



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 19-Dec-2016 | Report No: PIDISDSA19635



BASIC INFORMATION

A. Basic Project Data

Country Guyana	Project ID P159512	Project Name Guyana Payments System Project	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 14-Dec-2016	Estimated Board Date 30-Mar-2017	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Bank of Guyana	

Proposed Development Objective(s)

The project development objective is to improve Guyana's national payments system by enhancing safety and efficiency of payments.

Components

Developing Payments System Infrastructure
Capacity Building of Bank of Guyana
Project Implementation Unit

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	5.00
Total Project Cost	5.00

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

1. Guyana has one of the lowest Gross Domestic Product (GDP) per capita in the Latin America and Caribbean region. Despite overall declining poverty trends, poverty remains entrenched amongst certain geographic and ethnic lines. In 2015, Guyana's GDP per capita was US\$4,127. It is the fifth lowest GDP per capita in the Latin American and Caribbean (LAC) region. The economy is heavily dependent upon natural resources, agriculture, and remittances. Thus, it is vulnerable to adverse weather conditions, commodity price fluctuations, and economic conditions in migrant destination countries. Economic diversification beyond natural resources and agriculture remain a challenge. Sugar, gold, bauxite, shrimp, timber and rice represented nearly 90 percent of the country's GDP in 2014. Remittances were equivalent to approximately 11 percent of GDP¹ mainly sent from the diaspora communities in the United States and Canada. From 1992 to 2006, moderate and extreme poverty figures declined from 43.2 percent and 28.7 percent, respectively to 36.1 percent and 18.6 percent. The poverty reduction gains were related to consistent economic growth during this period. Despite a reduction in overall poverty estimates, poverty remains entrenched along specific geographic and ethnic groups. Based on 2006 data, rural poverty in Guyana reaches nearly 74 percent. The Amerindian population suffers from the highest poverty rates, nearly 78 percent, and includes one-third of the country's extreme poor. The last household survey was 2006; the absence of more recent data limits a more accurate determination of poverty rates.

2. Economic growth has recently decreased due to a decline in commodity prices and, in turn, the previous strong credit growth in the financial sector has slowed. Average GDP growth of 5.4 percent from 2009 to 2013 was supported by strong global demand of commodities combined with high commodity prices. During this same period, credit expanded at an average rate of 15 percent. However, the rate of GDP growth fell from 5.2 percent in 2013 to 3.8 percent in 2014 and to 3.0 percent in 2015. Given Guyana's strong economic dependence on commodities, the sharp decline in global non-oil commodity prices and overall less favorable terms of trade have decreased export earnings, most notably from the export of gold, bauxite, sugar. The credit growth has slowed considerably. The falling commodities prices have also effected banks and their customers through credit dependent related service sectors. The banking sector originates almost 80 percent of private sector credit in the economy.

Sectoral and Institutional Context

3. The national payments system (NPS) provides a core foundation for a country's financial infrastructure system. A robust NPS is comprised of all institutions, information, technologies, infrastructure systems, payment instruments, rules and standards which enable exchange of monetary value. It includes infrastructure systems, legal frameworks, standards, rules and procedures for the system, and strong oversight of the NPS. The quality of a country's NPS supports financial stability and efficiency of economic activity and intermediation as the NPS facilitates the discharge of financial obligations and the safe transfer of funds across distances and institutions. National Payments System

¹ World Bank Migration and Remittances Data 2015. Remittances estimated at US\$341 million.



development improves risk-sharing among agents more equitable. A robust, well-developed NPS supports financial stability by allowing financial market participants to manage their risks more effectively and efficiently, and, in some instances, reduce or eliminate certain risks. By performing centralized activities, financial market infrastructures (FMIs) concentrate risks and create interdependencies between and among FMIs and participating institutions. Key risks faced by FMIs include: legal, credit, liquidity, general business, custody, investment, and operational risks. Whether an FMI, its participants, or both face a particular form of risk, as well as the degree of risk, will depend on the type of FMI and its design.² By mitigating these risks of the FMIs, resources are distributed more efficiently and thereby greater confidence in the finance system and use of money. The international standards for payment, clearing and settlement systems, including central counterparties were issued by the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) called the Principles for Financial Market Infrastructure (PFMI).³ The standards are designed to ensure that the infrastructure supporting global financial markets is more robust and thus well placed to withstand financial shocks.

4. The NPS is at an early stage of development in Guyana and large users, such as the government, are ready to benefit from a more advanced NPS. Critical needs of Guyana's NPS include the adoption of a Real-Time Gross Settlement System (RTGS), an Automated Clearinghouse (ACH), and a Central Securities Depository (CSD). The three infrastructures provide the transaction ability to clear and settle both large-value payments, retail payments and securities settlement arrangements in a financial system. The infrastructures are typically linked and coordinate settlement processes to better manage liquidity and settlement risks. The coordinated settlement processes for these systems can improve overall cost efficiency in interbank transfers and achieve settlement finality in central bank money. Furthermore, the establishment of rules of operation, governance and participation guidelines for these systems and a well-articulated, payments specific legal and regulatory framework are absent in Guyana.

C. Proposed Development Objective(s)

Development Objective(s)

5. The project development objective (PDO) is to improve Guyana's national payments system by enhancing safety and efficiency of payments.

Key Results

6. **There are two PDO results level indicators:** 1) Percentage of large-value payments processed through the Real-Time Gross Settlement System (GDP Turnover) and 2) The new National Payments System observes or broadly observes all applicable PMFIs.

D. Project Description

² BIS: CPSS-IOSCO-Principles for Financial Market Infrastructures April 2012.

³ <http://www.bis.org/cpmi/publ/d101a.pdf>.



7. A National Strategy for Payments System Development will be completed during the project preparation phase. The team will work with the BoG, along with other private and public sector stakeholders, to develop a National Strategy for the Payments System reform. The Strategy will establish a strategic approach to the development of the NPS and will include a vision of the future national payments system and the implementation plan. The vision will articulate the strategy for the development of the NPS in Guyana. It provides general information on the current NPS, sets out the BoG's strategic approach to NPS development, and outlines the envisioned future state of the Guyana NPS in terms of its specific elements. Throughout the document, the internationally accepted principles and practices are highlighted and elaborated from the perspective of specific circumstances in Guyana. The implementation plan is complementary to the vision and contains practical details on the execution of individual development projects that are required to achieve the envisioned NPS. The Strategy will contain both the vision and the implementation plan. It will be led by the BoG with guidance from the World Bank and it will be carried out with extensive and ongoing consultation across the sector and with all affected stakeholders.

8. The project will have the following 3 main components: (1) Developing Payments System Infrastructure, (2) Capacity Building of the Bank of Guyana, and (3) Project Implementation Unit.

Component 1. Developing Payments System Infrastructure

9. This component will focus on financing the required hardware and software infrastructure by the Government in order to provide interbank clearing and settlement services for electronic payments. It will also support the upgrade of the core systems of the Bank of Guyana, Treasury, and the Guyana Revenue Authority to enable their direct participation in the new infrastructures.

10. The proposed component would finance the hardware and software for the RTGS to be operated by the Bank of Guyana. The RTGS system would serve as the system for settlement of all large-value (large-value payments will be defined within the operational rules and policy framework of the system) and systemically important payment transactions. The introduction of a RTGS system in Guyana would enable final settlement of interbank funds transfers on a continuous, transaction-by-transaction basis throughout the processing day.

11. The proposed component would finance the hardware and software for the CSD to be operated by the Bank of Guyana. The Central Securities Depository allows registration, safekeeping, settlement of securities in exchange for cash and efficient processing of securities transactions in financial markets through electronic means.

Component 2: Capacity Building of the BoG

12. This component is mainly focusing on the capacity building of BoG staff in the specific technical areas required for ongoing operation and management of the infrastructure systems. Staff of the BoG and the PIU do not have experience operationalizing or overseeing a RTGS, ACH or CSD. This project brings together multiple Information and Communication Technology (ICT) components and would hence require the support of consultants and entities that would assist the new Project Implementation Unit (PIU) in managing the implementation aspects of the ICT components. It is expected that one entity focusing on IT aspects and a few functional/business consultants would be required for this. Capacity building would include, *inter alia*: i) PIU operational technical advisory



support for the RTGS and CSD ii) technical advice for connection government payments and iii) peer study tours for the PIU and iv) training.

13. The entity with support of the consultants would be responsible for supporting the PIU in orchestrating the overall implementation. The key responsibilities for this entity would be: (i) working with the PIU in clearly defining the scope of the individual systems and a high level project plan and supporting the PIU in the IT project management; (ii) defining technical specifications of hardware and software investments (iii) analyzing the hardware and network requirements and identifying opportunities for leveraging existing systems components and developing the overall IT system and network architecture; (iv) finalizing the bidding documents for the various components in coordination with the PIU and with support from additional consultants, if required; (v) supporting the PIU in the evaluation of the bids and selection of vendors, with support from additional consultants, if required; (vi) working with chosen vendors and coordinating the implementation of the systems; (vii) supporting the PIU in conducting the user acceptance tests and operational acceptance tests; and (viii) enhancing the capacity of the PIU in the areas of IT management, IT governance and IT risk management through focused training to key BoG staff during the course of the project. Through the advisory service, it is envisioned capacity would be strengthened as knowledge and know-how is imparted to the BoG staff and the PIU.

14. Relevant training, completion of professional certifications, and study tours would also further strengthen the capacity of the relevant Bank of Guyana staff and would be financed under this component. Capacity building would include obtaining the required training and professional certification of IT security, database administration and systems management. This would also include study tours of the NPSs of peer countries which have recently undertaken NPS reforms and/or studies of other countries' NPSs which would benefit the knowledge and know-how of the nascent Payments System Department of the Bank of Guyana. Participation in international seminars and forums in relation to NPS development is also included.

Component 3: Project Implementation Unit

15. This component will focus on supporting the efforts of the implementation agency to effectively execute the Payments System Project. In specific, the support under this component will be provided directly to the PIU. The PIU will be in charge of planning, coordinating, implementing, managing, monitoring, and finalizing all the activities established for this Project. More specifically, the Project would finance: (a) the recruitment and training of the PIU team members including specialists responsible for procurement procedures, financial management, information technology, and the overall execution of the project, (b) equipment and furniture for the PIU, (c) monitoring and evaluation activities, and (e) the project's financial audits.

E. Implementation



Institutional and Implementation Arrangements

16. Bank of Guyana will be the implementing agency for this project. The project PIU will be located within Bank of Guyana. The BoG Project PIU will be responsible to coordinate, manage, implement, supervise, finalize, and document all the activities related to the Project.

17. The PIU will be staffed with full-time, capable and qualified personnel for the implementation of the project. A team will be recruited, trained and equipped to coordinate, manage, implement, and supervise project activities. The PIU team will be composed of at minimum of: (a) a project coordinator; (b) a procurement specialist; (c) a financial management specialist; (d) IT officer and (e) an assistant. In addition, a technical team from BoG (IT Department) and other key stakeholders such as Treasury and the Guyana Revenue Authority will also provide technical support to the PIU.

18. The PIU will be responsible for implementing the project. In order to do so, the PIU will need to: (a) manage the implementation of project activities; (b) manage the procurement and financial management aspects; (c) coordinate the preparation, adjustments, and use of the project management tools, including the operational manual, working annual plan, procurement plan, and disbursement projections; (d) monitor the progress of project development indicators and the intermediate indicators of the Results Framework; (e) prepare project reports; and (d) act as the main point of contact for the World Bank.

19. In addition, The Bank of Guyana will transfer goods and services following the local asset transfer procedures to other relevant government entities. Technical support from GRA and Treasury and other relevant entities will provide technical support to the PIU team during implementation.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project is national in scope and aims at supporting the strengthening of financial sector infrastructure by modernizing national payment system of Guyana.

G. Environmental and Social Safeguards Specialists on the Team

M. Yaa Pokua Afriyie Oppong, Ximena Rosio Herbas Ramirez

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The Project is not expected to have environmental impact since it will not be supporting any civil works. Therefore, the Project's Environmental Assessment Category is rated as Category C.
Natural Habitats OP/BP 4.04	No	The Natural Habitats policy is not triggered since the Project will not finance activities in these areas.



Forests OP/BP 4.36	No	The Forest policy is not triggered as the Project will not finance any activity that could affect the health and quality of forests, the rights and welfare of the people that depend on them, or changes in their management or utilization.
Pest Management OP 4.09	No	This policy is not triggered. The Project will not finance any activity in the agriculture sector. Also, it will not procure pesticides or lead to increase its use.
Physical Cultural Resources OP/BP 4.11	No	This policy is not triggered. The Project will not finance any activity that could affect physical cultural resources.
Indigenous Peoples OP/BP 4.10	No	The project entails the strengthening of financial sector infrastructure; therefore, the “project area” does not imply a physical, tangible geographic location.
Involuntary Resettlement OP/BP 4.12	No	The project does not entail any impacts on or acquisition of land or private assets.
Safety of Dams OP/BP 4.37	No	N/A
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

N/A

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

N//A

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

N/A

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

N/A



B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA

CONTACT POINT

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APPROVAL

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