DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CO-OPERATIVE REPUBLIC OF GUYANA

FINANCIAL SECTOR REFORM PROGRAM

(GY-L1016)

LOAN PROPOSAL

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Electronic Links
REQUIRED
Policy Letter http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1713515
Results Matrix http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1605100
Independent Macroeconomic Evaluation Confidential. Available upon request
IMF – Assesment Letter Confidential. Available upon request
OPTIONAL
Statistic Data of Guyana http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1713526

ABBREVATIONS

BOG	Bank of Guyana
DBS	Direction of Bank Supervision BOG
HIPC	High Indebtness Poor Country
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MOF	Ministry of Finance
NBS	New Building Society
PBL	Policy Based Loan
POD	Proposal for Operation Development
PRGF	Poverty Reduction and Growth Facility
SBSP	Strengthening Bank Supervision Project

PROJECT SUMMARY

CO-OPERATIVE REPUBLIC OF GUYANA

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Financial Terms and Conditions			
Borrower: Co-operative Republic of Guyana		Amortization Period: OC	30 years
		FSO	40 years
		Grace Period: OC	6 years
		FSO	40 years
Executing Agency: Bank of Guyana		Disbursement Period:	12 months
Source	**Amount**		
IDB (OC)	$2.5	Supervision and Inspection Fee: %	OC* FSO 0.0
IDB (FSO)	$2.5		
Other/Cofinancing		Interest Rate: %	OC Adjusted FSO 0.25
Local	0.0	Credit Fee: %	OC* FSO 0.0
Total	$5.0	Currency:	US dollars

Project at a Glance

Project Objective/Description:

The objective of the Program is to contribute to the strengthening of the financial sector and the improvement in access to financial services of firms and individuals. In particular, the program will contribute to consolidate the supervision capacity of BOG, increase access to financial services, increase transparency in the financial sector through public dissemination of financial data and improve the efficiency of the payment system. Additionally, the program would contribute to strengthening the capacity of the authorities to control money laundering. This operation is the first in a series of three Programmatic Policy-Based Loans each of up to US$5 million. The Program will include policy interventions in five areas: (i) the macroeconomic condition; (ii) the regulatory and supervisory framework for the financial sector; (iii) the access to financial services; (iv) monetary policy accountability and improve the payments system efficiency; and (v) improve anti-money laundering framework. (¶1.24 and 1.25).

Special contractual clauses: See (Annex I) Policy Matrix and Means of Verification

Exceptions to Bank policies: None

Project qualifies for: SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ]

Procurement: N/A

ESR Verification Date:

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result form applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background and Problems Addressed[1]

1.1 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.

a. Macroeconomic Conditions.

1.2 The Government of Guyana (GOG) has maintained a sound macroeconomic policy framework. The Guyanese economy, spurred by revitalized private and public investments, has grown moderately for the last three consecutive years at approximately 4.7% in 2006 and 5.4% in 2007, whereas growth is projected at 4.5% for 2008, despite food and fuel price pressures. This recovery followed the major flooding, the most devastating natural disaster in Guyana's recent history. On the basis of IMF projections, average growth during the medium term 2008–2012 is expected to be 4.4%. This growth is expected to be driven by the traditional sectors of sugar, rice and gold.

1.3 The Government is working toward narrowing the fiscal deficit in 2008 while improving revenue increases that began in 2007. The fiscal deficit declined to 11.7% of GDP in 2006 from 13.6% in 2005, further narrowing to 9.1% in 2007 In 2007, the overall financial operations of the public sector, computed on a cash basis, improved during the year on account of strong central government performance that resulted from higher revenue that accrued under the Excise and Value Added Tax (VAT) regimes. The medium-term macroeconomic framework suggests a significant and ambitious fiscal adjustment through 2012, including a decline in the overall fiscal deficit to 3.5% of GDP by 2012. Inflation in 2008 is expected to fall to around 8.1% due to the falling food and fuel prices. The initial impact of the VAT regime is expected to diminish, allowing the inflation rate to fall significantly.

1.4 The primary objectives of monetary policy in 2007 were the attainment of price and exchange rate stability, while creating the enabling environment for credit and economic growth. In this regard, the focus was on effective management of excess liquidity in the financial system. During 2007, the BOG's monetary program was moderately successful in containing inflationary pressures caused by rising oil and food prices on the world and domestic markets. During 2007, the

[1] The issues described in this and the subsequent section are based on a background papers "Financial Sector Assessment Program" (IMF 2006) Guyana Selected Issues – Enhancing the Financial System's Contribution to Growth, (IMF 2008) and Annual Report 2007 (BOG 2008). All publications by the BOG are available on its website http://www.bankofguyana.org.gy.

overall balance of payments amounted to a deficit of US$1.4 million from a surplus of US$42.9 million for the corresponding period last year. The current account deficit saw an improvement over 2006 despite a significant increase in the merchandise trade deficit. This was largely a result of higher transfers in the form of remittances, as well as lower interest payments on external debt as a result of debt relief. In contrast, the capital account recorded a smaller surplus primarily on account of a marked increase in short term investments abroad by commercial banks. During 2007 the exchange rate was fairly stable, without any sharp changes. The exchange rate of the Guyana dollar vis-à-vis the United States dollar depreciated by 1.24% to reach G$203.50 from G$201.00 at end-December 2006 due to periodic excess demand and indexation by changes.

1.5 Public debt levels became unmanageable by the end of the 1980s, and then Paris Club provided debt restructuring and debt reduction. Additional debt relief provided by the Inter-American Development Bank (IDB) and others also contributed to the strong overall position of the central government. The external debt service (as percentage of exports) was equivalent to 6% in 2006 and now stands at 2.4% in 2008. In NPV terms, the external–debt-to-GDP ratio also dropped from 72% to 60% in 2006 and then to 39.3% in 2007. This value is projected to increase to about 45% in 2008. The external–debt-to-revenue ratio declined from 204.6% in 2006 to a projected 128.5% in 2008. Public domestic debt in Guyana has increased in the last few years, partly offsetting improvements in the total public debt level**.** The domestic–debt-to-GDP ratio increased from 32% in 1997 to 42% in 2006.[2] However, as of March 2008, this trend remained somewhat steady at 33.8% of GDP. The NPV of debt-to-GDP is expected to move from 39% in 2007 to 58% in 2012 and to 44% by 2027.

1.6 Even though the authorities are committed to ensuring a more sustainable macroeconomic framework in the medium term, future risks remain, particularly in the context of the global financial crisis and higher fuel prices. Guyana's commodity price advantage (excluding fuels) and the Government's response to its current challenges are important factors for determining the likelihood of stability. A complete review of the recent economic developments in Guyana could be found at the IMF, 2007 Article IV Consultation report that was concluded by the Executive Board in January 2008, also in the recent Independent Macroeconomic Assessment (IMA) carried out by the IDB that concludes that the macroeconomic framework in Guyana is appropriate for a policy-based loan.

b. Financial Sector Structure and Recent Trends.

1.7 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

[2] Figures correspond to gross public domestic debt.

certain deposits and make loans (including credit unions and the New Building Society), and the non-bank financial system (NBFS), which includes insurance companies, securities firms, small money lenders, and pension funds.

1.8 The financial system is dominated by banks, although non-banks institutions have grown in recent years. Recently the banking system is recovered from an exposure to loan defaults in the mid-2000s following stagnant growth, lower export prices and big floods. (See Statistics Data of Guyana for a complete Licensed Financial Institutions (LFIs) financial data set of recent years).

1.9 **Commercial Banks Lending Activity.** The banks accounted for about 62% of financial assets. The banking system is still concentrated. The largest two banks hold about half of the banking assets. The operating costs and the interest rate spreads are relatively high. After a period of stagnation during the first half of the decade, loans by the commercial banks to the private sector have been growing at a faster pace recently (18.7% in 2007). This faster growth has been due primarily to increased lending to the personal (household), real estate mortgage, other services and distribution sectors. Credit to the personal sector increased by 35.9% in 2007 while lending to the real estate mortgage, other services and distribution sectors increased by 31%, 21.3% and 12.5% respectively. Purchases of local bonds have increased around 13% reflecting higher investment in bonds. In terms of the main economic sectors, credit to the rice milling and manufacturing sectors grew by 11.2% and 3.8% respectively. In contrast, credit to the agriculture and mining sectors declined by 15.4% and 13.9% respectively.

1.10 **Non-Bank Financial Institutions (NBFI).** The financial resources of NBFIs, which includes depository and non-depository licensed and unlicensed financial institutions, grew by 11.8% in 2007. However, their share of total assets in the financial sector remained relatively stable at 38%. Total resources of the New Building Society (NBS) increased by 6.5% to G$33,522 million and accounted for 26.3% of total assets of NBFIs. Finance Companies consist of: one stock broker, one finance company, one investment company, one merchant bank, and two micro-finance company increased their resources by 34% in 2007. The consolidated resources of the pension schemes in 2005 were around US$85 millions and they grew 6.1% in 2007.

1.11 **Selected Solvency Ratios of Licensed Depository Financial Institutions (LDFIs).** The financial entities as a whole reported higher levels of capital, profits and liquidity during 2007. However, higher risk weighted assets resulted in a slight decline in the Capital Adequacy Ratio (CAR) when compared with end December 2006. In spite of this the CAR remained well above the prudential 8% benchmark (15.3% at end-December 2007). The growth in risk-weighted assets was reflective of a 34% increase in real estate loans, as well as expansion in credit to the households and the services sectors of 13.3% and 29.6% respectively. Non-performing loans of LDFIs represented 10.3% of their total loans compared with 11.8% in 2006 (and compared to about 40 percent in 2002). The ratio of provision for loan losses to non-performing loans rose from 41.1% in 2006 to 56.4% in 2007

owing mainly to a 39.3% increase in provisions for loan losses. Loans to the top twenty borrowers dropped to G$26,745 million, 2.1% below the G$27,311 million reported at end-December 2006. Loans to related parties expanded by 11.2% to G$3,784 million. The ratio of such loans to total loans shifted from 5.7% to 5.5% in 2007.

Financial Sound Indicators 2002-07
(In Percent)

	2002	2003	2004	2005*	2006*	2007*
Capital to risk-adjusted assets	14.3	12.7	14.3	14.6	15.7	15.3
NPLs to total loans	38.2	37.2	23.3	17.8	11.8	10.3
Provision for loan loss to NPLs	53.7	33.3	39.7	44.4	41.0	56.4
Return on assets	0.4	1.2	1.4	1.7	2.8	2.3
Return on equity	4.5	13.7	16.4	21.3	29.3	24.9
Liquid assets to total assets	23.9	26.4	33.3	31.6	30.0	25.9

* Figures revised in line with BOG Annual Report 2007

1.12 The 2006 FSAP stress tests found that interest rate and foreign exchange risks were limited, but identified credit risks related to large exposures. The tests concluded though that risks were somewhat contained by the low level of financial intermediation. However, they identified credit risk—arising from the strong concentration of credit—as the main vulnerability leading to the potential undercapitalization of banks in the event of defaults among the largest borrowers. Updated stress tests using the FSAP methodology and data up to September 2007. Show an improvement of the banking system's resilience in recent years, but banks remain exposed to credit risk from large borrowers.

1.13 Given the weak links to the US and other mature financial markets, Guyana has so far been largely untouched by the turbulence following the subprime crisis. In the near future, however, tighter global credit conditions could pose risks for the financial sector. The vulnerability to CARICOM sovereign risks also highlights a potential channel of transmission of the turmoil in international financial markets to the domestic banking system. Enhancing regulation and supervision under these circumstances could better protect the system from the impact of turbulence in international financial markets.

1.14 **Regulation and Supervision**. Regulation and oversight of the financial system is shared among supervisory agencies of widely varying capacity. Under the Financial Institutions Act 1995, the Bank of Guyana (BOG) licenses and supervises banks and entities involved in "financial business" (finance companies, merchant banks and trust companies). The Insurance Act 1998 authorizes the Commissioner of Insurance and Pension Funds, who took office in 2002, to supervise and license insurance companies, pension plans, brokers and agents, while the Securities Industry Act 1998 establishes the Securities Council to oversee securities market participants (issuers, intermediaries and investors). Credit unions are overseen by the Cooperatives Development Office under the

Cooperative Societies Act 1948 as amended. The New Building Society Act 1940 allowed for the creation of the New Building Society that, as a membership-based entity, is overseen by a board of directors directly elected from among its members.

1.15 During the year 2007, the Bank Supervision Department (BSD) of the BOG was restructured following the authorities decision to shift from a transaction-based approach to supervision to a risk-based one. This was facilitated under the IDB funded Strengthening Bank Supervision Project (SBSP) which concluded in October 2007. The adoption of the risk-based approach resulted in the merger of the existing *On-site* and *Off-site* divisions into The Supervision Division allowing for a more flexible and targeted approach to supervision with strong emphasis on identifying those risks that would pose the greatest threat to the safety and soundness of each licensed financial institution (LFI) and the financial sector in general. The Policy, Issuance and Regulatory Division (Policy Division) was also established and is tasked with the broad responsibility for legislative and regulatory matters, supervisory policies and practices, rulings on regulatory issues, analysis of systemic performance and emerging issues. The Bank of Guyana also made progress in drafting new guidelines which were in line with international best practices.

c. Key Financial Sector Challenges

1.16 **Access to Financial Services.** 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 apparent 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. 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) but its level still is about the level of credit to the private sector of the beginning of the decade.

1.17 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 particular, the following four main constraints have been highlighted: (i) *Lack of sufficient business skills*: Insufficient financial education and management skills explain the inability of new entrepreneurs to make their ideas “bankable.” (ii)

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. (iii) *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. (iv) *Weak creditor rights and lengthy foreclosure proceedings*: The current insolvency regimes (liquidation and receivership) don't strongly take into account the interests of unsecured creditors.

1.18 **Institutional Framework for Sound Financial Sector Development.** In Guyana, Banks portfolios and ownership are naturally concentrated for structural reasons and thus they are inherently riskier than in larger, more diversified economies. In recent years, there has being progress regarding the regulatory framework for supervision but there's still ample space to advance in an agenda to raise intermediation and foster stability. While prudential requirements are broadly in line with international standards (including for capital adequacy, loan classification, and supervisory methods), weaknesses remain in risk management and other specific provisions. There is a need of measures to enhance the disclosure and sharing of information among market participants. Institutionally, the effectiveness of the bank supervision department should consider an approach to human resource management that counters for the rapid staff turnover. Outside the banking sector, the NBS has grown in size in recent years to become systemically important and therefore should be overseen by the BOG. In the same line, there are important shortfalls in insurance supervision. Finally, there is also some room for improvement in the monetary policy and the AML/CFT framework should be strengthened to improve the integrity of the financial system.

1.19 The policy matrix of this program is intended to address the issues under these two axes.

B. Program Justification

1.20 In light of the Guyana's financial sector developments and its strategy based on outward oriented policies, the authorities recognize the importance of continuing reforms that enhance financial deepening and credit access. The financial system is dominated by banks, although non-banks institutions have grown in recent years. Commercial banks accounted for about 70% of financial assets. The banking system is still concentrated with the largest tow banks accounting for over half of the banking assets. The operating costs and the interest rate spreads are relatively high and the banks private credit to deposit ratio for Guyana is low.

1.21 Clearly, Guyana requires the deepening of its financial sector and the need for additional reforms to further strengthen the soundness of the financial system and its contribution to economic growth. In Guyana the use of cash is being the preferred medium of payment, so access to financial services is still limited and requires further improvements in the payment system. Although, during 2007

there were several notable financial sector institutional developments, including the adoption of first steps to a new risk-based approach to bank supervision and the drafting of new guidelines, additional policy efforts remain to be completed. These policy efforts will contribute in the short and medium term to the strengthening of the financial sector and the improvement in access to financial services for firms and individuals. To accomplish these goals the program will address the following four areas in addition to the macroeconomic stability: (i) The regulatory and supervisory framework for the financial sector; (ii) The access to financial services; (iii) Monetary policy accountability and to improve the payments system efficiency; and (iv) Improve anti-money laundering framework.

1.22 From the macroeconomic standpoint, continuing fiscal and balance of payments deficits indicate a sizable gross financing requirement. The Government is working toward narrowing the fiscal deficit in 2008 while improving revenue increases that began in 2007. The medium-term macroeconomic framework suggests a significant and ambitious fiscal adjustment through 2012. The Bank's IMA concludes that despite recent exogenous shocks, the macroeconomic policy framework of Guyana remains broadly stable. Although there are some risks to the macroeconomic framework, these are reasonably contained at this time. In January 2008, the 2007 Article IV Consultation report was discussed by the Executive Board of the IMF and subsequently, the IMF conducted a mid-year review in June 2008. The findings of that visit, its accompanying IMF Assessment Letter, and the most recent Article IV are reflected in the IMA. The present operation will provide less than 3% of the required financing, but at the same time it will support continued improvements in financial sector to foster domestic savings that will contribute in the medium-term to sustainable macroeconomic outcomes.

1.23 "The 2008-2012 Country Strategy with Guyana is being finalized and it is expected to be submitted to the Board in November 2008. The Country Strategy is built on three main pillars: (i) Key infrastructure investments; (ii) Enhanced Competitiveness; and (iii) Social Development for Growth. The present program will support the competitiveness and social pillars by the strengthening the financial sector and, more important improve access to credit. Because of the MDRI initiative, Guyana has now access to much more limited allocations of concessional financing than during the previous strategy. The programmatic approach has therefore been adopted in order to maximize the use of such allocations.

C. Objective and Components

1.24 **Program Objectives.** 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 for firms and individuals. In particular, the program will contribute to consolidate the supervision capacity of BOG, improve access to financial services, increase transparency in the financial sector through public dissemination of financial data and improve the efficiency of the payment system.

Additionally, the program would contribute to strengthening the capacity of the authorities to control money laundering, This operation is the first in a series of three programmatic policy-based loans, each up to USD$5 million, for a total of USD$15 million.

1.25 **Program Structure.** The Program has five components, namely: (i) macroeconomic sustainability; (ii) enhance the regulatory and supervisory framework for the financial sector; (iii) improve access to financial services; (iv) improve monetary policy accountability and payments system efficiency; and (v) improve anti-money laundering framework. The conditions prior to disbursement of the loan for each component, the corresponding means of verifications as well as the triggers for the subsequent operations in the series are detailed in the program's policy matrix and means of verification (Annex I).

1.26 **Component I: Maintain a sustainable macroeconomic framework and facilitate a sound financial sector.** The Borrower will undertake measures aimed at creating a stable macroeconomic environment that is consistent with the Program objectives and the economic fundamentals signaling a more permanent recovery in growth. Overall fiscal and indebtedness conditions will be kept at sustainable levels and consistent with the national competitiveness strategy.

1.27 *Policy Condition***.** The macroeconomic framework of the borrower is consistent with the objectives of the program and the GOG policy letter. The Government has outlined in its Policy Letter the measures to maintain a macroeconomic framework consistent with the Program's goals of strengthening the financial sector. Furthermore, the Bank has undertaken a macroeconomic assessment to evaluate independently the current economic conditions and prospects Independent Macroeconomic Assessment. Throughout Program implementation, the Bank will continue monitoring economic trends and consult with other international agencies, especially the IMF which is expected to reach and agreement for a new Poverty Reduction and Growth Facility (PRGF) program.

1.28 **Component II: Improve the regulatory and supervisory framework for the Financial Sector.** This component will strengthen the financial sector, improve the regulatory framework and facilitate the efficiency of the credit and financial services entities. The need for greater communication among financial authorities and financial intermediaries as well as the need for greater transparency and corporate governance in the financial sector is also addressed.

1.29 *Policy Conditions:* The BOG will implement the new supervisory approach, based on risk analysis, address issues affecting the industry, and foster a better working relationship among regulatory agencies. It will also improve banks reporting forms, promote the disclosure of financial ratios, enhance corporate governance, and will allow the BOG to supervise the NBS. It is expected that these developments will improve savings mobilization and financial intermediation, and more efficiently allocate resources for productive investments. Additionally, the BOG will implement an important Plan to enhance supervisors' technical capacity

to enforce norms and regulations given the high staff turnover (as a result of high rates of migration and the dynamic issues affecting the global financial sector).

a. *Improvements to banks reporting forms***.** Approval and implementation of improvements on new bank reporting forms to facilitate analysis of financial performance of individual banks based on the New Chart of Accounts.

b. *Disclosure and dissemination of key financial ratios of LFIs***.** Transparent and public disclosure by the BOG of key financial ratios, in particular: (1) Capital Ratios, such as Total Qualifying Capital/Risk Weighted Assets and Tier 1 Capital/Risk Weighted Assets; (2) Asset Quality Ratios, such as Risk Weighted Assets / Total Assets and Non-performing Loans / Total Loans; (3) Earnings Ratios, such as ROA and ROE; and (4) Liquidity Ratios, such as Liquid Assets / Total Assets and Liquid Assets / Total Demand & Time Liabilities.

c. *Sharing Information among Supervisory Agencies.* Identification of the legislative amendments required to enhance coordination and sharing of information among supervisory agencies, conducted by the Bank of Guyana (BOG).

i. The ***trigger for the next operation*** is the drafting and submission to Cabinet of the identified Amendments to enhance coordination and sharing of information among supervisory agencies.

d. *Introduce Guidelines on Corporate Governance***.** Issuance by the BOG of new Guidelines on Corporate Governance consistent with the objective of ensuring safety and soundness, protecting depositors' funds and enhancing shareholder value. The new guidelines will clearly identify the division of power and establish mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community.

ii. The ***trigger for the next operation*** is the approval and issuance of new regulation in accordance with international best practices related to Risk Based Supervision, in particular including Limits on Large Loan and on Loans to Shareholders, Directors, Officers and other Related Parties.

e. *Enable the BOG to supervise the NBS.* Identification of the legislative amendments required for allowing the BOG to supervise the New Building Society (NBS).

iii. The ***trigger for the next operation*** is the drafting and submission to Cabinet of the identified Amendments required for the BOG to supervise the NBS.

f. *Improve Technical Capacity of DBS's Staff.* Approval by the BOG of a plan to enhance supervisors' technical capacity to enforce norms and regulations. This Plan will be supported by a Technical Cooperation in preparation by the Bank.

1.30 **Component III: Increase Access to Financial Services.** This component will support policies for the development of new financial instruments, strengthen supervision of microfinance institutions, and eliminate barriers to access credit to foster the development of productive economic activities.

1.31 *Policy Conditions*: The BOG will support the introduction of new financial instruments, strengthen supervision of microfinance institutions, greater collaboration among market participants and foster the will the conditions required for the creation of a credit bureau to facilitate and increase access to credit and financial services.

a. *Development of New Financial Instruments.* BOG will prepared feasibility studies for the introduction of new financial instruments such as leasing.

i. The ***triggers for the next operations*** are the preparation and adoption respectively of a framework for the development of new financial instruments.

b. *Monitoring Small Scale Financial Institutions.* The BOG will present evidence of the initiation of the process of monitoring microfinance entities in order to have a broader overview of access to financial services.

ii. The ***trigger for the next operation*** The BOG will present evidence supporting the continued monitoring of small scale financial institutions (microfinance entities).

c. *Promotion of Partnerships between commercial banks and MFIs*. Submission by the BOG of the Guyana Association of Banks report addressing new and recent developments.

d. *Creation of a Credit Bureau.* Submission by the BOG of the legislative amendments required to facilitate the establishment of a Credit Bureau.

e. Create the conditions required for the creation of a credit bureau to facilitate and increase the access to credit.

iii. The ***trigger for the next operation*** is the submission to Cabinet of the necessary amendments to establish a Credit Bureau.

f. *Improve creditor rights.* Submission by the Ministry of Finance of a report assessing progress on the implementation of the establishment and function of the Commercial Court.

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1.32 **Component IV: Improve Monetary Policy and Systems of Payments.** Among the existing gaps in the payment system, are: (i) absence of information; (ii) development of competitiveness; and (iii) most important efforts to lower transactions costs related to the use of financial services, among others The aim of this component is to increase the public dissemination of the BOG financial sector policies so as to foster transparency and accountability and support the use of electronic payments system to reduce transaction costs.

1.33 *Policy Conditions:* This component will support permanent and consistent dissemination of monetary and financial policies and the introduction of automation to improve efficiency of the payment system. In order to foster transparency and accountability, the BOG will begin to publish annual and half-yearly reports on the state of the nation's economy.

a. Publication of annual and half-yearly reports on the state of the nation's economy. Publication and presentation to Cabinet by the BOG of half-yearly reports on the state of the nation's economy with special emphasis on the financial sector developments and domestic inflation control.

i. The ***trigger for the next operation*** is the BOG will present and publish every year the reports on the state of the nation's economy on a timely basis.

b. *Automation of Payment and transfer mechanisms of public sector salaries, pensions and public assistance.* Adoption of low cost and secure mechanism for regular and periodic payments. This will include the identification of a framework to support automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance.

ii. ***The trigger for the next operation*** is the adoption of the framework for the automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance.

c. *Loss-sharing arrangement for large-value transfer System.* BOG will analyzed and create the necessary conditions for setting up a loss-sharing arrangement for large-value transfer system, consistent with best practices submission by the BOG of the Terms of Reference.

iii. The ***trigger for the next operation*** is the adoption of the framework establishing the criteria for loss-sharing arrangement for large-value transfer system, consistent with best practices.

1.34 **Component V: Improve Anti-Money Laundering Framework.** The aim of this component is to enhance and improve anti-money laundering and counter the financing of terrorism.

1.35 *Policy Conditions:* This component will support the development of a strategy for strengthening the monitoring and prosecution of money laundering offenders.

a. *Strategic and Institutional Framework to improve the efficiency of anti-money laundering legislation.* A draft Bill developing a comprehensive legislation for anti-money laundering and countering the financing of terrorism This Bill should incorporate international best practices, such as: (1) establishment and management of a Financial Intelligence Unit; and (2) provide comprehensive powers for the prosecution of money laundering and terrorism financing.

i. The ***trigger for the next operation*** is the presentation to Cabinet of the new bill legislation for anti-money laundering.

D. Key Results Indicators

1.36 The program outputs are reflected in the policy and institutional reform commitments of the authorities in each of the three individual operations (Annex I Policy Matrix and Means of Verification). The results of these activities will be measured, by publicly available data that measure variables consistent with the objectives of the program as indicated in the Results Matrix. .

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

2.1 This Programmatic PBL is comprised of 3 operations of up to US$5 million (on a fifty – fifty basis) of Ordinary Capital and FSO resources for a total of US$15 million. Given the nature of the activities to be undertaken, the programmatic policy-based instrument has been selected as the appropriate instrument as it supports policies changes over a medium-term horizon in a manner that recognizes that the reform process is both complex and dynamic in nature.[3] The present structure will allow a continuing dialogue between the authorities and the IDB to review progress, adjust targets, provide technical assistance, and evaluate the Program's objectives.

B. Environmental and Social Safeguard Risks

2.2 The policies contemplated in the present operation will have no direct environmental and social impacts on the country's environment. 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.

[3] See ¨Policy-Based Loans: Guidelines for Preparation and Implementation¨ (CS-3633)
See IMA September 26, 2008

C. Other Key Issues and Risks

2.3 The key risks that may adversely affect the Program's outcomes are two-fold. First, deterioration in macroeconomic conditions could lower business investment and slow the pace of structural reform. Therefore, the Project Team recommends a close monitoring of the macroeconomic situation in coordination with the IMF. In 2007, the IMF PRGF Agreement expired, and beginning late 2008 a new PRGF is expected to be initiated. Second, if deliberations on policy reform were to stall, this could limit progress in achieving expected outcomes. For example, the needed improvements in risk based supervision in the context of severe global financial crisis joint with an expected world economic recession could lead to a slow pace on the adoption of the reforms. The political commitment expressed by the government and its reform agenda outlined in various strategy and policy documents provide assurances that these actions will be undertaken. In terms of the conditions for disbursement of the first loan, these have been met prior to Board presentation.

III. IMPLEMENTATION AND MANAGEMENT PLAN

3.1 The Borrower will be the Co-operative Republic of Guyana and the entity responsible for the implementation of the reforms will be the Bank of Guyana, which will provide the needed evidence for compliance with the program's conditions and for the subsequent individual operations. The Bank of Guyana will be responsible for: (a) coordinating program execution; (b) revising and presenting the work plans and progress reports; (c) monitoring the compliance of conditionality and performance benchmarks set out in the policy and means of verification matrix agreed between the GOG and the Bank; (d) collect the evidence of compliance of program's commitments; and (e) collect the information needed for the indicators specified in the results matrix. The Ministry of Finance will monitor the implementation of the Program.

A. Summary of Arrangements for Monitoring Results

3.2 Both BOG and MOF will share responsibilities for monitoring the results of the Program, however the BOG will report to the Bank periodically on advances in compliance and updates for the results indicators. The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the Program and on the fulfillment of the conditions defined as triggers for the subsequent operations. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the advancement of the program. The meetings will focus on: (a) verifying the degree of achievements with the indicators for the program and its components; (b) taking stock of the successes and shortcomings of program design and execution and its effectiveness in working toward the country's development objectives; and (c) recommending corrective or monitoring measures for the second and third operations of the programmatic series.

FINANCIAL SECTOR REFORM PROGRAM

GUYANA - GY-L1016

ANNEX I – POLICY MATRIX AND MEANS OF VERIFICATION

PROGRAMATIC PROGRAM OBJECTIVES	FIRST PROGRAMATIC LOAN	MEANS OF VERIFICATION	TRIGGERS FOR SECOND OPERATION	TRIGGERS FOR THIRD OPERATION
I. MACROECONOMIC SUSTAINABILITY				
Enhanced macroeconomic stability.	The macroeconomic framework of the borrower allows the achievement of the objectives of the Program and is consistent with the policy letter.	An independent macroeconomic assessment (IMA) conducted by the Bank evaluates Guyana's macroeconomic policies and performance.	The macroeconomic framework of the borrower allows the achievement of the objectives of the Program and is consistent with the policy letter.	The macroeconomic framework of the borrower allows the achievement of the objectives of the Program and is consistent with the policy letter.
II. REGULATORY AND SUPERVISORY FRAMEWORK FOR THE FINANCIAL SECTOR				
Strengthening of the financial sector, improve the regulatory framework and the efficiency of the financial sector.	1.- Improvements on new bank reporting forms to facilitate easier analysis of financial performance of individual banks based on the New Chart of Accounts, approved and implemented.	1.- Report presented to the Bank by the BOG analyzing the progress on the implementation of the new Chart of Accounts.	1.- None	1.- None
	2.- Key financial ratios of all deposit taking Licensed Financial Institutions (LFIs), in particular: (1) Capital Ratios, such as Total Qualifying Capital/Risk Weighted Assets and Tier 1 Capital/Risk Weighted Assets; (2) Asset Quality Ratios, such as Risk Weighted Assets / Total Assets and Non-performing Loans / Total Loans; (3) Earnings Ratios, such as ROA and ROE; and (4) Liquidity Ratios, such as Liquid Assets / Total Assets and Liquid Assets / Total Demand & Time Liabilities, publicly disclosed by the BOG.	2.- Ratios published on the BOG web site.	2.- Key financial ratios of all deposit taking Licensed Financial Institutions (LFIs), updated quarterly on the web site of the BOG.	2.- Key financial ratios of all deposit taking Licensed Financial Institutions (LFIs), updated quarterly on the web site of the BOG

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	3.- Identification of the legislative amendments required to enhance coordination and sharing information among supervisory agencies, conducted by the Bank of Guyana (BOG).	3.- Letter of the BOG addressed to the Bank and copy of a report identified the legislative amendments.	3.- Amendments to enhanced coordination and sharing of information among supervisory agencies identified in the report, drafted and submitted to Cabinet	3.- New legislation to enhanced coordination and sharing of information among supervisory agencies, enacted.
	4.- New Guideline required to introduce risk based supervision, in particular the Guidelines on Corporate Governance, approved and issued.	4.- Circular of the BOG approving the new Guidelines on Corporate Governance published in the webpage of the BOG.	4.- New Guideline required to update the best international practices on the risk based supervision, in particular the Limits on Large Loan and on Loans to Shareholders, Directors, Officers and other Related Persons, approved and issued.	4.- Compliance by the LFIs of the New Guidelines on Limits on Large Loan and on Loans to Shareholders, Directors, Officers and other Related Persons, verified by the BOG.
	5.- Identification of the legislative amendments to supervise the New Building Society (NBS) under the BOG, conducted by the BOG.	5.- Letter of the BOG addressed to the Bank and copy of a report identified the legislative amendments.	5.- Amendments to supervise the NBS under the BOG, drafted and submitted to Cabinet.	5.- New legislation to supervise the NBS under the BOG, enacted.
	6.- Plan to enhance supervisors' technical capacity to enforce norms and regulations, approved by the BOG.	6.- Circular by the BOG approving the Plan and copy of the Plan submitted to the Bank.	6. Plan to enhance supervisors' technical capacity to enforce norms and regulations, being implemented.	6.- Plan to enhance supervisors' technical capacity to enforce norms and regulations, being implemented.
III. ACCESS TO FINANCIAL SERVICES				
Improve the access to financial services of firms and individuals in order to foster the development of productive	1.- Analysis to develop new financial instruments, such as leasing, initiated.	1.- BOG presents to the Bank the TOR for the analysis to develop new financial instruments and the Bank verifies that studies are being prepared.	1- Prepared a framework for the development of new financial instruments,.	1- Adopted a framework for the development of new financial instruments.

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economic activities.	2.- Monitoring by BOG of small scale financial institutions (microfinance entities), initiated.	2.- BOG report on initiation submitted to the Bank.	2. Monitoring of small scale financial institutions (microfinance entities), continues to be implemented.	2.- Monitoring of small scale financial institutions (microfinance entities), continues to be implemented.
	3.- Partnerships between commercial banks (GAB) and MFIs, facilitated by BOG.	3.- BOG sources and forwards report from GAB to the Bank addressing new and recent developments.	3.- None	3.- None
	4.- Identification of the legislative amendments required to facilitate the establishment of a Credit Bureau, conducted by the BOG.	4.- Letter of the BOG addressed to the Bank and copy of a report identified the legislative amendments.	4.- Amendments to establish a Credit Bureau drafted and submitted to Parliament.	4.- Credit Bureau, being implemented.
	5.-Creditor rights in the judicial system, improved.	5.- Act_____, and report to the Bank prepared by the MOF assessing the progress on the implementation of the establishment and function of the Commercial Courts.		
IV. MONETARY POLICY AND SYSTEMS OF PAYMENTS				
Increase the public dissemination of the BOG financial sector policy to foster transparency and accountability.	1.- Annual and Half-year reports on the state of the nation's economy with special emphasis to financial sector developments and domestic inflation control prepared by the BOG and presented to Cabinet.	1.-Annual and half-Year reports published on the web page of the BOG and Letter of the BOG submitting the reports to MOF.	1.-Annual and half-Year reports published on the web page of the BOG and Letter of the BOG submitting the reports to MOF.	1.-Annual and half-Year reports published on the web page of the BOG and Letter of the BOG submitting the reports to MOF.
	2.- Framework to support automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance, under preparation by the MOF and BOG.	2.- TOR presented to the Bank for the preparation of the framework for the automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance.	2.- Framework for the automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance, prepared and adopted.	

FINANCIAL SECTOR REFORM PROGRAM

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	3.- Study examining the options for setting up a loss-sharing arrangement for large-value transfer system, consistent with best practices, initiated.	3.- TOR presented to the Bank for the preparation of the study to examine the options for setting up a loss-sharing arrangement for large-value transfer system, consistent with best practices.	3.- Framework establishing the criteria for loss-sharing arrangement for large-value transfers system, consistent with best practices, prepared and adopted.	
V. ANTI- MONEY LAUNDERING FRAMEWORK				
Improve anti-money laundering and countering the financing of terrorism.	Draft Bill of the new anti-money laundering and countering the financing of terrorism incorporating international best practices, such as: (1) establishment and management of a Financial Intelligence Unit; and (2) provide comprehensive powers for the prosecution of money laundering and terrorism financing, prepared.	Letter of the BOG addressed to the Bank and copy of the draft bill.	Bill addressing the new anti-money laundering and countering the financing of terrorism incorporating international best practices, such as: (1) establishment and management of a Financial Intelligence Unit; and (2) provide comprehensive powers for the prosecution of money laundering and terrorism financing, submitted to Cabinet.	Bill on Anti-money Laundering and Countering the Financing of Terrorism, enacted.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/08

Guyana. Loan ____/BL-GY to the Co-operative Republic of Guyana
Financial Sector Reform Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Co-operative Republic of Guyana, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a financial sector reform program. Such financing is under the multilateral debt relief and concessional finance reform at the Bank, and will be for the amount of up to US$2,500,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ______ ____)

LEG/SGO/GY/IDBDOCS/1735649
GY-L1016

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PROPOSED RESOLUTION DE-__/08

Guyana. Loan ____/BL-GY to the Co-operative Republic of Guyana
Financial Sector Reform Program

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That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Co-operative Republic of Guyana, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a financial sector reform program. Such financing is under the multilateral debt relief and concessional finance reform at the Bank, and will be for the amount of up to US$2,500,000, from the resources of the Bank's Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ________ ____)

LEG/SGO/GY/IDBDOCS/1735656
GY-L1016