

THE INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND

GUYANA

**Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by the staffs of the International Development Association and
the International Monetary Fund¹

Approved by David de Ferranti and Gobind Nankani (IDA), and
Claudio M. Loser and Liam P. Ebrill (IMF)

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I. OVERVIEW

- 1. The Guyana Poverty Reduction Strategy Paper (PRSP) builds on the Interim Poverty Reduction Strategy Paper (I-PRSP) discussed by the Boards of the Fund and the Bank in November 2000, as well as the National Development Strategy (NDS) designed in 1993.** The NDS provided a framework for sustainable growth and poverty reduction in Guyana over a 25-year period. However, it did not examine in detail the costing of the Strategy or its financing. The PRSP builds on the framework established by the NDS, focuses more on the problems of poverty reduction in the medium term (2002–05), and links the poverty reduction strategy to its financing requirements. The PRSP also builds on the strategy outlined in the I-PRSP and explicitly shows the differences between the I-PRSP and the PRSP as a result of the broad consultation and analytical work that took place during the preparation of the PRSP (see Table 4.2 in the PRSP).
- 2. The PRSP was prepared by the government of Guyana in November 2001 and the underlying macroeconomic framework was updated in March 2002 as a response to changing conditions and to incorporate more prudent assumptions.** In the original PRSP, output growth projections were higher than can be justified in light of the changed economic environment and likely external financing. The budget required to fully implement the PRSP exceeded the financing envelope so far identified by the authorities or committed by financing agencies. In particular, debt relief in 2002 was overestimated. In addition, sectoral growth projections were overly optimistic in light of the developments in the international economy since late 2001, the low level of private investment, and delays in the restructuring of key state-owned enterprises. Thus, the macroeconomic projections in the PRSP have been updated in an addendum to reflect more realistic assumptions.

¹ This Joint Staff Assessment was prepared in collaboration with the staff of the Inter-American Development Bank (IDB).

3. The staffs believe that the PRSP provides an adequate framework for supporting the implementation of effective poverty reduction policies in Guyana, even though some of the PRSP targets are ambitious given the resources and capacity available (see paragraph 17 below). In this light, there are a number of steps the authorities could take to further improve the PRSP. The staffs urge the authorities to: (a) update, as soon as possible, the social targets and poverty reduction objectives embedded in the PRSP in line with the more realistic assumptions on financing; and (b) prioritize poverty-reducing programs and projects to ensure the efficacy and effectiveness of PRSP-related expenditures. Other key tasks for the government during PRSP implementation and subsequent revisions are to: (a) engage more consistently representatives from civil society groups, the private sector, political parties, and other branches of government, to deepen the discussion of the key choices and trade-offs facing the country; (b) ensure that there is a broad national dissemination strategy to inform the public about the choices made and help build consensus for the strategy; and (c) take concrete actions to address the governance, accountability, and corruption concerns raised during the consultation process.

II. PARTICIPATION PROCESS

4. **The PRSP was prepared through a broad-based participation process that builds on the process started in 1993 during the preparation of the NDS.** The NDS was reviewed through a participatory process involving about 200 people, while the I-PRSP involved little or no participation. After the I-PRSP and following the recommendations of the JSA for the I-PRSP, the government launched an extensive participatory process which touched every region and involved more than 8,000 people. Over 200 consultations consisting of 109 community consultations and 98 target group consultations were conducted in all 10 regions of the country.

5. **The consultation process helped foster dialogue by bringing together diverse ethnic groups (including Amerindians) to discuss development issues.** The staffs would like to underscore the good faith effort made by the authorities, their ability to capture and process comments made during the consultation and their acknowledgement of the benefits of a more open approach to policy formulation, including the potential for repairing ethnic and political divisions.

6. **The consultation process was based on a fairly elaborate structure, involving a donor coordination unit, a PRSP steering committee, the PRSP Secretariat and the Resource Teams, as well as a broad range of community groups and other civil society organizations.**² A preliminary workshop was held with identified stakeholder groups and constituents to design the consultation process. This workshop laid particular emphasis on the need to consult with all groups, including those based on ethnic origins, gender, age, education and occupation. Before starting the consultation process, a Participatory Action Plan (PAP) was drafted by the PRSP Secretariat. The PAP was subsequently reviewed and modified through discussions with civil society, government and donor groups.

² See Chapter 3 of the PRSP for details.

7. **Resource teams were trained in Georgetown on the conduct of the consultations, and the process was launched by President Jagdeo on June 18, 2001.** The initial plan was to have 72 community consultations, but because of popular demand, the number of community consultations was expanded to 109. In addition, 98 target group consultations were held by civil society groups, of which 83 were carried out by religious organizations, and others by women, farmers, and youth groups. Consultations were also carried out in Amerindian areas. Following these local-level consultations, regional consultations were carried out in each of Guyana's 10 regions in an attempt to prioritize the findings coming from the community and target group consultations. The inputs from the consultations were fed into the development of a draft PRSP, which was circulated to key groups and discussed in October 2001 at a national consultation in Georgetown.

8. Despite the breadth of the consultations as noted above, the main opposition party did not formally participate in the consultations and subsequently complained that the consultations were not truly open to all groups, were dominated by government leaders, and did not include many poor areas. However, it is noteworthy that some members of the main opposition party attended the consultations in their individual capacities. Similarly, the Private Sector Commission, the largest organization of private companies with members across ethnic and political lines, did not formally participate in the consultations, because there was a perception that the exercise was largely focused on poverty reduction, rather than economic growth.

9. **The PRSP candidly reflects the results of the consultations and the voices of participants.** The draft PRSP was adjusted to reflect the priorities identified during the consultation process, as shown in Table 4.2 in the PRSP. These new areas of emphasis include discussions on governance, health, education, small scale businesses, rural electricity, housing and other topics. The consultations highlighted some essential issues:

- Poverty is clearly linked with inadequate employment opportunities;
- Key shortages in the education, health, housing and water sectors are a constant problem, as are the weaknesses in institutions designed to provide these public services;
- Ineffective and unresponsive government agencies, particularly at the local level, are seen as not providing key services and not listening to local preferences. At times, lack of oversight and control leads to corruption and misuse of funds;
- Many problems can be resolved at the local level without substantial resources, but with simple improvements in administration. For instance, by providing the public with the details of contract awards, it would be possible for local groups to be more active in the supervision of these contracts, and thereby reduce malfeasance.

10. **The authorities have accepted the idea of a broad dissemination process for future steps.** The PRSP has been made available in Guyana, and has been posted on the worldwide web. It has been distributed to all donors active in Guyana and their comments have been solicited. Also, the revised macroeconomic framework and the public sector investment program in the PRSP addendum formed the basis for the 2002 public sector budgets discussed and passed by parliament. Although a dissemination strategy has not yet been fully developed, the staffs and the authorities have agreed that the credibility of the PRSP will be increased when a broad dissemination campaign is undertaken. Thus, in the near future, the authorities plan to communicate with civil society and other stakeholders to: (a) explain the implementation constraints and the changes that have been made in the macroeconomic framework as well as in the public sector investment program; and (b) explain necessary changes to the objectives and targets of the PRSP.

11. While they have agreed on the importance of dissemination, the authorities have not decided upon a process of consultation with stakeholders in revising the PRSP or formulating PRSP progress reports. In the staffs' view, a mechanism is needed to provide for a continuous process of consultation with stakeholders to guide PRSP implementation and ensure that monitoring and evaluation take place within a participatory framework. The staffs urge the authorities to move quickly to develop such a process.

III. POVERTY DIAGNOSTIC

12. **Using the 1992 Living Standard Measurement Survey (LSMS) and the 1999 Living Conditions Survey (LCS), the PRSP describes the poverty situation, but does not analyze the causes of poverty.** The 1992 LSMS and the 1999 LCS provide some information on the dynamics of poverty at the national and regional levels. These surveys show a decline in the share of persons living in poverty from 43.2 percent in 1992 to 35.1 percent in 1999, and an even sharper decline in the share of the extremely poor.³ Unfortunately, the LSMS and LCS surveys do not provide enough coverage of thinly-populated regions with mainly Amerindian populations. The PRSP underscores the increase of rural poverty and the association between high dependency ratios and large family size with poor households. However, little information is given concerning the demographic and gender dimension of poverty. The survey data are complemented by qualitative information on poverty, derived mainly from the PRSP consultation.

13. **The PRSP contains an analysis of the effects of past policies and programs on growth and development.** The extreme statist policies pursued by the country prior to 1989 caused rising inflation, declining per capita income, and a deterioration of social services until the late 1980s. Unfortunately, detailed household surveys are not available from this period to enable a tracking of the trends in poverty. Economic stabilization and adjustment reforms enacted since 1989 helped restore growth, revamp social services, reduce the size

³ From 1998 onward, GDP growth has been significantly less than during the period 1990–97. Therefore, the poverty incidence may have increased somewhat between 1997 and 1999. However survey data are not available for 1997.

and presence of the public sector in the economy, and rebuild some of the deteriorated infrastructure. As a result, per capita income rose strongly and poverty fell substantially. However, these trends have not been sustained. The economy has barely grown since 1998; social programs remain weak and underfunded; there are clear gaps in education, health, water, and other key government services; and the quality of housing is poor.

IV. THE POVERTY REDUCTION STRATEGY

14. **The staffs support the main thrust of Guyana's PRSP, which is to raise per capita output and employment growth toward the pre-1997 levels, improve social services, and expand and strengthen social safety nets.** The strategy, which draws on views and aspirations that emerged from a wide-ranging consultation process, rests on seven pillars: (1) broad-based, job-generating economic growth; (2) stronger institutions and better governance; (3) investment in human capital, with emphasis on basic education and health; (4) investment in infrastructure to support better services in water, sanitation and housing; (5) investment in growth-supporting infrastructure, such as roads, power and irrigation; (6) improved safety nets; and (7) special intervention programs to address regional pockets of poverty. To achieve growth in the medium term, the strategy emphasizes the need to create an environment conducive to private-sector-led, job-creating growth, in nontraditional, export-oriented sectors (such as labor-intensive manufacturing and services, ecotourism and timber), while continuing to rely heavily on recovery in the traditional agricultural export commodities (such as sugar and rice).

A. Targets, Indicators, and Monitoring

15. **In the revised macroeconomic projections underlying the PRSP, the economy is expected to grow at an average rate of 2.7 per year during 2002–05.** The original macroeconomic framework projected an average growth rate of 4 percent during 2002–05. The authorities' revised growth targets take into account updated projections regarding international conditions and are based on more prudent financing and expenditures. While the new projected growth rate is modest compared to the 7 percent achieved during the recovery period of the 1990s, it exceeds the sluggish performance of recent years (GDP growth averaged a mere 0.4 percent during 1998–2001). If some of the factors that ushered in slow economic growth in recent years (i.e., declining terms of trade, unfavorable weather conditions, social unrest and political uncertainties, or a combination thereof) were to occur in the years ahead, the projected growth could be hard to achieve.

16. Attaining the projected growth would also critically depend on the authorities' ability to mobilize the expected levels of external support, and on the timely implementation of key structural reforms. With respect to the latter, it will be particularly important to address institutional weaknesses and put in place systems that improve public accountability and governance.

17. The PRSP poverty-related targets appear to fall short of achieving the Millennium Development Goals (MDG). Moreover, given projected resources and implementation capacity constraints, major policy efforts will be needed to achieve even the PRSP targets. The PRSP does not provide projections of social targets to 2015. However, an extrapolation done by the staffs shows that the PRSP targets would not constitute sufficient progress towards the achievement of the MDG, particularly as they relate to the poverty rate, infant mortality, and maternal mortality (Table 1). For example, as shown in Table 6.1 in the PRSP, the strategy aims at reducing the percentage of persons living below the poverty line from an estimated 35.1 percent in 2000 to 31.4 percent in 2005, implying an average annual decline of 0.7 percentage points in the poverty rate. Although, this objective appears achievable given past experience and the projected GDP growth rate, a faster reduction in the poverty rate would be required to reach the MDG. In contrast, the target set for HIV/AIDS prevalence seems to be ambitious given current policies.

18. **Nevertheless, the PRSP policy agenda is consistent with continued significant poverty reduction in the medium term.** In the longer term, the authorities should set more ambitious targets consistent with the MDG, provided that sufficient effort is deployed now to improve implementation capacity and quickly put into effect critical structural and social policy reform measures envisaged in the PRSP.

Table 1: PRSP Projections Regarding Millennium Development Goals

Millennium Development Goal (MDG)	Indicators Shared Between MDG and PRSP	1990 Actual	1999 Actual	2005 PRSP Projections	2015 Staff Estimates ¹	Achieve MDG?
Halve poverty and malnutrition	Poverty headcount rate ²	(1992) 43.2	35.1	31.4	26.1	No
Achieve universal primary education	Primary school net enrollment ratio	92.8	96.6	100	100	Yes
Reduce child mortality by two-thirds	Infant mortality rate (per 1,000 live births)	63.8	58	42	25	No
	Measles: percent of one-year olds immunized	77	83	92	100	Yes
Reduce maternal mortality by three-quarters	Maternal mortality (per 100,000 live births)	...	190	130	69	No
Combat HIV/AIDS, malaria, and other major diseases	HIV/AIDS number of reported cases	...	237	205	161	Yes
	Reported cases of HIV/AIDS among women aged 15–45 ³	...	74	88	64	Yes
Environmental sustainability	Percent of population with access to safe water ⁴	81	92	98	100	Yes

Sources: PRSP; and World Bank MDG database.

¹ For each indicator, the projected level for 2015 is calculated using a straight-line projection covering the period 2005–15 based on the PRSP expected trend for 1999–2005.

² MDG goal relates to population living with less than US\$1 per day, whereas Guyana's 1999 national poverty line was equivalent to US\$1.40 at market exchange rates.

³ MDG goal relates to 15–24 year old pregnant women. The increase between 1999 and 2005 hides an expected decline starting in 2002. The projected level for 2015 is based on the declining trend expected between 2002 and 2005.

⁴ MDG goal relates to percent of urban population with access to an improved water source.

19. **In the view of the staffs, Guyana's ability to monitor and evaluate policies in general, and in the PRSP in particular, remains weak.** The PRSP details weaknesses in the statistical system, including the national statistics office as well as difficulties with coordinating activities across the line ministries and among government, donor agencies and NGOs. While making a commitment to improve monitoring and coordination, the PRSP lacks a detailed strategy for addressing coordination gaps, strengthening the Bureau of Statistics, and putting in place systems and procedures in other government agencies to effectively capture vital data. In terms of monitoring the PRSP performance, the government plans a greater involvement of civil society by revitalizing the system of community, neighborhood, and regional development councils. These councils, which are elected positions, have fallen into disuse in recent years due to a lack of local elections. It is not certain that they would be revitalized in time to allow for adequate grassroots monitoring of the implementation of the PRSP. Meanwhile, the government intends to establish special committees within communities to monitor the PRSP implementation, but is not clear exactly how these committees will be organized and empowered.

20. **The government's efforts to implement and track progress on the PRSP will be supported by a Bank-funded monitoring and evaluation program.** The monitoring and evaluation system described in the PRSP is vague as it is still in its design stage. The staffs hope that the monitoring and evaluation system will include a tracking system by which citizens could give feedback on the implementation of the Strategy and raise concerns when needed. Through a technical assistance credit under preparation, the Bank and the authorities are working together to design an monitoring and evaluation system that involves improving coordination and oversight of poverty-reduction activities, strengthening the Bureau of Statistics, expanding technical assistance to line agencies with PRSP responsibilities, piloting a community-based monitoring initiative, and launching an outreach program for enhanced public access to information and broad-based dialogue on government expenditures and programs to reduce poverty. The IDB has also offered assistance in data collection, and for the strengthening of analytical capacity in the line ministries in quantitative data analysis, program evaluation, and policy formulation.

B. Macroeconomic Framework and Fiscal Choices

21. **The revised macroeconomic framework presented in the PRSP addendum is sound and achievable.** Compared with the previous macroeconomic framework in the PRSP, the revised framework is based on more realistic assessments of international market conditions for Guyana's main exports, available external financial support and implementation capacity. While additional external assistance and higher output growth would be welcome, it would not be prudent to base the strategy on optimistic assumptions. In this context, the revised framework aims at maintaining macroeconomic stability, while boosting domestic savings and investment to raise output and employment growth and promote poverty reduction on a sustainable basis. In particular, it envisages continuing price stability, output growth that gradually rises from 1.8 percent in 2002 to 4.2 percent in 2006, and an adequate official international reserve cushion to help deal with possible adverse exogenous shocks. While output growth rates are still ambitious considering the outlook for

Guyana's main commodity exports, they appear feasible provided that there is considerable effort to improve governance and promote political stability, to strengthen key institutions (e.g., the ministry of finance and the Bank of Guyana) to implement key components of Guyana's ambitious strategy, and to implement critical structural reforms promptly (as noted in paragraph 16 above). Should higher growth or greater than expected external grants or other highly concessional resources materialize, these could be integrated into future revisions of the framework.

22. **The revised framework is based on strong policy efforts.** In particular, it envisages appropriately the implementation of: (1) fiscal and public sector wage policies that make room for increased spending on critical structural reforms and poverty-reducing programs and projects, and that limit the financing of fiscal deficits over the medium term to available concessional external resources, in line with satisfactory public debt dynamics and adequate credit expansion to the private sector; (2) a monetary policy that targets inflation in the low single-digit levels in the context of the existing flexible exchange rate regime; and (3) an ambitious agenda of structural reforms and public investment projects.

23. While the authorities need to do more work to identify the specific sources of economic growth in the various sectors, the policy choices underlying the revised framework are geared appropriately towards enhancing the productivity and competitiveness of all economic sectors. Crucially, the revised framework would promote private sector development via the implementation of a tax reform that reduces economic distortions while securing funding for critical public spending; and actions to bolster the soundness and efficiency of the financial system. The PRSP also supports steps to strengthen property rights (especially land titling) and actions to increase supply and reliability of economic infrastructures and services.

24. **The fiscal choices underlying the revised framework are appropriate.** The fiscal choices are consistent with poverty reduction, albeit probably not as quickly as is envisaged in the interim PRSP, given the overly optimistic assumptions incorporated in that document. They make room for sustainable funding of projects and programs that would raise growth in agriculture (from which most of the poor derive their livelihoods), increase the poor's access to health, education and utility services, and address specific poverty pockets. Provision is also made for government spending on programs to assist those who may be adversely affected by the structural reforms being envisaged. To ensure that adequate resources are available for poverty reduction in the medium term, the macroeconomic framework appropriately gives priority to: (1) on the revenue side, a reform of the tax system and its administration to secure adequate tax revenue growth (see paragraph 28); and (2) on the expenditure side, linking central government wage increases to inflation and productivity increases, restructuring or privatization of the state-owned bauxite and sugar companies to reverse the drain on the public finances that their operations entail and make them profitable, and taking steps to improve public expenditure management.

C. Structural and Sectoral Policies, Policies for Social Inclusion and Equity, Governance, and Public Sector Management

25. **The PRSP outlines a large number of key policies and projects in a wide variety of sectors**, including agriculture, manufacturing, tourism, governance, export and investment promotion, drainage and irrigation, sea defense, transport infrastructure, and special programs for rural and indigenous areas. Although the authorities have made some adjustments to the public sector investment program included in the original PRSP (as indicated in the addendum) to reflect more realistic assumptions on resource availability, in the view of the staffs, the investment program remains somewhat ambitious and reliant on many large, capital intensive projects for which public financing may not be sufficient and complementary private investment may not be forthcoming. As in the I-PRSP, the PRSP contains little or no analysis of the benefits and costs of the various projects proposed, and hence little ability to rank the importance of various initiatives. In many cases, the projects and policies proposed seem only tangentially related to poverty reduction. Thus, the staffs urge the authorities to further prioritize the programs and projects included in the PRSP to ensure that public resources are effectively and efficiently used toward poverty alleviation.

26. The PRSP indicates the government's desire to proceed with several large **infrastructure** projects. These include a new harbor, a new container port, a road connection to Brazil, and a new bridge over the Berbice River. While mentioned in the PRSP, some of these projects are not included in the public investment program as the government expects that the private sector will carry them out on a Build-Operate-Transfer (BOT) basis. However, these projects may or may not generate sufficiently high financial rates of return to attract private investment. In the context of the need to ensure continued progress toward fiscal and external viability, the staffs believe that the government should continue to refrain from contributing public resources to a project or from providing explicit or implicit guarantees of private sector debts related to a project unless its social benefits and financial returns are clearly demonstrated. In addition, infrastructure projects (particularly road projects in environmentally sensitive areas) should not be carried out unless a satisfactory environmental assessment has been undertaken.

27. In the **sugar sector**, the objective of the PRSP is to modernize state-owned production plants to achieve higher profitability and competitiveness in the medium term. Toward this end, the key action proposed in the PRSP is the construction of a new sugar mill in Skeldon. The strategy in the **bauxite sector** would be to divest in the short term while providing adequate safety net to affected workers. The staffs have been discussing these and related policy issues with the authorities in the context of an IMF PRGF arrangement and in preparation of a possible Bank PRSC.

28. The staffs support the authorities' ongoing efforts to implement reforms of the **tax system** and the **financial sector**. Regarding the tax system and its administration, the PRSP proposes to strengthen the Revenue Authority and the system in general. In the staffs' view, in order to reduce distortions that undermine private-sector development and secure adequate revenues for public spending, tax reform should be comprehensive. It should include

important steps that improve the governance of tax administration, and reforms that broaden the tax base while reducing excessively high tax rates. Regarding the financial sector, the PRSP lays out a reform agenda, and the staffs have been informed by the authorities that reforms will soon be put in place to address weaknesses in the sector. These are essential given the critical importance of the sector for financing private investment and growth.

29. On the issue of **social safety nets**, the PRSP includes an expansion of the funding for social funds which finance small projects in primarily poor, rural areas. However, Guyana does not have a well-targeted and extensive system of safety nets to cover the unemployed and those at risk of losing their jobs as a result of restructuring. The PRSP proposes new safety net programs, but details are lacking in terms of how they would operate, who they would cover, and how they would be funded. The authorities need to move promptly on the poverty and social impact analysis of proposed reforms (particularly in the bauxite and sugar sectors). In this regard, the staffs urge the authorities to take advantage of resources and expertise available among Guyana's development partners.

30. In the **social sectors**, the PRSP calls for major improvements in education and health. For **education**, this includes increasing the number of classrooms, trained teachers, and school materials, with the objective of increasing enrollment at the pre-school and secondary levels, reducing repetition and drop-out rates, and reducing crowding. Efforts will be made to introduce a school feeding program and improve the school transportation system. In the views of the staffs, these efforts will need to be complemented with actions to increase teacher retention in the Guyana education system and reduce teacher absenteeism. In **health**, the program includes an expansion of preventive care, increased training of personnel, and upgrading of equipment in health centers and clinics in rural areas. A national HIV/AIDS center will be established, and the Georgetown Hospital will be upgraded to handle specialized ailments now treated outside the country.

31. Guyana's future economic growth and poverty reduction depend heavily on **agriculture and rural development**. The PRSP addresses the need to modernize the **rice industry**, though the strategy does not provide specifics, including the appropriate role of the Guyana Rice Development Board. The PRSP also addresses **land-tenure issues** but without sufficiently specific objectives. In particular, the political, financial and technical constraints that limit surveying should be lifted, and the strengthening of the Deeds Registry expedited to provide for an efficient and transparent system to register real property and protect property rights. In the critical area of **drainage and irrigation** or, more generally water-control systems, the PRSP emphasizes the expansion of these schemes. However, taking into account the complex and ineffective institutional setup in the Regions, sustainable institutional arrangements (i.e., farmer control, operation, fee collection for management and maintenance) should be in place first to justify new public investments. In particular, regional and local governments should be modernized, appropriate drainage and irrigation legislation passed, and farmer-controlled solutions sought.

32. The PRSP also includes programs to expand **rural electrification, sea defense, housing** schemes (to regularize squatter area settlements), as well as a number of special projects for poor, rural regions that typically have large numbers of indigenous people, and are often excluded from public services. The PRSP also mentions programs to promote the use of **information and communications technology** to diversify the economic base, improve access and opportunities for the poor, and consolidate policy reforms in these sectors.

33. To protect **the environment**, the PRSP proposes to: (i) enforce the provisions of the Environmental Protection Act; (ii) promote public awareness; (iii) involve local communities in developing programs to manage vulnerable ecosystems and protect environmental resources; and (iv) promote the training of an adequate number of technicians to monitor adherence to legal environmental standards. However, there is no adequate linkage in the PRSP between the strategy to have large infrastructure projects built by the private sector and the strategy to protect the environment.

34. Excessive **centralization** and the need for local government reform emerged among people's major concerns during the PRSP consultations. Local governments lack capacity, are fiscally very constrained, poorly designed, and largely unaccountable; communities perceive them as marginal players in service delivery. The government plans to undertake reforms to decentralize the provision of services, such as education and health, and to strengthen local governments, including via measures to improve the direct representation of communities on local government councils, tax collection, human resources of local governments, financial accountability mechanisms, expenditure tracking, and resource allocation mechanisms in neighborhoods and regions. The PRSP has not identified any major services which might be decentralized or what concomitant roles and responsibilities might be devolved to lower levels; it only recommends that items such as issuance of passports, land titles, birth and death certificates be decentralized.

35. The PRSP proposes some important reforms in the area of **public sector management, transparency, and accountability**. In this regard, it is essential that public sector institutions be strengthened, particularly in the areas of tax administration; financial regulation and supervision; government procurement, audit and accounting; budget expenditure management; and investment project selection, design, evaluation and execution. Such institutional strengthening may require, inter alia, appropriate wage differentiation to address human capacity weaknesses in key institutions. Moreover, developing the political will to enable the checks and balances in the system to work is critical if the proposed reforms are to succeed. In particular, the parliament needs to foster genuine debate, while the Public Accounts Committee of the parliament needs a real voice with respect to the annual budget submissions and in reaction to the Auditor General's annual report. There also is a serious need to undertake a more extensive reorganization of the civil service, within a sustainable public sector wage setting mechanism. It is also essential that specific steps be taken to reduce the level of discretion afforded certain public officials, strengthen the rule of

law, protect property rights, and generate greater confidence in the fairness and efficiency of the general legal framework that would encourage private sector economic activity and improve access to financial services for creditworthy borrowers.

V. RISKS TO THE STRATEGY

36. The staffs agree with the five major risks identified in the PRSP. These are:

(i) national consensus; (ii) implementation capacity; (iii) availability of external resources; (iv) developments in the world economy; and (v) natural disasters.

- **National consensus and race relations.** The PRSP notes that sufficient degree of consensus may not have been reached to implement the strategy in a sustainable manner and raises doubt about the stance that opposition parties and labor unions might take in engaging the government in a constructive dialogue. However, the PRSP does not make a clear link between national consensus and race relations. Guyana is a country deeply divided along racial lines, and political parties reflect the same division. Racial and political tensions resulted in a series of severe disturbances after the national elections of 2001, and such outbreaks could reoccur in the future. In fact, the main opposition party did not participate in the PRSP consultation process, although some of its members were involved in consultations in their personal capacities. The PRSP envisages strengthening and deepening the dialogue between the two main political parties. Thus, it will be important that efforts aimed at reducing racial and political tensions be increased considerably.
- **Implementation capacity and weak institutions.** The PRSP acknowledges the risks represented by Guyana's historically limited implementation capacity. A serious problem is the difficulty in recruiting and retaining qualified professionals in the public sector. Although public service salaries have increased substantially 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 doctors, nurses, school teachers, technical staffs in the civil service, as well as senior and middle level managers. Given this capacity constraint and present institutional weaknesses, the strategy proposed in the PRSP seems to go well beyond what the government can effectively carry out. Moreover, the decision-making authority remains highly centralized, which undermines morale in the senior civil service.
- **Availability of external resources.** The PRSP makes note of the possibility that the identified external resources may not be forthcoming in the magnitude envisaged in the Strategy. Indeed, at current commitment levels, it does not appear possible to implement the whole strategy as originally conceived. The updated assumptions in the PRSP addendum provide a more realistic view of resource availability for implementing the PRSP, and it is essential that the authorities continue to review projects and programs with a view to ensuring that high priority activities are funded and implemented. While additional highly concessional resources would be welcome and would be employed in the strategy if they become available, it is prudent not to depend on them at this time.

- **Developments in the world economy.** Guyana depends heavily on a few products whose prices have been falling in recent years (rice, bauxite, gold), or whose continued protected access to European markets is likely to be phased-out in the medium term (sugar). Unless a major effort can be made, through an acceleration of structural reforms in order to induce private investment to diversify the economic base, Guyana will remain heavily dependent on these commodities, and attainment of its growth and poverty reduction targets may be jeopardized.
- **Natural disasters.** Guyana's past economic performance has been constrained, inter alia, by natural disasters. Going forward, the risk of natural disaster would be magnified if the PRSP measures in the areas of sea defense, drainage and irrigation, are not fully implemented.

37. The staffs see an additional source of risk related to **public sector wage demands**. The civil service unions are pressing for large across-the-board wage increases following the sizeable wage increases granted in 1999 and 2000. The unions are pressing for external arbitration and have threatened to strike if their demands are not met on a retroactive basis. Their demands, if intensified, could cause social unrest, disruptions in public service delivery and, if granted, would cause a diversion of resources from critical programs and projects associated with sustainable poverty reduction. In this context, it will be important that the authorities continue their efforts aimed at building a broad-based consensus in favor of a prudent public sector wage policy. This may include a medium-term wage policy framework, which could help prevent the yearly Government-Union confrontations.

VI. CONCLUSION

38. Notwithstanding the above risks, the staffs of the World Bank and IMF consider that the Guyana PRSP provides an adequate framework to continue Guyana's efforts to reduce poverty in the context of sustainable growth. The PRSP has been developed within a participatory framework, it candidly reflects the results of the consultations, and it provides a comprehensive picture of Guyana's development challenges. Moreover, the seven fundamental pillars supporting the poverty reduction strategy are sound, and the macroeconomic framework is based on reasonable assumptions concerning growth, financing and the international environment. Nevertheless, the authorities will face challenges in implementing the strategy. Success of the strategy will depend on the government's ability to undertake critical structural reforms, improve governance, strengthen the public administration, agree on a wage setting mechanism with public sector unions consistent with sound macroeconomic policies and sustained poverty reduction, and continue to engage stakeholders so as to increase the support to the strategy both within and outside the government. Successful poverty reduction will also depend on the maintenance of macroeconomic stability, and in order to achieve this, the government will need to be resolute in implementing the policies underpinning the macroeconomic framework.

39. In line with the authorities' view of the PRSP as a living document, the staffs believe that there is room for improvement in both the PRSP document and the PRSP process. Key areas of improvement include: updating the social targets and poverty reduction objectives embedded in the PRSP in the near term in line with more realistic assumptions on financing; prioritizing poverty-reducing programs and projects; implementing a process for incorporating stakeholders' views into the PRSP; a deeper analysis of the causes of poverty and the specific sources of economic growth in various sectors; and a strengthening of the monitoring and evaluation of the PRSP.

40. On balance, the staffs consider that the PRSP and its addendum present a credible poverty reduction strategy and provide a basis for Bank and Fund concessional assistance and for debt relief within the HIPC framework. The staffs recommend that the respective Executive Directors of the World Bank and IMF reach the same conclusion.