

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **GUYANA**

### **NON-REIMBURSABLE TECHNICAL COOPERATION TO STRENGTHEN BANK SUPERVISION**

**(TC-01-01-04-3)**

#### **PLAN OF OPERATIONS**

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## **ANNEXES**

### **ANNEX I          Logical Framework**

## **BASIC SOCIOECONOMIC DATA**

The basic socioeconomic data for Guyana available on the Internet at the following address:

**English:**

**[www.iadb.org/int/sta/english/staweb](http://www.iadb.org/int/sta/english/staweb)**

**Spanish:**

**[www.iadb.org/int/sta/spanish/staweb](http://www.iadb.org/int/sta/spanish/staweb)**

## **ABBREVIATIONS**

BSD	Bank Supervision Department
BoG	Bank of Guyana
GOG	Government of Guyana
IADB	Inter-American Development Bank
IMF	International Monetary Fund
IT	Information Technology
TC	Technical Cooperation

## Non-reimbursable TC to Strengthen Bank Supervision

(TC-01-01-04-3)

### EXECUTIVE SUMMARY

<b>Requester:</b>	Government of Guyana/Minister of Finance		
<b>Executing agency:</b>	Bank of Guyana (BoG)		
<b>Amount and source:</b>	Modality: Non-reimbursable		TC FSO
	IDB: (Net Income FSO)	US\$	700,000
	Local-Counterpart:	US\$	175,000
	Total:	US\$	875,000
<b>Terms:</b>	Execution Period:		36 months
	Disbursement Period:		36 months
<b>Objectives:</b>	<p>The overall objective of the proposed non-reimbursable technical cooperation program is to strengthen the supervisory capacity of the Bank Supervision Department (BSD) within the BoG. In addition, the program aims to strengthen private sector skills of bankers and auditors/accountants by supporting BoG's efforts in facilitating seminars for the financial community.</p>		
<b>Description:</b>	<p>The TC program has five components aimed at strengthening supervision of the financial sector. The components are: (i) provide public and private sector training on cashflow analysis, credit risk management and loan classification, with on-the-job training to ensure implementation of supervisory techniques; (ii) develop and enhance supervisory processes, formulate strategies for the range of financial institutions operating in Guyana, and develop and implement procedures for risk management and supervision of non-bank activities; (iii) improve regulatory reporting and information technology; (iv) enhance anti-money laundering procedures and strengthen the BoG's legal department; and (v) establish a functioning Financial Stability Committee within the BoG, which will include supervisory personnel to analyze macroeconomic trends and systemic issues and to understand their effect on the stability of the financial sector. The components were defined in response to the findings in Basle Core Principle Assessment and related diagnostic studies done by the Bank's Project Team and the International Monetary Fund (IMF).</p>		

**Environmental/  
social review:**

There are no environmental and social impacts associated with this project. The project was approved by the Committee on Environment and Social Impact on June 11, 2001.

**Benefits and  
beneficiaries:**

Strengthening bank supervision is critical to the overall efficiency of the financial system and can aid in the reduction of systemic crises. This program aims at strengthening the institutional capacity of the BSD and transparency in the financial sector. Providing banker training in the area of loan analysis will help to reduce risks in bank portfolios and improve the lending process which will effect borrowers across the financial sector. Furthermore, in light of the non-performing loans in the sector, assistance in the evaluation of loan portfolio quality on an ongoing basis is critical to understanding the financial soundness of the industry.

The operation's direct beneficiaries will be the BoG. Indirect beneficiaries will be members of the financial community e.g. financial institutions and individuals using financial services, depositors and taxpayers. Market participants will have more confidence in a system that is more transparent and operates according to international best practices. In addition, as the financial sector becomes more competitive consumers will benefit from better financial services.

**Risks:**

The primary risk to the project is the ability of the BSD to attract and retain qualified personnel, including legal staff. Supervisory skills/capabilities in developing countries are often difficult to find and take considerable time to develop. Paying competitive salaries will help mitigate potential turnover and attract qualified personnel. While the legal framework allows the BoG to pay competitive salaries, they remain below that of the private sector. However, the BoG has been slowly increasing its base salaries. Also, the long tenure of the Director and Assistant Director of BSD add continuity to the department. The Director plans on enhancing the remuneration package to attract more qualified candidates and hiring four new staff over the next year to address current gaps in staffing.

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<b>Bank's country and sector strategy:</b>	The program is consistent with the Bank's country strategy which encourages private sector development by reducing transactions costs, encouraging diversification and improving the delivery of policy, legislation, regulation and the administration of justice and property rights. Furthermore, the program is consistent with the Bank's Financial Market Strategy in that it focuses on the development of the legal and regulatory environment needed to support efficiently functioning financial markets and institutions. The Bank has similar projects in the region to strengthen bank supervision. These programs have been successful at raising the skill level of the supervisory staff and improving supervisory standards and practices.
<b>Special contractual conditions:</b>	Prior to first disbursement, the BoG shall submit for the Bank's approval evidence that it has (i) appointed a Project Management Team which will be responsible for the technical assistance program, (see Paragraph B. 3.2 Chapter III. Program Execution), and (ii) prepared an initial action plan of activities to be carried out during the first six months of the program, (see Paragraph B. 3.2 Chapter III. Program Execution).
<b>Social Equity/Poverty Reduction</b>	No.
<b>Exceptions to Bank policy:</b>	None.

## I. FRAME OF REFERENCE

### A. Background

- 1.1 On March 24, 1996, the Inter-American Development Bank (IDB) approved a US\$38 million loan to the Government of Guyana (GoG) to support reform of the financial sector. The goal of the Financial Sector Program (956/SF-GY) is to support the development of the private sector in Guyana while creating a framework that will provide incentives for the expansion of the financial sector. This program supports the establishment of a legal and regulatory framework. As a result of this program the Financial Institutions Act (FIA) was approved in 1995. The Act provides for ample bank supervisory powers and key guidelines, which support the Act, have been developed in the areas of: capital adequacy, limits on large exposures, asset classification and provisioning. However, improvements in the implementation of the FIA and supporting regulations are still required. Recognizing the need for further improvements, the Minister of Finance, in a letter dated December 1, 2000, requested assistance from the Bank for a project to strengthen BoG's Bank Supervision Department. The Bank concurs with the Minister of Finance that it is critical to strengthen bank supervision and has indicated to the authorities that in order to comply with the third tranche conditions of the Financial Sector Reform Program (FSRP), which calls for the full implementation of the FIA, the BoG should define its strengthening program. This program will be supported with the proposed technical assistance.
- 1.2 The International Monetary Fund (IMF) is also working with the BSD to strengthen bank supervision. In April 2001, IMF consultants conducted an assessment of compliance with Basle Core Principles. Their analysis revealed that the BSD was not fully compliant with all 25 Core Principles. The areas that require strengthening and/or training include: (i) procedures for dealing with problem institutions; (ii) application of legal sanctions; (iii) on-site supervision processes and reporting systems, particularly in monitoring connected lending, commercial bank's investments; and risk management systems (iv) consolidated supervision; and (v) implementation of Money Laundering Prevention Act. The IMF's technical assistance is short-term in nature and will begin to improve supervision processes by developing and enhancing procedures for financial reporting and analysis, creating a bank rating system and strengthening enforcement measures. The Bank's technical assistance program would complement the work performed by the IMF and will focus primarily on *training* bank supervisors and private sector participants on a range of financial risk issues and on the *development and enhancement* of supervision processes and procedures, including anti-money laundering procedures. Deficiencies in *information technology* in the BSD also translate into inefficiencies in the supervision process. The Bank's program also will aim to strengthen this area.



## B. The financial sector

- 1.3 **Structure of financial sector.** Guyana's financial sector is dominated by commercial banks, trust companies, domestic insurance companies, and the New Building Society (NBS). Licensed financial institutions (LFI's), which are governed by the Financial Institutions Act of 1995 (including amendments of 1996) and the Bank of Guyana Act of 1998, consist of seven commercial banks (with a total of twenty-nine branches) and six non-bank financial institutions, consisting of trust, finance and stockbroker companies. The only remaining public institutions are Guyana National Cooperative Bank (GNCB) and GNCB Trust, both of which are in the process of being restructured and privatized.<sup>1</sup> Non-regulated institutions include the NBS and a considerable number of credit unions and cooperatives. These institutions are governed by the Building Society Act (and its Amendments) of 1975 and the Co-operatives Societies Act 1977, respectively. There are seven insurance companies governed by the Insurance Act of 1998, which will be implemented with the appointment of the Insurance Commissioner. See table 1 below for composition of financial sector:

**Table 1: Composition of the Financial Sector**

<b>Financial Institutions</b>				
<b>Commercial Banks</b>	<b>Non-Banks (licensed by FIA)</b>		<b>Non-Banks (insurance cos.)</b>	<b>Non-Banks (other)</b>
1. Bank of Baroda	1. Globe Trust & Investment Co.	1. Laparkan Financial Services	1. GTM Fire & Life Co.	New Building Society Credit unions/ Cooperatives
2. Bank of Nova Scotia (BNS)	2. GNCB Trust Corp.	2. Secure Intl. Finance Co. Ltd.	2. CLICO	
3. Citizens Bank	3. Trust Co. Guyana	3. Beharry Stockbroker s Ltd.	3. Hand in Hand	
4. Demerara Bank			4. NALICO/NAFICO	
5. GBTI			5. Diamond	
6. GNCB			6. National Insurance Scheme	
7. NBIC			7. Guyana Eagle	

- 1.4 As noted in Table 2 below, as of December 2000, financial sector assets totaled US\$ 898 million, with the commercial banks accounting for approximately 71% and the non-bank sector accounting for 29%. The largest non-bank, the NBS reported total assets of US\$ 78.8 million.

<sup>1</sup> The Financial Sector Reform Program (956/SF-GY) supported the privatization of a number of state-owned financial institutions for the first and second tranche releases and the completion of an Action Plan for restructuring GNCB for third tranche release. See the Loan Program for more details.

**Table 2: Financial Sector Assets (in US \$ 000)**

<b>Institution</b>	<b>Total Assets</b>
Commercial Banks	636,622
New Building Society	78,750
Trust Companies	32,043
Finance Companies	26,723
Insurance Companies – Life	51,578
Non-life	17,559
Pension Schemes	54,760
<b>Total</b>	<b>898,035</b>

*Source: Quarterly Statistics-Bank of Guyana. December 2000. The weighted average exchange rate for December 2000 was G\$ 184.55=US\$1*

- 1.5 Over the past decade there have been no interventions by the BoG. However, recently Globe Trust and Investment Company Limited (GTICL), an authorized deposit-taking financial institution, under the FIA was forced to suspend its operations after it became illiquid. The BoG cited the institution in breach of its supervisory guidelines and the FIA. GTICL's total assets represent approximately one percent of the financial system. The final disposition of GTICL is still underway, but the government authorities have ruled out a "bailout" and indicated support only for small depositors. This will be new territory for Guyana, particularly since there is no deposit insurance system in place. The proposed TC program will strengthen the BoG's ability to deal with troubled institutions, particularly enforcement measures and resolution techniques.
- 1.6 The rice industry in Guyana has been seriously affected by depressed prices on the world market and disappearing preferential agreements. Previous Government interventions in the financial sector, via debt forgiveness programs, could undermine the financial health of the industry, as well as the effectiveness of supervisory programs. However, the Government has issued a recent statement indicating that there is no intention of bailing out commercial banks from their US\$65 million (G\$12 billion) rice industry bad debt. The Government is still considering the proposal for dealing with the troubled rice industry. The proposed TC program will provide the financial community with additional tools, via training/seminars, in loan portfolio management techniques, diversification guidelines and improved supervisory methods.
- 1.7 **Supervisory framework.** The BSD consists of a Director and 18 staff members. There are currently 8 on-site supervisors, 8 off-site supervisors and 2 support staff. The BoG will recruit additional staff for the BSD as the need arises. The inability to pay competitive salaries is of concern and impairs the BSD's ability to attract and retain qualified staff, particularly for senior and middle level management. Limited, trained human resources has strained the BSD's ability to fully monitor and enforce compliance with existing laws and regulations, namely the FIA.

- 1.8 The BoG supervises all licensed financial institutions based on the Financial Institutions Act (FIA), the Guidelines thereof and the Bank of Guyana Act. LFIs include commercial banks, trust, finance, and stockbroker companies. While the NBS technically falls under the FIA as a deposit-taking entity, the BoG does not supervise it. However, the BoG is currently considering the inclusion of the NBS under its supervision. Credit Unions and insurance companies do not fall under the ambit of the BoG. Insurance companies currently are not supervised, but efforts to appoint a Commissioner of Insurance (CI) are underway. The appointment of the CI will bring into effect the Insurance Act 1998.
- 1.9 The complexity of the ownership structure of the financial sector in Guyana calls for a vibrant and vigilant BSD in light of the current lack of insurance supervision in the sector. Once the CI is appointed it is critical that a formal arrangement for communicating and sharing information be established to limit the opportunities for regulatory arbitrage.
- 1.10 A Money Laundering (Prevention) Act (MLPA) which prohibits money laundering, was passed in 2000 and provides for the appointment of a Supervisory Authority to deal with money laundering issues. The Act provides for the Minister of Finance to appoint the Governor of the BoG or other fit and proper person to be the Authority for the purposes of the MLPA and includes provisions for the reporting of suspicious transactions and the retention of records by financial institutions, the issues of guidelines and training requirements by the Authority and for the Authority to conduct inspections to ensure compliance with the MLPA. While the BoG has issued Anti-Money Laundering Guidance Notes to licensed financial institutions in December 1990 and reviews procedures during on-site inspections, the Minister of Finance needs to designate the Supervisory Authority in order to implement the MLPA.

**C. Bank's country and sector strategy**

- 1.11 The program is consistent with the Bank's country strategy which encourages private sector development by reducing transactions costs, encouraging diversification and improving the delivery of policy, legislation, regulation and the administration of justice and property rights. The program is also consistent with the Bank's Financial Market Strategy in that it focuses on the development of the legal and regulatory environment needed to support efficiently functioning financial markets and institutions. The Bank has similar projects in the region to strengthen bank supervision. These programs have been successful at raising the skill level of the supervisory staff and improving supervisory standards and practices.

## **II. THE PROGRAM**

### **A. Project objectives, components and activities**

- 2.1 The overall objective is to promote a stable financial market through sound prudential policies and guidelines. The specific objectives are: (i) provide public and private sector training, with an emphasis on cashflow analysis, credit risk management, loan classification, and investment and diversification criteria. Formal training would be supported by practical on-the-job training to ensure implementation of supervisory techniques; (ii) develop and enhance supervisory processes and formulate strategies for the range of financial institutions operating in Guyana, and develop and implement procedures for risk management and supervision of non-bank activities; (iii) improve regulatory reporting and information technology; (iv) enhance anti-money laundering procedures and strengthen the BoG's legal department; and (v) establish a functioning Financial Stability Committee<sup>2</sup> within the BoG, which will include supervisory personnel, to analyze macroeconomic trends and systemic issues and to understand their effect on the stability of the financial sector. The components noted below were defined in response to the findings in the Basle Core Principle Assessment and related diagnostic studies done by the Project Team and IMF.

### **B. Program structure**

- 2.2 **Component I:** Private and Public Sector Training/Coordination (Bank: US \$147,000; Counterpart: US \$150,000)
- 2.3 The BoG in its role as sole supervisor of licensed financial institutions will take the lead in promoting financial sector soundness. Training courses will be held for both private, (bankers, external auditors etc.) and public (financial supervisors) sector participants. Joint training programs help improve communication between the supervisor and supervised. The BoG in cooperation with the private sector will hold seminars on a range of topics to enhance skills in the marketplace. There should be at least two courses per year involving private sector participants. Given that products and risks may change, training courses should address relevant issues in the marketplace.
- 2.4 In-house training courses (at least two a year) will be held for financial supervisors on supervision policies and techniques. An important element of the program, will be on-the-job training and the use of case studies to apply techniques learned in the context of Guyana. The Bank's contribution will be to finance the cost of consultants (i.e. honorarium, per diem and travel expenses) to conduct the private/public sector training. Counterpart contributions will be put

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<sup>2</sup> A similar Committee has been established in Trinidad & Tobago to integrate macroeconomic analysis into the supervisory process.

toward facilities, conference materials and attending courses in the region<sup>3</sup> and internationally on emerging issues in bank supervision. A portion of this program would allow selected senior examiners to participate in international courses, seminars and conferences focused on specialized topics. A proper balance between in-country and overseas training will be maintained. In order to enable follow-up on the impact of training activities over the three-year period, the BSD and the Human Resources Department will collect information on the training seminars attended and held in-country. This information would include profiles of the participants (title/current position), evaluation scores, career advancements etc.

- 2.5 The table below highlights specific course topics that were deemed a priority by the counterparts, as well as by the financial community. These areas will be continually reviewed during the preparation of the six-month workplans<sup>4</sup>.

Training Component	Specific Training Topics
Private/Public sector Training: At least two a year involving: <ul style="list-style-type: none"><li>• Bankers</li><li>• Bank supervisors</li><li>• External auditors</li><li>• Internal auditors</li><li>• Accountants</li></ul> At least two a year involving: Financial Sector Supervisors: <ul style="list-style-type: none"><li>• Formal in-house classroom</li><li>• On-the-job Training</li></ul> Overseas Conferences/Seminars <ul style="list-style-type: none"><li>• E.g. BIS/World Bank</li></ul>	<ul style="list-style-type: none"><li>• Credit analysis techniques -preparing and analyzing cash-flow statements</li><li>• International accounting standards (Implementation)</li><li>• Evaluation of loan portfolio quality (including repayment capacity), collateral evaluation and credit risk management</li><li>• Diversification and investment guidelines and criteria</li><li>• Evaluation of internal controls and operational risk</li><li>• Methods for dealing with problem institutions</li><li>• Evaluation of risks in non-bank activities e.g. insurance/securities/trust</li><li>• Anti-money laundering guidelines and operational procedures</li><li>• Evaluation of risk management and consolidated supervision</li></ul>

- 2.6 **Component II: Strategy Formulation and Development/Enhancement of Supervision Processes** (Bank US \$ 177,000)
- 2.7 The IMF in April 2001 conducted an assessment of the compliance with the Basle Core Principles. The assessment identified certain processes and operational areas that need further improvement. This component will focus on strengthening those areas identified in the assessment as well as future requirements. The Bank in coordination with the IMF will assist in strengthening

<sup>3</sup> This program will not fund regional courses because some of these expenses would be available under other IDB programs, particularly ATN/MT –5855RG Regional Training Program for Bank and Securities Markets Supervisors.

<sup>4</sup> The BoG will be required to submit workplans every six months for Bank approval in the utilization of funds. See Project execution and administration section.

the BSD's on and off-site supervisory procedures. Particular attention will be given to : i) the formulation of a strategy to supervise the financial sector (bank vs. non-bank); ii) the implementation of processes and procedures in the area of risk management, consolidated supervision and supervision of non-bank activities; and iii) the implementation of enforcement measures and problem bank resolution techniques. Technical assistance will include providing an expert in the resolution of problem institutions, including intervention. This element of the program is critical in light of the recent events concerning the failure of a deposit-taking financial institution. Furthermore, this program can be used to address those areas that have yet to be analyzed such as holding company legislation and supervisory procedures for country/cross border exposures and microfinance activities.

- 2.8 As part of this program, a training expert would work with the BSD to ensure that a well-developed training program is consistent with BSD's supervisory program over the medium-term. This program may include training of trainers. The Bank's contribution will consist of providing supervisory experts to work with the BSD on the development and implementation of supervisory processes and procedures. The Table below highlights the areas that require strengthening:

Supervision Processes/Procedures	Specific Activities
<ul style="list-style-type: none"><li>• Strategy Formulation:</li><li>• Implementation of Risk Management/Consolidated Supervision Procedures:</li><li>• Enforcement Measures:</li></ul>	<ul style="list-style-type: none"><li>• Develop strategy to supervise bank and non-bank sector over the long term including building societies, insurance companies and credit unions. Consideration to one autonomous supervisory body.</li><li>• Review legal and regulatory framework for micro-finance activities</li><li>• Develop training program consistent with supervisory program and strategy</li><li>• Develop/Implement enhancements to current manual to cover risk management concepts, particularly credit risk management guidelines</li><li>• Implement procedures for monitoring related party lending and transactions with affiliates and procedures for investment criteria.</li><li>• Develop/implement procedures/guidelines for the supervision of non-banks, particularly licensing, inspection and on-going monitoring (can include procedures for building society)</li><li>• Develop/implement procedures for consolidated supervision.</li><li>• Develop/implement procedures for problem bank management. Including supervisory ladder of enforcement</li><li>• Develop processes to communicate enforcement policy to industry</li></ul>

- 2.9 **Component III: Regulatory Reporting and Information Technology (Bank US \$96,000; Counterpart US \$25,000)**

2.10 The BSD is working on improving regulatory reporting and transparency of financial information. The program focuses on improving the verification, analysis and reporting of financial information. This would include the automation of financial accounts provided by the banks/non-banks to the BSD; verification procedures during on-site inspections; and analytical techniques for off-site review and monitoring. The Bank's contribution will consist of providing supervisory experts in the field of information technology to work with the BSD in strengthening the above areas. Counterpart contribution will consist of purchasing additional computer equipment for off-site and on-site examiners to facilitate its supervisory program. The IMF has agreed to provide software that will standardize/automate the supervisory process and analyze data on a dynamic basis and provide for early warning monitoring.

2.11 The Table below highlights the areas that require strengthening:

Regulatory Reporting/Information Technology	Specific Activities
	<ul style="list-style-type: none"> <li>• Recommend adjustments to regulatory reports to cover risks in market – bank vs. non bank</li> <li>• Enhance systems for reporting on a solo vs. consolidated basis</li> <li>• Improve the efficiency of reporting by automating and streamlining process</li> <li>• Develop/implement procedures to improve transparency of financial reporting</li> <li>• Ensure consistency in reporting non performing loans, provisioning, and loan classification</li> <li>• Enhance system to provide for early warning analysis</li> <li>• Enhance system to conduct more pro-active; dynamic analysis</li> <li>• Enhance on and off site inspections by improved hardware/software</li> </ul>

2.12 **Component IV:** Anti-Money Laundering/Strengthen Legal Department within BoG (Bank US \$196,000)

2.13 While the BoG has hired a legal assistant, they still have limited in-house legal staff. While building a capable legal staff/department will take time, efforts should begin in this area. The Bank's contribution will consist of providing technical advice, via an experienced regulatory attorney, to BoG's legal staff on a range of supervisory and regulatory issues, with particular attention to how to effectively carry out enforcement measures (i.e. legal sanctions). It is important to note that this program will only begin to address strengthening in this area and further follow-on assistance will be needed to build sufficient capacity. Similarly, additional assistance will be needed to study overall legal reform and the possibility of establishing a commercial court. Many financial sector participants

indicated that the inadequate legal system was a major impediment to conducting business in Guyana.

- 2.14 The Bank will also support an expert in anti-money laundering to work with the BSD in enhancing its supervisory procedures. While Guidance Notes have been developed in 1990 they need to be strengthened and effectively implemented. The expert will also begin to work with the BSD and other designated enforcement staff to develop a process to coordinate work conducted by the BoG, licensed financial institutions and law enforcement agencies. Follow-on assistance will be necessary once a designated investigative unit is established with adequate staff and budget to effectively implement the Money Laundering (Prevention) Act.

- 2.15 The Table below highlights the areas that require strengthening:

Anti-Money Laundering/Strengthen Legal Department	Specific Activities
	<ul style="list-style-type: none"><li>• Provide technical advise to supervisors in enhancing anti-money laundering procedures.</li><li>• Provide advise to BSD staff and designated enforcement staff on the implementation of the Money Laundering (Prevention) Act.</li><li>• Begin to build technical know-how in-house by working with local experts as well as foreign regulatory experts; particularly on enforcement issues</li></ul>

- 2.16 **Component V:** Establishment of a Financial Stability Committee within BoG (Bank US \$68,800)

- 2.17 In response to financial crises, central banks in many countries have established financial stability committees to analyze macroeconomic trends and their relation to supervisory policies and procedures. The BoG has not established a formal financial stability committee. Putting a functioning committee in place with the necessary resources and information systems will take considerable time. However, the Bank's contribution will support BoG's efforts by providing technical advise to the committee with regards to developing macroeconomic indicators, monitoring techniques and supervisory responses. Follow-on assistance to the committee may be required at a later date. The Table below highlights the areas in the preliminary stages of establishment.

Establishment of Financial Stability Committee	Specific Activities
	<ul style="list-style-type: none"><li>• Provide technical advise to Committee in area of identification of macroeconomic trends, establishing indicators, and developing related supervisory responses.</li><li>• Provide technical advise to Committee on the information requirements needed to conduct analyses</li></ul>



### C. Project cost, financing and execution time

- 2.18 The cost and financing of the proposed program is presented in the following table. The program will be implemented over a three-year period. Detailed budgets for each project component are in project files.

**Cost Table (US\$000)**

<b>Components</b>	<b>Bank</b>	<b>Counterpart</b>	<b>Total</b>
1. Banker/Bank Supervisor Training	147	150	297
2. Supervision Process-Bank and non-bank	177		177
3. Regulatory reporting /Information Technology	96	25	121
4. Anti-Money Laundering/Legal Training	196		196
5. Financial Stability Committee	68.,8		68.8
6. Contingencies(mid-term evaluation)	15.2		15.2
<b>TOTAL</b>	<b>700</b>	<b>175</b>	<b>875</b>

## III. PROGRAM EXECUTION

### A. Executing Agency

- 3.1 The BoG will be the executing agency with full responsibility for planning, organization, coordination management, monitoring and supervision of the project. This is the first time the BoG has been an executing agency with the Bank, and therefore close coordination between the BoG and the Bank will be necessary. Experiences could be shared from other countries with similar programs e.g. Trinidad and Tobago.
- 3.2 **Executing agency's responsibilities:** BoG will be responsible for: a) maintaining adequate financial, accounting and internal control systems for the management of the project's funds; b) preparing and submitting disbursement requests to the Bank and the corresponding justification of expenditures; c) maintaining an adequate disbursements support documentation filing system; and d) preparing and submitting to the Bank the final financial statements regarding project's expenses, and the semi-annual Revolving Funds Status Reports.

**B. Program execution and administration**

- 3.3 A Project Management Team within the BoG will be established and will consist of management from BSD, Legal, Accounting and Research. These departments will be the direct beneficiaries. The Project Management Team will be responsible for developing six-month workplans for the utilization of funds in all component areas, and preparing terms of reference for consultants, verifying progress of work and ensuring that the project objectives are being met. These workplans will include course descriptions, instructor, participants, requirements etc. The Accounts Department will manage project accounts, including the receipt of funds from the Bank and disbursement to vendors and consultants. The BoG and the Accounts Department will submit documentation to the Bank for review and approval following normal Bank procedures.
- 3.4 The Bank's procurement procedures will be used in the acquisition of goods and in the hiring of the consultancy services required for the execution of the TC.
- 3.5 The Bank project team will be responsible for the technical aspect of project execution. Team Members in the Country Office will coordinate with the Team Leader and the Project Team will periodically visit the executing agency to assess progress. The administrative and disbursement issues will be handled by the COF/CGY.
- 3.6 A mid-term evaluation will take place to ensure that project goals and objectives are being met. This evaluation will be funded out of the project contingency category. At the conclusion of the project, a Project Completion Report will be prepared by the Bank. The report will cover the issues indicated in the logical framework and will draw, in part on the consultant's evaluations of the five component areas.
- 3.7 **Revolving fund Status Reports:** BoG will open a separate commercial bank account for the management of the Bank's contribution. The executing agency will prepare and submit to the Bank, within a period of sixty (60) days after the closing of each semester, a semi-annual report showing the status of the revolving fund as of June 30<sup>th</sup> and December 31<sup>st</sup>.
- 3.8 **External Audits:** Within ninety (90) days after the final disbursement of the project, the BoG will prepare and submit to the Bank a financial statement of the project audited by an independent auditor acceptable to the Bank.

#### **IV. PROGRAM BENEFITS**

##### **A. Benefits**

- 4.1 Strengthening bank supervision is critical to the overall efficiency of the financial system and can aid in the reduction of systemic crises. This program aims at strengthening the institutional capacity of the BSD and transparency in the financial sector. Providing banker training in the area of loan analysis will help to reduce risks in loan portfolios and improve the lending process which will effect borrowers across the financial sector. Furthermore, in light of the non-performing loans in the sector, assistance in the evaluation of loan portfolio quality on an ongoing basis is critical to understanding the financial soundness of the industry.
- 4.2 The operation's direct beneficiaries will be the BoG. Indirect beneficiaries of the program will be members of the financial community e.g. financial institutions and individuals using financial services, depositors and taxpayers. Market participants will have more confidence in a system that is more transparent and operates according to international best practices. In addition, as the financial sector becomes more competitive consumers will benefit from better financial services.

#### **V. RISKS AND SPECIAL CONDITIONS**

##### **A. Risks**

- 5.1 The primary risk to the proposed project is the ability of the BSD to attract and retain qualified personnel, including legal staff. Supervisory skills/capabilities in developing countries are often difficult to find and take considerable time to develop. Paying competitive salaries will help mitigate potential turnover and attract qualified personnel. While the legal framework allows the BoG to pay competitive salaries, they remain below that of the private sector. However, BoG has been slowly increasing its base salaries. Also, the long term tenure of the Director and Assistant Director of BSD add continuity to the department. The Director plans on hiring four new staff members over the next year to address current gaps in staffing and will enhance the remuneration package to attract more qualified candidates. This program will also improve BSD's information reporting system, thus allowing resources to be used more effectively.
- 5.2 An additional risk to the program is the inability to effectively implement the FIA. While the FIA gives the supervisory authority ample powers for the licensing, intervention and revocation of license, the authority could be undermined given

that a tenured Governor of the BoG has yet to be appointed. Without a tenured Governor, the BoG may not be able to act independently and thus be susceptible to political interference. Furthermore, at the macro level, the risks are disruptions to the financial system as a result of industry downturns, particularly in the rice sector. Government's previous involvement in the rice sector via debt forgiveness programs has the potential of undermining the effectiveness of bank supervisory efforts. However, recently the Government has indicated that they have no intention of bailing out the commercial banks from the rice industry bad debt, but they were prepared to assist small rice farmers. The proposal from the rice industry has yet to be formalized.

**B. Environmental and social impact (CESI)**

- 5.3 There are no environmental and social impacts associated with this project. The project was approved by the Committee on Environment and Social Impact on June 11, 2001.

**C. Special contractual conditions**

- 5.4 Prior to first disbursement, the BoG shall submit for the Bank's approval evidence that it has i) appointed a Project Management Team which will be responsible for the technical assistance program, and ii) prepared an initial action plan of activities to be carried out during the first six months of the program.