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**MINISTRY OF FINANCE**  
49 Main & Urquhart Streets,  
Georgetown,  
Guyana.

November 17, 2014

President Luis Alberto Moreno  
IDB Headquarters  
1300 New York Avenue, N.W.  
Washington, D.C. 205577, USA

Dear President Moreno,

This Policy Letter serves to confirm the commitment of the Government of Guyana to continue strengthening the governance and policy framework that supports the implementation of the Low Carbon Development Strategy (LCDS) by enhancing specific regulatory, institutional, and monitoring and verification structures and units. Actions have already been initiated autonomously by the Government of Guyana (GOG or the Government) and under the Environmental Sector Strengthening Program I (Policy Based Loan 3106/BL-GY) that was approved and disbursed in December 2013. Under the Environment Sector Strengthening Program II (the Program) as requested by the GOG from the Inter-American Development Bank (IDB or the Bank) more actions will be implemented.

This Policy Letter sets out the commitment of the Government to the policies and actions included in the Program, directed at supporting the implementation of the LCDS and building upon the previous loan through the following objectives: (i) maintain macro-economic stability; (ii) expansion of the regulatory framework definition in the area of environment and natural resources; (iii) continuation of the institutional strengthening efforts, with emphasis on transparency in revenue management (i.e. support for the implementation of the Extractive Industries Transparency Initiative), support market-based instruments (accreditation and certification), and improved monitoring and enforcement capacity (ie. incentivizing the use of clean technologies in the mining sector and building land management information systems), and (iv) continuous reporting on the impacts of deforestation and forest degradation drives as part of the Monitoring, Reporting, and Verification System (MRVS).

The Government acknowledges that successful implementation of the Program will require its firm commitment to maintain a macroeconomic framework that is consistent with the objectives

of the Program. Through this letter, the Government formally commits to maintain this framework and to implement the activities under the conditions contained in the Program.

The Program includes several policy and institutional reforms that will have a critical impact on the Environmental Sector. These reforms have been designed with input from the Ministry of Natural Resources and the Environment, the Ministry of Finance, and the Office of the President. The policy and institutional changes represent a unified approach to support the continued strengthening of the governance and policy framework that supports in turn the implementation of the LCDS.

As noted above, this Policy Letter sets forth background information on the economic program of the GoG and information on the specific reforms proposed within the Program.

## I. Macroeconomic outlook

Guyana has maintained a relatively strong economic progress since 2006 with real GDP growth averaging at 4.3% through 2013. Between 2006 and 2012 Guyana outperformed all other Caribbean countries, despite external challenges. Over the projected medium-term Guyana's macroeconomic outlook remains positive. Infrastructure projects along with large-scale private mining investments and the diversification of the economy should induce a medium term (2014-2019) average growth rate projection of 4.2 %.

Despite the progress made, the Government recognizes that several downside risks to sustained growth persist: (1) a few infrastructural bottlenecks; (2) timely implementation of major investment projects; (3) a need to accelerate the pace of economic diversification so as to reduce dependence on traditional export commodities with high price volatility; (4) a need to continue modernizing traditional agriculture subsectors, especially rice and sugar, that are responsible for a large portion of the economically active labor force; (5) managing threats to environmental sustainability posed by the continued growth of resource-based economic activities (mining, forestry, agriculture, and fisheries); and (6) strengthening fiscal buffers to deal with possible term of trade reversals, the cessation of trade preference programs, and natural disasters.

The fiscal deficit for 2013 was 4.7% of GDP, slightly higher than that of 2012 (4.5% of GDP). GOG's medium-term macroeconomic framework envisions an improvement in the fiscal deficit of around 4.3 % by 2016. The GOG recognizes that the consolidation of the fiscal deficit in the medium term could be affected by: (i) terms of trade reversals (i.e., declining export commodity prices and increasing prices for imported fossil fuels); (ii) continued fiscal pressures associated with the operational losses of Guyana Sugar Corporation (GUYSUCO) and Guyana Light and Power (GPL); (iii) delays and cost overruns in the implementation of public sector investment projects that could expose the budget to future debt distress; (iv) declining concessional financing and grants from development partners; (v) unexpected natural disasters; and (vi) possible sudden drops in foreign direct investments and remittances. The GOG is committed to strengthen its fiscal position further and bolster its debt management capacity to improve its creditworthiness and face possible contingencies

Guyana's debt portfolio is highly concessional and GOG's policy is consistent with maintaining a high level of concessionality over the medium term. In this regard, the GOG is committed to reduce transfers to public sector enterprises and improve their efficiency, in order to strengthen Guyana's fiscal position and reduce its reliance on loans and grants to meet primary balance shortfalls.

The current account reflects Guyana's high degree of openness, vulnerability to commodity price fluctuations and surging domestic demand. In 2013 the current account deficit represented 14.3% of GDP (compared to 12.9 of GDP in 2012). Despite higher exports (bauxite, gold, rice) and steady remittances, the current account deficit is expected to widen to 21.7% of GDP in 2016 due to higher levels of imports of capital goods associated to the completion of large infrastructure projects and then gradually improve. GOG will ensure that its exchange rate position remains consistent with supporting current account sustainability, especially considering the challenges of volatile commodity prices and increasing demand for capital goods over the medium term.

Guyana maintains a standard 12 month Article IV cycle with the IMF. The last report, discussed by the IMF's Board on December 9, 2013, indicates that macroeconomic policies are appropriate and the medium-term outlook is positive. This consultation gave Guyana its seventh consecutive favorable review of macroeconomic conditions and policies.

Within this context, the Environment Sector Strengthening Program II will contribute to transform Guyana in a low-deforestation, low-carbon, climate-resilient economy. The Program will support mitigating the effects of cumulative forest-based emissions that would have been produced by exploitation of the forested land by limiting deforestation. The Program will also enable Guyana's economy to be realigned onto a low-carbon development trajectory through investing in strategic low carbon economic infrastructure; promoting investment in high-potential low carbon sectors; reforming existing forest-dependent sectors so that they can operate at the standards necessary to sustainably protect Guyana's forest. To create a climate resilient economy, the Program will support climate adaptation infrastructure and will improve the capacity for risk management and flood risk management.

## II. The Sector

The LCDS recognizes the strong contributions mining and forestry make to the country's economy, but points out that they are also chief contributors to the country's albeit low rates of deforestation and forest degradation.

*Mining.* Mining is responsible for approximately 12% of the country's GDP but it accounts for almost 62.6% of exports. Although Guyana's mineral sector is diversified, gold mining accounts for more than 70% of mining sector output. Gold mining, however, without proper safeguards and adherence to good practices can have severe environmental consequences including deforestation, biodiversity loss, water body contamination, and river sedimentation, which threaten the long-term sustainability of the mining industry itself. Even though the mining sector has been increasingly regulated and formalized, full enforcement of and compliance with mining regulations has been challenging. As more areas are opened up for extraction, the current growth

in mining has the potential to result in increased deforestation. Therefore, there is an urgent need to continue to support the institutional framework under which the mining sector operates.

*Forestry.* Guyana is a so-called 'high forest-low deforestation' (HFLD) country. From 1990 to 2009, Guyana's annual deforestation rate was 0.02%; however, from October 2009 to September 2010 deforestation increased to around a 0.056% rate; from October 2010 to December 2011, deforestation remained relatively stable at 0.054%, lower than the average 0.45% for South America. The Interim report for 2013 reports a decrease in deforestation. The MRVS reports that the deforestation rate in 2012 was 0.079% compared to 0.068% in 2013. Illegal logging and non-compliance with forestry regulations although currently minimal, without careful monitoring complemented with continued implementation of forestry guidelines, can result in higher deforestation and forest degradation rates.

A significant portion of the regulatory and institutional apparatus that pertains to the scope of the LCDS falls under the Ministry of Natural Resources and Environment (MNRE). The MNRE was established in 2011 as the national authority in charge of public policy making and statutory regulation in the fields of natural resources including timber harvesting areas, conservation areas, hydrometeorology, environmental monitoring and pollution control, and functions of public environmental policy making and implementation. Seven agencies associated with natural resource management and environmental controls were set under the purview of the Minister, including the Guyana Geology and Mines Commission (GGMC); the Guyana Forestry Commission (GFC); the Guyana Lands and Survey Commission (GLSC); and the Environmental Protection Agency (EPA).

## II. Country Strategy

The GOG takes the LCDS to be its guiding principle underlying its development agenda. The LCDS, published first in 2010 with an update in 2013, builds on the National Development Strategy (2000) and National Competitiveness Strategy (2006), all of which emphasize the importance of protecting the environment to ensure a long lasting prosperity for the country's future generations.

The LCDS aims to define a new development path for the country based on the creation of a low-deforestation, low-carbon, climate-resilient economy. Regarding low deforestation, the GOG is making strategic choices directed at increasing the economic value to the nation (EVN) of REDD+ investments. In particular, the GOG is looking into programmes that will ensure a maintained low rate of deforestation and forest degradation caused by forest-dependent sectors such as mining and forestry, while at the same time fostering sustainable growth.

To set out on a low carbon development pathway, the Government has defined five strategic objectives: (i) invest in strategic low-carbon economic infrastructure; (ii) diversifying potential low carbon sectors; (iii) reform existing forest-dependent sectors, including forestry and mining, so that they operate at standards necessary to sustainably protect Guyana's forests; (iv) expanding access to services and new economic opportunities for indigenous people; and (v) improving services to people in Guyana through supporting private sector entrepreneurship and improving health and education services.

On the issue of financing, this phase of implementation of the LCDS is sustained to an extent by resources derived from interim financing, in this case coming from the Government of Norway, which has signed a Memorandum of Understanding (MOU) with the Government of Guyana in 2009 for cooperation on issues related to the fight against climate change, in particular Reduced Emissions from Deforestation and Forest Degradation (REDD+). Norway has committed to provide Guyana with US\$250M by 2015, which are managed under the GRIF. Conditions of this agreement are described in a Joint Concept Note (JCN), which includes a set of "indicators of Enabling Activities" which the GOG must fulfill to gain access to the resources pledged by Norway.

### III. The Program

The proposed Program will strengthen the governance and policy framework that supports the implementation of the LCDS, fostering enhancements of the regulatory, institutional and monitoring structures to support it.

The Program will support the objective mentioned above through two Policy Based Operations (PBLs). The first PBL, approved and disbursed in 2013 focused on: (i) updating the strategic framework to implement the LCDS; (ii) strengthening governance in MRNE, with emphasis on managing long-term sustainability of forest-dependent sectors while maintaining a low rate of deforestation and forest degradation from extractive activities, and (iii) implementing a viable Monitoring, Reporting and Verification System (MRVS) that would serve to monitor the implementation of policies and inform managerial decisions. The second PBL slated for approval in the first quarter of 2015, will build upon the progress made on the first, and would support: (i) an expansion of the regulatory framework definition in the area of environment and natural resources; (ii) a continuation of the institutional strengthening efforts, with emphasis on enhanced environmental regulatory compliance and enforcement, support to market-based instruments to improve the environmental sustainability of extractive industries, as well, as transparency in revenue management (support for the implementation of the Extractive Industries Transparency Initiative, (EITI)); and (iii) continuous reporting on the impacts of deforestation and forest degradation drivers on the forests of Guyana, reported as part of a mature MRVS.

*Regulatory framework to support the application of the LCDS to reform forest-based economic sectors.* Environmental issues in forest-based sectors (the mining industry in particular) reflect gaps in the regulatory framework, limited enforcement capability, and entrenched practices detrimental for the environment. In the mining sector, improved governance and adherence to good management practices are necessary for the mitigation of social and environmental costs and for the maximization of the benefits that can be derived from the sector (i.e. growth, exports, and job creation). The 2013-18 strategic framework of the MNRE identifies three priority areas for the improvement of Guyana's environmental governance: (i) targeting the efficiency of institutional frameworks and legislation; (ii) strategic planning coordination mechanisms; and (iii) sustainable resource use and monitoring.

The objectives of this component are: (i) to support the implementation of the LCDS as a crucial

instrument to ensure improved environmental management in Guyana, and (ii) develop the necessary regulatory framework and institutional capacity to support the reform of forest-based sectors.

The conditions associated to the implementation of the LCDS include: (i) working towards projects in the areas of institutional strengthening and support for community development plans by Amerindian Communities; and (ii) continue and facilitate consultations with affected indigenous groups concerning LCDS and the REDD+ Stakeholders Awareness Plan.

The conditions associated to the reform of forest-based sectors includes a review of the Environmental Protection Agency's (EPA) regulations and guidelines to ensure the institution has overarching responsibilities for environmental compliance, and has the capacity to manage environmental and social impacts of development activities.

In order to ensure that the mining and forestry sectors perform at the highest environmental standards and maintain sound environmental management and governance, relevant conditions include: (i) amendments or regulations that are consistent with MNRE's mandate; (ii) code of practice guidelines for small and large forestry operators; (iii) progress towards the Voluntary Partnership Agreement by approving the definition of legality under the European Union Forest Law Enforcement, Governance and Trade (EU-FLEGT) initiative; and (iv) a draft Opt-In Mechanism Strategy. Additionally, in order to advance towards the harmonization of the mining and forestry sectors, approval of the GLSC's National Land Use Plan has been included as a condition in this component.

*Institutional strengthening.* This component has two objectives: (i) support the institutional structuring of MNRE to comply with its strategic plan, including review the legal and regulatory frameworks for the extractive sector, and (ii) advance MNRE's thematic program focusing on efforts to reform forest-based sectors.

In terms of institutional structuring of MNRE, the institutional realignment of the MNRE will provide technical coverage and oversight in all the areas where the LCDS has set objectives. The conditions associated involve MNRE ensuring: (i) appropriate staffing, and strengthening the Land Use Planning and Coordination and the Land Reclamation Committee to fulfill its oversight and coordination functions towards the agencies that are under its tutelage; (ii) capacity to adequately apply environmental regulations, in particular in the mining sector for improved gold recovery and mercury abatement; and (iii) harmonized relations with indigenous groups and agencies.

As it concerns the implementation of MNRE's thematic program towards forest-based sectors, conditions in the loan are the following by subcategory

*Mining:*

(i) design of training programs promoting best practices in the mining sector while continuing to implement sustainable forest management practices through community training programs; (ii) an inception report towards implementation of the EITI; (iii) improving the technical and enforcement capacity of the agencies in charge of environmental governance for mining; and

Forestry:

(iv) implementing the National Log Tracking System.

*Monitoring, & evaluation.* The objectives of this component are to: (i) have basic monitoring, reporting, and verification system (MRVS) instruments in place, and (ii) develop the MRVS, to have a fully operational an integrated information system for the monitoring, mapping, and management of forest cover.

Conditions associated to this component include: (i) formalizing an integrated access system for planning, mapping, management and monitoring of forest cover data between all agencies, and (ii) completing the reports on Forest Carbon Emissions and Removals following IPCC Guidance, and Forest Degradation within MRVS Interim Measures Reporting.

IV. Conclusion

The Government of Guyana is committed to the goal of promoting the creation of a low-deforestation, low-carbon, climate-resilient economy. This commitment commenced with the approval of the LCDS in 2009, which laid out the key principles and objectives to be pursued. The Environment Sector Strengthening Program II outlined above contains actions and conditions necessary for achieving the goals of the GOG. The parameters of the Program have been developed through consultations with the Ministry of Natural Resources and the Environment, the Ministry of Finance, and the Office of the Prime Minister (OPM), and the Office of the President and represent a consensus among these entities. The GOG commits to fulfill these conditions and looks forward to an ongoing relationship with and support from the IDB. As such, the GOG hereby requests consideration and approval of the Environment Sector Strengthening Program II.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Ashni Singh', with a long horizontal flourish extending to the right.

Ashni Singh  
Minister of Finance