

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CO-OPERATIVE REPUBLIC OF GUYANA

FINANCIAL SECTOR REFORM PROGRAM II

GY-L1021

LOAN PROPOSAL

This document was prepared by the project team consisting of: Olver Bernal (ICF/CMF), Project Team Leader; Navita Anganu (CMF/CJA); Derise Williams (CCB/CGY); Diego Buchara (LEG/SGO); Musheer Kamau (CCB/ CCB); and Dianela Avila (ICF/CMF).

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ELECTRONIC LINKS	
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1.	Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=2186587
2.	Means of Verification http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=2163720
3.	Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=2163727

ABBREVIATIONS

BOG	Bank of Guyana
BSD	Bank Supervision Department
CAR	Capital Adequacy Ratio
CLICO	Colonial Life Insurance Company
DBS	Director of Bank Supervision BOG
ESMR	Environmental and Social Management Report
ESS	Environmental and Social Strategy
FIU	Financial Intelligence Unit
GAB	Guyana Associations of Bankers
GDP	Gross Domestic Product
GPL	Guyana Power and Light, Inc
HIPC	Heavily Indebted Poor Country
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LFI	Licensed Financial Institutions
M2	Broad Money Supply
MDRI	Multilateral Debt Relief Initiative
MFI	Multilateral Financial Institution
NBS	New Building Society
NPV	Net Present Value
PBL	Policy Based Loan
POD	Proposal for Operation Development
PRGF	Poverty Reduction and Growth Facility
ROA	Return on Asset
ROE	Return on Equity
SBSP	Strengthening Bank Supervision Project
SSF	Safeguard and Screening Form for Screening and Classification of Projects

PROJECT SUMMARY
CO-OPERATIVE REPUBLIC OF GUYANA
FINANCIAL SECTOR REFORM PROGRAM
(GY-L1021)

Financial Terms and Conditions				
Borrower: Co-Operative Republic of Guyana			OC	FSO
		Amortization Period:	30 years	40 years
Executing Agency: Bank of Guyana		Grace Period:	6 years	40 years
Source	Amount	Disbursement Period	12 months	
IDB (OC)	USD\$2.5M	Supervision and Inspection Fee: (%)	*	0.0%
IDB (FSO)	USD\$2.5M	Interest Rate: (%)	SCF Fixed	0.25%
Other/Co-financing		Credit Fee: (%)	*	0.0%
Local	0.0			
Total	USD\$5.0M	Currency:	US Dollars	
Project at a Glance				
Project Objective / Description:				
This operation is the second in a series of three programmatic policy-based loans, each of up to US\$5 million, aimed at strengthening the financial sector (§1.23). More specifically, the Program will consolidate the supervision capacity of Bank of Guyana (BOG), increase access to financial services, enhance transparency in the financial sector through public dissemination of financial data, and boost the efficiency of the payment system. Additionally, the Program would contribute to augment the capacity of the authorities to control money laundering. The Program will include policy interventions in five areas: i) enhance macroeconomic stability (§1.26); ii) strengthening of the financial sector, improve the regulatory framework and the efficiency of the financial sector (§1.28); iii) improve access to financial services of firms and individuals in order to foster the development of productive economic activities (§1.32); iv) increase the public dissemination of the BOG financial sector policy to foster transparency and accountability (§1.36); and v) improve anti-money laundering and countering the financing of terrorism (§1.40).				
Special contractual clauses: See Policy Matrix (Annex II).				
Exceptions to Bank policies: None				
Project qualifies for: SEQ[] PTI[] Sector [] Geographic[] Headcount []				
Procurement: N/A				

(*) 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 from 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, Problem Addressed, Justification

- 1.1 This operation is the second in a series of three programmatic policy-based loans, each up to US\$5 million, for a total of US\$15 million. On December 10, 2008 the Bank's Board of Executive Directors approved the first operation in this programmatic series (Loan No. 2091/BL-GY) for US\$5 million, which was disbursed on December 18, 2008. The proposal for that loan is the framework document for the programmatic series (document PR-3356), and the present proposal updates, complements, and follows up on it, in accordance with the guidelines established in Memorandum EVP/1/2006 (PO-LO-2006) of March 6, 2006. The 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 and financial services in Guyana. It will contribute to an improved business climate which will aid private sector development and growth in the economy.
- 1.2 Despite external shocks and social pressures, macroeconomic stability was preserved in 2008 and 2009. Guyana's financial system remains relatively stable following events related to the recent global financial crisis, including the regional collapse of Colonial Life Insurance Company (CLICO), based in Trinidad and Tobago with a subsidiary in Guyana. It is important to commend the authorities for their notable commitment to reforms of the financial sector as the triggers stipulated since the beginning of the Program have all been achieved. In particular, it is important to mention that the Bank of Guyana (BOG) made progress in issuing new guidelines for bank supervision, which are in line with international best practices as well as improve substantially on the disclosure of financial system information to the public. Progress was also made on several notable financial sector institutional initiatives, including the adoption of a new risk-based approach to bank supervision. Most notable amongst the achievements has been the enactment of a fully comprehensive Anti-money Laundering legislation. With these developments, the BOG will strengthen the financial sector, improve the regulatory framework and facilitate the efficiency of the credit and financial services entities.
- 1.3 **Macroeconomic Conditions:** The Government of Guyana (GOG) has maintained a sound macroeconomic policy framework despite the food, fuel, and global economic crises, which originated in 2008. After a period of low economic growth (average of 0.3% between 1998 and 2005), the Guyanese economy, spurred by revitalized private and public investments, grew moderately at 4.7% in 2006 and 5.4% in 2007. In 2008, growth decelerated to 3.2%. In 2008, despite favorable rice output and prices, growth was lower than anticipated due to a significant shortfall in sugar production. Sugar output declined by 15% as a result of heavy rains and problems related to the start-up of the new state of the art sugar factory at Skeldon, Berbice. Growth is projected to be about 2.0% for 2009, again

depending on the performance of the sugar sector. On the basis of IMF projections, average growth during the medium term 2009-2013 is expected to be about 4%.

- 1.4 The fiscal deficit declined to 11.7% of GDP in 2006 from 13.6% in 2005, further narrowing to 9.1% in 2007 and 8.6% in 2008. Given recent economic conditions and GOG's responses to the global crisis, the projected deficit of 6.5% will not be attained; however, a very marginal continuation of the consolidation trend is expected in 2009. The projected fiscal position is based on a stronger revenue position (as a result of improvements in tax administration) and more conservative expenditure management. Oil prices have begun another upward climb (albeit at a slower pace than in 2008) and depressed sugar prices will continue to present challenges to public finances. As a result, even while responding to these developments, the Government is committed to maintaining prudent wage policies, and improving the financial situation of public enterprises. Increases in electricity tariffs were announced in 2008 and should somewhat address Guyana Power and Light Inc.'s (GPL) delicate financial situation.
- 1.5 The Government supports the electricity sector through subsidies and recently reduced taxes on fuel to offset some of the pressure presented by increasing prices. Fiscal consolidation is important for Guyana to achieve a more sustainable deficit of about 5.6% by 2010 and 3% by 2013. This includes having stricter expenditure control and possibly implementing additional fiscal measures.
- 1.6 Monetary policy continues to focus on maintaining price and exchange rate stability while creating an enabling environment for credit and economic growth. For 2008 and 2009, monetary indicators reflected less commercial activity. The growth of base money slowed from 7.5% at end-2008 to 5.5% in May. Deposits by foreign residents grew twice as fast as those by domestic residents during Q1 2009. Net domestic credit of the banking system declined during the same period by 5.5% compared with an increase of 3.0% during the same period in 2008. Inflation (year-on-year) has fallen steadily since the end of 2008 and is expected to settle at about 5% by end of 2009.
- 1.7 For 2009, the external account is expected to remain fully financed. Although a decline in remittances and exports is expected, a similar decrease in imports should narrow the current account deficit to about 19% of GDP. This will be supported by net official financing of approximately US\$295 million. In all, Guyana will have a reserve cover of about 3.5 months of imports. This outlook is subject to the future evolution of oil prices and remittances flows.
- 1.8 Public debt levels became unmanageable by the end of the 1980s, when Paris Club provided debt restructuring and debt reduction. Additional debt relief provided by the IDB and others also contributed to improve the overall position of the central government. By December 2008, Guyana's external debt-to-GDP ratio reached 72.7%. The external debt service (as percentage of exports), equivalent to 6% in 2006, fell to 2.5% in 2008. In NPV terms, the external debt-to-GDP ratio

also dropped from 72 to 60% in 2006 and then to 41% in 2008. This value is projected to increase to about 47% in 2009. The external debt-to-revenue ratio declined from 204.6% in 2006 to a projected 119% in 2008.

- 1.9 A complete review of the recent economic developments in Guyana in the IMF Article IV review (approved by the IMF Board on February 27, 2009) and in the IDB's recent Independent Macroeconomic Assessment (IMA) demonstrate that the macroeconomic framework in Guyana is appropriate for a policy-based loan.
- 1.10 **Financial Sector in Guyana.**¹ As mentioned in the GY-L1016 Loan Proposal Document, according to the Financial Sector Assessment Program (FSAP) for Guyana (2006), there appears to be three main reasons for the stagnant performance of bank credit in the recent past. Firstly, credit demand was limited by the low overall growth. Secondly, banks have been more reluctant and risk averse to lending in the wake of the large share of loans to the agricultural sector that were not honored in the late 90s. This factor, together with institutional rigidities has contributed to the persistence of high lending spreads. Thirdly, the weak credit information infrastructure where financial reporting is not always reliable and its availability is mostly restricted to large corporate borrowers has led to banks relying heavily on physical and "reputational" collateral.
- 1.11 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 been progress regarding the regulatory framework for supervision; however, the BOG still needs to pursue policies to raise intermediation and foster stability. This has become more apparent in light of the regional collapse of CLICO and the international financial crisis. While prudential requirements are broadly aligned with international standards (including capital adequacy, loan classification, and supervisory methods), weaknesses remain in risk management and other specific provisions. There is a need for measures to enhance the disclosure and sharing of information among market participants. Institutionally, for the continued effectiveness of the Bank Supervision Department there needs to be an approach to human resource development that counters staff turnover while remaining vigilant with the ever changing financial landscape.
- 1.12 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. Weaknesses in insurance supervision which became pronounced after the CLICO collapse has also become evident. 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. While the ratio of banking system deposits to GDP is in line with that of other CARICOM countries and is higher than other small, low-income, commodity-based countries, the bank

¹ All the information in this section is based on the information publicly by the BOG at its web page: www.bankofguyana.org.gy.

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. There is no formal system, such as would be provided by credit bureaus, for assessing credit applicants' payment histories. The absence of this information increases the transactions costs of providing credit for both the financial institution and the client. In particular, this discourages lending to smaller enterprises and lower-income households due to the high relative cost of obtaining this information for small loans.

- 1.13 The authorities have taken measures to improve compliance with Basle Core Principles and have prepared legislations to facilitate the creation of a credit bureau, regulate money transfer agencies, bolster anti-money laundering initiatives, and combat the financing of terrorism. Despite the failure of CLICO in 2008, direct spillovers from the global financial crisis on the banking system have so far been limited. The banks remain well capitalized, and profitable. The overall financial system remains sound.
- 1.14 **Commercial Banks Lending Activity.** Banks accounted for about 70% of financial assets. The banking system is still concentrated. The largest two banks hold about half of the banking assets. In June 2009, the top 20 borrowers had loans for more than 137% of the banks equity. Loans to the private sector during 2008 increased by US\$52.1 million or 20.8% compared with US\$34.3 million or 15.9% for the corresponding period of 2007. Commercial banks continue to hold a significant part of their investment portfolio in government securities with treasury bills amounting to US\$221.2 million, a 28.7% increase from US\$171.9 million in 2007. Loans and advances to the private sector grew by 21.8% to US\$446.7 million compared with an 18.7% increase in 2007. This growth was due primarily to increased lending to the mining, rice milling, real estate mortgage, distribution, and agriculture sectors. Private sector credit represented 48.5% of M2 during the review period compared with 44.9% in 2007. The ratio of banks credit to resident deposits increased to 0.34% from 0.31%. The commercial banks' major exposures to the private sector were 25% to real estate, 22% to personal, 16% to distribution, 13% to manufacturing, 10% for services, 8% for the 'other' category, 4% for agriculture and 2% for mining.
- 1.15 **Non-Bank Financial Institutions (NBFI).** During 2008, the financial resources of NBFIs, which include depository and non-depository licensed and unlicensed financial institutions, grew by 9.5%, to US\$697.0 million. In addition, their share of total assets in the financial sector increased from 38.0% to 38.2%. Total resources of the New Building Society (NBS) increased by 6.7% to US\$178.9 million and accounted for 26.5% of total assets of NBFIs. The consolidated

resources of the pension schemes increased by 7.7% compared with a 6.9% increased in 2007. Hence, the pension schemes' share of total NBFIs' resources increased to 14.5% from the 14.3% in 2007.

- 1.16 **Solvency Ratios of Banks and NBFIs.** The commercial banks reported higher levels of capital, profits and liquidity during the first half of 2009. In fact, the Capital Adequacy Ratio (CAR) remained well above the prudential 8% benchmark (17.35% at end-June 2009), while the annual Return on Equity (ROE) increased to 7.94% at end-June 2009. The liquid assets represented 26.4% of total assets. Non-performing loans represented 8.7% of their total loans in 2008 compared with 10.7% in 2007. The ratio of related parties' loans to total loans shifted slightly from 5.5% to 6.0% in 2008, largely as a result of loans to related parties increasing by 38.7%. On the other hand, the NBFIs presented at end-June 2009 a CAR of 9.9% and liquid assets as a share of total assets of 10.7%. Also the ROE is negative (22.8%) reflecting the impacts of the regional financial fallout involving CLICO and the top 20 borrowers account for more than the 240% of their equity.
- 1.17 **Regulation and Supervision.** The BOG continues to monitor the stability of the financial sector through the application of a risk-based approach to supervision and a more enhanced surveillance outlook. On-site examination and offsite surveillance conducted on most of the Licensed Financial Institutions (LFIs) during the year revealed greater risk awareness among the institutions, rigorous Board of Directors and management oversight, and overall improvement in the asset quality and profitability of the institutions. Examinations of five LFIs were completed in 2008 using the risk-based approach. The adoption of this risk-based approach has allowed examiners to identify and focus on the various risks facing individual institutions, and involved a greater degree of interaction and dialogue among examiners, board members, management, and external auditors of the LFIs. The Bank of Guyana also issued new guidelines for risk management which are in line with international best practices. The BOG places significant emphasis on the board of directors and senior management taking responsibility for the licensed financial institution's systems and controls and, in particular, assessing and managing risks. The Bank continues a rigorous and comprehensive training program for its supervision staff in keeping with new developments in the global, regional, and local financial sector. The Government has also recently brought the supervision of the insurance sector under the ambit of the Central Bank after the regional financial fallout involving CLICO.
- 1.18 **Main Issues and Recent Developments.** Reforms supported by the first programmatic loan (LO- 2091/BL-GY) focused on regulations and supervision of the financial sector; access to financial services; monetary policy and systems of payments and improving the anti-money laundering framework while maintaining a sustainable macro economic framework to facilitate this transition to a sound financial sector. The authorities are committed to ensuring a sustainable macroeconomic framework in the medium term, although future risks remain in the context of the global financial crisis and volatile fuel prices. The BOG has

taken steps to amend the legislation to enhance coordination and information sharing among supervisory agencies. In addition, the key financial ratios of all deposit taking Licensed Financial Institutions (LFIs) are now publicly disclosed and updated quarterly on the web site of the BOG; this allows for greater transparency of the financial system; however this process needs to be continued.

- 1.19 New guidelines required to introduce risk based supervision, in particular the Guidelines on Corporate Governance and more recently, Guidelines on Risk Management have been approved and issued to the financial institutions. The Central Bank is upgrading the skills set of its supervisory staff in keeping with international norms and has presented a comprehensive plan which is being implemented. The identification of the legislative amendments were drafted to bring the supervision of the New Building Society (NBS) under the BOG. The BOG now collects financial data from small scale financial institutions (micro-finance entities) and Commercial Banks are forging business relations with multilateral financial institutions. The draft act establishing the Credit Bureau will be laid in parliament soon and the commercial court continues operating to alleviate the time taken by business in resolving commercial cases in the court system. The BOG is now publishing their half-yearly and annual reports on their website and the authorities have already implemented an automated payments systems which currently supports public sector salaries and pensions payments. This framework for the automation of payment and transfer mechanisms allows for a more timely and inexpensive method for the payment of public sector salaries and pensions. Public assistance payments are also to be added to this mechanism. The legislation for the establishment of a credit bureau has been drafted and is currently with the Attorney General's chambers. The government has ensured the continuous and efficient operation of the commercial court which has reduced both the time and cost in resolving commercial disputes.
- 1.20 **Alignment with Bank Country Strategy:** The 2008-2012 Country Strategy with Guyana consists of three main pillars: i) Strategic Infrastructure Investments; ii) Enhanced Competitiveness; and iii) Social Development for Growth. The current Program supports the competitiveness and social pillars since it will strengthen the financial sector and, more importantly improve access to credit. Following debt relief from the IDB in 2007, Guyana now has access to less concessional financing than during the previous strategy. The programmatic approach has therefore been adopted to maximize the use of these allocations.
- 1.21 **Lessons Learned:** The programmatic approach has been successful. The authorities have maintained their commitment to the reform program development. Based on the experience of the Bank during the first and second phases of this Program, the need to maintain a continuous technical dialogue with the different stakeholders stands out as important in supporting the GOG in making informed decisions on relevant policies. In addition, the Program is dynamic as it incorporates the changes in the external environment that affected the implementation of some of the actions. For example, the global financial crisis

changed a few of the priorities of the Government (such as bringing the insurance sector under the Central Bank) while it also highlighted further needs for reforms.

- 1.22 **Progress in the Implementation of the Policy Conditions for the Second Operation:** The first and second operations (of the three) focused on defining a set of actions needed for strengthening the financial sector and improving the capacity to control money laundering. As it will be elaborated below, most of the actions (policies) have been carried by the BOG and a few of them are in process of being fulfilled once the corresponding administrative steps are finalized.

B. Objective, Components and Cost

- 1.23 **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 consolidating the supervision capacity of BOG, improving access to financial services, increasing transparency in the financial sector through public dissemination of financial data, and improving the efficiency of the payments system. Additionally, the Program will contribute to strengthening the capacity of the authorities to control money laundering.
- 1.24 **Program Justification:** In light of Guyana's financial sector developments and its strategy based on outward-oriented policies, the authorities recognize the importance of continuing reforms which enhance financial deepening and improve access to credit. The Policy Matrix of this operation is intended to address the issues under these two axes.
- 1.25 **Program Structure:** The programmatic operation, as defined from the beginning, has five components, namely: i) enhance macroeconomic stability; ii) strengthening of the financial sector, improve the regulatory framework and the efficiency of the financial sector; iii) improve access to financial services of firms and individuals in order to foster the development of productive economic activities; iv) increase the public dissemination of the BOG financial sector policy to foster transparency and accountability; and v) improve anti-money laundering and countering the financing of terrorism. The conditions prior to disbursement of the loan for each component, the corresponding means of verifications, as well as the triggers for the subsequent operation in the series are detailed in the Program's Policy Matrix (Annex II).
- 1.26 **Component I: Enhance macroeconomic stability.** The objective of this component is to sustain a stable macroeconomic environment that is consistent with the Program objectives.
- 1.27 **Policy Condition:** The macroeconomic framework of the Borrower is consistent with the objectives of the Program and the GOG's 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 an Independent Macroeconomic Assessment to evaluate independently the current economic conditions and prospects. Throughout the implementation of the Program, the Bank will monitor economic trends and consult with other international agencies, especially the IMF.

- 1.28 **Component II: Strengthening of the financial sector, improve the regulatory framework and the efficiency of the financial sector.** The objective of this component is to enhance 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 in the financial sector, is also addressed.
- 1.29 **Policy Conditions:** The necessary actions taken by BOG in order to implement a new supervisory approach are as follows:
- a. **Disclosure and dissemination of key financial ratios of LFIs.** Key financial ratios of all deposit taking LFIs have been publicly disclosed by the BOG. The BOG now publishes on a quarterly basis on its web site, the following financial ratios: i) capital ratios, such as total qualifying capital/risk weighted assets and tier 1 capital/risk weighted assets; ii) asset quality ratios, such as risk weighted assets/total assets and non-performing loans/total loans; iii) earnings ratios, such as ROA and ROE; and iv) liquidity ratios, such as liquid assets/total assets and liquid assets/total demand & time liabilities. The publication of these data allows for greater transparency and dissemination of information of the financial system. The third trigger of this condition requires that the public dissemination of these key financial ratios be continued.
 - b. **New legislation to enhance coordination and sharing of information among supervisory agencies is drafted and should be submitted to Cabinet.** The BOG already prepared the new draft legislations which were submitted to the MOF. The MOF is in the process of submitting the proposed draft legislations to Cabinet. As a trigger for the third operation, it is required that the legislation to enhance coordination and sharing of information among supervisory agencies, be enacted.
 - c. **Introduce new guidelines on risk management².** The BOG issued a new guideline on Risk Management in July 2009 with the objective of ensuring safety and financial soundness, protecting depositors' funds and enhancing shareholder value. The new guideline clearly identifies the division of responsibilities and establishes 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

² Originally, it was required to update the regulation on Limits on Large Loan and on Loans to Shareholders, Directors, Officers and other related persons, but the authorities and the project team agreed to work first on the Risk Management Guidelines.

stakeholders, such as creditors, employees, customers, and the community. The trigger for the third operation is that new guidelines be issued on public disclosure of information related to pillar 3 of the Basle II – Market Discipline.

- d. **Legislative amendments to supervise the New Building Society (“NBS”) under the BOG have been drafted and submitted by the MOF to Cabinet.** The NBS is the largest financial institution for mortgage credit in Guyana; however it is not under the supervision of the BOG. The BOG had already identified and prepared the legislative amendments required to allow the BOG to supervise the NBS. The MOF is in the process of submitting the proposed draft new legislation to Cabinet. As a trigger for the third operation, it is required that the amendments identified and prepared for the BOG to supervise the NBS be enacted and implemented.
 - e. **A plan to enhance supervisors’ technical capacity to enforce norms and regulations being implemented by BOG.** Due to high staff turnover because of migration, and because of the dynamic issues affecting the global financial sector, the BSD is required to maintain an appropriate staff training program. The Central Bank is upgrading the skills set of its supervisory staff in keeping with international norms and has approved a comprehensive plan. Continuous upgrading of the set of skills of the supervisory staff will be a trigger for the third operation.
- 1.30 In summary, in the area of improving the regulatory and supervisory framework of the financial sector, the BOG has taken important steps in drafting the amendments of the legislation (the Financial Institutions Act) to enhance coordination and sharing of information amongst supervisory agencies. In addition, the key financial ratios of all deposit taking Licensed Financial Institutions (LFIs) are now publicly disclosed and new guidelines required to introduce risk based supervision, in particular the Guidelines on Risk Management, have been approved and issued to the financial institutions. The BOG has also approved, and is in the process of implementing, a training plan for the Bank supervision staff to enhance their technical capacity. The legislative amendments are already drafted to bring the supervision of the New Building Society (NBS) under the BOG. The BOG made progress in issuing new guidelines which are in line with international best practices as well as improve substantially on the disclosure of financial system information to the public. With these developments, the BOG will strengthen the financial sector, improve the regulatory framework, and facilitate the efficiency of the credit and financial services entities.
- 1.31 For the subsequent operation, the triggers are: i) quarterly update of key financial ratios of all deposit taking Licensed Financial Institutions published on the website of the BOG; ii) enactment of the new legislations to enhance coordination and sharing of information among supervisory agencies; iii) update of other aspects of the supervision in accordance with international best practices on the

risk-based supervision, in particular public disclosure of information related to Pillar 3 of BASEL II – Market discipline; iv) enactment and implementation of the Amendments identified for the BOG to supervise the NBS; and v) implementation of the plan to enhance supervisors' technical capacity.

1.32 **Component III: Improve access to financial services of firms and individuals in order to foster the development of productive economic activities.** The objective of this component is to develop policies to facilitate the creation of new financial instruments, strengthen microfinance institutions, and eliminate barriers to access credit. In short, its objective is to improve access to financial services of firms and individuals.

1.33 **Policy Conditions:** The actions taken by the Government of Guyana are as follows:

- a. **A framework for the development of new financial instruments, is being prepared by BOG.** The objective of this action is to develop a framework aimed at analyzing and developing new financial instruments. A consultant has been hired to develop a draft framework for new financial instruments such as leasing and factoring. The initial draft report is in the process of being presented to the BOG. For the third operation, it is required that the framework for the development of the new financial instruments be adopted.
- b. **Monitoring by BOG of small scale financial institutions (microfinance entities), continues to be implemented.** The Central Bank has begun monitoring financial institutions which are lenders of micro-credit. While Guyana does not have a large market and many players in this segment, there are sufficient agencies to require monitoring. Monitoring has continued and the results are published on the BOG's website. For the subsequent operation, it is required that evidence to support the continued monitoring of small scale financial institutions (microfinance entities) be submitted.
- c. **Legislation to establish a Credit Bureau has been drafted and submitted to Cabinet.** A first new legislation proposal has been drafted by BOG. Said draft is in the process of being submitted by the MOF to Cabinet. For the third operation, it is required that the legislations to establish a Credit Bureau be enacted.
- d. **Creditor rights in the judicial system have been enhanced.** The government has ensured the continuous and efficient operation of the commercial court. This has resulted in less time being taken to resolve commercial disputes. This should continue for the third operation.

1.34 In summary, the Bank of Guyana has taken significant steps to increase access to financial services. A consultant has been recruited to provide the technical assistance required to research the development of new financial instruments appropriate for Guyana. The BOG now collects financial data from small scale

financial institutions (micro-finance entities) and commercial banks are forging business relations with multilateral financial institutions. The draft Act establishing the Credit Bureau is expected to be tabled in Parliament before the end of 2009 and the commercial court continues to operate to reduce the time taken to resolve commercial cases in the court system.

- 1.35 For the subsequent operation the triggers are that: i) the framework for the development of new financial instruments is adopted; ii) evidence to support the continued monitoring of small scale financial institutions (microfinance entities) is submitted; iii) the legislations to establish a Credit Bureau be enacted.

- 1.36 **Component IV: Increase the public dissemination of the BOG financial sector policy to foster transparency and accountability.** Existing gaps in the payments system are, among others, absence of information and high transactions costs related to the use of financial services, leading to lack of competitiveness. The objective of this component is to increase the public dissemination of the BOG financial sector policies to foster transparency and accountability and support the use of electronic payments systems to reduce transaction costs. The objective of the reforms is to support permanent and consistent dissemination of monetary and financial policies and the introduction of automation to improve efficiency of the payments system.

- 1.37 **Policy Conditions:** The actions taken by the Government of Guyana are as follows:

- a. **Annual and half-yearly report on the state of the nation's economy with special emphasis on financial sector developments and domestic inflation control, have been disseminated by BOG.** The BOG is now publishing their half yearly and annual reports on their website. Special emphasis is being placed on the financial sector developments and domestic inflation control by the BOG. This action should continue as a trigger for the third operation.
- b. **A framework for automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance have been prepared.** The authorities have already implemented an automated payment system which supports public sector salaries and pensions payments. Public assistance payments will be added to this mechanism as a trigger for the third operation.
- c. **A framework establishing the criteria for loss-sharing arrangement for large-value transfer system, consistent with best practices, has been prepared and adopted.** The authorities are seeking to broaden the use of electronic tools as a means of reducing risk and lowering the cost of transactions in the economy. An international consultant has been hired to examine this topic and has completed his work. The BOG started the implementation of the short term recommendations.

- 1.38 In summary, the achievements of the BOG in improving monetary policy and payments systems have been noteworthy. With these actions, the BOG will increase the public dissemination of the financial sector policies so as to enhance transparency and accountability and facilitate a supportive environment for the use of electronic payments to reduce transaction costs.
- 1.39 For the subsequent operation it is requested that the framework for the automation of public assistance be developed and adopted. It is also expected that the framework establishing the criteria for loss-sharing arrangements for a large-value transfer system, consistent with best practices, will be adopted.
- 1.40 **Component V: Improve anti-money laundering and countering the financing of terrorism.** The objective of this component is to enhance and improve anti-money laundering and counter the financing of terrorism.
- 1.41 **Policy Conditions:** The action taken by the Government of Guyana is as follows: A bill on Anti-money Laundering and Countering the Financing of Terrorism incorporating international best practices, such as: i) establishment and management of a Financial Intelligence Unit; and ii) provide sufficient and adequate powers for the prosecution of money laundering and terrorism financing, be tabled in Parliament.
- 1.42 The most notable achievement by the Government is that the new Anti-Money Laundering and Countering of Terrorism Act was not only tabled but passed in Parliament and assented to by the President in August 2009. The new law provides for oversight of the export and insurance industries, real estate, and alternative remittance systems; and sets forth the penalties for non-compliance. It also establishes the Financial Intelligence Unit (FIU) as an independent body that reports to the President, and defines in detail its role and powers. The new law is believed to be a significant improvement on previous anti-money laundering legislation and covers, among other things, the freezing and forfeiture of assets owned or controlled by persons suspected of engaging in money laundering activities. For the third operation, the Program will support the implementation of the new legislation.

C. Key Results Indicators

The Program outputs are reflected in the policy and institutional reform commitments of the authorities in each of the three individual operations (Annex II, Policy Matrix). The results of these activities will be measured by publicly available data for 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 comprises three operations of up to US\$5 million each (on a 50/50 basis of Ordinary Capital OC and Fund of Special Operations 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.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 in Directive B.13 of the Environment and Safeguards Compliance Policy (GN 2208-20 and OP-703), this operation does not require classification.

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 other multilateral institutions. 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, in addition to the derivate 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 strategies and policy documents provide assurances that these actions will be undertaken. In terms of the conditions for disbursement of the second loan, most of them have been met prior to Board presentation.

³ See "Policy-Based Loans: Guidelines for Preparation and Implementation" (CS-3633).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 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 of compliance with the Program's conditions and for the subsequent individual operations. The Bank of Guyana will be responsible for: i) coordinating Program execution; ii) revising and presenting the work plans and progress reports; iii) monitoring the compliance of conditionalities and performance benchmarks set out in the Policy and Means of Verification Matrix agreed between the GOG and the Bank; iv) collect the evidence of compliance of Program's commitments; and v) collect the information needed for the indicators specified in the Results Matrix. The Ministry of Finance will monitor the implementation of the Program.

B. 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: i) verifying the degree of achievements with the indicators for the Program and its components; ii) taking stock of the successes and shortcomings of Program design and execution and its effectiveness in working toward the country's development objectives; and iii) recommending corrective or monitoring measures for the third operation of the programmatic series.

ANNEX I

The information contained in this document is confidential.

ANNEX II – POLICY MATRIX AND MEANS OF VERIFICATION
(GY-L1021)

PROGRAM OBJECTIVES	SECOND PROGRAMATIC LOAN	MEANS OF VERIFICATION	TRIGGERS FOR THIRD OPERATION
Enhance 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.
Strengthening of the financial sector, improve the regulatory framework and the efficiency of the financial sector.	1. Key financial ratios of all deposit taking Licensed Financial Institutions (LFIs), updated quarterly on the web site of the BOG. (Complete)	1. Ratios published on the BOG web site.	1.- Key financial ratios of all deposit taking Licensed Financial Institutions (LFIs), updated quarterly on the web site of the BOG.
	2.- Amendments to enhance coordination and sharing of information among supervisory agencies identified in the report, drafted and submitted to Cabinet. (Partially complete: The BOG already prepared the new draft legislations which were submitted to the MOF. The MOF is in the process of submitting the proposed draft legislations to Cabinet).	2.- Letter of the MoF addressed to the Bank and copy of the report identifying the legislative amendments	2.- New legislation to enhance coordination and sharing of information among supervisory agencies enacted.
	3.- New Guidelines 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. (Complete)	3- Circular of the BOG approving the new guidelines on risk management published on the web site of the BOG.	3.- New guidelines issued on public disclosure of information related to pillar three (3) of Basel II – Market Discipline.

ANNEX II – POLICY MATRIX AND MEANS OF VERIFICATION
(GY-L1021)

PROGRAM OBJECTIVES	SECOND PROGRAMATIC LOAN	MEANS OF VERIFICATION	TRIGGERS FOR THIRD OPERATION
	4.- Amendment to supervise the NBS under the BOG, drafted and submitted to Cabinet. (Partially complete: the BOG had already identified and prepared the legislative amendments required to allow the BOG to supervise the NBS. The MOF is in the process of submitting the proposed draft new legislation to Cabinet)	4.- Letter of the MoF addressed to the Bank and copy of the report identifying the legislative amendment submitted to Cabinet.	4.- New legislation to supervise the NBS under the BOG enacted.
	5.- Plan to enhance supervisors' technical capacity to enforce norms and regulations, being implemented. (Complete)	5.- The 2009 Training and Exposure Plan of the BOG for the Bank Supervision Staff.	5.- Plan to enhance supervisors' technical capacity to enforce norms and regulations being implemented
Improve access to financial services of firms and individuals in order to foster the development of productive economic activities.	1.- Prepare a framework for the development of new financial instruments. (Complete)	1.MoF presents to the Bank, evidence of the consultancy studies of new financial instruments and the Bank verifies that the studies are being conducted.	1- Adopt a framework for the development of new financial instruments.
	2.- Monitoring of small scale financial institutions (microfinance entities), continues to be implemented. (Complete)	2.- BOG presents evidence of the monitoring of small scale financial institutions.	2. Monitoring of small scale financial institutions (microfinance entities) continues to be implemented.
	3.- Legislation to establish a Credit Bureau drafted and submitted to Cabinet. (Partially complete: A first new legislation proposal has been drafted by BOG. Said draft is in the process of being submitted by the	3. Letter of the MoF addressed to the Bank and copy of the Credit Bureau Bill submitted to Cabinet.	3.- Credit Bureau Legislation enacted.

ANNEX II – POLICY MATRIX AND MEANS OF VERIFICATION
(GY-L1021)

PROGRAM OBJECTIVES	SECOND PROGRAMATIC LOAN	MEANS OF VERIFICATION	TRIGGERS FOR THIRD OPERATION
	MOF to Cabinet).		
	4.-Creditor rights in the judicial system improved. (Complete)	4.- Report to the Bank prepared by the MoF assessing the progress on the implementation of the establishment and functioning of the Commercial Courts.	4. Report from MOF on the continuous efficiency in the operation of the commercial court.
Increase the public dissemination of the BOG financial sector policy to foster transparency and accountability.	1.- Annual and half-year reports published on the web page of the BOG and Letter of the BOG submitting the reports to MOF. (Complete)	1.-Annual and half-year reports published on the web site of the BOG and the letter of the BOG submitting the reports to MoF.	1.-Annual and half-year reports published on the web site of the BOG and letter of the BOG submitting the reports to MoF.
	2.- Framework for the automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance prepared and adopted. (Complete)	2.- Document presented by MOF to the Bank on the framework for the automation of payment and transfer mechanisms of public sector salaries, pensions and public assistance.	
	3.- Framework establishing the criteria for loss-sharing arrangement for large-value transfers system, consistent with best practices prepared and adopted. (Complete)	3.- Letter of MoF to the Bank submitting the final report of the consultant for the large-value transfers system, consistent with best practices.	3.- Implementation of framework for loss-sharing arrangement for large-value transfers system, consistent with best practices.
Improve anti-money laundering and countering the financing of terrorism.	Bill on Anti-money Laundering and Countering the Financing of Terrorism enacted. 1) establishment and mangement of a Financial Intelligence Unit; and 2) provide	Letter of the MOF addressed to the Bank with a copy of the enacted legislation.	Advances on the implementation of the new Act.

ANNEX II – POLICY MATRIX AND MEANS OF VERIFICATION
(GY-L1021)

PROGRAM OBJECTIVES	SECOND PROGRAMATIC LOAN	MEANS OF VERIFICATION	TRIGGERS FOR THIRD OPERATION
	comprehensive powers for the prosecution of money laundering and terrorism financing, submitted to Paliament. (Complete)		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/09

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

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 II. 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 _____ 2009)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/09

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(Adopted on _____ 2009)