or improvement of, basic services, in particular roads and drainage and irrigation. In addition, a number of participants stressed the absence of a well functioning PRS monitoring and evaluation system.

3. **It is recommended that a donor coordination strategy based on sector-specific thematic groups be revived.** The APR lacks any discussion of the donor coordination strategy, which was to operate through thematic groups in five areas comprising the donors operating in those areas and chaired by the relevant Government ministry. The staffs strongly encourage the Government to revive the dormant thematic groups, and recommend that the next APR contain an assessment of the performance of these thematic groups. A similar point was made in the previous JSA.

B. Macroeconomic Developments

4. **As indicated in the APR, Guyana was able to maintain macroeconomic stability in the context of modest growth.** Real GDP increased by 1.6 percent in 2004 from a decline of 0.7 percent in 2003 and inflation remained moderate, with the 12 month inflation for end-2004 reaching 5 ½ percent. Despite higher world oil prices, the current account deficit narrowed from 12 percent of GDP in 2003 to about 9 percent of GDP in 2004, as a result of a rapid increase in exports. Gross international reserves declined to 3.2 months of imports, reflecting the deposit of US\$44 million in an escrow account in support of the sugar sector modernization project at Skeldon. The Guyana dollar, which is market determined, remained broadly stable in real terms relative to the U.S. dollar in 2004. The staffs have emphasized that in order to enhance prospects for durable growth, Guyana needs to boldly address some of the fundamental structural weaknesses, namely, a poor investment climate, weak governance, infrastructure bottlenecks, and persistent security concerns and political tensions.

	Guyana: Macroeconomic framework							
	2003	Prel. 2004	2005	2006	Projections			
					2007	2008	2009	2010
	(Percent of GDP, unless otherwise stated)							
Real GDP (growth, in percent)	-0.7	1.6	-2.8	4.2	3.8	3.5	3.2	2.7
Consumer prices (eop, in percent)	5.0	5.5	9.0	5.4	3.5	3.0	3.0	3.0
Total revenue	35.0	37.5	38.3	38.3	36.8	37.8	38.2	37.2
Capital expenditure	14.4	16.3	24.5	27.2	21.6	17.8	15.7	14.4
Overall public sector balance (after grants) 1/ 2/	-8.7	-4.5	-13.4	-13.6	-10.1	-6.1	-3.9	-2.7
Primary public sector balance 3/	-2.6	0.9	-4.1	-1.0	-1.7	-0.8	0.0	0.9
Total public sector debt (end of period) 2/	173.1	165.6	179.8	176.7	166.8	159.9	166.8	159.9
External current account balance (in percent of GDP) 1/ 2/ 4/	-11.8	-9.5	-22.6	-26.5	-19.5	-15.4	-13.8	-14.0
Gross official reserves	271.2	224.7	240.0	250.0	269.4	286.4	303.2	309.9
in months of imports	4.4	3.2	3.0	3.2	3.3	3.4	3.5	3.5
Public external debt 2/	146.4	138.3	149.1	149.2	144.0	139.2	144.0	139.2
NPV of external debt-to-revenue ratio	208.0	193.7	216.0	233.1	236.9	232.1	233.3	232.6

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 enhanced HIPC Completion Point was reached in December 2003.

3/ Excluding Skeldon project.

4/ Excluding official transfers.

5. **As noted in the APR, the 2004 fiscal outturn was considerably stronger than anticipated under the Fund program.** The non-financial public sector deficit declined to 4.5 percent of GDP, compared with 8.7 percent of GDP in 2003. This strong outturn reflected better-than-expected revenue performance, owing to collection of arrears, strong import duties, and ad valorem fuel taxes and the containment of current expenditures. Nevertheless, it is noteworthy that the strong fiscal outturn also reflected delays in the sugar modernization project which is now being implemented. In the staffs' view, going forward, a successful implementation of VAT complemented by a reform of the rest of the tax system, including the tax exemption regime, would make Guyana's tax system more broad based, economically efficient, and transparent in incidence.

6. **The APR notes the decline in Guyana's debt burden in 2004.** In addition to debt cancellation under the enhanced HIPC Initiative, eight creditors agreed to cancel one hundred percent of outstanding debt stock owed to them. This resulted in a decline in the debt stock of 1.2 percent to US\$1,080 million, and a corresponding reduction in debt service by 12.2 percent to US\$43.7 million, equivalent to about 10 percent of exports of goods and nonfactor services. The staffs urge the Government to strengthen its debt management strategy and to ensure that the expenditure of these debt service savings and those to be received under the Multilateral Debt Relief Initiative be well-targeted towards poverty alleviation activities in an effort to meet the Millennium Development Goals (MDGs).

7. **The APR does not include a fully articulated medium-term macroeconomic framework.** The APR was finalized months in advance of agreement on a new medium-term framework in the context of the Fifth Review of the PRGF arrangement, at a time when the Government was still assessing the full impact of the flood on the economy and the cost of a rehabilitate and prevention strategy. It also preceded the completion of the joint World Bank-IMF Debt Sustainability Analysis. However, the Government's current macroeconomic framework is consistent with the one presented in the Fifth Review of the IMF's PRGF. Looking forward, the staffs recommend that the next APR present a full-fledged and well-articulated medium-term macroeconomic framework. The APR also lacks a discussion of contingency plans. A discussion of Government's response in the face of unexpected shocks would have been useful. The staffs recommend that the next APR should contain such a discussion. A similar recommendation was made in the previous JSA.

C. Policies and Programs

8. **As indicated in the APR, important progress has been made in implementing structural reforms.** Key areas of progress since the PRS was adopted are:

- **Tax reform.** Implementation of tax reform measures, including elimination of the Minister of Finance's power to grant discretionary tax exemptions, limiting most income tax holidays to 5-years; enactment of the VAT and Excise Tax legislation and substantial progress in strengthening tax administration;
- **Public expenditure management.** A new procurement law and an organic budget law were enacted to strengthen fiscal management and accountability; significant

progress was also made in improving the public expenditure management system, in particular, with the introduction of a new integrated financial management system;

- **Public Sector Investment Program (PSIP).** Adoption of a five-year rolling PSIP in 2005 to improve efficiency of public resources use within debt sustainability constraints;
- **Public enterprise.** Further progress in the privatization of the bauxite sector, the strengthening of the financial viability of the sugar company, including critical investment in a modern sugar processing plant, and reforms in the electricity and water sectors;
- **Financial sector.** Privatization of Guyana National Cooperative Bank, amendment of the Financial Institutions Act and the Bank of Guyana Act, and the completion of the on-site inspections of four banks by end-2005;
- **Private sector development.** The strengthening of the private investment framework, with the approval of an Investment Act and a Small Business Act; and
- **Social sector development.** In the social sectors, development of a National Health Plan designed to provide a standard package of minimal services to all; launching of a major effort to combat HIV/AIDS; and implementation of an education strategy focusing on reducing repetition rates, increasing secondary school enrollment and improving teacher training. Guyana is one of 17 countries receiving assistance in its education reform as part of the Education For All-Fast Track Initiative (EFA-FTI).

9. **Notwithstanding the progress made, the staffs note that there have also been significant delays.** This was in part due to capacity constraints, a domestic environment marred by political instability and an outbreak of crime and violence in early 2002, and weak ownership of the reform agenda. Also, aid inflows did not match expectations, partly because the country did not reach the Completion Point of the Enhanced HIPC Initiative until December 2003 owing to delays in implementing HIPC-related reforms. Lower inflows of aid reduced the resources available to implement the PRS.

10. **The APR contains a discussion of forward-looking policies derived from various sectoral investment plans and programs.** These are also embodied in the country's PSIP. The discussion of the education and health sectors is more detailed, partly reflecting significant donor involvement in these areas. While the staffs generally agree with the thrust of the policies, it is noted that the discussion is based largely on inputs, which could have been supplemented by a more rigorous analysis of outputs and outcomes.

D. Poverty Reduction

11. **The analysis in the APR of progress made in poverty reduction is hampered by lack of recent data on poverty levels and trends and weak social indicators.** The APR notes that a new Household Income and Expenditure Survey was launched in

September 2005 and preliminary results will be available in July 2006. In addition, in August 2005, the Government published a set of summary tables from the 2002 Census. In terms of poverty reduction indicators, of a total of 25 indicators identified in 2001, Guyana successfully met or exceeded 14 of its targets. Shortfalls were encountered in access to treated water and adequate sanitation, the distribution of house lots and land titles, the percentage of trained teachers in secondary schools, and HIV/AIDS. Nevertheless, the APR notes that pro-poor spending in the budget at 17.1 percent exceeded the HIPC target by 2.4 percent points in 2004. The staffs note that 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, social data and data collection systems at both national and local levels remain inadequate.

12. **The APR indicates that there is a significant risk that Guyana may not attain all the MDGs by 2015 at the current pace.** However, the report could have identified which of the goals may not be attained and included a discussion on the additional measures needed to improve performance in the areas where progress is falling short and how they relate to the PRS goals.

13. **Poverty in rural and under-privileged areas persists.** The APR 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. The staffs' view is that while there have been improvements in human development indicators nationwide and progress with reforms, the provision of social services and economic opportunities in rural and under-privileged communities are not yet adequately addressed. Furthermore, there is a need to formulate an integrated strategy for more equitable geographic development, particularly with regards to the development of infrastructure and access to basic health and education.

E. Monitoring and Evaluation

14. **It is urgent that an effective system to monitor and evaluate the impact of policies and reforms on development outcomes be put in place.** The lack of recent data on poverty levels and trends and weak social data and data collection systems require that future work on data gathering, management and analysis take place on an ongoing basis, and is integrated within the PRS process. This should be achieved through significantly improved statistics and strong and sustained Government commitment to develop a monitoring and evaluation system. In this regard, the authorities are developing a plan to put in place an efficient monitoring and evaluation system, including: (1) completing and publishing the full analysis of the Census data, (2) timely completion, analysis, and publication of the results of the Household Income and Expenditure Survey in 2006; (3) tracking public expenditures and assessing their efficiency, including analysis of expenditures reaching the beneficiaries on a disaggregated geographical basis; and (4) improving the capacity of the Bureau of Statistics and of sectoral ministries and agencies to generate and analyze social statistics. The IDB, UNDP, DfID and IDA are among those donors providing support to the Government in these areas. The Government is also encouraged to strengthen the role of the Steering and of the Regional Committees, ensuring that they are adequately equipped and fully institutionalized to monitor the implementation of the PRS.

III. CONCLUSIONS AND RECOMMENDATIONS

15. **The staffs of the Bank and the Fund believe that the Government's implementation of the strategy signals a continuing commitment to poverty reduction, although further strengthening is needed.** Guyana continues to make progress in laying the foundation for poverty reduction, but at a slow pace. Critical issues remain to be addressed. First, establishing an environment for sustained growth remains the main challenge for the Government, which will require significant effort to improve the rule of law, transparency, governance, and the business environment. Second, in the run-up to the 2006 national elections, it will be important to maintain the reform momentum and ensure basic security to avoid a surge in crime and violence which characterized previous elections. Third, an effective monitoring and evaluation framework needs to be fully implemented to support the poverty reduction efforts. Fourth, prudent fiscal policies and a prioritized public sector investment program should continue to be pursued to improve debt sustainability prospects while freeing more public resources for poverty reduction and growth enhancement. As indicated in the second PRS Progress Report, the Government remains committed to addressing these challenges. In addition, the staffs recommend that the next report covers issues pertaining to regional integration and trade in the context of ongoing negotiations between the EU and CARICOM.