

CO-OPERATIVE REPUBLIC OF GUYANA
GY-L1016
PROJECT PROFILE

I. BASIC DATA

Project name: Financial Sector Reform Program

Project number: GY-L1016

Project team: Olver Bernal (ICF/CMF) Team Leader; Manuel Pacheco (CMF/CBR), Jose Saavedra (CMF/CBA), Navita Anganu, (CCB/CGY), Derise Williams (CCB/CGY), Diego Buchara/Hyun Jung Lee, (LEG/SGO) and Dianela Avila (ICF/CMF)

Borrower: Co-operative Republic of Guyana

Executing agency: Ministry of Finance

Financing plan: IDB Programmatic:
First PBL(50%FSO 5.00 Million
50%OC) US\$

Safeguards Classification: n/a

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background

- 2.1 The Government of Guyana has sought to revitalize investment, private sector development and growth by pursuing the implementation of a comprehensive competitiveness agenda. This program aims to support policy reforms that will improve the functioning of the financial sector, strengthen macroeconomic and financial stability and facilitate access to finance to business in Guyana, thus contributing to a more enabling business investment climate.

B. Macroeconomic Framework

- 2.2 The Government of Guyana (GOG) has maintained a sound macroeconomic policy framework. Although the GOG is not currently engaged in a program with the IMF the 2007 Article IV Consultation report was concluded by the Executive Board in January 2008 and provided information regarding the macroeconomic condition of the country. The recent Independent Macroeconomic Assessment carried out by the IDB concludes that the macroeconomic framework in Guyana is appropriate for a policy-based loan. However, the analysis identifies some macroeconomic vulnerabilities that will require special attention.
- 2.3 Guyana's annual growth averaged only 0.3 percent during 1998-2005. The economy recovered in 2006 and grew at approximately 5 percent, reflecting a recovery in private sector credit, preparations for the Cricket World Cup, higher FDI flows, high commodity prices and large inflows of remittances. Economic

recovery was sustained in 2007 due to aggregate demand stimulus from Cricket World Cup-related activities. On the basis of IMF projections, average growth during the medium term 2008-2012 is expected to be 4.4%. Despite oil price increases in recent years, inflation has been controlled, averaging 6 percent annually in the period 2003-2007. However, the introduction of the VAT in 2007 and increases in prices of imported food products have put some temporary pressure on inflation, which reached 12 percent in 2007. Inflation is expected to decline to previous levels during the next years. The fiscal deficit has deteriorated as a result of various factors; however, the process to achieving fiscal consolidation has started. The fiscal deficit declined from 13.6 percent in 2005 to 11.7 percent of GDP in 2006, further narrowing to 9.1% in 2007, and a further fiscal consolidation is envisaged through 2012, including a decline in the overall fiscal deficit to 3.5% of GDP by 2012.

C. The Financial Sector In Guyana

- 2.4 The financial sector has experienced significant changes over the last decade, both in terms of its ownership structure and regulation. Privatization of state-owned financial institutions was a major part of the reforms. Today the domestic financial system consists of institutions that can be divided into two subsystems: deposit taking institutions, comprising commercial banks and "near banks" which take certain deposits and make loans (including credit unions and the New Building Society), and the non-bank financial system, which includes insurance companies, securities firms, small money lenders, and pension funds.
- 2.5 In 2006, the financial assets were equivalent to 153 percent of GDP with commercial banks accounting for the majority of assets (around 60%), while non-bank financial institutions have grown in importance and represent almost 40% of financial assets. Insurance companies and the New Building Society have collectively doubled in size over the same time period. Non-depository licensed financial intermediaries (finance companies, merchant banks and most trust companies) have not grown in importance. Insurance brokers, however, intermediate 90 percent of the growing commercial and industrial insurance business. Non-licensed financial entities such as credit unions and not-for-profit MFIs are small in size, but serve a relatively large client base. The inter-bank market is under developed. The foreign exchange market consists of banks, non-bank cambios and the central bank.

D. Access to Finance in Guyana

- 2.6 While the ratio of banking system deposits to GDP is in line with that of other CARICOM countries and is higher than for other small, low-income, commodity-based countries, the bank private credit to deposit ratio for Guyana is low compared to those countries. The unwillingness of financial institutions to take credit risk is also evidenced by large interest rate spreads and excess liquidity, indicating that some form of bank credit rationing is taking place. This diagnostic is confirmed at the firm level. With less than one-third of the firms having loans, firms also have fewer financing alternatives to credit. Institutional deficiencies are

part of the explanation for the low rate of transformation of savings into private credit. Due to the lack of credit information systems, audited financial statements bankable business plans, and problems with collateral collection, banks impose high costs for finance and have stringent collateral requirements. Credit to the private sector rebounded in 2006–07 (mainly to households and mortgages) driven by the economic expansion along with improvements in banks' balance sheets and the greater availability of land as collateral owing to improvements in the Deeds Registry. Still this recovery is not enough to reach the level of credit to the private sector of the beginning of the decade.

2.7 According to the Financial Sector Assessment Program (FSAP) for Guyana, there appear to be three main reasons for the stagnant performance of bank credit in the recent past. First, credit demand was limited by the low overall growth. Second, banks have been more reluctant and risk averse to lend in the wake of the large share of loans to the agricultural sector that went bad in the late 90s. This factor, together with institutional rigidities has also contributed to the persistence of high lending spreads. Third, institutional constraints have played an important role in determining the excessive risk of current and prospective loans. Four main constraints have been highlighted:

- a. *Lack of sufficient business skills*: Insufficient financial education and management skills explain the inability of new entrepreneurs to make their ideas “bankable.”
- b. *Weak credit information infrastructure*: Financial reporting is not always reliable and its availability is mostly restricted to large corporate borrowers. Credit information is very limited and as a consequence, banks to rely heavily on physical and “reputational” collateral.
- c. *Inefficient land registration procedures*: The switch from deeds to the land titling process has been slow affecting banks' efforts to streamline lending by adding costs to arranging bank financing
- d. *Weak creditor rights and lengthy foreclosure proceedings*: The current insolvency regimes (liquidation and receivership) don't strongly takes into account the interests of unsecured creditors.

E. The National Competitiveness Strategy

2.8 The Government of Guyana produces a National Competitiveness Strategy. The Strategy outlined Government's initial assessment of progress in strengthening national competitiveness and diversifying Guyana's economy. As mentioned in paragraph 2.1 access to finance constitutes one of the Core Competitiveness Policies of the Strategy.

F. Objectives of the Program and Bank's Country Strategy

2.9 The program's main purpose is to contribute in the short and medium term to the strengthening of the financial sector and the improvement in access to financial services of firms and individuals in order to foster the development of productive economic activities and the enhancement of the standards of living of the

population. To accomplish these goals the program basically envisages to work in four areas (i) the regulatory and supervisory framework for the financial sector; (ii) the access to financial services; (iii) Monetary policy accountability and improve the payments system efficiency; and (iv) improve anti-money laundering framework. The Bank's new Country Strategy with Guyana is built around three main pillars: (i) Strategic Infrastructure Investments; (ii) Enhanced Competitiveness; and (iii) Social Development for Growth. Financial Sector Reform is one of the priorities outlined in the [draft] Country Strategy with Guyana for the 2008-2012 period.

III. TECHNICAL ASPECTS AND KNOWLEDGE OF THE SECTOR

A. Initiatives to strengthen the financial sector

- 3.1 The Bank has supported the GOG reforming the financial sector since the last decade with a Financial Sector Program. As a result of that program a new Financial Institutions Act (FIA) was approved. The Act provided for ample bank supervisory powers and key guidelines, which support the Act, were developed in the areas of: capital adequacy, limits on large exposures, asset classification and provisioning. During this decade the Bank continued the support to the GOG through the Strengthening Bank Supervision TC aimed at strengthening Bank Supervision within the Bank of Guyana and promote a stable financial market through sound prudential policies and guidelines.
- 3.2 In 2006, at the request of the Government of Guyana, a joint World Bank-IMF Financial Sector Assessment Program exercise was conducted in 2006. Some of the preliminary findings of that exercise were incorporated in the design of the competitiveness program. In coordination with the IFC Global Credit Bureau Program a technical assistance is being implemented to support the Bank of Guyana in the establishing of a private sharing information system. Under the technical assistance a legal study will be performed aiming at enabling the regulatory environment by detailing the approach on how the current regulatory framework needs to be modified in order to support the development of a credit bureau. While the soundness of the banking system in Guyana has strengthened in recent years, further reforms would deepen financial intermediation, boost financial stability and enhance growth. The authorities have moved forward with a financial sector reform agenda based on FSAP recommendations.

B. Institutional Aspects

The Bank of Guyana Act No.19 of 1998 established the Central Bank as an autonomous institution governed by the Act. The principal objective of the Bank 'shall be guided in all its actions by the objective of fostering domestic price stability through the promotion of stable credit and exchange conditions, as well as sound financial intermediation conducive to the growth of the economy of Guyana. The Act which includes inter alia, provisions for the administration of the Bank, also gives the Bank exclusive responsibility for supervision and

C. Risks for Program Execution

- 3.3 As a result of high migration, the human resource base and institutional capacity of Guyana have been eroded and constitutes a risk for program execution. This shortfall of skills has its greatest impact in the recruitment of higher-skilled groups of public employees. This is reflected in a lack of adequate human resources and frequent staff turnover that can be observed in public agencies, including the Bank of Guyana. The program will process complimentary technical assistance to further strengthen human resources and systems in order to ensure reform sustainability.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 The operation supports the policy reforms, institutional strengthening actions and improvement in access to the financial sector, according to the financial Sector Assessment Program (FSAP) for Guyana, highlighted as four main constraints in 2.7a2.7b2.7c2.7d. For this reason, no direct environmental and social impacts on the country's environment are expected. Therefore, in accordance with the provisions set forth B.13 of the Environment and Safeguards Compliance Policy (GN 2208-20 and OP-703), this operation does not require classification.

V. FINANCIAL PLAN AND REFORMS SUSTAINABILITY

- 5.1 In April 2008, the GOG agreed to structure the program as a three tranches Programmatic Loan US\$ 15 million of which this program is the first operation. The GOG requested a technical cooperation to support the implementation of the measures in the Programmatic Loan along with minor specific investments to strengthen aspects of the supervision process and the efficiency of the financial system. A TC for US\$ 250,000 is under preparation to support the program. If this amount were to be found insufficient, the IDB and the GOG will explore additional sources of funding.

VI. RESOURCES AND TIMETABLE

- 6.1 The project team has agreed with the GOG the areas of the policy matrix in the mission that took place the second week of August. GOG is expecting approval of the loan during the last quarter of 2008. See annex III for detail resource table

Timetable for Program Preparation and Approval

Identification Mission	August 11-14, 2008
PP complete and circulate	September 3, 2008
QRR exercise complete for PP	October 3, 2008
Analysis mission	October 7-10, 2008
POD	November 7, 2008
Loan Proposal presented	November 12, 2008

ANNEX I SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the Project Concept Document (or equivalent) together with the Safeguard Screening Form, and sent to CESI.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	Capital Markets	
	Type of Operation	Policy Based Loan (PBL)	
	Additional Operation Details		
	Country	Guyana	
	Project Status	New Operation	
	Investment Checklist	Generic Checklist	
	Team Leader	Olver Bernal	
	Project Title	Financial Sector Reform Program	
	Project Number	GY-L1016	
	Safeguard Specialist(s)	<i>To be completed by assessor</i>	
	Assessment Date	2008-08-22	
	Assessment Number	2008-08220044-2	
	Additional Comments		
SAFEGUAR D POLICY FILTER RESULTS	Type of Operation	Policy Based Loan (PBL)	
	Safeguard Policy Items Identified (Yes)	No issues identified	
	Potential Safeguard Policy Items (?)	No potential issues identified	
	Recommended Action	Operation has not triggered any Policy Directives other than B13; please refer to B13 for guidance. No project classification required. Submit Report and PCD (or equivalent) to CESI Secretariat; CESI meeting may be required.	
	Additional Comments	<i>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</i>	
ASSESSOR DETAILS	Name of person who completed screening:		
	Title		
	Date	2008-08-22	

ANNEX II

Environmental and Social Safeguard Strategy (ESS)

As mentioned in 4.1 the Program supports financial policy reforms, institutional strengthening actions and improvement in access financial services. Specifically the program would lead to the creation of a credit bureau, and intends to improve the credit risk managing of the banking system throughout reduce credit concentration and limit the related parties operations. For this reason, no direct environmental and social impacts on the country 's environment are expected. Therefore, in accordance with the provisions set forth B.13 of the Environment and Safeguards Compliance Policy (GN 2208-20 an OP-703), this operation does not require classification.

ANNEX III RESOURCE TABLE

GUYANA FINANCIAL SECTOR REFORM PROGRAM (GY-L1016)

**Estimate of administrative resources are required to prepare the first operation of the
Programmatic Policy-Based Loan**

Missions' Expenses

Mission Type	Personnel (units)	Ticket cost (US\$)	Length (days)	Per diem (US\$)	Total (US\$)
Orientation	3	5,400	5	300	9,900
Orientation	1	1,800	6	300	3,600
Analysis	4	7,200	4	300	12,000
Negotiation	2	1,800	3	300	5,400
TOTAL		16,200	18	1200	30,900

Team Project Time

Personal	# days
Team Leader (ICF/CMF)	60
Sector Specialist (CMF/GBR)	45
Sector Specialist (CCB/CGY)	45
Specialist (CCB/CGY)	45
Lawyer (LEG/SGO)	20
Project Assistant (ICF/CMF)	18

Annex IV – Policy Matrix**GUYANA. FINANCIAL SECTOR REFORM PROGRAM****PBL (GY- L1016)**

PROGRAMATIC PROGRAM OBJECTIVES	FIRST PROGRAMATIC LOAN	VERIFICATION TOOLS
I. MACROECONOMIC SUSTAINABILITY		
Macroeconomic developments in the Guyanese economy are stronger. Its fundamentals signaling a more permanent recovery in growth and the overall fiscal and debt condition is sustainable. The potential risks that the economy could face to sustain economic growth appears under control.	The macroeconomic environment of the borrower allows the achievement of the objectives of the Programme and is consistent with the policy letter.	An independent macroeconomic assessment (IMA) evaluates Guyana's macroeconomic policies and performance in order to support the preparation of the Financial Sector Reform Program (GY-L1016). A Policy Letter sent by the authorities to the Bank.
II. REGULATORY AND SUPERVISORY FRAMEWORK FOR THE FINANCIAL SECTOR		
Strengthening of the financial sector, improve the regulatory framework and improve the efficiency of the financial sector.	<p>1.- Identification of legislative amendments required to enhance coordination and sharing information among supervisory agencies.</p> <p>2. - Publicly disclose key financial ratios of all deposit taking LFI's.</p> <p>3. - Introduce risk based supervision.</p> <p>4. - Improve bank reporting forms to facilitate easier analysis of financial performance of individual banks.</p> <p>5- Identify the legislative requirements to bring the NBS under the supervision of the BOG.</p> <p>6. - Enhancing supervisors' technical capacity to enforce norms and regulations.</p>	<p>1. - BOG's report detailing the amendments necessary.</p> <p>2. - BOG publishes ratios submitted by LFI's (quarterly).</p> <p>3. - Circulars/Letters issued by BOG to LFI's on the introduction of risk based supervisor.</p> <p>4. - Introduction of the new Chart of Accounts in progress.</p> <p>5. - Report of legislative amendments recommended by the BOG.</p> <p>6- Bog's training schedule for BSD's staff</p>

PROGRAMATIC PROGRAM OBJECTIVES	FIRST PROGRAMATIC LOAN	VERIFICATION TOOLS
III. Access to Financial Services		
Improvement in access to financial services of firms and individuals in order to foster the development of productive economic activities.	1.-Initiate the development of new financial instruments such as leasing- 2.-Monitoring of small scale financial institutions (microfinance entities). 3.-Encouragement of partnerships between commercial banks and MFIs. 4.-Facilitate establishment of a Credit Bureau. 5.-Improve creditor rights in the judicial system.	1. - TOR for research and studies start to be prepared. 2. - Submission of reports commence. 3. - BOG reports recent developments. 4. - Study completed on necessary changes to the legal framework. 5.- Establishment and continued operation of the Commercial Court
IV. Monetary Policy and Systems of Payments		
Increase the public dissemination of the BOG financial sector policy to foster transparency and accountability.	1. - Timely production of annual and Half-year Reports on the state of the nation's economy with special emphasis to financial sector developments and domestic inflation control. 2- Support automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance. 3. - Examine the options for setting up a loss-sharing arrangement for large-value transfer system, consistent with best practices.	1.-Annual and half-Year Reports publish and disseminated by internet. 2-TOR to be prepared. 3.-TOR to be prepared.
V. Anti- Money Laundering Framework		
Improve anti-money laundering efforts and reduce terrorism.	A new anti-money laundering legislation drafted.	Copy of draft Bill.

ANNEX V. RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	Macroeconomic situation			
Description	The authorities adopt a sustainable macroeconomic policy framework			
Although, Guyana has achieved macroeconomic stability it is important to maintain it into medium-term.	Maintain macro-economic stability inn the medium term	The authorities disseminate in 2007 and 2008 the country macroeconomic results.	Overall fiscal and debt condition are sustainable	The authorities adopt and disseminates it's 2009 sustainable macroeconomic policy framework
Actions by the Bank	The IDB produces the Independent Macroeconomic assessment (IMA)			
Base Line	GDP growth 2006 and 2007, % of the population below poverty line 2006 and 2007, public debt as % of GDP 2006 and 2007, inflation results (PCI) 2006 and 2007			

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	REGULATORY AND SUPERVISION FRAMEWORK FOR THE FINANCIAL SECTOR (1)			
Description	Strengthening of the financial sector, improve the regulatory framework and improve the efficiency of the credit and financial services entities.			
Lack of information sharing and coordination among domestic supervisory agencies.	Coordinate actions and share information.	BOG report, detailing the amendments necessary.	Avoid duplications and enhance information sharing.	Legal amendments to the FIA drafted.
Need for greater communication among financial authorities and financial intermediaries	Improve and expand dialogue and build confidence among the financial sector agents.	Increase understanding of financial policies.	Financial deepening. Improve transmission and efficiency of financial policy.	
Need for greater transparency in the financial sector	Enhance the public's understanding of and confidence in the operations of licensed financial institutions.	Timely publication of relevant information to the general public.	Improve the reporting of the license financial institutions	License financial institutions, under the supervision of BOG, publish key financial ratios.
Actions by the Bank				
Base Line	Inventory of relevant information disseminated to the general public on end of August 2008			

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	REGULATORY AND SUPERVISION FRAMEWORK FOR THE FINANCIAL SECTOR (2)			
Description	Strengthening of the financial sector, improve the regulatory framework and improve the efficiency of the credit and financial services entities.			
Inadequate risk management supervisory procedures.	Develop consistent risk management supervisory standards, including risk governance.	Strengthening of the financial sector, improve the regulatory framework	Improve preventive supervision	New guidelines drafted consistent with risk management supervisory standards, including risk governance.
Necessity to improve information for individual bank analysis.	Improve bank reporting mode and format, to analyze financial performance of individual banks.	Improve reports on individual bank for financial analysis.	Access to relevant information for analysis and comparative purposes.	
The existence of financial institutions outside supervisory purview	Widen the scope of supervision to include NBS	A report detailing the amendments necessary to the NBS Act and other related legislation.	Widen supervision to all deposit taking institutions.	
Actions by the Bank				
Base Line	Copy of actual regulation on risk management and actual reports for financial analysis on individuals banks.			

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	REGULATORY AND SUPERVISION FRAMEWORK FOR THE FINANCIAL SECTOR (3)			
Description	Strengthening of the financial sector, improve the regulatory framework and improve the efficiency of the credit and financial services entities.			
Concentration of credit an related parties lending	Contained credit exposure and related parties lending.	Lower exposures and credit risk.	Improve credit management.	Guidelines drafted.
Actions by the Bank				
Base Line	Actual regulation related parties lending and credit concentration			

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	ACCESS TO FINANCIAL SERVICES			
Description	Improvement in access to financial services of firms and individual in order to foster the development of productive economic activities and to enhance creditors' rights,			
Need for financial deepening.	Increased credit participation.	TOR prepared.	Improve financial services.	Commence studies on new financial instruments.
Need for greater information sharing on small scale financial institutions.	Improve financial sector knowledge.	Improve financial data.		
Lack of information on creditor's performance.	Improve risk credit measurements.	Study on Credit Bureau.		
Slow judicial procedures on financial matters.	Improve efficiency on financial litigation.	Commercial court operational.	Improve creditor's rights.	Implementation of recommendations from study.
Actions by the Bank	TC approved			
Base Line				

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
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Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	MONETARY POLICY AND PAYMENT’S SYSTEM			
Description	Increase the public dissemination of the BOG financial sector policy to foster transparency and accountability.			
Need to improve the level of automation of payment and transfer mechanisms.	Increase efficiency in the Payments’ System (PS)	TOR prepared for payment and transfer mechanisms for public sector salaries, pensions and public assistance.	Increase automation	Commencement of study for public sector salaries, pensions and public assistance.
		TOR for loss-sharing arrangement for large-value transfer system prepared.	Increase security in payment system.	Commencement of study.
Actions by the Bank				
Base Line				

RESULT MATRIX
FINANCIAL SECTOR REFORM PROGRAM
GY-L1016

Proposed Measures		Expect Outcomes and Indicators		Triggers for Second PBL
Problem	Objective	Outcome	Impact	
Area	ANTI-MONEY LAUNDERING FRAMEWORK			
Description	A new legislation drafted and presented to the parliament to strengthen monitoring and prosecution of money laundering offences.			
Need to strengthen anti-money laundering legislation.	Strengthen the monitoring and prosecution of money laundering offences.	New anti-money laundering legislation drafted.		New anti-money laundering legislation presented to the Parliament.
Actions by the Bank				
Base Line	Copy of the New anti-money laundering law.			

CO-OPERATIVE REPUBLIC OF GUYANA
FINANCIAL SECTOR REFORM – GY-L1016

ANNEX VI – INDEX FOR COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyper links to Technical files
Technical options and design	A technical assistance is being implemented to support the Bank of Guyana in establishing of a private sharing information system. Under the technical assistance a legal study will be performed aiming at enabling the regulatory environment by detailing the approach on how the current regulatory framework needs to be modified in order to support the development of a credit bureau.		
Analysis of project cost and economic viability			
Financial management/fiduciary issues and control environment			
Data collection and analysis for reporting on results			
Institutional analysis/personnel, procedures other aspects of implementation capacity			
Stakeholders and political environment			

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FINANCIAL SECTOR REFORM – GY-L1016

Social and environmental safeguards	The program supports financial policy reforms, institutional strengthening actions and improvement in access financial services. Specially the program would lead to the creation of a credit bureau, and intends to improve the credit risk managing of the banking system throughout reduce credit concentration and limit the related parties operations. For this reason, no direct environmental and social impacts on the country's environment are expected. Therefore, in accordance with the provisions set forth B.13 of the Environment and Safeguards Compliance Policy GN 2208-20 and OP-703, this operation does not require classification.		
Other key issues, such as donors, gender, sustainability, country/sector issues	GY-L1006 have some elements in the execution part that can complement this project.		

**GUYANA
FINANCIAL SECTOR REFORM PROGRAM
(GY-L1016)**

PROJECT PROFILE

Quality and Risk Review (QRR) – Results and Procedure Report

A. QRR PROCESS

The Project Profile and its corresponding Annexes, were distributed for comments to the QRR on **September 03, 2008**. The comments received, as well as recommended next steps, have been documented in this Results and Procedure Report. No meeting was requested to discuss either the document as a whole, or specific issues.

B. UNRESOLVED ISSUES

None

C. COMMENTS

Name/Dept.	Topic	Comments	Answers
Carlos Herrera FIN/FSV	Remind	Guyana tiene acceso solamente a financiamiento Paralelo (50% OC y 50% FOE) del Banco.	It will be clarified in the documents. I. Basic Data _Financial Plan
Nicola Marco CCB/CGY	Presentation and format	Well written, clear and comprehensive, congratulation to the team.	It was a real team work
Nicola Marco CCB/CGY	Paragraph 2.2 to Paragraph 2.3	The macro economic section (2.2 to 2.3) needs to be updated. Musheer has just completed the 2nd draft of the new IMA (IDBDocs# 1630397 <u>Independent Macroeconomic Assessment</u>). The team should use its content.	The POD will be updated accordingly <u>Update Link IDBDOCS-#1650340-Guyana Independent Macroeconomic Assessment September 2008 - Final</u>
Nicola Marco CCB/CGY	Paragraph 2.8	The NCS is not anymore a policy paper but a National Strategy. The team needs to review the text.	The PP was revised.
Nicola Marco CCB/CGY	Risks Paragraph 3.3.	This section needs to be deepened while preparing the POD. A proper risk analysis exercise should be conducted.	The POD will properly reflect the comment.

Name/Dept.	Topic	Comments	Answers
Nicola Marco CCB/CGY	Risks Assessment	The descriptive part of the document should acknowledge all the progress already made and ongoing that will trigger the disbursement of the PBL right after its approval.	The POD will properly reflect the comment.
Nicola Marco CCB/CGY	Result Matrix	This is a programmatic loan with three PBLs. However the result matrix only addresses triggers for the second PBL. We do not see triggers for the third PBL. When those triggers will be set? During the design of the 2nd PBL?	As the second PBL shows initial working in some areas, such as the risk management supervision and the credit bureau, it is implicit that for the third PBL is needed the completion of such areas. The POD will properly reflect the comment
Nicola Marco CCB/CGY	Result Matrix	The first trigger for the second PBL, which address macro-economic stability should developed to include specific information required in order to monitor the macro framework. Please discuss this matter with Musheer to support the team in the final definition of this trigger.	The POD will properly reflect the comment.
Juan C. Lazo CCB/CGY	Risk section	High migration seems to be the direct cause; I think that is also a consequence of the real causes, which is: Lack of capacity to offer competitive salaries to people that achieved higher levels of education. This, combined with new access to other labor markets (CSME), is what is causing the increase in the migration rate, and therefore, the mentioned shortfall of skills.	The POD will properly reflect the comment.
Juan C. Lazo CCB/CGY		The document mentioned a Weak credit information infrastructure. I think that it must be added that overall connectivity and security in electronic communications, must be improved in order to set a solid platform on which a credit information system can be built.	Very important point. However, it is something that is more related to the kind of services that the private financial sector provided, and goes beyond the scope of the monetary authorities. Also it requires development of the communications sector. Nevertheless, the authorities are committed to improve the payments system. This is part of the policy matrix.
Juan C. Lazo CCB/CGY		This is a programmatic loan with three PBLs". Annex I second line of the table: "Type of Operation", needs to be changed accordingly.	The PP revised will include the comment.
Laura Profeta LEG/SGO		The document should be clear as to what the medium- or long-term reform program is that is being developed by the Government of Guyana and that the Bank would support by structuring a programmatic policy-based loan operation.	The POD will properly reflect the comment. POD will include a broader explanation of paragraph 2.1

Name/Dept.	Topic	Comments	Answers
Laura Profeta LEG/SGO	Paragraph 2.8	Refers to the "National Competitiveness Strategy" but it does not explain what that Strategy is. This would help to understand and be able to make the link with the objectives of the Program referred to in paragraph 2.9 of the document; without this overarching explanation, it is not evident why this operation has been structured as a programmatic loan operation and how the objective and components of the program have been chosen.	The POD will properly reflect the comment.
Laura Profeta LEG/SGO	Paragrah 2.8	In addition to the above, it is proposed that a series of three loan operations would support the reforms needed in the financial sector. In support of this, we recommend that the document provide some indication of the following: (i) the needs for fiscal resources; (ii) debt capacity of the Borrower; and (iii) how the Bank assessed/decided upon the total amount of resources needed for this specific operation and for the reform program as a whole.	The POD will properly reflect the comment. A clear description of the public debt strategic will be included as well the country strategy that the Bank is actually working whit the government
Laura Profeta LEG/SGO	In Section I (Basic Data) under "Financing plan"	a distinction between the different sources of Bank financing (OC/FSO) should be made since this would be a "blend" operation.	It will be clarified in the documents, I. Basic Data _Financial Plan
Laura Profeta LEG/SGO	PBLS and TC profile to be developed	We recommend that the references to the "3 PBLs" as well as the "TC (to be developed)" be placed in a different section of the Project Profile and not in the Basic Data section under "Financing Plan", in order to avoid confusion. In this regard, we suggest that a specific section in the body of the document be included in order to let readers know up front that this operation has been structured as a programmatic policy-based loan composed of three individual loan operations of up to US\$5 million each. This recommendation should also be taken into account for purposes of paragraph 5.1 of the Profile.	It will be clarified in the documents. Section V title was changed from other issues to Financial Plan and Reforms Sustainability
Laura Profeta LEG/SGO		The Government of Guyana is currently executing a multi-tranche policy-based loan (GY-0053) that deals with the fiscal and financial issues. It would be useful to know if there is any link between this new proposed operation and the one under execution and, if that is the case, to identify how the present operation complements the other one	The POD will properly reflect the comment.

Name/Dept.	Topic	Comments	Answers
Laura Profeta LEG/SGO	Section II.B.	We suggest that the Macroeconomic Framework section of the Project Profile (Section II.B.) be made more precise (although more detailed information would be provided in the Proposal for Operation Development). In general, it is not clear in this section whether or not Guyana has a macroeconomic framework that is consistent with the objectives of the Program.	The POD will properly reflect the comment. The two operations are not specifically linked. However, financial sector deepening is an element that the authorities consider as a necessary condition for the economic development of the country.
Laura Profeta LEG/SGO	Paragraph 2.2	Refers to an IMF 2007 Article IV Consultation report that was concluded in January 2008. However, there is no information as to what has been the macroeconomic environment of the Borrower since January. Also, said paragraph states that the IMF Consultation report provides information, but the profile does not spell out what that information is. Finally, paragraph 2.2 also makes reference to a "recent Independent Macroeconomic Assessment" carried out by the Bank which concludes that "the macroeconomic framework in Guyana is appropriate for a policy-based loan". First of all, it is not clear when or in what context this assessment was carried out. Secondly, we understand that macroeconomic assessments are normally carried out to determine whether the macroeconomic framework of a country is consistent with the objectives of the specific policy-based program that the Bank is financing, but not to determine whether a PBL operation can be financed or not. Finally, the reference to the Assessment states that "some macroeconomic vulnerabilities" will require special attention but does identify which ones, or how relevant they are to this particular policy reform program.	The POD will properly reflect the comment. A "macroeconomic framework appropriate for a PBL" always is required and in most of the cases it is independent of what the policy reforms are envisaged as it is this case.
Laura Profeta LEG/SGO	Section C	Refers to "The financial Sector in Guyana"; it would be useful to include an explanation in the document regarding the composition of the financial sector in Guyana. This would allow the reader to understand the context for the reforms proposed in this program.	The POD will properly reflect the comment. It will include a section describing the financial sector.
Laura Profeta LEG/SGO	Paragraph 2.7	We suggest clarifying in paragraph 2.7 of the document what is meant by "institutional rigidities" and "institutional constraints".	The PP includes the description of the main institutional constraints. However a more comprehensive explanation and description will be included in the POD.

Name/Dept.	Topic	Comments	Answers
Laura Profeta LEG/SGO	Paragraph 3.1	We recommend identifying the loan operation referred to in paragraph 3.1 by the respective loan number.	The POD will properly reflect the comment.
Laura Profeta LEG/SGO	In paragraph 3.2	We suggest clarifying the scope and timing of the "legal study" to identify what areas of the current regulatory framework need to be modified. Is the legal study a preparatory activity for this program? Is it a policy condition?	It is a policy condition. The POD will properly reflect the comment
Laura Profeta LEG/SGO	Section III. (B)	The document that most of the activities in the financial sector are carried out and supervised by the Central Bank of Guyana, which raises the question of whether the proposed program should be executed by the Ministry of Finance (as proposed) or by the Central Bank	This is an issue that needs to be discussed with the authorities. Any way, some of the mayor reforms include the modifications of some laws as well the presentation of new ones. The government has the responsibility of enact the laws. The Central Bank has the technical responsibility of the preparation of the reforms.
Laura Profeta LEG/SGO	The policy conditions of the Matrix	We recommend more precision in the policy conditions of the Matrix, as the content of some of them seem to be more related to the evidence that is needed to verify whether a condition has been fulfilled or not rather than to the reform itself, and some others are not clear.	The POD will properly reflect the comment. The revised version of the policy matrix will be prepared in conjunction with the Project Attorney.
Laura Profeta LEG/SGO	Annex III on administrative resources	Required to prepare the first operation mentions the project missions currently envisioned, which include an analysis and negotiation mission. The number of team members that would participate in each is indicated, but it is not clear whether these would include the Project Attorney. In this regard, we request that a footnote be included indicating that the participants on those two missions would include the Project Attorney, and that the number of participants be increased accordingly, if this was not already contemplated.	The participation of the Attorney was already included.
Esr net	Section IV. Safeguard and Fiduciary Screening	Operation Cleare (Simplify Procedure) <u>IDBDOCS-#1613811-AGENDA FOR ESR 35-08_Operation Cleare</u>	in accordance with the provisions set forth B.13 of the Environment and Safeguards Compliance Policy (GN 2208-20 an OP-703), this operation does not require classification