Original Article

Guyana's Poverty Reduction Strategy and Social Expenditure

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Abstract In 1997, Guyana started to receive debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. In 2001, to qualify for the Enhanced HIPC Initiative, Guyana developed a Poverty Reduction Strategy (PRS) that committed the country to a reorientation of its economic and social policies towards the objectives of the PRS and the achievement of the Millennium Development Goals. Against this background, this article examines whether the HIPC initiatives and the accompanying PRS have translated into increases in the level and quality of social expenditure. We find that there has been a substantial increase in social spending since 1997. In terms of quality of expenditure, our analysis suggests that without further strengthening of institutions responsible for managing and monitoring public expenditure, debt relief is unlikely to provide more than temporary succour.

En 1997, la Guyane est devenue bénéficiaire d′un allègement de ses dettes dans le cadre de l′initiative PPTE. En 2001, afin de pouvoir bénéficier de l′initiative PPTE renforcée, la Guyane élabora une Stratégie de Réduction de la Pauvreté (SRP) engageant le pays à mettre en œuvre une réorientation de ses politiques économiques et sociales au service des Objectifs du Millénaire pour le développement et de la réduction de la pauvreté. Le but de cet article est de déterminer si les initiatives PPTE et la SRP qui les a accompagnées, se sont traduites par des augmentations quantitative et qualitative des dépenses sociales. Nous constatons que les dépenses sociales ont augmenté substantiellement depuis 1997. Par contre, notre analyse suggère qu'en ce qui concerne la qualité des dépenses, si les institutions chargées de gérer et de contrôler les dépenses publiques ne sont pas renforcées davantage, l′allégement de la dette risque de ne procurer qu′un soulagement temporaire.

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Introduction

Soon after gaining independence in 1966, Guyana began pursuing a state-led, centrally planned model of development. Although this model did lead to economic progress, it could not be sustained. By the late 1980s, the Guyanese economy began experiencing a decline in output, large fiscal deficits, high inflation and a build-up of external debt.

Since the 1980s, Guyana has witnessed periods of rapid growth and contraction. Despite periods of growth, the build-up of external debt has continued. At the end of 1996, the net present value of the country's external debt was US$1.15 billion, or 467 per cent of government revenue and 161 per cent of GDP (IMF and IDA, 1997).[1] In 1997, Guyana became one of the first countries to qualify for the Heavily Indebted Poor Countries

Table 1: HIPC debt relief, 2003–2008

	2003	*2004*	*2005*	*2006*	*2007*	*2008*
US$ million						
Original HIPC	24	24	23	20	21	19
E-HIPC	19	34	38	26	19	20
Total	43	58	61	46	40	39
% of GDP in market prices						
Original HIPC	3	3	3	2	2	2
E-HIPC	3	4	5	3	2	2
Total	6	7	7	5	4	3

Sources: Bank of Guyana, *Annual Reports* and own calculations based on Bank of Guyana (2009b).

(HIPC) Initiative and started to receive interim debt relief. In May 1999, the country reached the HIPC Completion Point, triggering irrevocable debt relief, which could be used to increase social spending.[2]

In 2001, in order to qualify for the Enhanced HIPC (E-HIPC) Initiative, Guyana elaborated a Poverty Reduction Strategy Paper (PRSP). The country committed itself to reorienting its economic and social policies towards the objectives of the PRSP and achievement of the Millennium Development Goals (MDGs), by using the E-HIPC debt relief to raise social expenditure and tackle poverty. According to the PRSP, the Enhanced debt relief was projected to be around US$30 million annually in 2002–2006 and US$25 million in 2010 (Government of Guyana, 2002, p. 53). The E-HIPC Completion Point was reached on 26 November 2003, and at that moment the Enhanced debt relief became irrevocable. Between 2003 and 2008, total debt relief was between 3 and 7 per cent of GDP per year (see Table 1).

Against this background, the main aim of this article is to examine whether in Guyana the HIPC initiatives and the accompanying Poverty Reduction Strategy (PRS) process, which envisaged a number of institutional reforms, have translated into increases in the quantity and quality of social expenditure. These issues are important, as Guyana remains one of the poorest countries in the Western Hemisphere.[3]

Theoretical treatments of the effects of debt relief are provided by Sachs (1984) and Krugman (1988). Essentially, debt relief is expected to work through two channels – direct and indirect. The direct effect is that debt relief reduces a country's debt-service payments and makes it possible to divert resources that would have been used for servicing debt to other uses. The indirect effect is that a reduction of a country's debt stock may be expected to increase its credit-worthiness and make it more attractive to creditors. It should be noted that the magnitude of the direct effect depends on the extent to which debt is actually being serviced prior to relief (see Bird and Milne, 2003), and that resources thus freed are fungible and there is no guarantee that they will be used to increase social expenditure.

The empirical literature in this area has been sparked by two initiatives in the last 20 years. The first of these was the 1989 Brady Plan, which provided debt relief for 16 middle-income countries mainly in Latin America. According to this plan, private creditors agreed to write off a part of the debt and recipient countries agreed to launch economic reforms. More recently, the HIPC initiative, launched in 1996 and enhanced in 1999, provides debt relief in exchange for economic reforms and the development of a poverty reduction strategy that is designed to enhance social expenditure and tackle poverty through resources that were formerly earmarked for debt-service payments.

Several authors have examined the effects of these initiatives. Based on an analysis of 110 low-income countries covering the period 1985–2003/04, Thomas (2006) finds that reduced debt-service payments are associated with a rise in health and education expenditure. In sharp contrast, covering the same period (1989 to 2003), but based on a smaller set of 62 low-income countries, Chauvin and Kraay (2005) find no effect of debt relief on the level and composition of public spending. The lack of a link between debt relief and public spending may be a result of the fact that debt relief involved a reduction of external debt that was not being serviced. In a similar vein, Fikru and Getachew's (2008) analysis of the link between debt relief and expenditure in 14 African HIPCs over the period 1990–2001 leads them to conclude that debt relief has not led to growth, nor has it been associated with poverty reduction, increases in social expenditure or improvements in social outcomes. In related work, although in the context of an increase in debt-service payments, Lora and Olivera (2007) conclude that both for an unbalanced panel of 50 developing countries for the period 1985–2003 and for a panel of Latin American countries, increases in debt-service payments have a minor adverse effect on social spending. In an interesting twist, Dessy and Vencatachellum (2007) find no positive relationship between debt relief *per se* and the share of government's revenue allocated to education, but do find that countries that benefited from debt relief allocated more resources to social expenditure, provided they improved their institutions at the same time.[4]

Developing a similar line of thought, based on a review of both the Brady and the HIPC initiatives, Arslanalp and Henry (2006) demonstrate that debt relief in the case of the Brady initiative led to increases in investment and growth. However, they argue that a similar pattern may not be expected in the case of the HIPC countries. They point out that the level of institutional development in the HIPC countries is far behind that of the Brady countries, and conclude by noting that in the case of HIPC countries, 'Forgiving debt does not address the fundamental problem of inadequate economic institutions that impedes investment and growth in the world's poorest countries'.

Focusing on the Guyanese context, Staritz *et al* (2007) argue that in addition to out-migration of skilled workers and declines in domestic and foreign investment, the decline in Guyana's economic growth between 1998 and 2004 may partly be attributed to a less favourable political and institutional environment after 1997. They argue that investment is impeded by a complex regulatory framework and that enforceability of laws remains limited. Beyond weaknesses in economic and legal institutions they note that tensions between the two main political parties – in turn reflecting the polarized nature of Guyanese society – have been a continuing source of violence, especially following elections in 1997 and 2001. Other institutional weaknesses that may hinder the effectiveness of debt-relief initiatives include weak capacity to plan, implement and manage development policies mainly owing to lack of skilled personnel, and poor links between central and local government (cf. World Bank, 2003).

Drawing on the preceding discussion, the hypothesis that institutional weaknesses hamper the quantity and quality of social spending may be expected to operate through two channels. First, weaknesses in the institutions responsible for planning, implementing and managing public expenditure may hinder the extent to which debt-relief initiatives translate into increases in the quality and quantity of social expenditure. For instance, weak expenditure monitoring capacity may lead to misuse of public funds and subsequently result in poor quality social infrastructure. Second, unless institutional reforms conducive to investment and growth accompany debt relief, it is unlikely that such initiatives will have a sustained effect on the quality and quantity of public spending. While remaining aware of the second channel, this article focuses mainly on the first channel.

This article is structured as follows. It begins by describing the PRS process in Guyana, and then discusses definitions of poverty spending and analyses trends in public expenditure. Subsequently, it analyses the institutional set-up related to public expenditure. To examine expenditure quality, the next section discusses the flow of public expenditure in the education sector and provides an analysis of spending on two major social programmes. The final section concludes.

The PRS Process in Guyana

Guyana's PRS process began with the Interim PRSP, which was endorsed by the World Bank and International Monetary Fund (IMF) boards in December 2000. Subsequently a public participatory process was used to finalize the PRSP (Government of Guyana, 2002, p. 13). The public consultations involved representatives of civil society and the donor community and culminated in the formulation of a PRS. The main goals of the PRS are (i) sustained economic expansion within the context of deepening participatory democracy; (ii) access to social services, including education, health, water and housing; and (iii) strengthening and, where necessary, expanding social safety nets. In order to achieve these goals, the PRS was based on seven pillars, including investment in human capital (emphasizing primary education and health) and special intervention programmes to address regional pockets of poverty (Government of Guyana, 2002). Among others, the institutional reforms envisaged in the PRS focused on strengthening public financial management, introducing result-oriented multi-annual budgeting and the capacity to manage, monitor and evaluate the PRS (World Bank, 2006).

Although the PRS process involved widespread discussion, according to Tennassee (2005) not all sections of society participated and consultations held with civil society were driven by donor requests. Doubts have also been expressed regarding Government commitment to the PRS (Tennassee, 2005). Regardless of these doubts, following the adoption of the PRS and with the help of external donors, in 2003 a PRS Monitoring and Evaluation (M&E) Unit was established within the Policy Coordination and Programme Management Unit (PCPMU) of the Office of the President.

The M&E Unit drafted PRS Progress Reports in 2004 and 2005, partly based on consultations with various stakeholders. Specifically, for the 2005 report, eight regional consultations were held.[5] In each of these consultations, government ministers and officials provided overviews on PRS implementation. Furthermore, donors, NGOs and recognized civil society organizations (CSOs) provided feedback. As emphasized in the 2005 Report (PCPMU, 2005, p. vii), 'For the first time in the poverty reduction process, a special consultation was held for Members of Parliament to elicit their feedback'.

According to the World Bank (2007), the Progress Reports highlight the important steps made in implementing the PRS, but acknowledge 'that achievements had fallen short of expectations in some areas, due to capacity constraints, political instability and significant exogenous shocks'. The United Nations Development Programme (UNDP)

2007 Resident Coordinator Annual Report highlighted the isolation of CSOs from decision-making processes, and attributed this to the defensive manner in which the national government operates and its 'apparent resentment of the interference of outsiders' caused by 'the approach taken by the international financial institutions' (UNDP, 2008). The UNDP has also pointed out that poverty assessments and the PRS have been hampered by lack of data, inadequate poverty analysis and the absence of linkages among data collectors and users.[6]

A third PRS Progress Report was expected to be prepared in early 2007, but instead the Government decided to commence preparation of PRSP II (World Bank, 2007). Overall, the PRS process has led to a somewhat more participatory approach to poverty reduction, and raised awareness of the need for M&E of public policies, as well as an increased emphasis on results. Despite these positive aspects, the PRSP does not always play a central role in guiding the Government's economic growth policies. While economic growth is one of the PRSP's pillars, in 2005, the Government began implementing a National Competitiveness Strategy as its new economic growth strategy parallel to the PRSP.

Public Social Expenditure: Definitions and Trends

Defining and Understanding Pro-poor Social Spending

A crucial aim of the HIPC-PRS initiatives is to increase the flow of resources to social sectors and thereby reduce poverty. Although such expenditures are supposed to be pro-poor, there are no internationally accepted definitions of pro-poor social spending. Neither is it clear that such expenditures lead to poverty reduction. Before proceeding, it is important to clarify the definition and elements of pro-poor spending.

An attempt at clarifying the different labels attached to spending categories is found in a report on priority poverty expenditure prepared by Guyana's M&E Unit (PCPMU, 2006). A reading of this and other documents, as well as discussions with stakeholders, leads to the following typology of social sector and poverty spending (see Table 2): *Total social sector spending* is defined as all expenditure on health, education, housing, and water and sanitation.[7] *Targeted poverty-related spending* includes projects executed under Guyana's Social Impact Amelioration Programme (SIMAP), the Basic Needs Trust Fund (BNTF), the Poverty Programme administered by the Ministry of Finance and the Student Loan Programme.[8] *Additional poverty-related expenditure* includes a variety of programmes/projects within the agriculture, transport and communication, and sanitation sectors, as well as institutional strengthening and capacity building activities undertaken in several ministries.

Despite the fact that social sector expenditure encompasses a number of sectors and is not specifically targeted at the poor, various studies have treated total social sector expenditure (or expenditure of selected social sectors) plus (additional) poverty-related spending as *poverty spending*. If all social sectors are included in the definition, poverty spending is equal to *total social spending*. Other definitions of poverty spending exclude expenditure on housing, water and sanitation and public sector reform. More specifically, according to the PCPMU (2006), expenditure tracking undertaken as part of the HIPC initiative covered both the education and health sectors and targeted poverty-related spending, while expenditure tracking under E-HIPC also included additional

Table 2: Definitions of poverty and social spending

	1. Total social sector spending	*2. Targeted poverty-related spending*	*3. Additional poverty-related expenditure*	*Poverty spending*	
Monitoring HIPC	a. Expenditure on health and education	SIMAP, BNTF, MOF Poverty Programme and Student Loan Programme		1a + 2	
Monitoring E-HIPC	Ibid.	Ibid.	Programmes and projects in the agriculture, transport and communication, sanitation sectors, plus institutional strengthening and capacity building activities	1a + 2 + 3	1 + 2 + 3 = Total social spending
	b. Expenditure on housing, water and sanitation, public sector reform				
	4. Pro-poor current social sector spending	*5. Pro-poor capital spending*		*Priority poverty spending/Total pro-poor spending*	
M&E Tracking report	Provision of basic social services (nursery and primary education, primary health care, public assistance, housing, water and sanitation benefiting the poor)	Capital expenditure on programmes and projects where the poor are the primary beneficiaries		4 + 5	

Source: Own elaboration based on PCPMU (2006).

poverty-related expenditure in its definition of poverty spending. The latter is termed *E-HIPC Completion Point (CP) Social Spending*.

Although it is potentially easier to track expenditures in these broad spending categories, it is also likely that broad definitions of poverty spending exaggerate the actual amount spent on the poor/spent in poorer areas. A narrower definition may provide a more realistic idea of the extent of pro-poor spending, but given the state of information on poverty in Guyana, at the moment it is hard to compute the extent to which social spending accrues to the poor.

To tackle this issue, in recent years the M&E unit has taken the existing definitions of poverty spending used under the aegis of the HIPC and E-HIPC initiatives as the starting point and attempted to identify spending targeted at the poor (see PCPMU, 2006). Based on a participatory process that involved key stakeholders such as the implementing agencies and representatives of communities using various services, the M&E unit developed a category of spending titled *priority poverty spending*. This spending may also be termed *pro-poor spending*, as it includes expenditure on programmes and projects in which the primary beneficiaries are the poor and the expenditure is directed towards improving their welfare.

As the attempt to differentiate pro-poor spending from the broader definition of poverty spending is relatively recent, trends on this narrower expenditure category are unavailable. Accordingly, we provide a review of overall central government finances and trends in social expenditure between 1997 and 2006, and then discuss priority poverty spending for 2004, the year for which such information is available.

Central Government Finances and Social Spending 1997–2006

Figure 1 shows that Central Government expenditure increased in nominal terms from approximately G$40 billion in 1997 to over G$100 billion in 2006, with a dip in 1998–1999. As a proportion of GDP at market prices, it was approximately 44 per cent in the first years of the present decade, before jumping to 54 per cent in 2005 – reflecting emergency spending following floods. Throughout the period, total expenditure consistently exceeded total revenue (inclusive of grants). The deficit was approximately 5 per cent of GDP during most of the period, but rose to 12.6 per cent in 2005 (Bank of Guyana, 2009b). On average, current expenditure comprises approximately two-thirds of overall Central Government expenditure, but the share has been falling in recent years as a result of the increased importance of capital expenditure, partly owing to reconstruction activities as of 2005, but possibly also associated with the spending of resources 'freed' by HIPC debt relief.

Table 3 shows trends in social expenditure over 1997–2006. Social spending according to the definition used under the E-HIPC initiative rose from 13.7 per cent of GDP in 1997 (start of interim HIPC debt relief) to 19.2 per cent of GDP in 2001. The proportion declined temporarily to 17.1 per cent in 2004, but recovered to 19.6 per cent of GDP in 2006. The rising trend after 1997 holds for *E-HIPC CP Social Spending* and for *Total Social Spending*, that is, including expenditure on housing, water and public service reform. The increase in social spending, including specific spending on poverty alleviation programmes between 1997 and 2006, is consistent with the decline in poverty between 1993 and 1999 (see Table 4). However, in spite of the emphasis that the PRS approach put on M&E, more recent poverty estimates are not available, and without such estimates it is hard to display a link between social sector expenditure and poverty reduction.

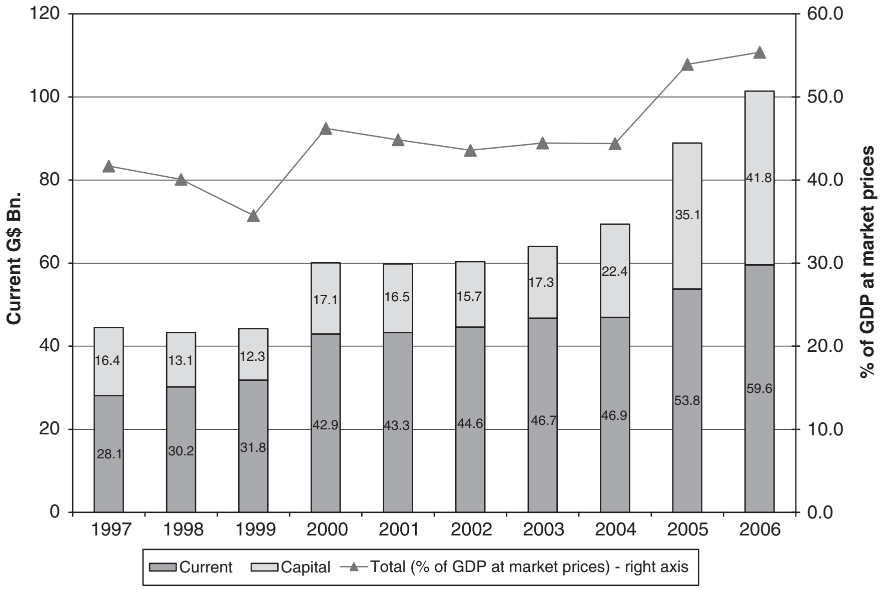

Figure 1: Central government expenditure 1997–2006.
Source: Own elaboration based on Bank of Guyana (2009b), Table 6.1 (www.bankofguyana.org.gy/Pubfintab.htm) and Table 10.1 and (www.bankofguyana.org.gy/domesticprod.htm).

Although recent poverty rates are unavailable, other social indicators paint a mixed picture. For example, the prevalence of underweight children under 5 years of age reduced between 2001 and 2005, whereas in terms of education, there was a decline in net nursery and primary school enrolment between 2003 and 2007, while at the same time there were increases in secondary school enrolment (BOS, 2009). Comparisons of other social indicators between 2000 and 2006 show improvement in some areas (for example, infant mortality rate, incidence of child labour), but a deterioration in others (for example, net primary school enrolment, low birth weight infants), while yet other indicators remain unchanged (for example, children reaching grade 5), see BOS/UNICEF (2008). In any case, it seems clear that there is a marked increase in social expenditure during the period covered by the HIPC initiatives.[9] To tease out the potential effects of this increased expenditure, we now take a closer look at the source of the increased expenditures.

As Table 3 shows, increases in social expenditure emanated mainly from increases in current social spending as opposed to capital expenditures. Current E-HIPC CP social spending as a percentage of GDP rose sharply from 5.4 per cent in 1997 to 11.9 per cent in 2001, and remained more or less at that level until 2006. Generally, within the category of current spending, expenditure on education, health and poverty alleviation programmes rose over the period under examination. Capital expenditure on health, education and poverty programmes fluctuated as a share of GDP until 2001, and dropped to 5.6 per cent thereafter, at which level it remained until 2004. In the two subsequent years it rose to 7.5 per cent, owing to increased spending on poverty alleviation programmes (possibly in the framework of the post-flooding reconstruction activities). Capital expenditure on housing and water gained prominence after 2002.

Whereas the proportion of capital spending in overall Central Government expenditure increased over the period 2000–2004, no such steady increase can be observed in the

Table 3: Guyana – Social spending 1997–2006 (per cent of GDP)

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Current	5.4	7.4	9.5	11.3	11.9	12.9	11.5	11.5	11.6	12.1
Personnel emoluments	4.2	3.8	5.6	5.5	5.7	6.2	6.0	5.8	6.0	6.0
Education	2.6	2.8	3.6	3.9	4.0	4.5	4.4	4.2	4.3	4.3
Health	1.6	1.0	2.0	1.6	1.7	1.7	1.6	1.6	1.7	1.7
Other	1.2	3.6	3.9	5.8	6.2	6.7	5.5	5.7	5.6	6.1
Education	0.2	1.4	1.5	1.6	2.0	2.3	2.4	2.7	2.7	2.8
Health	0.8	1.6	1.8	1.9	1.7	2.2	2.2	2.1	2.0	2.2
Poverty alleviation[a]	0.2	0.6	0.6	2.3	2.5	2.2	0.9	0.9	0.9	1.1
Capital	8.3	6.4	6.1	7.1	7.3	5.6	5.6	5.6	7.3	7.5
Education	1.2	1.3	1.1	2.3	2.7	2.2	1.3	1.3	1.5	1.3
Health	0.4	0.1	0.3	0.2	0.1	0.2	0.8	0.6	0.6	0.7
Poverty alleviation[a]	6.8	5.0	4.7	4.6	4.5	3.2	3.5	3.7	5.3	5.5
Total (= E-HIPC CP Social Spending)[d]	13.7	13.8	15.6	18.4	19.2	18.5	17.1	17.1	19.0	19.6
Education	4.0	5.5	6.2	7.8	8.7	9.0	8.1	8.2	8.5	8.4
Health	2.8	2.7	4.1	3.7	3.5	4.1	4.6	4.3	4.3	4.6
Poverty Alleviation[a]	7.0	5.6	5.3	6.9	7.0	5.4	4.4	4.6	6.2	6.6
Housing and Water	1.5	1.6	1.5	1.9	1.6	1.6	3.2	2.8	3.0	3.3
Current	0.7	0.4	0.6	0.5	0.4	0.6	0.7	0.7	0.6	0.6
Capital	0.8	1.2	0.9	1.4	1.2	1.0	2.5	2.1	2.4	2.7
Public Service Reform[b]	0.0	0.0	0.0	0.3	0.0	0.8	1.1	0.1	0.0	0.0
Total Social Spending[c]	15.2	15.4	17.1	20.6	20.8	20.9	21.4	20.0	22.0	22.9
Total Current Spending	6.1	7.8	10.1	12.1	12.3	14.3	13.3	12.3	12.2	12.7
Total Capital Spending	9.1	7.6	7.0	8.5	8.5	6.6	8.1	7.7	9.8	10.2

[a]Includes SIMAP, BNTF and other poverty-related programmes.
[b]Includes severance payments for civil service reform as well as safety net programmes for Linmine workers in 2003.
[c]Includes Housing and Water and Public Sector Reform.
[d]Excludes Housing and Water and Public Sector Reform.
Source: Government of Guyana (2008); Rows added with total spending on education, health and poverty programmes.

Table 4: Guyana poverty indices in %, 1993 and 1999

Region	*1993*	*1999*	*1993*	*1999*
	Head count	*Head count*	*Gap*	*Gap*
Georgetown	28.9	16.5	8.7	5.4
Other urban	23.1	15.4	6.3	3.0
Rural coastal	45.2	36.7	14.4	11.3
Rural interior	78.6	52.5	46.1	44.9
Guyana	43.2	35.1	16.2	12.4

Source: Government of Guyana (2002).

proportion of capital spending in total (or E-HIPC CP) social expenditure.[10] Viewed from an alternative perspective, Figure 2 shows public investment in the social sectors in absolute numbers over those years.[11] As the figure shows, the composition of public social

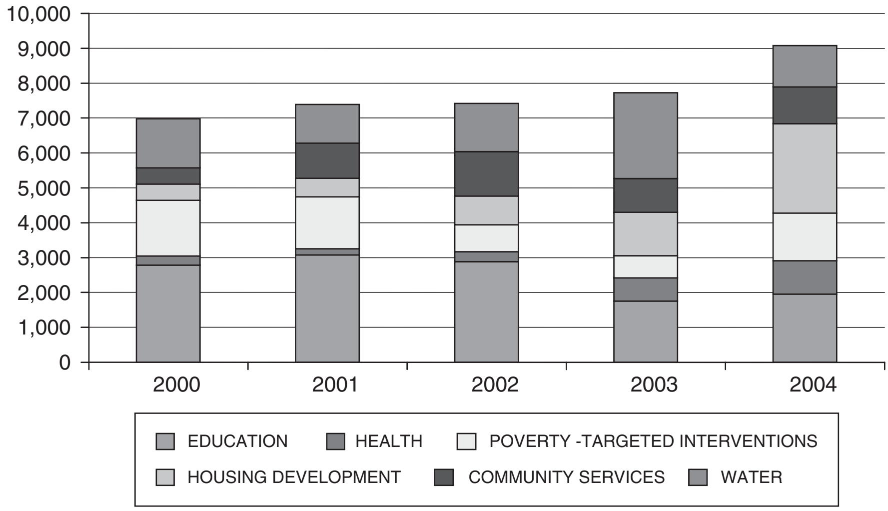

Figure 2: Guyana PSIP social sectors (Current G$ million).
Source: PCPMU (2005).

investment in the Public Sector Investment Programme (PSIP) has changed over the years 2000–2004. The fluctuation is driven by the dependence of social sector capital expenditure on external donors. Between 2000 and 2002, 63 per cent of social sector capital expenditure emanated from external sources. Although this figure declined to 42 per cent in 2004, it is still high, and underlies the volatility in social sector spending in Guyana.

The importance of social sectors in the PSIP varies across the years, but, on average, investment in the social sectors comprised some 38 per cent of total public sector investment in the period 2000–2004.[12]

Overall, the analysis shows that social spending has increased more rapidly than GDP since 1997, which is in line with the objectives of the HIPC Initiative. The increase comes mainly from current social spending. In terms of sectors, most noticeable is the sharp increase in the expenditure on education from 4 to a little more than 8 per cent of GDP (Table 3).

Priority Poverty Spending

Although it is clear that social spending has risen since the commencement of the HIPC-PRS initiatives, a remaining question is whether increases have been pro-poor. Whereas temporal information on pro-poor spending is not available, in 2006 the M&E unit carried out an exercise to isolate the extent of pro-poor expenditure undertaken by various government agencies.

Figure 3 shows that the Ministry of Amerindian Affairs, the Ministry of Local Governance and Regional Development, and the Ministry of Labour, Human Services and Social Security (MLHSSS) have high proportions of priority poverty spending. Though less than 30 per cent of the Ministry of Education (MoE)'s expenditure is classified as priority poverty spending, this ministry accounts for the highest amount of priority poverty spending (1.1 per cent of GDP), followed by MLHSSS (0.96 per cent). This is partly related to the importance of two programmes, the Basic Education Access

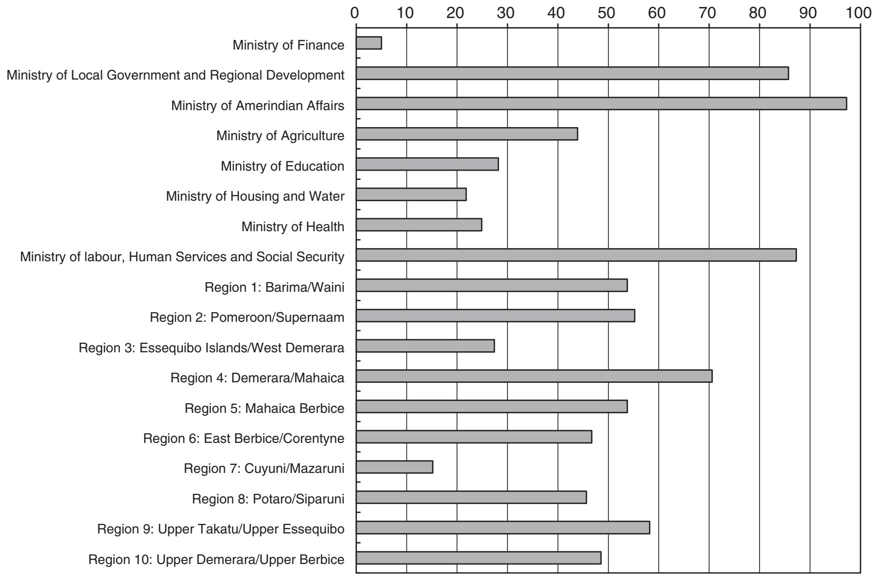

Figure 3: Priority poverty spending in 2004 (per cent of total spending of ministry/region).
Source: PCPMU (2006).

and Management Support (BEAMS) Programme and the Social Impact Amelioration Programme (SIMAP), which make up the greater part of priority capital expenditure of these two ministries. In 2004, BEAMS accounted for approximately two-thirds of the MoE's priority capital expenditure, whereas SIMAP accounted for nearly all the priority capital spending of the MLHSSS.

The analysis provided here yields two main points. First, averaging across all agencies, only approximately 27 per cent of total expenditure incurred by the regions and various ministries included in Figure 3 may be treated as pro-poor.[13] This is approximately 8 per cent of GDP or approximately half of HIPC CP social spending (which was 17.1 per cent of GDP in 2004). Second, priority poverty spending is concentrated in a few programmes. As these programmes are substantially funded by external resources, priority poverty spending may be more volatile than overall social spending.

Institutional Set-up Related to Public (social) Expenditure

In Guyana, the Budget Office is responsible for the current expenditure budget, and the State Planning Secretariat (SPS) for the capital expenditure budget. The government budget is a key instrument in terms of providing information on government priorities and intentions. A result-oriented budget can be an important tool for poverty reduction and social development, and indeed one of the aims of the PRS is to encourage multi-annual result-oriented budgeting. In an attempt to examine changes in the institutional features related to expenditure management, this section considers changes in the budgeting and M&E procedure since the commencement of the PRS.

In line with the PRS, in 2003, Guyana passed a Fiscal Management and Accountability Act (FMAA) that introduced the concept of multi-year budgeting and required each programme to be supported by a Programme Performance Statement, including performance indicators and targets. While voluntary output-oriented budgeting was introduced in Guyana in the mid-1990s, with the passage of the FMAA this has become an obligation.

In accordance with the act, social sector ministries have made some progress with programme and multi-annual budgeting. In health, for example, multi-annual budgeting is based on the National Health Policy, PRSP and MDG commitments (Ministry of Health, 2002, 2008; Williams, 2005). Guyana develops its annual capital budget within the PSIP, which is a five-year, rolling, medium-term programme. The PSIP is designed to assist the government in meeting its PRS targets and MDGs, and takes existing sector strategies into account. In 2005, the SPS elaborated new guidelines for selection of projects into the PSIP, taking into account project impact, financing and development policies (PRS, MDGs, sectoral development strategy).

The PSIP Review (SPS, 2005) emphasized the need for a better link between the current and capital budgets and proposed that the SPS, together with sector ministries, would publish as a complement to the PSIP a rolling, medium-term, prioritized maintenance programme linked to the PSIP.

Despite attempts to link the various expenditure plans and goals, during budget execution it is possible that shortfalls arise, particularly owing to the fact that proposed budgets are often cut by the Ministry of Finance during budget preparation and approval. Typically in Guyana, there is heavy reliance on contingency and other supplemental funds and increased reliance on income generated by agencies. This often results in large deviations of actual from budgeted expenditure, which can be a symptom of poor budgeting or of deliberately inaccurate budgeting (World Bank, 2002, p. 22). Despite the PRS and the attention being paid to budgeting, in practice discrepancies between approved and executed budgets have not narrowed over the years.

Turning to monitoring and tracking, Guyana's PRSP signalled the importance of tracking social spending and proposed a coding system for tracking 'pro-poor' spending. Along with the passage of the FMAA, the Government of Guyana introduced the Integrated Financial Management and Accounting System (IFMAS), which became operational on 1 January 2004. It replaced some aspects of the previous manual expenditure tracking system and helped improve the tracking of pro-poor spending by increasing the accuracy and availability of information. The spending channelled through Regional Administrations is fully integrated in the national budget and in IFMAS. However, the information on budget execution at the regional (and central) level reported through IFMAS does not always have the classification required for analysis. For example, IFMAS does not track individual projects on the capital side of regional expenditures, but rather reports spending for capital expenditure items. Finally, IFMAS does not cover community-level data.

Until a few years ago, Guyana did not have an M&E system to track the performance of public policies. As pointed out earlier, this has changed in accordance with the PRS, and an M&E Unit is one of five actors playing a role in monitoring the performance of public policies. Although the establishment of a dedicated M&E Unit is a step in the right direction, in their assessment of the M&E system, Montenegro and Rosales (2006) point out that the players in the system do not fulfil their envisaged roles. They note that although physical and financial data are available at the local level, there is lack of systemization and processing capacity. Thus, local information is not systematically recorded at the level of the ministries. This, coupled with the fact that IFMAS does not track expenditures at the community level, means that it is difficult, if not impossible, to monitor and evaluate community-level social expenditure. Similarly, in practice the social sector ministries do not have the required capacity for M&E and have weak data systems, which means that result-oriented budgeting is as yet a far cry.

Clearly, since the start of the PRS, progress has been made with regard to budget formulation, execution and the M&E of public policies. However, substantial challenges remain. Most importantly, there is a need to improve data availability and the feedback and correction mechanism, so that agents carrying out the PRS programmes and projects can reorient policies to meet stated goals.

The Quality of Social Expenditure

Beyond increases in social expenditure, it is important to examine their quality. While expenditure data that may be linked to social outcomes are lacking, we undertook field work in four of Guyana's 10 regions in order to shed light on various aspects of expenditure quality.

As shown in Table 3, educational expenditure as a percentage of GDP more than doubled (rising from 4 per cent in 1997 to 8.4 per cent in 2006), while the share of expenditure on health rose from 2.8 to 4.6 per cent of GDP. Given the magnitude of educational expenditure as a proportion of GDP, the substantial increase in educational expenditure accompanying debt-relief measures, and the links between education and poverty, the field work focused on flows of funds through this sector. Furthermore, given the importance of specific programmes in the government's priority poverty spending plans, expenditure flows and outcomes were examined in two pro-poor programmes, BEAMS and SIMAP.

The field work was executed by a team of four researchers between April and May 2006. In the case of both programmes, the analysis is based on a review of existing documents and field work. Existing documents were used to identify stakeholders. Subsequently, a semi-structured questionnaire was developed. In addition to gathering information on project location, budget and awareness, the questionnaire focused on the quantity and quality (satisfaction, problems experienced, receptiveness, confrontation) of stakeholder interaction. Interviews covered staff at the project implementation units, the Inter-American Development Bank (IDB), engineering consultants, construction companies, community development officers and programme beneficiaries. In the case of BEAMS, six of the seven schools that had received funding under the programme were visited (one was excluded owing to inclement weather). In the case of SIMAP, based on a 10–11 per cent sample size, site visits and interviews with beneficiaries were conducted at 36 randomly selected sites. The visits covered 15 primary schools, 6 nursery schools, 5 road projects, 4 drainage projects, 3 multi-purpose community centres, 2 electrification projects and 1 solar electricity project. In terms of geographical coverage, the field work took place in regions 2, 3, 4 and 5. Specifically, field work related to BEAMS took place mainly in Georgetown/region 4, while SIMAP-related field work was undertaken in regions 2, 3 and 5. Together, these regions account for approximately 60 per cent of the country's population and cover a mix of rural and urban areas.

Education

In general, education sector funds, excluding teacher salaries, flow from the central government to regional governments and subsequently to schools. Typically, regions earmark grants for each school. These grants are provided under various line-items and although schools are aware of the value of the grant and the amounts under each line-item, they cannot directly access grants. Instead, schools submit quotations for items that they would like to purchase under each line-item. Subsequently, requisition orders are submitted to the regional administration and cheques are issued in the name of the supplier.

Based on discussions with school administrators it, is clear that the institutional arrangements for accessing grants are rigid. Schools do not have the freedom to reallocate expenditures and any changes need to be approved by the administration. Such rigidities lead to imbalances in terms of materials on hand and school needs. At times, there are long delays – of up to seven months – between the submission of requisition forms and release of grant money. A consequence is that prices for school supplies may change in the interim period. According to some respondents, as suppliers are aware that the resources come from the government, they sometimes inflate invoices. In addition, as schools have to source materials from registered suppliers who have the ability to provide the necessary paperwork, they are not able to source material from cost-effective sources.

Teachers' salaries, which constitute the bulk of education expenditure, are paid directly into teachers' bank accounts or via head teachers. Salaries are received on time and there appear to be no serious concerns about the system. Given the crucial role played by teachers in the education system, the smooth flow of their salaries may be expected to have a positive effect on their motivation and should translate into better quality educational services.

In terms of monitoring expenditure, schools are expected to provide a monthly education report to the Regional Education Department. This report contains information on a number of parameters, including details on income and expenditure. Receipts for purchases are expected to be submitted to the regional administration, and inability to supply receipts may result in punitive measures such as withholding of salaries. The overall impression is that records are easily accessible, well maintained and submitted on time to the regional administration.

BEAMS

The BEAMS project was launched in 2003. Its activities relate to two pillars of the PRSP, namely, investing in human capital and investing in 'pockets of poverty'. More specifically, BEAMS has three components: Improved School Performance (in the primary cycle); Institutional Strengthening and Human Resource Development (at the MoE); and Infrastructure (expanding secondary school access by constructing/rehabilitating 14 secondary schools in underserved areas and poverty zones). At the time of the field work, component 3 of the programme was in the most developed stage, and the analysis concentrates on this component.

In terms of its institutional set-up, the BEAMS programme is entirely managed by an independent Project Implementation Unit, rather than the MoE. With regard to the issues under scrutiny, the following remarks may be made.[14] Funds flow from the IDB and the Government (MoE) to BEAMS, which in turns pays the engineering consultant and the contractors. Payments from BEAMS to the contractors are made on a monthly basis and are based on a valuation of the completed construction work. The price of the project is fixed at the time of awarding of the contract and for the most part cannot be altered during the project's course.

The system of contractor supervision and payments appears to be working smoothly. Feedback from the contractors suggests that there are no major disagreements between the contractors, the engineering consultant and BEAMS. Similar remarks were made by the engineering consultant and BEAMS personnel. According to one of the contractors, 'gears are meshing properly'. At the same time, records of bills paid, expenditure statements and other financial information were readily available, and there were no obvious discrepancies between the figures appearing in records maintained by BEAMS, the engineering consultant and the contractors.

A less cheerful picture emerges from discussions with project users, and suggests that the institutional arrangements of the project may need to be rethought. Users' concerns ranged from lack of awareness to lack of participation and unhappiness with the construction work.

Expanding on these themes, first, school heads were unaware of the criteria used to select schools for rehabilitation. For the most part, the selected schools were located in urban areas. Based on the physical location of the school it was hard to discern whether the schools are in economically depressed areas and whether they are primarily serving poorer families. Although not universal, in some schools there was a perception that there were 'loopholes' in the consultancy work and that the school had not received 'value for money'. Several schools had a vibrant buildings and maintenance committee, which pointed out wide discrepancies between the building specifications and materials used. A number of schools mentioned that contractors and consultants cut corners, and used the term '6 for 9' to describe the relationship between the resources used for the project and the final product that had been delivered.

A common theme across the visited sites was the need for greater school participation at the design stage of the programme, which at the moment is limited. Furthermore, the contractors deal mainly with the engineering consultant and their interaction with project users is limited. Although monthly site meetings occur, according to the school staff their concerns are not sufficiently addressed, their 'suggestions are not accepted easily' and schools are unable to exert much influence on the manner in which contractors execute their work. On various occasions, building and maintenance committees have communicated their concerns to BEAMS, which in turn is expected to take up matters with the contractor. Although BEAMS has been receptive, it seems that little has been done to address concerns. The reasons for such inaction are not clear, and according to one of the respondents 'BEAMS staff appear to be unwilling, unable or scared to address some of the users' grievances with the contractors'. Finally, although schools are involved in monitoring projects, they do not have a say in releasing payments to contractors. Respondents mentioned that there should be a longer defects liability period (increase from 6 to 12 months) before final payments are released, and that the school administration and parent associations should be involved in the payments stage, as it would make contractors accountable to users and ensure understanding of 'who are the clients'.

SIMAP

The SIMAP programme began in 1989 and its third phase, SIMAP III, commenced in 2002. All expenditures under SIMAP are classified as priority poverty spending, and the objective of the programme is to improve the living standards and economic opportunities of the most vulnerable households in Guyana. To achieve its objectives, SIMAP uses its resources to finance social and economic infrastructure projects that communities request. Depending on project type, a contribution of 5 to 15 per cent of the budget is required from the community.

Although formally a part of the MLHSSS, SIMAP is an autonomous government agency headed by a six-member board. At the grassroots level, SIMAP employs Community Development Officers to help communities develop projects. There are some notable institutional changes with regard to SIMAP III as compared to earlier versions of the programme. To ensure better targeting, SIMAP III requires staff to conduct rapid poverty appraisals and a needs-assessment exercise to identify eligible communities and projects. The focus has also been on underserved communities, that is, allocation of resources to communities that have not yet been served by SIMAP.

Based on field work and the available data, it seems that the flow of funds from SIMAP to contractors follows the BEAMS approach. The project supervisor determines the amount and value of work completed and thereafter submits invoices to SIMAP for clearance. The beneficiary community does not play a formal role in supervising project execution. At the end of the project, a contractor has to obtain a practical completion certificate that has to be signed by the community. Thereafter, a defects liability period of 6 months must pass and project sponsors must confirm appropriate completion before a final payment (10 per cent of the contract value) is effected.

In terms of the effect of SIMAP spending, discussions with project beneficiaries revealed that, in general, they are satisfied. There seems to be a high level of trust between SIMAP officers and project beneficiaries, and also among community members. SIMAP is appreciated for involving the community in project design, and project beneficiaries were aware of the financial resources expended on the projects.

Although the focus of SIMAP on building social infrastructure is appreciated, there is a concern that directly productive activities have not received much support. In addition, although SIMAP has focused on creating additional social assets, not much attention has been paid to project maintenance and the capacity to manage projects. According to various respondents, future activities of SIMAP should focus on training, skills creation and developing human capital.[15]

The main concern with SIMAP's activities pertains to the quality, durability and sustainability of the projects. Echoing the responses of BEAMS beneficiaries, several communities mentioned that their interaction with the contractor and the supervisor during construction was not very positive. They alleged that contractors are not well supervised, do not always follow building specifications and use inadequate materials, resulting in shoddy construction. Institutionally, in the latest edition of SIMAP there is greater community participation that runs through the project. Communities are involved not just in terms of project choice and requirement to make a financial contribution, but also in terms of project design, as well as community control in terms of requiring a completion certificate before final payments can be effected. These are welcome measures, and may lead to an improvement in terms of durability and project quality. However, the message emerging from the field work was that unless the community has a strong projects committee with knowledgeable members and/or the community has access to workers who have construction skills, they may be short-changed.[16]

Summing up, apart from the rigidities in the educational sector, it seems that the institutional arrangements for expenditure flows work smoothly. Our field work revealed that money is reaching the grassroots, as displayed by the construction and rehabilitation of schools, clinics, rural roads, community centres and other projects. However, there are doubts about the durability and quality of projects, which raises concerns about the effectiveness of expenditure in delivering sustainable improvements.

Concluding Remarks

In the context of the PRS and HIPC initiatives, this article examined the quantity and quality of social spending in Guyana. We assessed changes in the institutional arrangements associated with expenditure planning and expenditure flows, and the execution and translation of these expenditures into projects at the grassroots level.

At the outset it should be noted that developing a clear link between social expenditure and improvement in social outcomes was difficult given the available data. Nevertheless, the empirical evidence assembled in this article shows that based on the E-HIPC Completion Point definition of social spending, between 1997 and 2006 there has been a sharp increase in social expenditure from 13.7 to 19.6 per cent of GDP. Based on a narrower definition of priority poverty spending, approximately half of all social expenditure may (at least in 2004) be classified as pro-poor expenditure.

Analysis of changes in the institutional arrangements with regard to budget formulation, execution and monitoring shows that although there has been some progress with regard to multi-annual budgeting, lack of data and problems in terms of M&E hamper reorientation of the budget to match development priorities. Going a little deeper, fieldwork-based analysis of flow of funds in an important social sector (education) revealed that although expenditure flows (salaries) to teachers proceed smoothly, the flow of funds to schools is very rigid and it is difficult for schools to alter their budget to match their needs, which is likely to lead to waste of resources. Investigation of two social programmes, BEAMS and SIMAP, showed that although resources are reaching local communities, there are grave concerns regarding leakage of resources, the quality of construction, durability and socio-economic effects of these projects. The analysis of quality of expenditure presented in this article is restricted to two social programmes and is based on our field work. While a broader analysis of the various social, political and economic factors that are likely to exert an effect on quality of expenditure is beyond the scope of the article, clearly Guyana's long history of inter-ethnic rivalries and political violence (Premdas, 2004), high rates of out-migration of highly educated workers (Anderson and Isaacs, 2007), decline in institutional quality as measured by widely used risk indices (Staritz *et al*, 2007) and modest improvement in terms of freedom from corruption (as measured by the Heritage Foundation) are likely to have influenced the quality of expenditure.[17]

Overall, social expenditure has risen and there have been some noticeable institutional changes in M&E and targeting. However, concerns such as misuse of funds, rigidities in the expenditure system and the limited translation of higher social expenditure into improved social outcomes persist. More fundamentally, beneficiaries have also questioned the emphasis on social expenditure as opposed to productive expenditure. This also raises broader concerns in terms of the emphasis of the HIPC initiative on social expenditure.

While this article focused on a single country, concerns about quality of expenditure at the grassroots level and the mixed effect on various socio-economic indicators echo themes in the existing theoretical and empirical literature. Although debt relief may seem an attractive proposition to raise social spending, this article suggests that in developing countries such as Guyana, such initiatives need to be accompanied by the further strengthening of institutions responsible for managing and monitoring public expenditure, if they are to provide more than temporary succour.

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Notes

1. See World Bank (2002) and Bank of Guyana (2009a, b) for details.
2. See www.worldbank.org/hipc/ for details on HIPC debt relief.
3. In 2000, Guyana was the fourth-poorest country in the Western Hemisphere (World Bank, 2002).
4. The authors use a composite measure of institutional quality ranging from −10 to +10, which includes four dimensions: (1) competitiveness of executive recruitment, (2) openness of executive recruitment, (3) constraints on the chief executive and (4) competitiveness of political participation. A lower (higher) score indicates more autocracy (democracy).
5. Guyana is divided into 10 regions and the eight consultations took place in Regions 1, 2, 4, 6, 7, 8, 9 and 10. Residents of Regions 3 and 5 participated in the consultations held in Regions 2 and 6, respectively.
6. See www.undp.org.gy.
7. PCPMU (2005) defines social sector spending as expenditure on education, health and poverty programmes, which is consistent with the definition used for monitoring HIPC.
8. SIMAP targets specific communities identified on the basis of rapid poverty assessments. The BNTF follows a similar approach and targets poor communities. The student loan programme targets students who would like to pursue tertiary education.
9. Social expenditure remained stable as a percentage of GDP between 2001 and 2006. Without resources from the E-HIPC initiative, it might have returned to 1997 levels.
10. The increased share of capital expenditure in total government expenditure might be related to reduced current expenditure in the form of interest payments.
11. Series of current social spending in absolute numbers are not available.
12. Total public sector investment is defined as Central Government investment plus investment in the Guyana Sugar Corporation.
13. Other Ministries are unlikely to have a high share of priority poverty spending.
14. Details are available in De Jong and Bedi (2007).
15. The critique of SIMAP is similar to analyses of the use of social funds in other countries (Dijkstra, 2004).
16. For example, in a school located along the Pomeroon river (region 2), rather than using a contractor to execute works, the community asked SIMAP for material and carried out construction on its own. Their decision to 'take matters into their own hands' was motivated by their poor experiences when a contractor had cut corners and built structures that 'in no time were rotten'.
17. Between 1997 and 2006, Guyana's index of freedom from corruption rose from 25 to 30, indicating a mild reduction.

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