

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUYANA

**MICRO AND SMALL ENTERPRISE (MSE) DEVELOPMENT AND
BUILDING ALTERNATIVE LIVELIHOODS FOR VULNERABLE
GROUPS**

(GY-G1003)

GRANT PROPOSAL

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ABBREVIATIONS

ADF	Amerindian Development Fund
AOP	Annual Operating Plans
CARILED	Caribbean Local Economic Development
CGAP	Consultative Group to Assist the Poor
CGF	Credit Gurantee Fund
CIDA	Canadian International Development Agency
EA	Executing Agency
EPA	Environmental Protection Agency
ESMR	Environmental and Social Management Report
ESMS	Environmental and Social Management System
ESS	Environmental and Social Strategy
GBTI	Guyana Bank for Trade and Industry
GCI-9	Ninth General Increase in the Resources of the Inter-American Development Bank
GoG	Government of Guyana
GoG-PMO	Government of Guyana – Project Management Office
GRIF	Guyana REDD+ Investment Fund
HCS	High Carbon Sectors
IPED	Institute of Private Enterprise Development
LCDS	Low Carbon Development Strategy
LCS	Low Carbon Sectors
LGA	Loan Gurantee Agreement
MFI	Micro Financial Institutions
MIF	Multilateral Investment Fund
MINTIC	Ministry of Tourism, Industry and Commerce
MOU	Memorandum of Understanding
MSE	Micro and Small Entrepreneurs
NCSU	National Competitiveness Strategy Unit
OR	Operational Regulations
PFI	Partner Financial Institutions
POD	Proposal for Operation Development
PP	Procurement Plan
PRSP	Poverty Reduction Strategy Paper
REDD+	Reducing Emissions from Deforestation, Forest Degradation and Sustainable Forest Management
RPL	Republic Bank Limited
RS	REDD-Secretariat

SBB	Small Business Bureau
SBC	Small Business Council
SBDF	Small Business Development Fund
SBDFT	Small Business Development Finance Trust
SDS	Skills Development Training
SME	Small and Medium Size Enterprises
USAID	United States Agency for International Development

PROJECT SUMMARY
GUYANA
MICRO AND SMALL ENTERPRISE (MSE) DEVELOPMENT AND BUILDING ALTERNATIVE
LIVELIHOODS FOR VULNERABLE GROUPS
GY-G1003

Financial Terms and Conditions			
Beneficiary: The Co-operative Republic of Guyana		Disbursement period:	3 years
Executing Agency: Small Business Bureau (SBB)		Execution period:	2 years
Source	Amount (US\$)	Currency:	US Dollar
Guyana REDD+ Investment Fund (GRIF) Trust Fund	5.00 million		
Total	5.00 million		
Project at a Glance			
Project Objective/Description:			
The goal of this program is to support the government’s strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the Low Carbon Sectors (LCS). Specifically, the program will facilitate the creation of employment via Micro and Small Enterprises (MSE) in the identified sectors of the Low Carbon Development Strategy (LCDS). MSEs will be targeted by enhancing access to credit and to business development training (see ¶1.23).			
Special contractual clauses:			
Conditions prior to first disbursement of program resources (i) Approval by the Small Business Bureau (SBB) of the program’s Operational Regulations (OR), in accordance with terms previously agreed upon with the Bank; (ii) the appointment/hiring of key personnel as identified in ¶3.7, in accordance with terms of reference approved by the Bank; and (iii) establishment by the SBB of an Environmental and Social Management System (ESMS) which includes a screening and exclusion tool in accordance with terms agreed upon with the Bank (see ¶2.2).			
Conditions for execution. (i) A partner financial institution must enter into a Loan Guarantee Agreement (LGA) with the SBB, in accordance with terms previously agreed upon with the Bank, in order to be eligible to participate in the program; and (ii) a training institution must enter into a Memorandum of Understanding (MOU) with the SBB, in accordance with the terms previously agreed upon with the Bank, in order to be eligible to participate in the program (see ¶2.3).			
Special disbursement. Once the agreement between the beneficiary and the Bank has been signed and entered into effect, and after the general conditions prior to first disbursement have been complied with by the beneficiary, the Bank may disburse to the beneficiary up to the amount of US\$150,000 to assist with the compliance of the special conditions prior to first disbursement (see ¶2.4).			
Retroactive financing. The Bank may finance retroactively expenses incurred by the Executing Agency (EA) after May 25, 2012 and prior to the date of approval of the operation, as long as these are carried out in accordance with Bank procurement policies. These expenses may include costs for project managers and Small and Medium Enterprises (SME) specialists to complete POR, a local attorney to draft and finalize the MOU and legal agreements, and the purchase of hardware and software to facilitate the project preparation work. The total expenses will not exceed 20% of the grant resources (US\$1 million) (see ¶3.9).			
Exceptions to Bank policies: None.			

I. DESCRIPTION AND RESULTS MONITORING

A. Background and justification

- 1.1 With more than 90% of its population and the majority of its infrastructure and industry located along the low-lying coastal strip, Guyana is particularly vulnerable to the impacts of sea level rise due to climate change. In June 2009, the Government of Guyana (GoG) launched its Low Carbon Development Strategy (LCDS)¹ which aims to transform Guyana's economy on to a low carbon, sustainable development trajectory, while combating climate change. To achieve this, Guyana must, among other measures, promote investments in identified Low Carbon Sectors (LCS)² while reforming and limiting other Carbon Emitting Sectors (CES) such as forestry and mining.
- 1.2 **The need to protect the standing forest.** Deforestation and forest degradation occur because they have economic benefits to individuals and businesses. The consequences of these acts however, result in carbon emissions which are far-reaching and devastating. Globally, forest-based Greenhouse Gas (GHG) emissions comprise about 17% of all global emissions – more than the gas emissions of the entire European Union and greater than the global transport sector. To prevent deforestation and degradation, the GoG developed the LCDS for Guyana. This strategy will enable Guyana to avoid emissions of up to 1.5 gigatons of CO₂e³ (carbon dioxide equivalent) by 2020 that would have otherwise stemmed from an economically rational development path, allowing the population to maintain their livelihoods via the forests.⁴ It is noted that mining is what contributes mainly to deforestation in Guyana, not forestry.
- 1.3 **Guyana's Low Carbon Development Strategy (LCDS).** The LCDS outlines the framework of how Guyana can “combat climate change while simultaneously promoting economic growth and development while maintaining its standing forest to benefit not only its people but the world at large.” It sets out how Guyana's economy can be realigned along a low carbon development path, by investing payments received for avoided deforestation into strategic low carbon

¹ A Low-Carbon Development Strategy, Transforming Guyana's Economy While Combating Climate Change (May 2010), Office of the President, Republic of Guyana (see [Low Carbon Development Strategy \(LCDS\)](#)).

² The 2010 LCDS identifies two sets of LCS: (i) priority LCS, identified as fruit and vegetables' farming and processing, aquaculture, eco-tourism, sustainable forestry and wood processing, business process outsourcing, and bio-ethanol; and (ii) other LCS, identified as energy-efficient transportation and logistics, low carbon manufacturing activities, low carbon agriculture and agro-processing, apiculture, low carbon energy production and/or distribution, sustainable mining, professional and business services, internet and computer based services, entertainment, music and performing arts, arts and crafts, publishing and printing (for a detailed description of the proposed sectors please refer to Appendix I of the [Environmental and Social Management Report](#)).

³ Ter Seege (2001) found a typical Guyanese forest to have an average carbon stock of 351 tC/ha. To be conservative we use 400 tC/ha.- LCDS pg. 76.

⁴ LCDS, pg. 16.

emitting activities.”⁵ In November 2009, Guyana and Norway signed a Memorandum of Understanding (MOU) and a Joint Concept Note in which Norway committed to providing financial support of up to US\$250 million by 2015, for results achieved by Guyana in limiting emissions from deforestation and forest degradation. Under the MOU, contributions from Norway are channeled through the multi-contributor Guyana REDD+ Investment Fund (GRIF), established in October 2010, for which the World Bank is the Trustee, towards priority projects identified in the LCDS.

- 1.4 The LCDS sets out eight priority strategies:⁶ (i) development of hydropower at Amalia Falls; (ii) acceleration of Amerindian land titling, demarcation and extension processes; (iii) establishment of an Amerindian development fund to support community development; (iv) expansion of the fiber optic digital infrastructure; (v) expansion of microfinance to support Micro and Small Enterprises (MSE) in LCS; (vi) establishment of an international bio-diversity research center, coupled with enhancement of the national school curriculum; (vii) support for the LCDS in the form of monitoring, reporting and verification systems; and (viii) achievement of adaptation funding, in line with the commitments made in the Copenhagen Accord.⁷
- 1.5 The fifth priority strategy tries to address the following problem: there is a higher propensity for labor market entrants to be driven to the informal, low capitalization CES (such as forestry and mining) because of low barriers in these sectors and the attractiveness of returns. In order to reverse this trend, the program will promote the creation of employment opportunities in the LCS that are attractive enough so that potential entrants into CES will switch to LCS.
- 1.6 In order to accomplish this, the program will facilitate access to credit for productive investments in capital in the LCS. If the program is successful and these capital investments are made, it is envisaged that the demand for labor will increase in the LCS. For the purpose of the Cost Benefit Analysis the wage to be earned will be considered as income and the costs of the program, including administrative costs, will be accounted as costs.
- 1.7 The objective of the fifth priority strategy of the LCDS (expansion of microfinance to support MSE in LCS) is to create the necessary incentives to facilitate investments and employment opportunities in LCS, as opposed to CES. By promoting investment in LCS, people will be incentivized to stay out of

⁵ Guyana REDD+ Investment Fund Fact Sheet, pg. 1, par. 2.

⁶ The status of the other seven priority areas are as follows: Amalia Falls: the roads are being constructed, and the financing arrangements are currently being pursued with the Chinese and the IDB for the construction of the power plant; the Amerindian Development Fund and land demarcation: the government and the UN have already approved this program in November 2012 and implementation is underway; the fiber optic infrastructure is well underway with connections being made to Georgetown from the Lethem area while the Monitoring, Reporting and Verification (MRV) system is being implemented via another project approved in 2012 by the IDB and financed by the GRIF as well. The government is pursuing all the priority areas in tandem.

⁷ LCDS, pg. 10.

sectors such as mining; thus, every job created in the LCS would mean one less job in CES. This, in turn, will contribute to the overall major goal of reducing carbon emissions in Guyana.

- 1.8 MSE have proven to be catalytic in creating employment.⁸ Small and Medium Enterprises' (SME) contribution to Guyana's GDP in 1998 was estimated to be around 28%, with approximately 22,000 micro and small firms in operation and contributing 40% to the overall employment.⁹ MSE will be the vehicle to target the creation of employment in the LCS in Guyana since this is considered the first step in business formalization.¹⁰
- 1.9 However, there are binding constraints affecting MSE development in Guyana that need to be targeted. The constraints are: (i) lack of access to finance; (ii) insufficient export marketing capacity; (iii) lack of access to appropriate business advisory services; (iv) inadequate training in business and management skills; and (v) the absence of business systems for efficient and effective financial, operational and information management. The two predominant challenges are lack of access to finance and to appropriate training in technical and business skills, particularly so in LCS (Mc Garrell, Nov. 2009).¹¹
- 1.10 **Access to finance by MSE.** Start-ups and MSE have a high degree of lending risk, given their susceptibility to economic shocks and historical high propensity to failure. Due to the high cost of obtaining information and inability to distinguish between good and bad loans, lending institutions are often hesitant to provide loans to MSE, or will add a higher risk premium to their standard rate of interest and to the collateral criteria. An analysis of the Micro Financial Institutions (MFI) in Guyana found that interest rates are much higher for MSE (up to 35% on average) due to: (i) lack of competition; (ii) higher perceived risk; (iii) higher costs of administration; and (iv) poor credit worthiness (see [Microfinance Sector Review, Guyana 2012](#)).
- 1.11 Commercial banks have experienced the following challenges: (i) information asymmetry; (ii) difficulty in screening applicants; (iii) inadequate training in business and technical skills; and (iv) clients' lack of responsibility in credit (Mc Garrell, Nov. 2009).¹² Central Bank statistics¹³ indicate that financial

⁸ ILO: Poverty Reduction through Small Enterprises by Paul Vandenberg 2006 and SEAF: Small Enterprise Assistance Funds - 2011 Development Impact Report.

⁹ More recent data is not available but estimates put SME's contribution to GDP at 40%. The 28% however only captures the rice and sugar industry as data was not available on the other sectors. Microfinance issues and challenges in the anglophone Caribbean, Wenner and Chalmers, 2001. More recent data will be developed by the project. SME data is used since information on MSE is not available.

¹⁰ The ease of creating and executing incentive programs for MSE as opposed to individuals leads to this conclusion. Furthermore, it encourages formalization of businesses which would otherwise not be accounted for in the formal economy.

¹¹ Mc Garrell, C.D. (November 2009). Needs Assessment on the Small Business Sector in Guyana, Final Report.

¹² Scotia Bank Guyana sold its microfinance portfolio to Development Financing Limited South America (DFLSA) due to difficulties in dealing with this sector.

¹³ The Bank of Guyana Half Year Report 2011.

resources of the MFI¹⁴ increased by 2.5% or G\$447 million (US\$2.235 million) at the end of June 2011 compared to the prior year. Although there was notable growth in the value of their loan portfolio, the absolute number of loans to enterprises remained relatively flat. According to Mc Garrell (Nov. 2009), “Despite the fact that there is a current over liquidity in the banking system and a softening of lending policy by commercial lending institutions, small businesses still find it difficult to access loans from such institutions due to their high interest rates and collateral and other requirements.” Further, the lack of a credit bureau¹⁵ and a secured transactions framework makes it difficult for MSE to access financing and more costly for lenders to do business with this target group. Given this scenario, financial institutions are reluctant to expand lending in the face of such risk, at least without adequate risk mitigation strategies.

- 1.12 **Business development services.** The provision of business development services in Guyana is limited to a few institutions providing basic training,¹⁶ not geared to market conditions and lacking depth and sophistication needed for new and developing entrepreneurs, in particular in LCS. In addition, over 40% of the clients of MFI are women, most of them being single parents. This makes the delivery and uptake of training more challenging.
- 1.13 Providing different training at different stages in the entrepreneurial business cycle is critical to the sustainability of the MSE (Mc Garrell, Nov. 2009). Thus, it is important to ensure appropriate training in two categories: (i) operational, geared toward start-up entrepreneurs who require basic operational business training in areas such as business plan preparation, accounting, marketing, inventory control, costing, pricing and sales forecasting; and (ii) strategic, for mature entrepreneurs who face different constraints as they look for expansion, growth and profitability opportunities for their businesses. Mature entrepreneurs need training that is specific to their industry. Topics can range from negotiating contracts to finding new energy-efficient ways to do business or access new markets.
- 1.14 **Proposed program.** The proposed program seeks to contribute to the fifth priority strategy of the LCDS (see ¶1.4) towards its goal of reducing carbon emissions in Guyana. This program aims to propel the economy to a low carbon path, by supporting the development of MSE in strategic and high potential low carbon economic sectors, through the creation of incentives. This is envisaged to reduce the need to engage in economic activities in CES. In order to do this, the program will address the predominant development needs of MSE, as described in

¹⁴ These include the Institute of Private Enterprise Development (IPED), Small Business Development Trust (SBDT) and DFLSA.

¹⁵ With a prior Bank intervention, the Support for Competitiveness Program (GY-G1006), Guyana now has the necessary legislative framework for a credit bureau. Expressions of interest are being reviewed by the Bank of Guyana to set up the first credit bureau.

¹⁶ Training providers currently focus on areas like small business finance, management, MIS, record keeping, marketing, packaging and auditing. The current training providers are the IPED, EMPRETEC, the Business School, Kuru Kuru Co-op College, Consultative Association of Guyanese Industries (CAGI) and the American University of Peace Studies.

- ¶1.10 to ¶1.13 above, while augmenting the risk mitigation capacity of the financial institutions to address the limitations of MSE financing. These needs are categorized as: (i) financial products or credit; and (ii) non-financial services or business development services, such as market information, management and vocational skill training and business advisory in LCS.
- 1.15 The target beneficiaries of the proposed program are MSE and vulnerable groups¹⁷ that meet the criteria established for small businesses in the Small Business Act (SBA)¹⁸ and operate in the LCS identified in the LCDS, hereafter referred to as the “beneficiaries.”
- 1.16 **Government strategy.** In 2004, Guyana enacted the SBA “to provide for an incentive regime and support program for small business; the establishment of the Small Business Council (SBC), the Small Business Bureau (SBB), the Small Business Development Fund (SBDF) and for all matters connected therewith and incidental to this objective.”¹⁹ Although both the SBC and the SBB have been established, the SBDF was never created due to lack of funds. The SBC and SBB have therefore been unable to fulfill their mandate under the SBA, due to lack of resources in the SBDF. Guyana has also approved the legislative framework to facilitate the creation of a credit bureau. This will ultimately assist with the assessment of the credit history of borrowers, and act as the impetus in reducing interest rates for this target group.
- 1.17 Synergies to this operation will also be created with the Amerindian Development Fund (ADF), also financed with GRIF resources. Since ADF covers one project per community and individual businesses are not supported, the current program complements the ADF activity, covering the unattended Amerindian community in the LCS. Also, the IDB approved the first GRIF-financed operation (GY-G1002)²⁰ for the institutional strengthening of the PMO to provide oversight to all GRIF-financed operations in Guyana. The PMO will support the SBB in the development and implementation of an Environmental and Social Management System (ESMS) and a tool for the environmental and social screening of projects.
- 1.18 **Other donor interventions.** Other donors working within the SME sector in Guyana are: (i) the United States Agency for International Development (USAID), through a mutual guarantee program with the Institute of Private Enterprise Development (IPED), providing access to subsidized interest rates on loans and collateral benefits; and (ii) the Canadian International Development Agency (CIDA), via the Caribbean Local Economic Development (CARILED) program, strengthening sustainable local economic development through the

¹⁷ Vulnerable groups include individuals and groups without access to credit and or appropriate business and technical training who have been affected by the restructuring of the sectors, such as mining, forestry, sugar and bauxite and/or those wishing to participate in one of the identified low carbon sectors.

¹⁸ Small businesses are defined in the Small Business Act (SBA) in Part 1 Sections 1 and 2. However since the SBA offers no distinction as to micros, for the purposes of this program, micros and small business shall be construed to be defined as small business per the SBA (see [Guyana Small Business Act, 2004](#)).

¹⁹ Guyana SBA, Page 3, Paragraph 1.

²⁰ Institutional Strengthening in Support of Guyana’s LCDS.

growth of the Micro, Small and Medium-size Enterprise (MSME) sector and the strengthening of competencies and capacities in local governments.

- 1.19 **Other IDB operations.** The program is expected to benefit from the Support for Competitiveness Program (GY-L1006), which will see the creation of the credit bureau, currently underway by the Central Bank. Also, coordination will be done with the recently approved Multilateral Investment Fund (MIF) program GY-M1021 (Leveraging Natural Capital in Guyana's Rupununi) to avoid overlaps. MIF program's objective is to strengthen and create environmentally sustainable business models for eco-tourism and agricultural community-based enterprises in the Rupununi.
- 1.20 **Strategic alignment.** The proposed program is consistent with the GRIF objectives. It also contributes to the Bank's country strategy with Guyana 2012-2016 (document GN-2690) under the priority area of Private Sector Development, in which the Bank proposes to support the enhancement of the business climate by broadening access to finance and increasing SME technological capacity. Furthermore, the program streamlines into two Sector priorities established by the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9): (i) the Environment and climate change sector priority, through the promotion of low carbon financing for SME; and (ii) the Financial services sector priority, through the strengthening of SME lending. The program is also aligned with the GCI-9 Lending program priority of supporting small and vulnerable countries.

B. Objectives, components and costs

- 1.21 The goal of this program is to support the government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the LCS. Specifically, the program will contribute to the reduction of economic activity in CES by facilitating the creation of employment via MSE in the identified sectors of the LCDS, through the enhancement of their access to finance and business development training.
- 1.22 In line with the problems described in ¶1.10 to ¶1.13, the program will consist of two components. The first component will address the core issue of access to finance, specifically through the development of instruments that will help harmonize the current capacities of the beneficiaries of the LCS with the basic requirements of the financial sector. The second component will address the issue of lack of access to proper training, by providing resources for technical and business development training activities for the beneficiaries of the program.

1. Component I: Access to finance

- 1.23 The objective of this component is to mitigate the structural problems faced by the beneficiaries in the LCS, with regards to their limitations on access to credit (see ¶1.10 and ¶1.11). Resources from this component will be used to finance the implementation of three sub-components: (i) a Credit Guarantee Fund (CGF); (ii) an Interest Payment Support Facility (IPSF); and (iii) a Low Carbon Grant

Scheme (LCGS) to assist potential beneficiaries with seed capital to start up or expand their businesses.

- 1.24 **Credit Guarantee Fund.** Under this sub-component, resources of the program will be used to provide part of the collateral requirements of lending institutions in order to reduce the perceived risk of the beneficiaries and increase their likelihood to be approved for financing. Eligible lending institutions²¹ will sign a Loan Guarantee Agreement (LGA) with the SBB in order to become participating institutions of the program, as Partner Financial Institutions (PFI). Through this mechanism, resources of this sub-component will be used to guarantee up to 40% of the PFI's collateral requirements per loan but in no case should the maximum guarantee value per loan exceed G\$12,000,000 (US\$60,000). The percentage of the collateral will be determined so that the PFI retains enough risk to ensure that it distinguishes between good and bad loans and that it carries out adequate monitoring functions once the loan is provided. Similarly, beneficiaries of the program are expected to take on enough risk to ensure that the incentive to pay back the loan is not lost (see ¶3.3 for implementation details).
- 1.25 **Interest Payment Support Facility.** This sub-component will provide resources to eligible PFI which will then transfer these onto the beneficiaries in the form of a reduction on the interest cost of their loans (estimated on some 300 to 500 basis points). Beneficiaries under the CGF can also be eligible, and a higher interest rate reduction will be granted to the identified priority LCS loans (see footnote 2). The PFI will make a preliminary assessment on the eligibility of beneficiaries, with the subsequent approval by the SBB. Loans will then be made to the beneficiaries with the subsidized interest rates and the PFI will request re-imbursement from the SBB on a periodic basis to be agreed between the parties. Re-imbursements for the IPSF will be done from the program account (see ¶3.4 and the [Operational Regulations](#) for implementation details).
- 1.26 **Low Carbon Grant Scheme.** This sub-component seeks to facilitate MSE access to financing through grants to be used in LCS. Access can be facilitated in a number of ways, such as to assist a low carbon business owner to expand his/her business with a partial grant towards a loan request, thereby reducing the amount needed for the loan, or to encourage persons to set up a business in a LCS with an initial grant which may make them eligible for a loan in the future. Resources of up to G\$300,000 (US\$1,500) per applicant will finance the implementation of beneficiaries' business proposals. Grants will be provided to those who are already operating a business and require additional financing to further develop LCS-related activities, and to individuals or groups starting new ventures in the LCS, who have completed business plans but are unable to secure financing from any lending institution because of their high perceived risk as borrowers. Grants can be used for equipment upgrade, technological innovations, and compliance with various laws and regulations for operating in Guyana, including standards

²¹ Eligible financial institutions are all regulated banks as well as microfinance institutions that are properly registered under Guyana's legislation.

compliance, research and development, and marketing, among others (see ¶3.5 for implementation details).

2. Component II: Access to business development training

- 1.27 The objective of this component is to contribute to the improvement of the insufficient technical and business skills of the beneficiaries (see ¶1.12 and ¶1.13). The training curriculum will be developed via assessment of clients of Component I, with the objective of infusing sound business principles, as well as technical knowledge necessary to improve participants' likelihood of success.
- 1.28 The aforementioned will be addressed through a multi-faceted intervention: (i) a skills voucher scheme, developed with approved training institutions of the program for delivery of training to the target group;²² and (ii) technical/'hands on' training at the community and sector levels, delivered to beneficiaries by specialists of the training institutions. Training will be in both technical and business support areas. At the technical level, training will include areas such as safe and sustainable farming and use and maintenance of energy efficient technologies for productive purposes. At the business support level, training will be offered in areas such as financial statement preparation, accounting, marketing, and business plan preparation, among others. Beneficiaries will be targeted by a collaborative exercise between the SBB and the PFI.

C. Key results indicators

- 1.29 Outputs will be measured as: (i) the number of guarantees granted to beneficiaries; (ii) the number of beneficiaries who have accessed interest subsidies; (iii) the number of grants approved to beneficiaries; and (iv) the number of beneficiaries who accessed technical and business skills development through training. The outcome will be measured as the number of employees (or equivalent full-time employees) in low-carbon emission activities, as it is assumed that every job created in the LCS would mean one less job in the CES. The impact of the program will be its contribution to the overall sustainability or reduction of the deforestation rate. The indicator measures the rate of conversion of forest (area change of forest to non-forest, excluding degradation) with aims to validating that the rate remains at least equal (see Annex II, Results Matrix).

D. Technical and economic viability

- 1.30 A cost-benefit analysis was carried out to evaluate the economic feasibility of the program. The expected benefits are calculated based on the main outcome of the program, namely the number of new jobs generated by the MSE projects in strategic and high potential low-carbon economic sectors that will be financed. It is assumed that, in the absence of the program, this new employment would potentially have gone towards CES, both formal and informal. The benefits are quantified in terms of income generated for the families of the new workers employed in the beneficiary low carbon sector MSE. Based on the analysis

²² Costs of training by the identified institutions range from GYD 35,000 to GYD 50,000 (US\$175-250) per course.

presented, the economic benefits exceed the costs of the program, resulting on a net present value that is positive (see [Cost-Benefit Analysis](#)).

- 1.31 An evaluation of the program will be conducted in order to measure impact on increasing employment in the low carbon sectors. The results from the impact evaluation will help determine whether and to what extent the program is successful in increasing employment in the LCS via the development of beneficiary MSE. This evaluation will help the GoG and the IDB understand how the program worked and how it could be improved in the future to make it more effective (see [Monitoring and Evaluation Plan](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing and contractual conditions

- 2.1 This program for US\$5 million will be executed from 2013 to 2015²³ and financed by the GRIF Trust Fund. The program will be executed by the SBB, with the Bank as partner entity, in accordance with the Administration Agreement signed between the Royal Norwegian Ministry of Foreign Affairs and the International Development Association of the World Bank, which has been designated as Trustee of the GRIF. This program is consistent with the objectives of the GRIF. The GRIF Steering Committee approved the program's Project Concept Note (PCN) on October 13, 2011, and the POD on December 3, 2012. The operation is structured as an investment grant to be disbursed according to the table below.

Task Name	Year 1 GRIF Funds (US\$000)	Year 2 GRIF Funds (US\$000)	Total
Component 1: Access to Finance	1,810.00	940.00	2,750.00
1.1. Collateral Guarantee Facility	1,575.00	-	1,575.00
1.2. Interest Payment Facility	135.00	540.00	675.00
1.3. LCS Grant Scheme	100.00	400.00	500.00
Component 2: Access to Business Development Training	763.50	710.00	1,473.50
2.1. Low Carbon Skills Development Training	763.50	710.00	1,473.50
Project Administration and Institutional Support to SBB	421.25	355.25	776.50
3.1. Institutional Strengthening of SBB and SBC	191.00	198.00	389.00
3.2. M&E Systems and Public Awareness Campaign	122.75	49.75	172.50
3.3. Audit	7.50	7.50	15.00
3.4. Contingency	100.00	100.00	200.00
Stage 1: Totals	2,994.75	2,005.25	5,000.00

²³ A second stage may be pursued if the results of this intervention are proven successful by middle of year 2. This could also be financed by the GRIF for an additional US\$5 million. If this is pursued, the IDB will review and monitor the results and impact of the CGF.

B. Special contractual conditions

- 2.2 **Conditions prior to first disbursement of program resources.** (i) Approval by the SBB of the program's Operational Regulations (OR), in accordance with terms previously agreed upon with the Bank; (ii) the appointment/hiring of key personnel as identified in ¶3.7, in accordance with terms of reference approved by the Bank; and (iii) establishment by the SBB of the ESMS, which includes a screening and exclusion tool in accordance with terms agreed upon with the Bank (see ¶2.6).
- 2.3 **Conditions for execution.** (i) A partner financial institution must enter into a Loan Guarantee Agreement (LGA) with the SBB, in accordance with terms previously agreed upon with the Bank, in order to be eligible to participate in the program; and (ii) a training institution must enter into a Memorandum of Understanding (MOU) with the SBB, in accordance with the terms previously agreed upon with the Bank, in order to be eligible to participate in the program.
- 2.4 **Special disbursement.** Once the agreement between the beneficiary and the Bank has been signed and entered into effect, and after the general conditions prior to first disbursement have been complied with by the beneficiary, the Bank may disburse to the beneficiary up to the amount of US\$150,000 to assist with the compliance of the special conditions prior to first disbursement.

C. Environmental and social safeguard risks

- 2.5 On February 16, 2012, the Environmental and Social Strategy (ESS) of this program was cleared by the Bank's Environmental and Social Review Unit and the program was determined to be a B.13, with medium to high risks. The Environmental and Social Management Report (ESMR) discusses these potential risks and indicates that presently the SBB does not have an environmental and social management system for sub-projects and will rely on compliance with national requirements for environmental and social management.
- 2.6 Section VI of the ESMR includes the Bank's requirements that will be part of the Investment Grant Agreement. These requirements include the establishment and implementation by the SBB, before first disbursement, of: (i) a screening and exclusion tool, to determine environmental and social eligibility for sub-projects to be supported by the CGF so as to minimize any high risk projects; and (ii) an ESMS to evaluate compliance of sub-projects and any proposed environmental and social management actions against the national environmental and social requirements, and those of the Bank. The Bank will support the SBB in the development of the ESMS and the screening tool. Such tools will also consider Guyana's Environmental Protection Agency (EPA) requirements.

D. Program risks

- 2.7 The project team, in consultation with key stakeholders, has identified the major risks of the program: (i) sustainability of the project; and (ii) fiduciary and procurement risks due to lack of personnel in the SBB and lack of familiarity with Bank's procedures. To mitigate these risks, the government is committed to supporting the SME via the SBA and will request a phase II to this operation to be

financed with GRIF resources in the immediate future. The accomplishments of these two phases together are expected to have a demonstration effect that will encourage financial institutions to provide more credits to MSE for LCS projects. Further, staff will be hired and trained in procurement, financial administration and Bank policies and procedures.

- 2.8 **Financial audits.** An external audit of the program will be performed by a firm acceptable to the Bank. The audit will be contracted and managed by the SBB and financed with program resources. Standard financial reporting requirements of the Bank will apply, including: (i) the annual financial audit report to be submitted within 120 days following the end of each fiscal year; and (ii) a final financial audit report of the program to be submitted within 120 days after the date of the last disbursement.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The SBB, created in 2004 by the SBA, is the Executing Agency (EA) of the program. The Ministry of Tourism, Industry and Commerce (MINTIC), through the SBC, will provide oversight of program execution. This oversight entails approval of work plans, review of progress reports and approval of the Program Operational Regulations and changes therein. The SBC reports on progress of the project to the Minister of MINTIC.
- 3.2 The responsibilities of the SBB include, among others, the following: (i) preparing Annual Operating Plans (AOP) for the activities under the program; (ii) acquisition of goods and services in accordance with the approved Procurement Plan, the Bank's procurement policies and procedures (documents GN-2349-9 and GN-2350-9), and the OR; (iii) making disbursements and payments in accordance with approved payment schedules and Bank's applicable policies and procedures; (iv) maintaining books, records, documents, and other evidence in accordance with the accounting procedures set forth by the Bank, to sufficiently substantiate the use of the GRIF funds transferred to it; the financial administration of program resources will include the establishment of a Project Financial Accounting System based on the program code of accounts described in the OR; (v) preparing semi-annual progress reports on the implementation of activities, results achieved, and the financial status of the activities under its responsibility. In addition, the SBB will: i) prepare all other required reports and submit them to the Bank; ii) contract services for the annual external audits of the program and its final evaluation.
- 3.3 **Credit Guarantee Fund (CGF).** The CGF will be made operational by means of an advance of funds at the time the program becomes eligible for disbursement. The advance will be in an amount equivalent to 100% of the resources assigned to this sub-component. This disbursement modality, which will be made into a sub-account of the program, is necessary to operationalize this sub-component, whose funds will serve as collateral for the loans granted by the PFI to beneficiaries. This sub-account will later be used to make payments to the

claimant PFI.²⁴ The Bank will implement additional fiduciary monitoring and safeguards requirements for this account. These funds will be managed and reported on by the SBB and the interest earned will be re-invested for further leveraging of the resources.

- 3.4 **Interest Payment Support Facility (IPSF).** Each PFI will submit a list of potential beneficiaries for the activities to be financed under this sub-component, in accordance with the criteria applicable to each loan applications and in consultation with the SBB on the environmental safeguards and low carbon criteria, for ensuing approval by the SBB on a first-come first-served basis. Based on approved loans made to the beneficiaries, participating PFI will receive a reimbursement from the SBB on a periodic basis to be agreed between the parties. Reimbursements will be done from the project account, which will be maintained and reported on by the SBB. Further details on the procedures to access to resources from this sub-component will be laid out in the OR.
- 3.5 **Low Carbon Grant Scheme (LCGS).** The LCGS will be administered by the SBB who will assist applicants on the preparation of their business proposals. Potential beneficiaries will have to submit an application for a low carbon grant for their business ventures, which will include four main criteria for selection: (i) details on the type of business or activity that the grant will be funding; (ii) justification on the low carbon nature of the business proposal; (iii) details on preliminary approval for credit, if any, from a financial institution; and (iv) details on the ability and willingness of the applicant to provide co-financing for the business proposal. A committee will meet regularly for selection of beneficiaries of the LCGS. The committee will be composed, at least, by a representative of a financial institution,²⁵ a representative of the SBB, a representative of the Project Management Office (government office for the GRIF), among others. A small portion of the grant fund will be used to assist applicants to the CGF and the IPSF on meeting the requirements of the SBA with regards to registration, and getting compliances if necessary. The procedures to access the grant element will be laid out in the OR.
- 3.6 **Program administration and institutional support to the SBB.** Resources from the program (US\$776,500) will finance the institutional strengthening of the SBB and program administration costs. This includes technical and administrative

²⁴ The CGF is valued at US\$1,575,000. The SBB will sign LGA with the various PFI. The guarantees will be granted within the two-year execution period of the program. Individual guarantees may be granted for a period that may not exceed four years from date of eligibility of the program (further details will be laid out in the POR). The IDB will assess the balance in the CGF via the audited financial statements and fiduciary reports from the EA at the end of the program disbursement period. Unused funds (if any) of the CGF would be utilized by the EA under its exclusive responsibility for the continuation of the financing of guarantees, as set forth in Component 1 of the program, to support beneficiaries acting in LCS. The Bank will supervise and monitor the use of resources during the 4-year guarantee period.

²⁵ The involvement of the financial institutions in the selection committee will provide with the incentives to steer the selection towards better qualified potential borrowers, as well as more sound business proposals. PFI in turn will benefit from having access to a detailed database of potential clients.

support, developing a monitoring and evaluation system, implementing a public awareness campaign, and contingencies for the program.

- 3.7 To perform its duties, the SBB will hire additional staff and will be responsible for ensuring that monitoring activities are undertaken as described below. Specifically, the program will have a CGF manager; a procurement officer and a finance officer, who will contribute to mitigate identified fiduciary risks (see ¶2.7). Due to the additional responsibilities placed on SBB staff in program implementation, they will receive monetary and non-monetary incentives based on program work completed outside their normal responsibilities. This will be based on Bank and MINTIC's agreed payment criteria for acceptance of deliverables and in accordance with Guyana's Country Financing Parameters (document CP-2402-8). Non-monetary incentives include staff capacity building and equipment as part of the program's allocated budget for the administration and institutional strengthening of the SBB.
- 3.8 Procurement for the proposed program will be carried out in accordance with the Policies for the procurement of works and goods financed by the Inter-American Development Bank (document GN-2349-9), and the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9), as well as with the provisions established in the GRIF/Grant contract and the program's Procurement Plan.
- 3.9 The Bank may finance retroactively expenses incurred by the EA after May 25, 2012 and prior to the date of approval of the operation, as long as these are carried out in accordance with Bank procurement policies. These expenses may include costs for project managers and SME specialists to complete the OR, a local attorney to draft and finalize the MOU and legal agreements, and the purchase of hardware and software to facilitate the project preparation work. The total expenses will not exceed 20% of the grant resources (US\$1 million).

B. Summary of arrangements for monitoring and evaluation

- 3.10 A [Monitoring and Evaluation Plan](#) has been designed for the program to ensure the level of achievement of the planned outputs, results and impacts observed. The SBB will be responsible for implementing this plan, as well as consolidating the progress reports and compiling them into semi-annual and final reports for submission to the Bank.
- 3.11 Semi-annual progress reports will be submitted to the Bank by end of February and end of August of each year of project implementation. The reports will focus on the progress of output and results indicators presented in the Results Matrix, and will include the activities defined in the AOPs. The semi-annual progress reports should also include: (i) an analysis of the factors that may have affected implementation, including problems encountered and the measures that have been taken or are proposed to correct or mitigate these problems; (ii) the disbursement projections; and (iii) the updated procurement plans.
- 3.12 The SBB will prepare a mid-term evaluation of the program, within 60 calendar days from the date when 50% of the program resources have been disbursed or 12

months have elapsed from contract effectiveness, whichever happens first.²⁶ An impact evaluation will be carried out six months before program completion and will be financed by the Bank (see [Monitoring and Evaluation Plan](#)).

²⁶ The terms of reference for this evaluation will require the no-objection of the Bank.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		The intervention contributes to the lending program for (i) small and vulnerable countries, (ii) poverty reduction and equity enhancement, as well as, (iii) to support climate chance initiatives, renewable energy and environmental sustainability.		
Regional Development Goals		The intervention contributes to (i) Share of formal employment in total employment, (ii) Percent of firms using Banks to finance investments, and (iii) Countries with planning capacity in mitigation and adaptation of climate change.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		The intervention contributes to the following Bank outputs: (i) Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity , (ii) Number of jobs added to formal sector, (iii) Micro/small/medium productive enterprises financed, (iv) National frameworks for climate change mitigation supported, and (v) Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2690	The operation contributes to support the development of productive use of the country's natural resources, while addressing the challenge of sustainable management of the natural resources at stake and Increase competitiveness and innovation levels in Guyana.	
Country Program Results Matrix		GN-2661-4	The project is included in 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		7.2		10
3. Evidence-based Assessment & Solution		5.9	33.33%	10
4. Ex ante Economic Analysis		7.0	33.33%	10
5. Monitoring and Evaluation		8.7	33.33%	10
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B.13		
IV. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Financial Management: Budget, Accounting and Reporting, and External Control. Procurement: Information Systems.	
The project uses another country system different from the ones above for implementing the program				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality		Yes	The program devotes particular emphasis to vulnerable populations including women and groups of women entrepreneurs.	
Labor		Yes	The program will facilitate the creation of employment via Micro and Small Enterprises (MSE) in the identified sectors of the Low Carbon Development Strategy (LCDS).	
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project				
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The results from the impact evaluation will help determine whether and to what degree the program is successful in impacting business development for MSEs and alternative livelihoods for vulnerable populations in low carbon activities in Guyana.	

The intervention is aligned with three dimension of the lending program: lending program for small and vulnerable countries, for poverty reduction and equity enhancement, as well as, to support climate change initiatives, renewable energy and environmental sustainability. The intervention contributes to the following regional development goals: social policy for equity and productivity, institutions for growth and social welfare, and to protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security. Moreover, it contributes to the following Bank outputs: (1) Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity, (2) Number of jobs added to formal sector, (3) Micro/small/medium productive enterprises financed, (4) National frameworks for climate change mitigation supported, and (5) Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing. The project is aligned with the country strategy and it is included in the country program document.

The goal of this program is to support the government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the Low Carbon Sectors (LCS). Specifically, the program will facilitate the creation of employment via Micro and Small Enterprises (MSE) in the identified sectors of the Low Carbon Development Strategy (LCDS). MSEs will be targeted by enhancing access to credit and to business development training.

The Results Matrix provides impact indicators, results and products associated with the objectives and program components. The indicators presented in the Results Matrix are SMART. Among the expected results, the dimensioning of the impact of job creation on the reduction of carbon may require more empirical evidence. An economic analysis is included for the entire program and its components. The program also includes a monitoring and evaluation plan that will help determine whether and to what degree the program is successful in impacting business development for MSEs and alternative livelihoods for vulnerable populations in low carbon activities in Guyana.

The main risks are identified and they include mitigation measures.

Results Matrix

Goal of the Program	The goal of this program is to support the government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for MSE and vulnerable groups to invest in the low carbon sectors. Specifically, the program will contribute to reducing economic activity in carbon emitting sectors by facilitating the creation of employment via MSE in the identified low carbon sectors of the LCDS.
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Indicator	Baseline	Unit of measurement	Year 1	Year 2	Target	Description
IMPACT						
Deforestation rate	0.056 ¹	Rate of change (%)			0.056	<p>The indicator measures the rate of conversion of forest: area change of forest to non-forest excluding degradation (changes in forest area due to forest degradation are not required to be reported in this period).</p> <p>The objective of this indicator is to validate that the rate remains at least equal, but not necessarily lower.</p> <p>Source: the Monitoring Reporting and Verification system maintained by the Guyana Forestry Commission. www.lcds.gov.gy.</p>

¹ 2010 data from the Monitoring, Reporting and Verification system of the Guyana Forestry Commission. Note that the reference level of deforestation rate for Guyana is 0.275 agreed with Norway in the Joint Concept Note page 6 and 11. This is the mean average of the global deforestation rate (0.55%) and the historical average baseline for the Brazilian Amazon Fund (0.03%). www.lcds.gov.gy

Indicator	Baseline	Unit of measurement	Year 1	Year 2	Target	Description
RESULTS/OUTCOMES						
Jobs created or sustained with resources from the program in the low carbon sectors. ²	0	Number of employees	800	1,400	2,200	<p>The indicator measures the number of employees (or equivalent full-time employees) in low-carbon emission activities.³ It is assumed that every job created in the low carbon sectors would mean one less job in the carbon emitting sectors.</p> <p>Estimations for the targets were made based on data collected from previous years on job creation through MSE lending.⁴</p> <p>Source: Bank of Guyana statistics on micro finance activities in Guyana and the annual report of the three MFI</p>
PRODUCTS/OUTPUTS						
COMPONENT I						
Loans guarantees granted through the Collateral Guarantee Fund. .	0	Number of guarantees	300	500	800	<p>Trends obtained from the Small Business Development Finance Trust as well as from IPED.</p> <p>Source: IDB M&E system</p>
Loan interest reductions granted through the Interest Payment Support facility	0	Number of beneficiaries	50	100	150	<p>A sub target of the CGF, target based on trends in the micro financing sector.</p> <p>Source: IDB M&E system.</p>
Grants approved to beneficiaries	0	Number of grants	100	200	300	<p>Based on trends garnered from the micro financing sector. Phase 2 targets set from trends in Phase 1 and the increased amount available under this expense item.</p>

² Results indicator refers only to potential new jobs that will accompany program's aim to re-orient the economy onto a low carbon path for emissions reduction.

³ Table 6 of the M&E plan details how this will be captured.

⁴ According to data taken from the Institute of Private Enterprise Development and Small Business Development Trust Fund's 2011 Annual reports, 11,600 jobs were created in 2011 from 5,722 MSE loans.

Indicator	Baseline	Unit of measurement	Year 1	Year 2	Target	Description
						Source: IDB M&E system
COMPONENT II Beneficiaries who have accessed technical and business skills development training.	0	Number of beneficiaries			1,000	Target was derived from baseline trends obtained from the micro financing sector. Source: IDB M&E system

PROJECT FIDUCIARY AGREEMENTS AND REQUIREMENTS

NAME: Micro and Small Enterprise (MSE) Development and Building Alternative Livelihoods for Vulnerable Groups Support Programme

EXECUTING AGENCY: Small Business Bureau (SBB)

I. EXECUTIVE SUMMARY:

Project objective description- the overall objective of the LCDS is to generate economic growth in Guyana equal to or in excess of projected Latin American growth rates over the coming decade, while simultaneously avoiding greenhouse gas (GHG) emissions attributable to deforestation and forest degradation and by implementing clean energy projects that will eliminate non-forestry GHG emissions. The goal of this program is to support the Government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path. Specifically it will facilitate the creation of employment via micro and small enterprises in the identified low carbon sectors of the LCDS. It will achieve this by creating the necessary incentives for MSEs and vulnerable groups to invest in the low carbon sectors.

The program's output will be the creation of financial instruments to facilitate access to credit by the target groups and the provision of technical and business development services in the low carbon sectors. To achieve this objective, the Programme will consist of two components. The first component will address the core issue of access to finance, specifically through the provision of resources for the development of instruments that will help harmonize the current capacities of the low carbon sector MSE with the basic requirements of the financial sector. The second component will address the issue of lack of access to proper training, by providing financing for technical and business development training for potential beneficiary MSE.

The two components are: (i) Access to finance and (ii) Access to Business Development Training. Component 1 will consist of three financial instruments: (i) a credit guarantee fund (CGF); (ii) an interest payment support facility (IPSF); and (iii) a low carbon grant scheme (LCGS) to assist potential beneficiaries. The Programme is to be funded with resources from the multi-contributor Guyana REDD+ Investment Fund (GRIF), established in October 2010 and counterpart funding provided by the Government of Guyana.

The Ministry of Tourism, Commerce and Trade (MINTIC) was created in 2002 with a broad mandate over the activities of the sector.

Small Business Act of 2004 establishes the SBC as a policy advocate body and the SBB as the service provider. The SBC and SBB are placed under the authority of MINTIC and operate following the Government of Guyana policies and procedures. SBC primary functions are reviewing draft legislation proposed by the Government related to Small Businesses, to prepare and submit annually a Small Business Policy and Administrative Reform Agenda, to prepare an annual report on Small Businesses in Guyana and to maintain a register of approved Small Businesses under the 2004 Small Business Act. The SBB primary functions are promoting developmental issues relating to Small Businesses, coordinating programmes for Small Business Development and monitoring the implementation of the 2004 Small Business Act.

The fiduciary evaluation took place during December 2011 using the Institutional Capability Evaluation System (ICES), an evaluation tool used by the IDB to evaluate the institutional capacity of the agency responsible for programme execution. The preparation of the fiduciary agreements and requirements that will be applied during the execution of the operation is based on the results of this evaluation.

Fiduciary Context of the country. The Public Financial Management (PFM) systems in Guyana were assessed in the late 2007 using the combined PEFA performance measurement framework and OECD-DAC procurement assessment. The assessment concluded that Guyana's overall budget planning, accounting and reporting systems work well; IFMAS (finance and accounting system used by the Government) operates consistently and reliably providing updated information about all elements of budget execution and budget planning and reporting is being done in accordance with accrual accounting. A modern legislative and regulatory framework exists for procurement but the Public Procurement Commission (PPC), a key element of the system, is not yet in operation. In addition, the other main weaknesses identified related to the supervision of statutory bodies, public procurement and internal audit and internal control. A new Integrated Fiduciary Assessment (IFA) was conducted in 2012 as a follow-up to the successful exercise conducted in 2007, and the process is still ongoing. The new assessment will allow Government to measure its performance over the new strategy period. Technical Cooperation resources will be used to support the GoG in mollifying these institutional and governance factors that amplify risk.

The PEFA of 2007 highlighted that the Government had begun to strengthen the internal control environment and improve the quality of public financial management via the establishment of the posts of qualified Financial Controllers in most Ministries. An assessment of the capacity of the Auditor General's Office (AoG) was also carried out. The assessment concluded that in the initial phase, the AG will be eligible to audit all Bank financed TCs and loan projects that are in the pipeline or has been recently approved which are deemed of low or medium complexity and risk. The assessment also states that the operations where the AG will be the external auditor will be determined on a case-by-case basis with the Bank's non-objection being a pre-requisite.

For this project, the Bank is recommending consistent with its mandate to strengthen and to use national systems, the use of Government of Guyana's accounting system for the financial administration of the project by the PEU (IFMAS), and the Auditor General of Guyana for external control (if available) and if unable or agreed otherwise, a firm of independent public accountants acceptable to the Bank.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

The recently created **SMALL BUSINESS BUREAU (SBB)** is the executing agency (EA). The SBB primary functions are promoting development issues relating to small business, coordinating programmes for small business development and monitoring the implementation of the 2004 Small Business Act. It falls under the authority of the Ministry of Tourism, Commerce and Trade (MINTIC) the same Ministry that is currently executing a Bank financed hybrid loan (GY-L1006).

It is envisaged that in the initial stages technical and administrative support will be provided by the Project Execution Unit (PEU) that is currently supporting the execution of GY-L1006.

Support would be provided in the overall execution of the operation, inclusive of the fiduciary policies and procedures.

The assessment conducted by the Bank indicates that the SBB does not have the full complement of staff with the adequate institutional capacity to carry out the execution of the major components of the operation, such as the ability to manage the technical areas of micro-financing as well as the monitoring and evaluation of the program. The assessment revealed that there were only three contractual employees; these were, the Chief Executive Officer, a Marketing Officer and an Administrative Assistant. The independent assessment further emphasized the urgent need for a critical mass of junior and middle level employees that should be comprised of competent and motivated individuals, for the operation to achieve its objectives.

Although cognizance is given to the fact that the MINTIC has staff for its current needs, from our meeting the staff revealed that the additional work will result in the amount of work exceeding the current staff's capacity. From a fiduciary perspective the training of the finance officer, (and support staff) is essential for the proper functioning of the project. A procurement officer is also considered necessary based on the needs of the operation.

In light of points 7-10 listed above, no assessment can be made of the internal controls systems and mechanism, as key staff, such as a Procurement Officer, will have to be recruited, evaluated and trained, with their capabilities and functions aligned and expressed in a **Project Operations Manual**, as a condition prior that will be recommended.

MINTIC as a ministry is audited by the Supreme Audit Institution of Guyana, The AOG, while the investment part of the GY-L1006, (The Support for Competitiveness Program) is audited by private auditors. The operation will use independent auditors, approved by the Bank, to perform the external audit based on the policies of the Bank;

MINTIC uses the country's national accounting system, Integrated Financial Management Accounting System, (IFMAS), while the PEU used the Accpac accounting software. IFMAS has the benefit of centralized budgeting and expenditure management capabilities, as well as real time monitoring by control bodies such as the Ministry of Finance and the AOG. The use of IFMAS as the financial management system is aligned with the Bank's strategic goals of 'Strengthening & Increasing the Use of Country Systems'. In light of the evaluations carried out, it is recommended that a hybrid system be implemented, using the IFMAS system for its budgeting, payment and tracking capabilities, together with the use of an approved accounting software package to cater for the other financial management and reporting needs of the operation.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

The Project Team has developed a preliminary Risk Mitigation Matrix which was discussed with the Executing Agency. This outlines the necessary mitigative actions to be taken with the SBB. The Bank and the SBB will undertake joint reviews of the Matrix on a yearly basis, and introduce necessary additional mitigative actions as a result of such reviews. However in the interim, the following actions are envisaged:

The following institutional strengthening actions are recommended taking into account the infancy of the SBB: (i) The strengthening of the capacity of the current finance officer (ii) the hiring of a Procurement officer to address the capacity issue referred to above, or the training of the current officers to attain a strong familiarity with the IDB's policies and procedures and to coordinate operations with strategic partners; (iii) Provision of adequate office space to house the selected Procurement and Finance Officers with the necessary office equipment; (iv) Implement the IFMAS system and procure an acceptable accounting software package to suit the needs of the operation. (v) Finalizing of an Operations Manual, and (vi) Training activities conducted as necessary.

Such actions should allow for an effective and transparent execution of the resources of the operation while, of utmost importance, enhancing and streamlining the permanent administrative, fiduciary and control capabilities of the EAs.

SPECIAL CONDITIONS OF CONTRACT TO BE ADHERED TO

Conditions prior to first disbursement: (i) the Operating Manual approved and adopted; (ii) The use of the national system, IFMAS, and the procurement of an approved accounting software package, with training activities commenced; (iii) The delivery of finance training to the new incumbent ; and (iv) the recruitment of a Procurement Officer.

Type of funds to be used by executing agencies: the type of funds to be used are established in the following manner: (i) Reimbursement of actual expenses: the effective rate of exchange on the date of payment of each expenditure, as published by the Central Bank of Guyana; (ii) Reporting on accounts (Advance of Funds): the effective rate of exchange used in the conversion of the currency of the operation to the local currency; (iii) Disbursements in alternate currencies from the US Dollar or local currency; (iv) Disbursements in another currency different from the US dollar and the Guyana dollar. In cases of direct payment and reimbursement of a guarantee of letter of credit, the equivalent of the currency of the operation will be fixed in accordance with the amount effectively disbursed by the IDB.

Registries, inspections and reports: All records and files will be maintained by the Executing Agency, according to accepted best practices, and be kept for up to three (3) years beyond the end of the operation's execution period.

Application of procurement policies for goods, works and non-consulting services: For applicable procurement policies for goods, works and non-consulting services please refer to document "Policies for the procurement of Goods and Works and Non-consulting Services Financed by the Inter-American Development Bank, GN-2349-9".

Application of policies for the selection of consulting services: For applicable procurement policies relating to the selection of consultants, refer to document "Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank, GN-2350-9".

Methods and threshold amounts to be applied to works, goods, non-consulting services and consulting services: The IDB thresholds limits for Guyana will apply.

Special agreements regarding procurement: None.

Use of electronic on-line systems for the publication and management of the procurement plans: The on-line Electronic Procurement Execution System (known by its Spanish acronym as SEPA) introduced in Guyana in 2010 will be used for the publication and updates of the

procurement plan. It is expected that the executing agency will use the SEPA program for management of its procurement activities. As part of the Modernization of National Procurement Regime, financed by the IDB, the Government of Guyana has developed an on-line procurement notice publication portal. Procurement processes falling below the national competitive bid thresholds may also be advertised on this site.

Use of national or other documents than the Bank standard documents for competitive bidding: None.

Financial Statements and Reports, audited or unaudited: (i) Semi-annual financial reports will be included in the semi-annual progress report which will be submitted by the OCC and GFC to the Bank; (ii) Annual audited financial statements of the project are to be submitted to the Bank within 120 days at the end of each fiscal year, beginning with the fiscal year in which the first project expenditures were incurred. The Auditor General of Guyana or a firm of independent public accountants acceptable to the bank will be responsible for the Audit Report.

FINANCIAL MANAGEMENT

Programming and Budget: The Borrower has committed to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the unfettered execution of the project; as determined by normal operative instruments such as the Annual Operating Plan and the Procurement Plan.

Accounting and Information Systems: The SBB will be providing to the Bank, additional information on IFMAS and on the accounting software package procured. It is expected that the accounting system will facilitate the recording and classification of all financial transactions, provide information related to: planned versus actual financial execution of the project; the financial execution plan for the next 6 months that will be attached to each request for Advance of Funds, annual Financial Statements, performance reports, and any other reports, financial or otherwise, audited or unaudited, that may be required from the Bank from time to time.

Disbursements and Cash Flow : The Bank will utilize the advance of funds methodology advancing enough liquidity for the first six months of duly projected expenses. Whenever resources from the financing are requested through an Advance of Funds, they will be deposited into a Special Account, denominated in US Dollars, established exclusively for the Project at the Central Bank of Guyana.

Once approval is obtained from the Steering Committee, and the agreements with the lending institutions have been signed, the IDB will disburse the funds allocated to the CGF, in the amount of USD 1,575,000.00. The resources for the sub component – Credit Guarantee fund (CGF) will be made operational by means of an advance of funds at the time the Program becomes eligible for disbursement. The advance will be in an amount equivalent to 100% of the resources assigned to this subcomponent. This disbursement modality, which will be made into a sub-account of the Program, is necessary to operationalize this sub-component, whose funds will serve as collateral for the loans granted by the PFIs to beneficiaries. This sub-account will later be used to make payments to the claimant PFIs.¹ These funds will be managed and reported on

¹ As part of component I of the program, the CGF is valued at US\$1,575,000. The SBB will sign Loan Guarantee Agreements (LGA) with the various PFIs. The guarantees will be granted within the two-year

by the SBB and the interest earned will be re-invested for further leveraging of the resources. At the end of the Program disbursement period, unused resources will be used by the Executing Agency for the financing of same activities and purposes as set forth under this sub-component, which is to issue guarantees to financial institutions in order to facilitate access to credit by the beneficiaries in the low carbon sectors.

As required, resources from this sub account will be transferred to an account identified by the SBB denominated in Guyana or US Dollars to be utilized for payments of the claimants to the CGF. In order to ensure that the resources of the guarantee are properly accounted for it will be required that the EA provide to the Bank as part of the annual audited financial statements and the semiannual reports during the life of the guarantee period of 4 years, the following information:

- a. the number, status and amount of loans that have been guaranteed.
- b. the calls to the funds by defaulting loans
- c. basic data of the beneficiaries
- d. status of the principal and earnings of the guarantee fund, including, instruments and amounts earned on investments of the fund.

Any earnings of the fund will be re-invested back into the account established by the Executing Agency for the administration of the CGF.

If approval is obtained from the Steering Committee at the end of this project, the funds that have not been called against (and any investment income thereof), will remain in the account established by the Executing Agency, without the obligation of being returned to the IDB or the Trustee of the GRIF.

Following the completion of the project, the unused funds mentioned in the previous paragraph would be utilized by the Government for the continuation of the CGF instrument. The IDB will monitor and supervise the CGF during the Guarantee period (that is, 4 years from date of eligibility of the component).

The Executing Agency commits to maintaining strict control over the utilization of the Advance and the CFG so as to ensure the easy verification and reconciliation of balances between the Executing Agency's records and IDB records (WLMS1).

Eligible expenditures, authorized by the PTL/Coordinator and incurred prior to the approval of this project will be reimbursed to the Borrower, in accordance with current Bank policy.

The project will provide adequate justification of the existing Advance of Funds balance, whenever 80% of said balance has been spent. Advances will normally cover a period not

execution period of the program. Individual guarantees may be granted for a period that may not exceed four years from date of eligibility of the program. Further details on the procedures to access to resources from this sub-component will be laid out in the Program's Operations Manual. The IDB will assess the balance in the CGF via the audited financial statements and fiduciary reports from the Executing Agency at the end of the Program disbursement period. Following the completion of the Program, the unused funds (if any) in the CGF would be utilized by the Executing Agency under its exclusive responsibility for the continuation of the financing of guarantees as set forth in component 1 of the Program, and continue to be used in the future to support beneficiaries acting in low carbon areas. The Bank will supervise and monitor the use of resources during the 4 years guarantee period.

exceeding 180 days and no less than 90 days. The Project will also report on the CGF at the same time as the Advance of Funds balance.

In order to request disbursements from the Bank, the Executing Agency will present the following forms and supporting documents:

Type of Disbursement	Mandatory Forms	Optional forms/ information that can be requested by the IDB
Advance	Disbursement Request/ Financial Plan	List of Commitments Physical/Financial Progress Reports
Reimbursements of Payments Made	Disbursement Request/ Project Execution Status/ Statement of Expenses	List of Commitments Physical/Financial Progress Reports
Direct Payment to Supplier	Disbursement Request/ Acceptable Supporting Documentation	List of Commitments Physical/Financial Progress Reports

Generally, supporting documentation for Justification of Advances and Reimbursement of Payments Made will be kept at the office of the Executing Agency. Support documentation for direct payments will be sent to the Bank for processing. Disbursements' supporting documents may be reviewed by the Bank on an ex-post basis. These reviews do not entail a blanket approval, are based on the samples reviewed of the whole universe of expenditures.

Internal Control and Internal Audit: The management of the project will assume the responsibility for designing and implementing a sound system of internal controls and internal audit for the project.

External Control and Reports: For each fiscal year during project execution, SBB will be responsible to produce semi-annual financial reports for the project and annual Audited Financial Statements. The Financial Statements will be audited either by the Auditor General of Guyana or by a firm of independent public accountants acceptable to the Bank.

Financial Supervision Plan: Financial Supervision will be developed based on the initial and subsequent risk assessments carried out for the project. Financial, accounting and institutional inspection visits will be performed based on our risk assessed, covering the following:
(a) Review of the reconciliation and supporting documentation for Advances and Justifications;
(b) Compliance with procedures; (c) Review of compliance with the lending criteria;
(d) Conducting Ex Post Review of Disbursements. This will also be applicable to the CGF.

Execution Mechanism: The SBB through MINTIC will be the Executing Agency and will manage the Revolving Fund and the CGF.

The SBB will be responsible for: (i) preparation of required project reports; (ii) monitoring product, output and outcomes achievement using established indicators; (iii) preparation and submitting disbursement request to the Bank and justification of expenses; (iv) preparation of annual financial program expenses; (v) ensure compliance with all aspects of the Operating

Manual; and (vi) maintain adequate documentation filing system. With regard to the CGF, the SBB is also responsible for its maintenance in accordance with the Operational Manual of the project and in accordance with the Small Business Act 2004. This component will be included in the financial statements for the project and audited at the said time.

IV. SPECIAL CONDITIONS OF CONTRACT TO BE ADHERED TO FOR PROCUREMENT

Application of procurement policies for goods, works and non-consulting services: For applicable procurement policies for goods, works and non-consulting services please refer to document “Policies for the procurement of Goods and Works and Non-consulting Services Financed by the Inter-American Development Bank, GN-2349-9.”

Application of policies for the selection of consulting services: For applicable procurement policies relating to the selection of consultants please refer to document “Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank, GN-2350-9.”

Methods and threshold amounts to be applied to works, goods, non-consulting services and consulting services: The IDB thresholds levels for Guyana will apply, see 58 below.

Special agreements regarding procurement: See following paragraphs.

Use of electronic on-line systems for the publication and management of the procurement plans: The on-line Electronic Procurement Execution System (known by its Spanish acronym as SEPA) introduced in 2010 will be used for the updating and publication of the procurement plan. It is expected that the executing agency will use the SEPA program for management of its procurement activities. As part of the Modernization of National Procurement Regime, financed by the IDB, the Government of Guyana is also planning to develop an on-line procurement notice publication portal. Procurement processes falling below the national competitive bid thresholds may also be advertised on this site.

V. REQUIREMENTS AND AGREEMENTS FOR EXECUTION OF PROCUREMENT

Procurement Execution: Procurements for the proposed project will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9), of March 2011; and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9), of March 2011, and with the provisions established in the loan contract and this procurement plan. In addition, for all projects, the Borrower is required to prepare and submit to the Bank a draft General Procurement Notice.

Procurement of Goods, Works, and Non-Consulting Services: The procurement plan for the Program, covering the duration of project execution is summarized in Annex III, and indicates the procedure to be used for the procurement of goods, the contracting of works or non consulting services. The review of technical specifications in all cases, during the process of selection is the responsibility of the sector specialist of the operation.

Procurement of IT systems: None.

Procurement of Consulting Services: The procurement plan for the operation, covering the duration of project execution is summarized in Annex III, and indicates the procedure to be used for the procurement of consultancy services, and the method of selecting consultants. The Borrower is responsible for preparing and implementing the project, and therefore for preparing the TORs, short lists, selecting the consultants, and awarding and subsequently administering the contract.

Sole Source Selection and/or Direct Contracting: to be used only in exceptional circumstances and is based on the Bank's no objection to the justification.

Selection of Individual Consultants: Individual consultants are employed on assignments for which: (a) teams of personnel are not required; (b) no additional outside (home office) professional support is required; and (c) the experience and qualifications of the individual are the paramount requirement. Individual consultants are selected on the basis of their qualifications for the assignment. Advertisement is not required and consultants do not need to submit proposals. Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the Borrower. Individual consultants may be selected on a sole-source basis with due justification in exceptional cases. This is to be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9 paragraphs 5.1-5.4.

Training: The detailed procurement plan indicates to which consultancy services training and workshops are applicable. As per GN-2350-9 if the assignment includes an important component for training or transfer of knowledge to Borrower staff or national consultants, the TOR shall indicate the objectives, nature, scope, and goals of the training program, including details on trainers and trainees, skills to be transferred, time frame, and monitoring and evaluation arrangements. The cost for the training program shall be included in the consultant's contract and in the budget for the assignment.

Recurring Expenses: Include payment of utilities and other office operating expenses of the PEU, if any.

Advance Contracting/Retroactive Financing: Section 1.9 of the procurement policies allows for retroactive financing and advance contracting where the procurement procedures, including advertising, are in accordance with the procurement policies in order for the eventual contracts to be eligible for Bank financing. The Bank shall review the process used by the Borrower. A Borrower undertakes such advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award does not commit the Bank to make a loan for the project in question. If the contract is signed, reimbursement by the Bank of any payments made by the Borrower under the contract prior to loan signing is referred to as retroactive financing and is only permitted within the limits specified in the Loan Contract.

Domestic Preference: Determining whether it is appropriate and necessary to use domestic preference in the evaluation of bids should be guided by Appendix 2 of GN-2349-9 para. 1-6.

Other Requirements: Use of national or other documents than the Bank standard documents for competitive bidding: None

Country Threshold: Table (US\$ Thousands) www.iadb.org/procurement²

Works			Goods			Consulting Services		Limit for Ex- Post Revisi on
Internatio nal Competiti ve Bidding	National Competit ive Bidding	Shopping/P rice Comparison	Internatio nal Competiti ve Bidding	National Competit ive Bidding	Shopping/P rice Comparison	Internatio nal Competiti ve Bid	Short Lists Solely by Nationals/N CB	
>1,000	100 – 1,000	<100	>100	25 - 100	<25	>100	<100	12 month

Procurement Plan and supervision (PP): The procurement plan for the operation covering the duration of project execution is summarized in Annex III. It indicates the procedures to be used for the procurement of goods, the contracting of works or services, and the method of selecting consultants, for each contract or group of contracts. It also indicates cases requiring prequalification; the estimated cost of each contract or group of contracts; the requirement for prior or post review by the Bank. The procurement plan will be updated annually or whenever necessary, or as required by the Bank (www.iadb.org/procurement); http://www.iniciativasepa.org/bid/sitio/guyana/index_ing.htm).

² Amounts for ex post and ex ante review are applicable based on the capacity of the executing agency and complexity of procurements. These amounts may be adjusted by the Bank, as capacity is improved, and/or procurement complexity varied.