



The World Bank

First Programmatic Financial and Fiscal Stability Development Policy Credit (P165425)

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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT FOR A
PROPOSED PROGRAMMATIC DEVELOPMENT POLICY CREDIT
IN THE AMOUNT OF SDR 24.4 MILLION
(US\$35 MILLION EQUIVALENT)
TO
THE CO-OPERATIVE REPUBLIC OF GUYANA
FOR THE
FIRST PROGRAMMATIC FINANCIAL AND FISCAL STABILITY
DEVELOPMENT POLICY CREDIT (P165425)

May 21, 2018

Finance, Competitiveness And Innovation Global Practice
Latin America And Caribbean Region

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The Co-operative Republic of Guyana

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 15, 2018)

Currency Unit

G\$1.00 = US\$ 0.0048

US\$1.00 = G\$209.1

ABBREVIATIONS AND ACRONYMS

AML-CFT	Anti-Money Laundering / Combating the Financing of Terrorism	IBRD	International Bank for Reconstruction and Development
BOG	Bank of Guyana	IDA	International Development Association
CEN	Country Engagement Note	IDB	Inter-American Development Bank
CFAA	Country Financial Accountability Assessment	IFC	International Finance Corporation
DIS	Deposit Insurance Scheme	IMF	International Monetary Fund
DPO	Development Policy Operation	JSAN	Joint Staff Advisory Note
DPC	Development Policy Credit	LAC	Latin America and the Caribbean
ELA	Emergency Liquidity Assistance	LDP	Letter of Development Policy
FIRST	Financial Sector Reform and Strengthening Initiative	MOE	Ministry of Education
FSAP	Financial Sector Assessment Program	MOF	Ministry of Finance
GCRG	Government of the Co-operative Republic of Guyana	MTEF	Medium-Term Expenditure Framework
GDP	Gross Domestic Product	NICIL	National Industrial and Commercial Investments, Ltd.
GSDS	Green State Development Strategy	PER	Public Expenditure Review
G\$	Guyanese Dollar	PDO	Project Program Development Objective
HIPC	Heavily Indebted Poor Countries	ROSC	Report on the Observance of Standards and Codes

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THE CO-OPERATIVE REPUBLIC OF GUYANA

FIRST PROGRAMMATIC FINANCIAL AND FISCAL STABILITY DEVELOPMENT POLICY CREDIT

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P165425	Yes	1st in a series of 2

Proposed Development Objective(s)

Promote Sound Financial Development and Strengthen Fiscal Management

Organizations

Borrower: THE CO-OPERATIVE REPUBLIC OF GUYANA

Implementing Agency: MINISTRY OF FINANCE

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	35.00
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DETAILS

International Development Association (IDA)	35.00
IDA Credit	35.00

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial



Results

Indicator Name	Baseline	Target (June 2020)
Indicator a: Operational procedures in place to undertake resolution with modern tools including purchase and assumption options.	Only court administered liquidation is available as a resolution tool (2017).	BOG Resolution Committee is established, and internal procedural guidelines and policies, documented, approved and in effect.
Indicator b: Share of eligible deposit clients falling within the stipulated coverage, excluding financial institution deposits, ¹ are fully covered by deposit insurance scheme	0 (no existing coverage) (2017)	95 percent or more deposit owners covered.
Indicator c: Emergency short term liquidity facilities activated and in place, and subject to eligibility for solvent but illiquid banks with sufficient collateral.	Regulations and operational procedures for ELA not in place (2017).	ELA facility is operational with improved collateral assets and time limits for use of the instruments.
Indicator d: All licensed insurance companies meet the phased target of the new solvency requirement	(2016) Not available, as capital is not yet measured under the new risk based regime.	All 16 insurance companies are at 40 percent of the 2023 regulatory capital requirement.
Indicator e: Cashless transaction through interbank facility	<5,000 per year	200,000 per year
Indicator f: The number of the Financial Intelligence Unit (FIU) intelligence reports referred to police for money laundering investigations	20 reports (10 new and 10 updates to existing cases) (2017)	25 (June 2019-June 2020)
Indicator g: Sovereign wealth fund is in place.	No fund exists (2017).	Fund is created and ready to accept oil revenue prior to oil production.
Indicator h: Regular approval and publication of a medium-term debt strategy	No strategy published (2017).	Strategy for 2020–22 has been published.
Indicator i: The development of an appraisal system that ranks and prioritizes public sector investment projects.	No system exists (2017).	System is in place.

¹ Certain deposits such as interbank deposits and financial institutions deposits are not covered in line with international best practice.

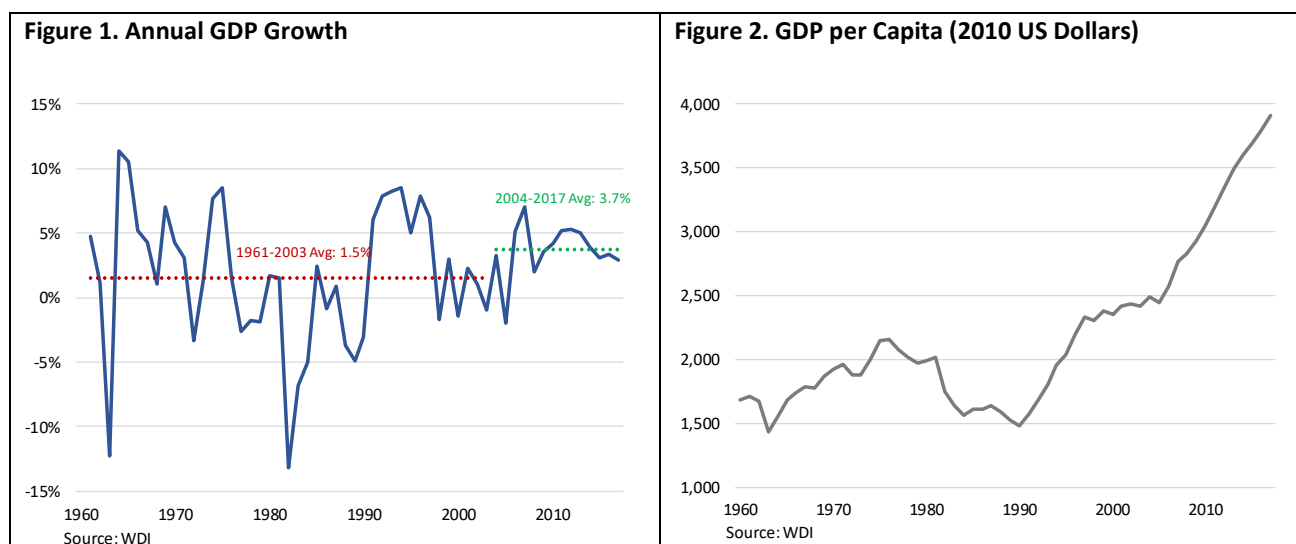


IDA PROGRAM DOCUMENT FOR A PROPOSED PROGRAMMATIC DEVELOPMENT POLICY CREDIT SERIES TO THE CO-OPERATIVE REPUBLIC OF GUYANA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Programmatic Development Policy Credit (PDPC) series supports Guyana's reform efforts to reinforce sound financial sector development and to strengthen fiscal management.** The proposed operation is the first in a series of two operations. The series builds on three pillars of policy reforms. The first pillar supports the Bank of Guyana's (BOG's) ability to manage financial stress including establishing a deposit insurance scheme. The second pillar supports both regulatory reform for the insurance sector as well as domestic and international payment transactions. The third pillar supports stronger fiscal management through a sovereign wealth fund (SWF) for intergenerational savings, better debt management, and improved public investment management. The first credit will be in the amount of SDR 24.4 million (US\$35 million equivalent). The PDPC forms part of a developing engagement with the Co-operative Republic of Guyana spanning financial sector, fiscal, and oil and gas sector management. Complemented by the increased financial envelope due to the IDA18 Replenishment, this policy dialogue led to the development of the PDPC series as well as a now planned FY19 Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF).

2. **The first operation in the series supports the Government of the Co-operative Republic of Guyana's (GCRG's) strong financial sector reform efforts while recognizing through triggers the GCRG's efforts to accelerate fiscal reform.** The 2016 FSAP intensified an already active financial sector advisory agenda with the BOG, and the reform pace increased. Meanwhile, the discovery of potentially very large off-shore oil and gas resources created new economic opportunities as well as risks and challenges for fiscal policy. As a result, the preparation of an oil and gas institutional capacity and transparency project (P166730) was initiated, and policy dialogue has deepened on fiscal policy including sovereign wealth management. The second operation in the series will further advance implementation of financial sector reforms while supporting key fiscal reforms.



3. **The Co-operative Republic of Guyana has achieved impressive economic growth and debt reduction during the last decade.** The Co-operative Republic of Guyana experienced volatile economic growth from the



1960s to the early 2000s when the annual GDP growth rate averaged 1.5 percent (Figure 1). As a result, GDP per capita income fluctuated around US\$2,000 until the 2000s (Figure 2). Economic growth since doubled with an average GDP growth rate of 3.7 percent from 2004 to 2017. The sustained high growth rate allowed the Co-operative Republic of Guyana to sharply increase its GDP per capita to around US\$4,700 by 2017.² Nonetheless, per capita income remains the lowest in the English-speaking Caribbean.³

4. **The Co-operative Republic of Guyana's economy is small and benefits from resource wealth, but is also heavily exposed to export concentration risks.** With a population of fewer than 800,000, a per capita Gross National Income (GNI) of US\$4,150, and a Gross Domestic Product (GDP) of about US\$3.5 billion, it is a small economy. The economy depends on the export of six commodities—gold, rice, sugar, bauxite, shrimp and timber—which represent 90 percent of total exports. Therefore, price and output dynamics in these sectors drive volatility in the Guyanese GDP and balance of payments as it was seen in 2015 when gold production faced difficulties and lower prices.

5. **Newly-discovered oil and gas reserves add both wealth and a source of volatility, and they can change the structure of the economy.** Offshore exploration has been successful. The GCRG is expected to receive around G\$36 billion in oil revenue in 2020, almost doubling to around G\$71 billion in 2021 (equivalent to 4.7 and 9.4 percent of 2017 GDP, respectively).⁴ It has been estimated that the Co-operative Republic of Guyana could become the 3rd largest per capita producer of oil, behind Kuwait and Qatar. This new sector will initially represent diversification from existing exports and eliminate large net oil imports, but it will soon be a source of concentration and thus volatility as revenues start flowing in 2020.

6. **A fundamental challenge for the GCRG will be to transform the oil wealth into human capital, physical capital, and financial assets.** Natural resources in developing countries offer an opportunity to finance investments in both human capital and physical capital in countries where growth is often constrained by exactly those factors. The Co-operative Republic of Guyana is actively working to improve investments in human capital⁵. Physical capital investments by the private sector require a well-functioning financial sector that allocates resources efficiently. Physical capital investments by the public sector require strong public investment management systems, as well as capacity to design and implement capital projects. Lastly, financial asset investments require effective management of investments outside of the country. The inability of many countries to turn resource wealth into economic prosperity has been well-established, and the term Resource Curse was introduced to describe this phenomenon and highlighted countries such as Nigeria, Bolivia, and Venezuela.^{6,7} Gas resources discovered in the Netherlands gave rise to the term Dutch Disease to describe the loss of competitiveness by other tradable sectors. Empirical analysis of resource-rich developing countries⁸ has shown that they often come to rely extensively on natural resources fiscal revenues, exports and sales, that their savings

² World Bank staff estimate.

³ World Development Indicators.

⁴ IMF estimates. These amounts are reflected in Table 2.

⁵ See for example the World Bank Guyana Education Sector Improvement Project (P159519).

⁶ See Auty, Richard (1993): "Sustaining Development in Mineral Economies: The Resource Curse Thesis", Routledge.

⁷ See also Cust and Mihalyi (2017): "Evidence for a Presource Curse? Oil Discoveries, Elevated Expectations, and Growth Disappointments", the World Bank.

⁸ See IMF 2012: "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries" for a definition of resource rich countries, which includes Guyana.



tend to be low, and that their economic growth performance is worse than that of non-resource rich countries.^{9,10} Commodity prices are often more volatile than other output prices, and the commodity price fluctuations can create shocks to the real economy, amplified through procyclical government expenditures, and exacerbated by the concentrated structure of production, exports, and fiscal revenues. This, in turn, can compromise growth prospects. Variance across countries remains high, and research suggests that the quality of institutions is important for countries' ability to turn resource wealth into long term prosperity.¹¹ Norway, Chile, Botswana, Newfoundland and Labrador are among the successful cases.

7. **The newfound wealth will increase demands on fiscal policy, long-term savings, and domestic investments.** Fiscal policy will need to be designed to manage the additional sources of volatility in both economic activity and fiscal revenues. Although natural resource extraction has long been a feature of the Guyanese economy, the increase in discovered wealth raises the question of intergenerational savings and the extent to which revenues from extracted resources should be set aside for future generations. To the extent the wealth is not invested abroad, it must be invested wisely in the Co-operative Republic of Guyana. For the private sector that requires an efficient financial sector that allocates the resources to the most economical investments, and for public investment it requires an efficient public investment management system.

8. **The GCRG's commitment to prudent debt management needs to be supported by a modernization and streamlining of the legislative and institutional framework.** With the increase in wealth and progressive market access of the country, The Co-operative Republic of Guyana will need to develop a unified and modernized legal framework for debt management and implement a comprehensive medium-term debt strategy to ensure that borrowing is aligned with macroeconomic policy objectives and undertaken at acceptable levels of risk and cost.

9. **The increase in fiscal resources should be coupled with a revamping of the Co-operative Republic of Guyana's public investment management system for an effective development of the country's infrastructure.** The current setup has proven to be less efficient than that of other comparable countries, with weaknesses in the planning, budgeting, selection, procurement, and implementation of capital projects that have affected execution rates.

10. **A well-developed and stable financial sector will become essential for a vibrant non-resource economy.** A robust and well-functioning financial sector resilient to vulnerabilities imposed by exposure to output and price volatility will facilitate non-resource economic activity. Whereas extractive sectors tend to be financed in international capital markets, the domestic financial sector will be instrumental in financing the non-resource sector investments that represent economic diversification.

11. **While the Co-operative Republic of Guyana's financial system provides substantial intermediation and is not under stress, intermediation spreads are high, long term finance is poorly developed, and financial transactions remain predominantly cash based.** Financial system assets of 122 percent of GDP is mostly concentrated in 6 commercial banks, and credit to the private sector is in line with comparators (Figures 3 and 4). Financial soundness indicators are adequate although non-performing loans (NPLs) are high and provisions low. Authorities have been addressing the NPLs and provisioning levels are increasing. Long-term savings were curtailed by the failure of a large life insurance company a decade ago, and authorities have since worked to

⁹ See for example Venables, A. J. (2016): "Using Natural Resource for Development: Why Has It Proven So Difficult?", JEP.

¹⁰ World Bank 2010: Natural resources in Latin America and the Caribbean: Beyond Booms and Busts

¹¹ Mehlum, Moene, and Torvik (2006): "Institutions and the Resource Curse", Economic Journal 116.



improve oversight arrangements to provide the foundation for long term finance. Supervision of both pensions and insurance have been assumed by the BOG. Payments are overwhelmingly cash based, with 99.9 percent of consumer initiated payments being in cash. International financial transactions were recently under threat as Guyanese banks lost their accounts in international banks in 2015 and 2016 due to concerns over anti-money-laundering (AML) arrangements. Both legislative, investigative, and supervisory efforts have helped sustain access to international financial transactions.

12. **Newfound wealth¹², sound fiscal management, and a diversified economy supported by a well-functioning financial sector will be an opportunity to address poverty.** The latest poverty estimates (based on the 2006 household budget survey) show that the share of poor in the total population slightly decreased from 36.3 percent in 1999 to 36.1 percent in 2006. Poverty was deepest in the rural interior regions at 73.5 percent which was more than double of that observed at national level thus highlighting important regional disparity. Despite the lack of up-to-date poverty data, the global Multidimensional Poverty Index estimated in 2014 suggests that this disparity continues. In 2014, the hinterland areas, where only 9.6 percent of the total population resided, housed 64 percent of the Guyanese population with acute deprivation in health, education and standard of living.

Figure 3. Total Finance Sector Assets
(in % of GDP, as of September 2017)

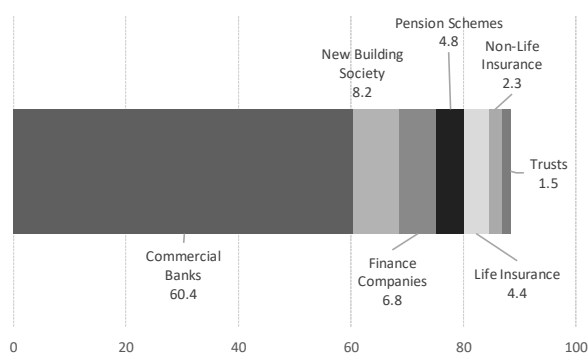
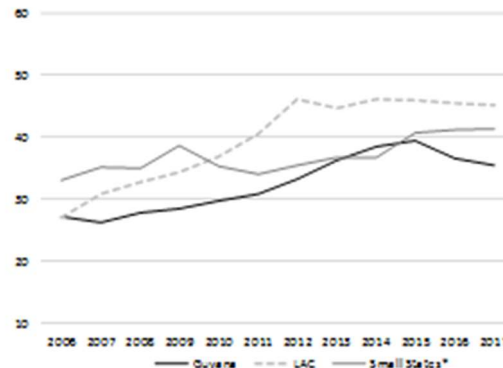


Figure 4. Domestic Credit to Private Sector
(in % of GDP)



Source: Bank of Guyana and World Development Indicators; World Bank's Estimates.

Note: *Small States: Members of the Small States Forum, excluding high-income countries.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

13. **The Co-operative Republic of Guyana's economy is growing at a moderate rate.** Real GDP growth decelerated to an estimated 2.1 percent in 2017 from 3.4 percent in 2016 (see Table 1).¹³ Commercial, transport, and other services made the largest contribution to growth, followed by construction, rice milling and beverage production. Gold production remained stable at high levels, but the mining sector contracted. Gold and bauxite production suffered from inclement weather and mechanical problems. Construction has accounted for around 33 percent of total GDP growth between 2015 and 2017, helped by increased public investment spending. In

¹² See footnote 4.

¹³ Industry production and related statistics reported in this paragraph are based on Ministry of Finance, "End of Year Outcome, 2017," April 12, 2018.



contrast, sugar sector production contracted by 41 percent between 2015 and 2017, continuing a long-term decline that began in the 1980s.

Table 1. Selected Economic Indicators

	2014	2015	2016	2017e	2018f	2019f	2020f	2021f
Real economy								
GDP (nominal G\$, billions)	635	654	724	749	780	835	1,012	1,195
per capita GNI (US\$, Atlas)	4,040	4,060	4,240	4,460	..	..	..	..
	<i>annual percentage change, unless otherwise indicated</i>							
Real GDP growth	3.8	3.2	3.4	2.1	3.4	4.8	29.1	21.7
Agriculture, fishing, forestry	5.6	2.4	-10.2	0.4	-0.6	..	..	..
Mining and quarrying	-11.5	9.0	45.4	-8.8	5.0	..	..	..
Other industry	13.9	-3.2	0.1	8.1	9.1	..	..	..
Services	3.2	4.9	0.6	3.6	3.2	..	..	..
Import volume	0.5	21.2	6.1	2.8	3.4	3.3	27.1	20.5
Export volume	0.8	7.4	21.9	3.5	2.3	1.6	54.5	36.4
GDP deflator	-0.4	-0.2	7.1	1.9	0.3	3.2	-7.9	-3.4
Inflation (Georgetown CPI, eop)	1.2	-1.8	1.4	1.5	2.2	3.0	3.2	3.5
Fiscal					<i>share of GDP</i>			
Revenue incl. grants	23.4	25.7	25.6	27.6	28.2	29.0	28.7	28.4
Expenditures	29.1	27.3	30.0	32.1	33.6	34.1	33.5	33.0
Overall balance	-5.7	-1.6	-4.4	-4.5	-5.4	-5.1	-4.8	-4.7
Public debt	51.9	50.1	50.7	52.2	61.0	60.3	56.3	52.8
Monetary and financial					<i>annual percentage change, unless otherwise indicated</i>			
Base money	3.3	3.7	5.4	-0.7	10.7	7.0	21.3	18.0
Private sector credit	9.7	5.8	2.0	2.1	2.8	3.2	3.5	4.0
90-day Treasury bill (eop)	1.7	1.9	1.7	1.6	..	..	..	..
Non-performing loans (share of total loans)	8.6	11.5	12.9	12.2				
Balance of payments					<i>share of GDP, unless otherwise indicated</i>			
Current account balance	-9.5	-5.1	0.4	-6.7	-6.1	-4.3	10.7	21.9
Merchandise imports	56.5	46.9	41.3	43.0	43.2	45.8	48.4	51.2
Merchandise exports	37.9	36.2	41.1	39.0	37.4	40.0	56.8	69.3
o/w bauxite and gold	19.3	19.0	26.3	25.3	24.3	25.3	22.2	19.9
o/w oil	..	..	..	..	..	..	21.3	37.2
Foreign direct investment	8.3	3.8	0.9	3.9	3.8	3.6	0.9	-1.5
Foreign reserves (US\$)	666	599	597	585	612			
(months of imports)	4.0	3.5	3.6	3.2	3.2			
Exchange rate (G\$/US\$)	207.1	206.8	208.1	212.1	..	..	..

Sources: Bureau of Statistics, BOG, Ministry of Finance, IMF, World Bank

Notes: Data for 2017 are preliminary estimates; data for 2018–21 are forecasts. “f” indicates forecast.

14. **The Co-operative Republic of Guyana’s unemployment rate has been stable, although there have been important shifts in the composition of employment.** The labor force survey conducted in 2017Q3 (the most recent) estimated the Co-operative Republic of Guyana’s unemployment rate at 12.0 percent (15.3 percent for



women).¹⁴ This is essentially unchanged from 2012 (the previous estimate), and is slightly above the 2017 average for Caribbean small states of 10.6 percent.¹⁵ The industrial and gender composition of employment have changed more substantially, however. Mining employment fell by 35 percent between 2012 and 2017, while employment in services grew by 22 percent. Agriculture, fishing and forestry enjoyed job growth of 12 percent. This industry continues to account for the largest share of employment (with 17.8 percent of total jobs), although it is now closely followed by wholesale and retail trade (17.1 percent). Meanwhile, women's labor force participation and employment/population rates have increased (by 9 and 8 percentage points, respectively), while those for men have dropped by similar magnitudes (by 8 and 7 percentage points).

Table 2. Government Financial Operations

<i>Percent of GDP</i>	2014	2015	2016	2017p	2018f	2019f	2020f	2021f
Revenue and grants	23.4	25.7	25.6	27.6	28.2	29.0	28.7	28.4
Tax revenue	21.4	21.9	21.0	22.9	24.0	23.6	21.0	19.0
Income taxes	8.1	8.3	8.4	9.1	10.0	9.5	8.8	8.0
Consumption taxes	10.3	10.5	9.5	10.2	10.5	10.5	9.2	8.3
Trade taxes	2.2	2.1	2.3	2.5	2.5	2.5	2.0	1.8
Other	0.8	0.9	0.8	1.1	1.1	1.1	1.0	0.9
Non-tax revenue	1.4	2.9	3.5	3.1	2.6	4.0	6.8	8.9
o/w Receipts from public bodies	0.8	1.9	2.1	2.0	1.6	1.6	1.5	1.3
o/w Oil revenue	..	..	..	..	..	..	3.5	6.0
Grants	0.7	1.0	1.1	1.6	1.5	1.3	0.9	0.5
Expenditure	29.1	27.3	30.0	32.1	33.6	34.1	33.5	33.0
Current expenditure	21.1	22.6	23.5	24.2	25.9	25.3	22.3	20.3
Wages and salaries	6.7	6.8	6.8	7.3	7.8	7.8	6.8	6.2
Other goods and services	6.3	6.6	6.5	6.6	7.1	7.5	6.6	5.9
Transfers	7.1	8.2	9.3	9.3	9.8	9.0	7.6	6.9
o/w Social grants	1.2	1.2	1.5	1.8	1.8	1.7	1.4	1.3
Interest	1.0	1.0	0.9	1.1	1.1	1.0	1.3	1.2
Domestic	0.2	0.3	0.3	0.3	0.2	0.4	0.7	0.7
External	0.8	0.7	0.7	0.8	0.9	0.7	0.6	0.5
Capital expenditure	8.0	4.7	6.4	7.8	7.7	8.7	11.1	12.8
Primary balance	-4.7	-0.6	-3.4	-3.4	-4.3	-4.0	-3.5	-3.4
Overall government balance	-5.7	-1.6	-4.4	-4.5	-5.4	-5.1	-4.8	-4.7
Public and publicly guaranteed debt	51.9	50.1	50.7	52.2	61.0	60.3	56.3	52.8
Domestic	12.3	14.4	17.6	16.7	21.0	24.4	24.8	25.6
External	39.5	35.7	33.2	35.5	40.0	35.9	31.5	27.2
Memorandum								
Mining and timber royalty	1.1	1.0	1.6	1.4	1.8			
Public bodies overall balance	-0.4	1.2	1.5	-0.7	-0.7	0.1	0.2	0.9

Sources: Bureau of Statistics, BOG, Ministry of Finance, IMF, World Bank

Notes: Data for 2017 are preliminary estimates; data for 2018–21 are forecasts.

¹⁴ Country employment and unemployment statistics in this paragraph are drawn from Bureau of Statistics, Guyana Labour Force Survey, March 2018.

¹⁵ World Development Indicators, March 2018.



Table 3. Balance of Payments and Financing

	2014	2015	2016	2017e	2018f	2019f	2020f	2021f
Financing requirement	372	196	54	310	340	330	-169	-749
Current account deficit 1/	332	181	12	287	259	228	-452	-1,137
NFPS debt amortization	151	81	43	35	54	82	82	84
International reserves (increase = +)	-111	-67	-2	-12	90	89	35	86
Financing sources	372	196	54	310	340	330	-169	-749
Official transfers	40	18	26	50	39	60	49	54
NFPS loans	169	63	58	91	156	89	127	108
o/w World Bank DPCs					30	25		
Other public sector net 2/	19	9	-9	2	10	0	0	0
Private sector (net) 3/	144	105	-20	167	135	181	-344	-911
Financing gap	0	0	0	0	0	0	0	0

Source: IMF estimates and projections

Notes: 1/ Official transfers are included in financing sources. 2/ Includes the unspent portion of PetroCaribe financing. 3/ Includes errors and omissions.

15. **The current account returned to deficit in 2017, but the deficit remains below historical levels** (see Table 1). After achieving a slight surplus of 0.4 percent of GDP in 2016, the Co-operative Republic of Guyana's current account deficit in 2017 is estimated at 6.7 percent of GDP. This remains below the average current account deficit of 10 percent of GDP experienced during the previous decade. Goods imports grew strongly in 2017, especially fuel, chemicals, and non-durable consumer goods.¹⁶ Meanwhile goods exports remained flat, as increases in rice exports were offset by declines in sugar and gold exports. Remittances of around 8 percent of GDP offset much of the trade deficit. Increases in FDI flows, especially for the oil and gas sector, and higher net flows for the public sector have helped to finance the current account deficit. Official reserves declined by US\$12 million in 2017 to US\$585 million (Table 1). Foreign reserve coverage fell to just above 3 months of imports, highlighting the need to rebuild macroeconomic buffers.

16. **The Co-operative Republic of Guyana continued to enjoy low inflation and a stable exchange rate.** Inflation in 2017 was 1.9 percent, a slight increase from 0.8 percent in 2016 (period averages) (see Table 1). This increase was driven mainly by rising food items prices, while prices for transport, communication and housing experienced a more marginal growth. The Co-operative Republic of Guyana's exchange rate regime is a de jure float. BOG bases the official exchange rate on the weighted average of mid-rates of the three largest banks' turnover. This has remained at 206.5 G\$/US\$ since mid-2014. The unweighted average by all market participants fluctuated between G\$208 and G\$213 during 2017. Monetary policy has supported demand, as an appropriate response to the contraction in non-mining GDP and weak credit growth. A neutral monetary policy stance will be needed as growth consolidates and inflationary pressures arise.

17. **The fiscal stance remained expansionary.** The overall budget deficit remained at around 4.5 percent of GDP (Table 2). Increased collection of consumption and income taxes contributed to higher government revenues, but this was offset by increased spending. Heightened Cabinet scrutiny of the public sector investment program contributed to improvements in the pace of investment spending in the second half of 2017. This higher capital spending explains most of the increase in the deficit. Current expenditures also grew, driven by a slightly higher wage bill. The overall deficit has been financed primarily by domestic borrowing. Mining royalties collected by the Guyana Geology and Mines Commission declined by an estimated 6.8 percent in 2017 (to 0.8 percent of

¹⁶ Based on data from the Bureau of Statistics.



GDP), reflecting an unexpected downturn in gold production, although the Commission was nevertheless able to increase the size of its transfer to the central government.¹⁷

18. **Public debt remains moderately high.** Debt relief and more prudent fiscal policies reduced the level of The Co-operative Republic of Guyana's debt from its peak of over 240 percent of GDP in 1998 to 52 percent by 2014.¹⁸ Total government and publicly guaranteed debt is estimated at 52 percent of GDP in 2017. External debt accounted for around 74 percent of total public debt in 2017, almost exclusively from official creditors with maturities greater than five years.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. **The Co-operative Republic of Guyana's economy is forecast to grow moderately in 2018–19.** GDP is expected to grow by around 3.4 percent in 2018 and accelerate to 4.8 percent in 2019, driven by construction, mining, and commercial services industries. Further contraction of sugar output is expected in 2018–19 as the GCRG restructures the state sugar company.¹⁹

20. **GDP growth is expected to surge dramatically in 2020–21, when oil and gas production commences.** ExxonMobil plans begin producing oil at the rate 120,000 barrels per day (bpd) from the offshore Liza-1 field starting in mid-2020.²⁰ This will boost real GDP by almost 30 percent in 2020 and 22 percent in 2021 (Table 1). Given the location and nature of the find, oil production is not expected to significantly boost employment or have large input-output linkages with other sectors of the economy. Instead, the biggest short-term effect will likely be seen in government financial operations. The GCRG is expected to receive around G\$36 billion in oil revenue in 2020, almost doubling to around G\$71 billion in 2021 (equivalent to 4.8 and 9.5 percent of 2017 GDP, respectively). The country could emerge as a significant oil producer by the mid-2020s, with a total expected production of around 340,000 bpd. There is also potential to bring natural gas onshore. If this gas is then used for power generation, the expected decline in domestic electricity costs could be transformational.

21. **Non-oil GDP is also expected to grow more rapidly.** The GCRG forecasts non-oil growth of around 5–6 percent in 2020–21. Approval of a new gold investment is expected soon. This operation would have the capacity to produce around 150,000 ounces per year (compared to total national production of 700,000 ounces projected for 2018). The introduction of improved rice varieties and new rice marketing arrangements are expected to increase rice output by around 20 percent over current levels. Growth of residential, commercial, and public construction are expected to accelerate over the medium term.

22. **The current account deficit is expected to narrow to 6.1 percent of GDP in 2018 and to 4.3 percent in 2019.** Continued contraction of sugar exports, gradually rising fuel prices, and increased imports of capital goods

¹⁷ The Guyana Forestry Commission and the Guyana Geology and Mines Commission collect royalties from timber and mining, respectively. These payments are not directly remitted to the central government, although they offset expenses that these Commissions incur and thereby contribute to transfers that they make to the central government, based on their net revenue. Foreign gold mining companies pay royalty directly to the central government.

¹⁸ Guyana benefited from debt relief through the Highly Indebted Countries program and the Multilateral Debt Relief Initiative.

¹⁹ In early 2018 the state holding company, NICIL, launched a three-year program to invest in new equipment and facilities that are expected to increase the efficiency of raw sugar production, create capacity for value-added sugar processing, and introduce electricity generation from bagasse. Several estates will be privatized.

²⁰ World Bank estimation.



are expected to push up the current account deficit in 2018–19. U.S. sanctions on Russia are having spillover effects on the Co-operative Republic of Guyana’s bauxite exports due to the Russian company Rusal’s ownership of the Bauxite Company of Guyana. Oil production will generate substantial current account surpluses starting in 2020. Remittances are expected to remain at just under 8 percent of GDP. Net FDI inflows are expected to average 3.7 percent of GDP through 2019, before tapering off as oil production begins. Foreign reserves are expected to remain at adequate levels.²¹

23. Inflation is expected to remain low over the medium term. Higher world oil prices expected in 2018 will push up domestic prices slightly. The inflation rate is forecast to rise to 2.2 percent by the end of 2018 and to 3.0 percent in 2020–21. Monetary policy is expected to remain accommodative.

24. The budget deficit is expected to widen in 2018–19, before declining once oil revenue begins to flow. The overall budget deficit is forecasted to rise to 5.4 percent of GDP in 2018 (Table 2). The authorities expect that a tax amnesty declared in the first half of 2018 will boost tax collection and contribute to total tax revenue growth of 6.0 percent in 2018. Declining receipts from statutory bodies and lower grant revenue will, however, partially offset this. Meanwhile, total spending is budgeted to increase by 6.8 percent. Spending on the wage bill and current transfers account for two-thirds of this increase. Capital spending is budgeted at 7.4 percent of GDP in 2018, continuing to remain well above the level of spending achieved in 2015–16. The overall deficit is expected to grow to around 5.5 percent of GDP in 2019. The deficit is expected to remain at around 4.7 percent in 2020–21. The authorities currently intend to allocate a share of this oil revenue to public investment projects during the first few years of oil production to address critical development challenges. To mitigate the economic risks arising from oil production, it will be important for the Co-operative Republic of Guyana to put in place a strong medium-term fiscal framework with instruments to manage the inflow of oil revenue, build fiscal buffers, and avoid procyclical fiscal policy.

25. Fiscal risks from state-owned enterprises (SOEs) are concentrated in a few companies. The overall balance of state-owned enterprises and other parastatal bodies is forecast to be -0.7 percent of GDP in 2018, and return to a slight surplus in 2019. Since completing an ambitious privatization program in the early 1990s, the GCRG has maintained a cautious stance towards SOEs and during the past decade has rarely provided sovereign guarantees.²² Nevertheless, a few companies have historically required significant central government support and pose fiscal risks in the medium term. The decline in world oil prices in 2014 relieved some of the pressure on the central government to support Guyana Power and Light. If oil prices were to rise sharply, the demand for subsidies would resume. The Guyana Sugar Company (Guysuco) has experienced declining exports for years, in part because of erosion of its preferential access to the European market, and has required large transfers from the central government (reaching G\$12 billion in 2015, but falling to a projected G\$6.3 billion in 2018). National Industrial and Commercial Investments, Ltd. (NICIL), a government-owned holding company, is launching a three-year program to restructure Guysuco, financed by a syndicated G\$30 billion bond. NICIL expects that land sales and privatization receipts will be more than sufficient to repay the bond. There is a risk that these receipts will fall short, however, and as NICIL is owned by the state, creditors may turn to the central government for payment.

26. Public debt is forecast to rise slightly in 2018–19 and decline once oil production begins. Total public and publicly guaranteed debt is forecast to remain at just over 60 percent of GDP in 2019 and then fall to 53 percent by 2021 as oil exports push up GDP. Increased borrowing from China Eximbank accounts for most of the increase

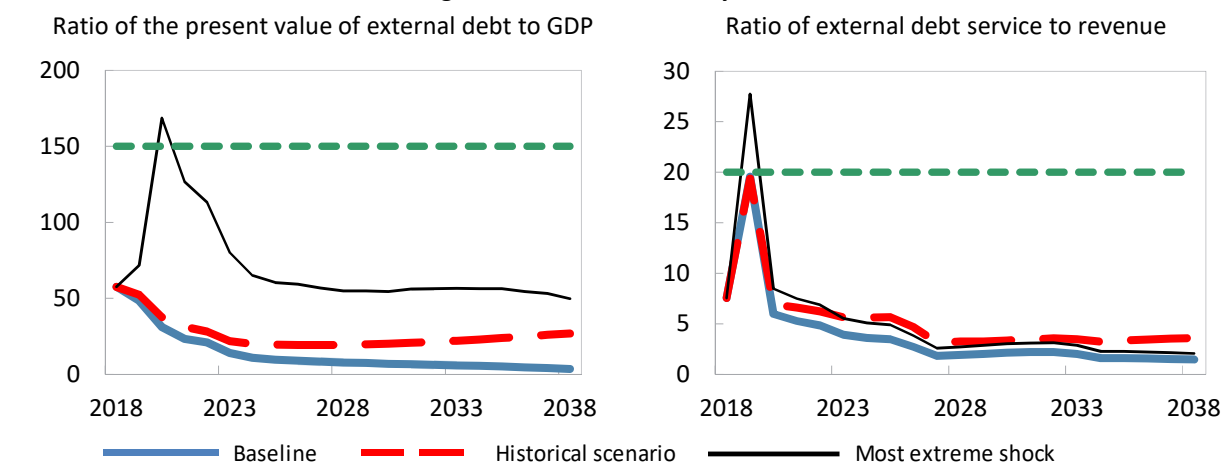
²¹ World Bank estimates.

²² See B. Drum, A. de Kleine Feige, and K. McLeod, “State-owned Enterprises in Guyana: A Policy Note,” World Bank, March 2018.



in the debt stock in 2018–19, and the balance comes from higher disbursements from multilateral creditors. The authorities expect a gradual rebalancing of the currency composition of external debt to include more debt denominated in Chinese yuan, which made up 12.5 percent of external public debt in 2016. Domestic debt is projected to remain dominated by Treasury bills.

Figure 5. Debt Sustainability Indicators



Source: IMF, April 2018, preliminary estimates

27. **The latest debt sustainability analysis concludes that the Co-operative Republic of Guyana faces a moderate, albeit declining, risk of debt distress.** All baseline debt, liquidity and solvency indicators remain well below their respective thresholds throughout the forecast period (ending in 2038). Indicators fall sharply in the mid-2020s as the GCRG receives oil revenue sufficient to run large primary surpluses. Stress tests suggest that the Co-operative Republic of Guyana faces the largest risks to debt sustainability during the period before it is able to run these surpluses. To simulate the effect of commodity shocks or delayed oil production, the following two scenarios were estimated. First, an adverse shock to exports in 2020 would cause external debt to significantly breach its threshold and bring the external debt service/revenue ratio close to its threshold (see Figure 5). Second, an adverse shock to GDP in 2020 would cause a small breach of the threshold for total public debt in 2020–22. These simulations roughly correspond to scenarios where oil production is delayed, but the GCRG spends as if it were receiving oil revenue. Although the baseline includes historically volatile resource revenues, these are not large enough to warrant a separate analysis. The oil and gas revenues, in contrast, could materially change the debt sustainability analysis, and the shock scenario effectively simulates spending growth without the expected oil and gas revenues materializing.

28. **This outlook is subject to a range of external and internal risks.** The outlook assumes a gradual recovery of world commodity prices and gradual return to normal monetary policy in Europe and the United States. Continued sanctions on Russia would restrict bauxite exports and related activities.²³ Slower than expected world GDP growth could slow the increase in commodity prices and undercut the Co-operative Republic of Guyana's export revenue. On the other hand, faster than expected growth in the United States could lead the Federal Reserve to raise interest rates more rapidly. This would likely result in depreciation of the Guyanese dollar, which would increase the GCRG's debt servicing costs. Delayed onset of oil production or political pressure to overspend before the flow of oil revenue are additional risks to the outlook.

²³ For example, a German bauxite transshipment company that employs 200 Guyanese, announced it would wind down operations in Guyana due to sanctions on Russia.



29. **Risks to the financial system could emanate from both domestic and foreign sources.** Potential risks include: (i) rising NPLs and recognition of under-provisioning; (ii) increasing exposure to real estate mortgage lending without comprehensive surveillance mechanisms; (iii) strong interlinkages with the government and regional sovereigns in the Caribbean, which might impose losses on an already concentrated liquidity base; (iv) banks' complex ownership structures, which might obscure risks associated with related-party lending; and (v) a deterioration of correspondent banking relationships. According to the 2016 FSAP stress tests, the banking system is vulnerable to severe downside risks, but could withstand large adverse shocks.

30. **There is an upside risk that oil and gas production could increase more rapidly than currently projected.** The baseline assumes that the first stage of the Liza project commences production in 2020 and that production from the second stage begins in 2022, but assumes no additional projects. Some analysts expect that additional projects could begin production as soon as 2025. Furthermore, the use of natural gas to generate electricity could dramatically reduce domestic electricity costs, relaxing a serious constraint to economic growth.

31. **Oil production poses a number of downside risks, however.** Widespread expectations of future oil wealth could translate into political pressure that results in misallocation of government spending, including for example, increased government spending prior to the receipt of oil revenue (possibly financed by commercial borrowing), government financing of uneconomical capital investments, or spending at levels that would contribute to unsustainable debt accumulation. In addition, the commencement of oil and gas production exposes the Co-operative Republic of Guyana to risks of Dutch Disease. Common effects of Dutch Disease include real exchange rate appreciation, growth of non-tradable sectors at the expense of traditional export production, and asset price bubbles.

32. **The GCRG is taking steps to address these risks, and the Co-operative Republic of Guyana's macroeconomic policy framework is adequate for the proposed development policy financing operation.** GDP growth is forecast to return to historical levels in 2018–19. The current account deficit will remain at a manageable level before transitioning to a surplus after oil exports begins. Foreign reserves are forecast to remain adequate. Inflation is forecast to remain low. The Ministry of Finance (MOF) is taking steps to strengthen fiscal policy and management, including legislation to create a savings and stabilization fund (expected to be ready in mid-2018), a Public Investment Management Policy, and a new Public Debt Act²⁴. The authorities are also discussing ways to anchor fiscal policy, such as through debt or expenditure rules. A proposed DPC to be delivered in FY19 would support many of these measures. Meanwhile, a Bank-supported investment project financing (IPF) that is expected to be delivered by the end of calendar 2019 will finance the strengthening of the Co-operative Republic of Guyana's institutional capacity to manage oil and gas. Actions to manage risks in the financial system including through better oversight over banks and insurance companies, improved bank resolution, and deposit insurance are underway.

2.3. IMF RELATIONS

33. **The IMF deems the macroeconomic outlook positive for 2017 and the medium term.** The Co-operative Republic of Guyana does not have an IMF program. An Article IV mission was just concluded, but the report has

²⁴ The new Public Debt Act will consolidate debt provisions that currently are spread across five separate laws. MOF is drafting provisions that will strengthen debt strategy formulation, provide for self-assessment, enhance operational risk management, and improve debt negotiations.



not yet been completed and reviewed by the IMF Board, so an assessment letter is included in Annex 2.

3. GOVERNMENT PROGRAM

34. **The GCRG has initiated critical reforms to prepare the country for the incoming oil wealth while building a knowledge based green economy.** The 2017 budget speech outlines the GCRG's economic policies and structural reforms. The reform priorities include improving the efficiency of public investment, strengthening public debt management, improving tax administration, and reviewing the efficiency of public expenditures. A monitoring and evaluation framework is being developed with the objective of realizing effective results based management. The GCRG is piloting software to support budgeting for results in key line ministries before broadening the concept to the whole public sector. For treasury management, the GCRG is contemplating transitioning to a single treasury account. Authorities are also working closely with the international institutions to adopt a transparent and rules-based fiscal framework for managing the oil wealth. Plans for establishing a sovereign wealth fund are well-advanced, and with support from the Commonwealth Secretariat and other international partners, legislation is expected to be presented to the Cabinet and to the National Assembly later this year.

35. **The GCRG sees financial stability and a vibrant financial sector as critical to achieve the country's goals.** The BOG's strategy aims for a sound and fully developed financial sector. The GCRG has closely collaborated with the World Bank including through the 2016 FSAP and has been implementing key reforms some of which are supported through this PDPC. Recent examples include enhanced AML/CFT oversight and legislation that helped remove the Co-operative Republic of Guyana from the Financial Action Task Force grey list. Following the failure of a large life insurance company, oversight of insurance and pension sectors were shifted to the BOG and a new insurance law was passed in 2016. The World Bank supported these achievements through advisory services.

36. **Starting in 2017, the Co-operative Republic of Guyana has made strides towards enhanced transparency in natural resources.** First, on October 25, 2017, the Co-operative Republic of Guyana was admitted as an Extractive Industries Transparency Initiative (EITI) candidate country, an internationally recognized and credible transparency and oversight mechanism of extractives. The World Bank through its *Caribbean Extractive Industries Technical Assistance* (P162883) supported the Co-operative Republic of Guyana's successful candidacy to EITI, providing expert advice and training to the Guyanese EITI Secretariat and the Multi-Stakeholder Group (MSG) in 2017. Second, the GCRG made a commitment in late 2017 to release major contracts between the GCRG and companies in the extractives sector. Since then, it has published online four Production Sharing Agreements (PSAs): the PSA with ExxonMobil/Hess/CNOOC Nexen was made available in December 2017; the PSA with CGX Energy and the PSA with Ratio Energy Limited were published in February 2018; and the PSA with Nabi Oil and Gas Inc was made available in March 2018. These are important steps towards enhanced transparency, the promotion of dialogue among key stakeholders based on reliable information, and the responsible and effective governance of the oil and gas sector in the pursuit of sustainable development²⁵.

37. **In preparation for the transformation of its economy, the GCRG envisions developing a green economy and knowledge driven growth industries.** The country's medium-term strategy, the Green State Development Strategy (GSDS) will be a working blueprint supported by an implementation plan. A monitoring and evaluation framework with clear indicators and targets for GSDS will enhance accountability. The seven central themes of

²⁵ The government has not requested IDA funding to support this process.



the GSDS are: (i) green and inclusive structural transformation; involving diversifying the economic base, accessing new markets and creating decent jobs for all; (ii) sustainable management of natural resources and expansion of environmental services; (iii) energy – transition to renewable energy and greater energy independence; (iv) resilient infrastructure and spatial development; (v) human development and well-being; (vi) governance and institutional pillars; and (vii) international cooperation, trade, and investments.²⁶

38. **Under the current government, implemented policies and measures have been in line with IMF advice, under article IV.** Actions by the GCRG include fiscal consolidation to preserve buffers, refraining from non-concessional financing, improving the efficiency of public enterprises, allowing exchange rate flexibility to play a larger role in facilitating the adjustment to external shocks, and addressing deficiencies in the AML/CFT framework.

39. **The GCRG remains committed to avoid non-concessional external borrowing.** For large infrastructure projects, it will continue to rely on grants and concessional loans from donors. It plans to anchor future oil wealth management in a comprehensive legal framework. In addition to drafting the Natural Resource Fund legislation, the GCRG is also working on other key elements of the fiscal regime, including drafting the Petroleum Law and establishing a Petroleum Commission. The GCRG has stated its intention to use the anticipated oil revenue to achieve three objectives: intergenerational savings, stabilization, and to help meet key development objectives based on a transparent and rules-based framework.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

40. **The DPC series form an integral component of a program to support financial sector, fiscal, and oil and gas sector reforms.** Well-managed fiscal policy, revenues from extractive sectors, and financial sector oversight combine to ensure economic and financial stability. The GCRG is collaborating with the World Bank on an integrated program of reform on these key sectors.

41. **The Program Development Objectives (PDOs) are to promote sound financial development and strengthen fiscal management.** The operation will support several actions that stimulate a well-functioning financial intermediation consistent with the Bank's strategy to maximize finance for development. The operation is expected to boost confidence in financial institutions and help ensure that risks to financial stability are well-managed. The actions pertain in part to the BOG's ability to manage risks in the financial system and in part by providing for efficient financial transactions that protect the interests of financial services consumers. The proposed series is also expected to strengthen fiscal management. First, it will support the development of a sovereign wealth fund that will facilitate macroeconomic stabilization and intergenerational savings. Second, it will back improvements in the debt management strategy formulation and modernization of its related institutions. Third, public investment management will be supported to strengthen the appraisal and selection of investment projects and align the public investment program with the medium-term budget framework as envisioned from a costed Green State Development Strategy.

²⁶ Guyana – 2017 Budget speech.



42. **A well-managed and sound financial sector is crucial, as the envisaged reform initiatives require substantial private sector resources and the efficient roll-out of investments.** Thus, the attention to policy measures aimed at financial sector stability as well as expanded intermediation are key. A stable financial sector efficiently intermediating savings into investments, will be a key underpinnings of a successful government strategy. Improved oversight over the banking sector and insurance sector coupled with efficiency enhancing measures such as a payments act promoting electronic payments, deposit insurance, and Anti-Money Laundering - Combating the Financing of Terrorism (AML-CFT) oversight will ensure trust in the sector and efficient financial intermediation, during an upcoming period of potential larger capital inflows, and which in turn can provide for private sector driven growth under a framework that mitigates risks.

43. **The GCRG's pursuit of knowledge driven industries will be achieved directly through financial sector development and indirectly through the effect of more efficient financial intermediation on the rest of the private sector.** The financial sector itself is a high value-added sector leveraging skilled labor. As the sector pursues more advanced services and moves towards electronic payments, the sector will become increasingly knowledge driven. The sector is also instrumental in allocating capital to where it is most economically applied.

44. **The GCRG is also committed to strengthening fiscal management systems.** A proposed second DPC, planned for FY19, will focus on fiscal management, in addition to providing continuing support for financial sector reforms. The Bank and the authorities have discussed including in the policy matrix the creation of a savings and stabilization fund, modernization of debt management, approval of a public-private partnership policy, and improvements to the public investment management system. The PDPC could potentially also support the GCRG in strengthening the fiscal responsibility framework.

45. **The financial support provided by the DPC series has been and will be systematically supported with technical assistance.** The Country Engagement Note (CEN)²⁷ recognizes the importance of linking, from the outset, financial support with systematic technical and training support in light of the Co-operative Republic of Guyana's weak institutional and fiduciary capacities. The 2016 Financial Sector Assessment Program (FSAP) offered detailed guidance on priorities in financial sector reform. Moreover, the Bank has provided FIRST Initiative funded technical assistance on insurance supervision and is currently providing assistance on the development of a national payment systems strategy, the payment system law and implementing regulations as well as on consumer protection for financial services. The Bank has also assisted the country in its national risk assessment of AML-/CFT. IMF's Caribbean Regional Technical Assistance Centre (CARTAC) has provided technical assistance on crisis management. A recently approved FIRST Initiative grant will assist in the development of deposit insurance.²⁸ A continued advisory engagement will strengthen the outcome of the operation.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

46. **The proposed first DPC of a programmatic series of two is structured in three pillars:** (i) strengthen financial stability and depositor protection, (ii) enable sound financial inclusion and development, and (iii) strengthen fiscal management to promote macroeconomic stability and long-term growth. The second credit of the programmatic series will continue advancing financial sector reforms as well as supporting reform efforts to enhance fiscal management. It will ensure the effective implementation of the laws through regulations and

²⁷ Discussed by the Board on March 23, 2016, Report No: 94017-GY.

²⁸ Strengthening Financial Safety Net and Deposit Insurance (P165708)



institutional arrangements. It will also ensure that prudent and important reforms, in line with international best practice, to manage the growing fiscal resources are developed and implemented by early 2020 and before the large new inflows from the oil and gas begin.

Pillar I: Strengthen Financial Stability and Depositor Protection

47. **Maintaining financial stability is important for growth, protecting fiscal resources, and for protecting the poor.** Financial crises are associated with deep economic contractions and fiscal outlays that often exceed 10 percent of GDP.²⁹ Moreover, financial crises not only impact the poor through slowing economic activity and fiscal retrenchment, but in some cases crises increase income dispersion thus having an exacerbated impact on the poor.³⁰ Despite progress, the Co-operative Republic of Guyana still needs to improve financial sector oversight arrangements to reduce the risk and improve the ability to manage financial crises. The 2016 FSAP identified that crisis management tools were inadequate. For example, the range of options for resolving failing banks was inadequate and the procedures for providing emergency liquidity to failing banks were not fully developed. By strengthening such crisis management tools, the risk of spill over from one failing bank to the rest of the financial system is reduced. Moreover, minimizing fiscal support to failing banks reduces moral hazard and thus provides an incentive for more prudent risk management in banks.

48. **Bank resolution and emergency liquidity assistance (ELA) are key elements to have in place in order to ensure an effective deposit insurance system (DIS).** For failing banks, if any were to materialize, remaining capital is often inadequate to ensure that depositors and other creditors are paid in full. When depositors are covered by deposit insurance, the DIS can be exposed. Thus, effective bank resolution aims to respond decisively to financial distress to maintain financial stability, preserve asset value, and to minimize losses for banks, government agencies, depositors, the DIS, and society as a whole. ELA ensures that solvent but illiquid financial institutions can continue functioning during a systemic shock that erodes liquidity, avoiding disruptive credit crunches with associated resource constraints. Thus, it is an important crisis management tool to be used when authorities are facing either distress of an individual systemic bank or a group of banks that jointly are systemic, which are otherwise solvent.

Prior action #1: The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to strengthen its bank insolvency legal framework through the adoption of new rules for the resolution of licensed financial institutions that: (a) allow partial transfers of assets and liabilities from weak banks to sound banks; and (b) replace the court administered bankruptcy procedure for banks with administrative resolution powers and additional resolution tools.

Trigger #1: The Recipient establishes provisions and guidelines to operationalize the purchase and assumption tool that allows partial transfers of assets and liabilities from weak banks to sound banks as well as the new administrative resolution powers.

Rationale

49. **To minimize fiscal costs in the aftermath of bank failures, if these were to occur.** At the implementation level, the focus is to provide more flexible administrative and financial structuring tools to handle bank

²⁹ Laeven and Valencia (2012): "Systemic Banking Crises Database: An Update", IMF WP 12/163.

³⁰ See for example Baldacci, de Mello, and Inchauste (2002): "Financial Crises, Poverty, and Income Distribution", IMF WP 02/4.



insolvencies prior to full failure, thus preserving capital, through the use of transfers of loans and deposits to sound banks, in order to reduce costs of bank failures and payments to depositors. These new tools are also becoming the international standard as elaborated in the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions. Given the potential systemic and contagion nature of financial crises, the legal framework needs to provide for bank resolution procedures that can be executed quickly to prevent loss of value of what remains of insolvent institutions.

Substance of the prior action

50. **The prior action will involve modification of the Financial Institutions Act to replace the method of insolvency processing, currently via court administered bankruptcy procedures for banks, with a modernized administrative resolution method.** This will, inter alia, retain asset values, minimize losses, and keep depositors sound by transferring good parts of bank balance sheets to sound acquiring banks. This framework involves a number of parallel reforms not only in the financial restructuring mechanisms allowed under the new approach, but also the powers of the financial supervisor, which under insolvency situations pertain to administrative powers used to preserve value and limit court administered bankruptcy procedures to handling residual assets that cannot be absorbed by a sound institution. Under the revised framework, the BOG will be the authority responsible for resolution of licensed financial institutions. The BOG will have some of the functions, such as balance sheet adjustments and management decision powers, which belonged to a court appointed receiver. After the bill is enacted, the provisions and guidelines will have to be issued to operationalize both the purchase and assumption tool and the new administrative procedures.

Expected Results

51. **Reduction of fiscal outlays and losses to the State, the financial authorities and the deposit insurance scheme when applying resolution tools to resolve failing financial institutions.** The primary objective of the new resolution tools is to: (a) minimize financial disruption by keeping depositor accounts operating via immediate transfers (with assets) to sound banks, and (b) reduce costly outlays by putting insolvent banks in liquidation while depositors need to be repaid separately. Thus, while the resolution legal tool in itself is a set of procedures and available financial transaction mechanisms, these are the means to maintain stability and reduce losses to the economy. The result is therefore measured against such metric.

Indicator a: Operational procedures in place to undertake resolution with modern tools including purchase and assumption options.

- Baseline: Only court administered liquidation is available as a resolution tool (2017).
- Target: BOG Resolution Committee is established, and internal procedural guidelines and policies, documented, approved and in effect.

Prior action #2: The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to improve depositors' protection and provide enhanced depositor confidence in periods of stress of the financial system by establishing a deposit insurance scheme comprising a deposit insurance fund and a deposit insurance corporation.

Trigger #2: The Recipient improves depositors' protection and provides enhanced depositor confidence in periods of stress of the financial system by: (a) establishing a deposit insurance scheme comprising a deposit



insurance fund and a deposit insurance corporation; and (b) establishing the regulations for the implementation of the deposit insurance scheme.

Rationale

52. **Deposit insurance underpins confidence in the financial system when it is exposed to stress, it protects small savers, and it builds trust among financial system users which in turn underpins economic activity.** Financial systems exert more confidence on depositors and stakeholders with the existence of an explicit deposit insurance scheme, which when well-funded can avoid broad “bank runs” and provide a financial safety net and reduce intervention of the state or use of fiscal or other resources to repay depositors of failed banks. Deposit insurance protects depositors with a government guarantee thus helping protect small savers and the country’s payment system. It also underpins confidence in times of stress and thus helps maintain financial stability.

53. **Despite its benefits, deposit insurance can lead to moral hazard and contingent fiscal liabilities, if appropriate pre-conditions are not established.** In recognition of the important role of effective deposit insurance, the Basel Committee and the International Association of Deposit Insurers established in June 2009^{31,32} a set of core principles for effective deposit insurance (“Core Principles”). To manage the downside risks, the Core Principles establish a set of preconditions for deposit insurance and provide guidance on its design and implementation. The 2016 FSAP identified bank resolution and ELA as the key preconditions for deposit insurance in order to trigger such insurance only once more effective tools for mitigating risks of insolvent or illiquid banks have been exhausted.

Substance of the prior action

54. **A new Deposit Insurance Law including a deposit insurance fund, primarily funded by the banking industry is introduced.** The insurance will cover deposits up to G\$ 2 million (~US\$10,000), so deposits larger than that will only be partially funded. It is estimated, based on 2017 deposit data, that more than 95 percent of eligible number of depositors will be fully covered, but only about 31 percent of the total value of deposits will be covered. A fund will be established to back the guarantee and will over time be funded by the industry based on their deposit bases. An appropriate target level will be reached in about 10 years at which point the premiums may be reduced. The deposit insurance and the fund that backs it will be used as a backstop to compensate insured depositors if the assets from the failing bank are inadequate. After the bill is enacted, a deposit insurance fund and a deposit insurance corporation will have to be established and supporting regulations must be issued.

Expected Results

55. **The deposit insurance is expected to only be used rarely, and the results indicator is therefore the existence of the guarantee for a large number of depositors.** Protecting fully a large majority of depositors is important for the insurance to instill confidence and protect savers and to avoid a bank run if uncertainty arises.

³¹ The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. The International Association of Deposit Insurers (IADI) is the standard setter for deposit insurance. Both entities are domiciled at the Bank for International Settlements (BIS).

³² Updated in November 2014.



Adequate funding of the deposit insurance fund will strengthen the system over time, but that is expected to take 10 years.

Indicator b: Share of eligible deposit clients falling within the stipulated coverage, excluding financial institution deposits,³³ are fully covered by deposit insurance scheme.

- Baseline (2017): 0 (no existing coverage).
- Target: 95 percent or more deposit owners covered.

Prior action #3: *The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to establish a prudent legal framework for the Bank of Guyana's short-term lending to illiquid but solvent banks as a banking safety net measure, by delineating the modalities of: (a) the Bank of Guyana's lending and collateral requirements; (b) the Recipient's explicit backing of the Bank of Guyana's outlays to illiquid banks for longer terms; and (c) the terms and conditions of such financing.*

Trigger #3: *The Recipient facilitates the implementation of the ELA framework of the Bank of Guyana by adopting the supporting regulations.*

Rationale

56. **To establish prudent criteria and a framework for central bank short term lending to illiquid (but solvent) banks as a banking safety net measure, to restore sound banks to stability during short term liquid funding shortages.** This is a key feature of globally recognized financial safety nets. At times, the banking sector may face shortages of liquid funds even when solvent. In such cases, there is no need to resolve them and wind them down. Instead, short term liquidity instruments are needed to tide these banks over until liquidity shortages are removed. In such circumstances, international practices dictate a need for Central Banks to provide such short-term funds, albeit at above market rates to reflect risk and fully collateralize to obtain security. The current BOG Act is not fully suited to achieving this as it needs to limit its assistance to specified short-term period (in line with the short-term nature of illiquidity problems) and needs to expand the instruments it can use as collateral to secure its short term lending to banks (e.g., government securities, other safe assets) and not rely only on specified loans to given sectors (that could change over time) which banks hold on their books.

Substance of the prior action

57. **Modification of the BOG Act delineating the forms of emergency BOG lending, collateral requirements, backing of the State for any BOG outlays, and terms and conditions of such financing.** As per above, the current BOG act is not well-suited to provide short term liquidity for banks that are solvent but under funding constraints. Also, the maturity of any such BOG credit should be very short, for example 3 months. The BOG Act is modified to specify this and the rationale for using its funds. It also more clearly specifies eligible collateral. The features of an emergency liquidity framework need to be clear, short-term, collateralized, and subject to verifying solvency of requesting banks as defined in the Act. After the bill is enacted, regulations will have to be issued to implement the ELA framework.

³³ Certain deposits such as interbank deposits and financial institutions deposits are not covered in line with international best practice.



Expected Results

58. **The operational procedures for ELA will be in place.** Once the law is in place, the BOG needs to establish operational procedures for ELA to ensure it can rapidly be prudently implemented.

Indicator c: Emergency short term liquidity facilities activated and in place, and subject to eligibility for solvent but illiquid banks with sufficient collateral.

- Baseline (2017): Regulations and operational procedures for ELA not in place.
- Target: ELA facility is operational with improved collateral assets and time limits for use of the instruments.

Pillar II: Enable Sound Financial Development

59. **Microeconomic reforms will ensure that the financial sector provides efficient transactions for a larger segment of the population.** The reforms are specific to different aspects of the financial sector, but are each important building blocks for inclusive financial development. The Co-operative Republic of Guyana lags behind in terms of providing access. In 2015, the Co-operative Republic of Guyana had 8.4 commercial bank branches per 100,000 persons, compared to 11.1 in Suriname and 15.3 in the LAC region.³⁴ The Co-operative Republic of Guyana also had fewer Automated Teller Machines (ATMs), 17 ATMs per 100,000 population, compared to 48 in Suriname and 41 in LAC. Banking services are particularly limited in the vast hinterland away from the coast. Savanna and mining communities are often small, remote, and thus difficult to economically serve with bank branches and ATMs. Insurance penetration in the economy is low, thus not providing a risk cushion against life or property events that could cause economic losses, and otherwise be protected financially. According to the 2008 country poverty assessment, the poverty headcount rate in the hinterland was 73.5 percent, compared to 18.7 and 37.0 percent in urban and rural coastal areas, respectively.

Prior action #4: The Recipient, through its Ministry of Finance, has upgraded the oversight arrangements of its insurance sector by: (a) revising the legal framework of the insurance sector to make it consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and with local market conditions and constraints; and (b) enhancing the powers of the Bank of Guyana with respect to inspections and corporate governance.

Rationale

60. **A well-functioning insurance sector offers risk transfer to protect individuals and enterprises against loss events, but trust in the insurance sector in the Co-operative Republic of Guyana was rattled by the failure of CLICO, a life insurance company.** In 2009, CLICO, then a main provider of life insurance products, failed. The failure was relatively well-handled in the Co-operative Republic of Guyana, and oversight over the sector was shifted to the BOG as recommended by the 2016 FSAP. The World Bank provided technical assistance to establish a new legal framework to help protect against future failures and to re-establish trust in the system. The reform of insurance oversight has been supported by two FIRST Initiative grants where the legal and regulatory framework was substantially strengthened.³⁵

³⁴ International Monetary Fund, Financial Access Survey.

³⁵ Supervision of Non-Bank Financial Institutions (P129409) and Supervisory Capacity Building and Consumer Protection in Guyana (P153423).



Substance of the prior action

61. **The new insurance law and its associated regulations represent an important reform to oversight arrangements.** The new framework greatly upgrades the Co-operative Republic of Guyana's observance of the Insurance Core Principles of the International Association of Insurance Supervisors, while being consistent with local market conditions and constraints. The implementation of the law through a range of implementing subsidiary regulations will provide flexibility consistent with regulatory good practices. The framework enhances the powers of the BOG, including important clarification of powers regarding inspections and corporate governance.

Expected Results

62. **The result of the insurance oversight reforms will be a financially sounder sector with stronger solvency.** The direct and specific indicator of soundness will be the solvency requirement established under a new methodology more sensitive to the risks involved with insurance. The new solvency requirement is being gradually implemented until 2023 to allow the industry to adjust. By June 2020, the 16 licensed insurance companies must be at 40 percent of the new regulatory requirement.

Indicator d: All licensed insurance companies meet the phased target of the new solvency requirement.

- Baseline (2016): Not available, as capital is not yet measured under the new risk based regime.
- Target: All 16 insurance companies are at 40 percent of the 2023 regulatory capital requirement.

Prior action #5: The Recipient, through its Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to increase safety and efficiency of the national payments system by: (a) providing legal clarity and certainty of electronic payments and settlement activities; and (b) strengthening institutional policies, tools and capacity to oversee the national payments system to minimize and mitigate risks.

Trigger #4: All regulations under the new legal framework issued.

Rationale

63. **The Co-operative Republic of Guyana's economy remains largely cash based despite good access to accounts.** 99.9 percent of payments in the Co-operative Republic of Guyana are paper-based instruments in the form of cash, checks and paper vouchers. Evidence shows that it is not viable for most banks and financial institutions to provide financial services to the poor due to their frequent, but small, financial transactions that are conducted mostly in cash.³⁶ According to the World Bank's Guyana "Cost of Cash" study, it is estimated that the annual cost of cash for consumers is G\$ 15 billion, or 2.45 percent of GDP in direct and indirect costs.

64. **There are major gaps in the foundations of Guyana National Payment Systems (NPS), as the overall policy framework and the basic infrastructures are missing.** These gaps limit the potential for the economy to transition to electronic payments to conduct all personal, business, government and financial transactions,

³⁶ The Gates Foundation and McKinsey&Co. (2013) Fighting poverty, profitably Transforming the economics of payments to build sustainable, inclusive financial systems.



including remittances. The gaps include: (1) a lack of a comprehensive legal and regulatory framework; (2) a lack of a mechanism for a safe and efficient processing of large value payments, including those stemming from securities transactions and money market and foreign exchange transactions; (3) the absence of a mechanism to clear and settle interbank retail payment; and (4) the lack of a policy framework for the NPS, including oversight arrangements. The 2016 FSAP recommended a comprehensive approach to upgrading the national payments system. A World Bank-financed investment project³⁷ is supporting the development of the physical infrastructure, including the hardware and software required, data sites and support operational capacity building for the authorities. A FIRST Initiative funded project complements the Co-operative Republic of Guyana payments system reform by supporting the development of a robust legal and regulatory framework and policy framework: Payment System Development in Guyana (P161631).

Substance of the prior action

65. **An improved legal framework and development of the payments system infrastructure are prerequisites for greater usage of electronic payments and better access to financial services.** The existence of a “well-founded, clear, transparent and enforceable legal basis” for payments is one of the key requirements for the safe functioning of payment systems³⁸. In particular, a new national payment act is an important foundation for improving financial services in the Co-operative Republic of Guyana. The new legal framework will complement the infrastructure being built at BOG to facilitate a shift from cash and checks to electronic payments. It will also facilitate increased efficiency in payments by the MOF and the National Insurance System (NIS), which perform a large number of electronic payments. After the bill is enacted, regulations will be developed on NPS oversight, agents, e-money³⁹, and electronic funds transfers.⁴⁰

Expected Results

66. **A comprehensive legal and regulatory and oversight framework to govern the National Payment System.** The new framework will provide legal clarity and certainty of payments and settlement activities, as well as strengthen institutional policies, tools and capacity to oversee the NPS to minimize and mitigate risks. The issuance of detailed regulation to implement and operationalize the payment systems act should also help ensure consistency in policy measures and implementation of further reforms to continue fostering a safe and efficient payment systems in the country.

Indicator e: Cashless transaction through interbank facility.

- Baseline: <5,000 per year.
- Target (2020): 200,000 per year.

Prior action #6: The Recipient has enhanced the enforcement of the existing legal framework for anti-money

³⁷ Guyana Payments System Project (P159512).

³⁸ CPSS-IOSCO Principles for FMIs- April 2012: Principle 1

³⁹ E-money means monetary value represented by a claim on the issuer, which is: (a) stored electronically, including magnetically or in any other tangible or intangible device (such as a SIM card or a software); (b) issued on receipt of funds for the purpose of making payment transactions; and (c) accepted as a means of payment by persons other than the issuer

⁴⁰ Electronic Funds Transfer service, means any transfer of funds which is initiated by a customer, either totally or partially, through an electronic terminal, telephonic instrument or other automated device so as to order, instruct, or authorize a Provider to debit or credit an account. The term includes point of sale (POS) transfers, automated teller machine (ATM) transactions, direct deposits or withdrawal of funds, transfers initiated by telephone, internet, card or other devices



laundering by improving the effectiveness of the investigation and prosecution process by giving the authorities adequate time to collect the evidence.

Rationale

67. **Inadequate implementation of AML-/CFT arrangements placed the Co-operative Republic of Guyana on the Financial Action Task Force (FATF) grey list, which undermined trust in the financial system, and banks were losing access to the international payment system.** Domestically owned banks were losing correspondent bank relationships that are essential for banking services such as trade finance, international check clearing, and the processing of remittances sent by Guyanese overseas. As a result, authorities took both legal, and supervisory and institutional measures to improve compliance with FATF requirements.

68. **The GCRG's actions on AML-CFT have allowed the Co-operative Republic of Guyana to be removed from the FATF grey list and strengthen trust in the system.** Laws enacted in December 2015 and May 2016 underpinned significant progress and helped maintain access to correspondent banking partners overseas. Progress indicators included improvements in national coordination in AML-CFT, functionality of the Financial Intelligence Unit, coverage of the full range of relevant sectors in AML-CFT regime, and AML-CFT supervisory activities and guidance by BOG. These developments led to a more favorable review by the Caribbean Financial Action Task Force (CFATF), which announced in November 2016 that the Co-operative Republic of Guyana is no longer subject to the CFATF-ICRG review process, also known as the FATF grey list. To remain off the grey list, the country needs to keep strengthening the AML-CFT regime by focusing on practical evidence of effectiveness.

Substance of the prior action

69. **Act 21 of 2017 defines money laundering as a hybrid offence, affording investigative and prosecutorial agencies greater latitude to prosecute cases.** Money laundering schemes can be very complex and in most cases tracing the criminal proceeds takes time, particularly when there are international transactions. Before the Act 21 of 2017, money laundering charges could be based only on so-called summary convictions providing for only a six months deadline to initiate the charges against perpetrators. This time limitation hampered the ability of investigative authorities to collect the evidence and establish the charges. Although money laundering investigations are ongoing, none of them have resulted in actual charges due to this limitation. With the new amendment, the money laundering charges can be based on "conviction on indictment". This amendment gives the authorities adequate time to collect the evidence in money laundering cases and is expected to improve the effectiveness of money laundering investigations.

Expected Results

70. **Analysis of suspicious transactions is a key action in the chain of activities for AML enforcement.** The suspicious transaction reports received from reporting entities, are analyzed and may materialize into intelligence reports, which are sent to the investigators for more detailed investigations. Occasionally these intelligence reports need updates as new information becomes available. The full process includes reporting of suspicious transactions by for example financial institutions and money transfer agents, analysis of suspicious transactions by the Financial Intelligence Unit (FIU), prosecution, and eventually conviction. The prior action supports a key bottleneck in the money laundering cases in the transition from investigation to prosecution. This will support the credibility of country's AML-CFT system and integrity of the financial sector, thus maintaining



correspondent bank access and, inter alia, protecting the key capital resources flowing into the Co-operative Republic of Guyana, including the traditional remittance flows. The indicator captures the activities of the FIU in developing sound intelligence based on suspicious transaction.

Indicator f: The number of the FIU intelligence reports referred to police for money laundering investigations.

- Baseline (2017): 20 reports (10 new and 10 updates to existing cases).
- Target (June 2019-June 2020): 25.

Pillar III: Strengthen Fiscal Management to Promote Macroeconomic Stability and Long-term Growth

71. The advent of oil production will provide the GCRG with a substantial new source of revenue. However, it will expose the economy and public finances to the substantial volatility of world oil markets. And the rapid emergence of the oil and gas sector in the Co-operative Republic of Guyana creates the risk of currency appreciation, contraction of traditional growth sectors, and other aspects of “Dutch Disease.”⁴¹ The GCRG is strengthening its fiscal management systems to address these risks with the aim of ensuring macroeconomic stability and harnessing the oil and gas sector for long-term economic growth and development. The GCRG is working along several dimensions (establishing a fund for savings and stabilization, consolidating and modernizing debt management legislation, and strengthening the public investment management system).

Trigger #5: The Recipient establishes a savings and stabilization fund for oil revenue that will improve fiscal management by stabilizing revenue and saving for future generations.

Rationale

72. **Establishing a fund with associated rules for saving, spending, and investing oil revenue is essential for inclusive growth and macroeconomic stability.** A common experience among new exporters of oil or other extractives is that the large influx of revenue from the booming sector tends to appreciate the real exchange rate and move labor and other resources out of traditional growth industries and into non-tradable sectors. If a country lacks fiscal buffers and anchors for government spending and debt, volatility in world oil markets can lead to procyclical fiscal policy, which in turn magnifies domestic economic volatility. A savings and stabilization fund preserves revenue for use by future generations, for public investments that contribute to long-term inclusive growth, and for stabilization in the face of volatile oil prices.

Substance of the trigger

73. **The GCRG has drafted a Sovereign Wealth Fund Act and will submit it to the National Assembly for approval.** The law will create the fund, set conditions on transfers into and withdrawals from the fund, and establish rules for the allocation of oil revenue towards long-term savings, macroeconomic stabilization, and the public sector investment program via the national budget. The law will also contain rules to guide the management of the fund consistent with the Santiago Principles. The GCRG plans to issue a green paper in mid-2018 for Cabinet discussion, followed by broad stakeholder consultations. The legislation is expected to be submitted to the National Assembly before the end of 2018.

⁴¹ The classic treatment of Dutch Disease is W.M. Corden, “Booming Sector and Dutch Disease Economics: Survey and Consolidation,” *Oxford Economic Papers* 36 (1984).



Expected Results

74. **Creation of the fund is the intermediate outcome.** The management structure, operational procedures, and accounts for the fund are expected to be in place in 2019 so that it is ready to accept revenue when oil exports commence in early 2020. Over the longer term, the existence of the fund and its associated rules will strengthen the GCRG's tools for macroeconomic stability, fiscal sustainability, and the provision of public goods.

Indicator g: Sovereign wealth fund is in place.

- Baseline (2017): no fund exists.
- Target (2020): Fund is created and ready to accept oil revenue prior to oil production.

Trigger #6: The Recipient improves debt strategy formulation, modernizes debt management, and strengthens the alignment between borrowing and macroeconomic policy.

Rationale

75. **The legislative and institutional framework for debt management needs to be strengthened.** MOF's analysis of this framework has identified a number of gaps and inconsistencies: existing laws do not specify high-level debt management objectives, expressed in terms of risk and cost; they do not require adoption of a medium-term debt management strategy; debt levels and ceilings are not linked to macroeconomic and fiscal conditions; laws do not provide sufficient guidance on the organizational structure for debt management.⁴²

Substance of the trigger

76. **The GCRG is drafting a Public Debt Management Act that would strengthen debt management.** The law will include provisions that strengthen discipline on borrowing, align government borrowing with macroeconomic policy objectives, modernize debt management, and increase transparency and accountability, including by mandating approval and publication of a medium-term debt strategy. The authorities expect the bill to be submitted to the National Assembly in early 2019.

Expected Results

77. **Increased transparency and accountability through annual preparation of a medium-term debt strategy is the main intermediate outcome.** Over time, the stronger legal and institutional framework will contribute to fiscal sustainability and support development of the domestic capital market.

Indicator h: Regular approval and publication of a medium-term debt strategy.

- Baseline (2017): no strategy is published.
- Target (2020): Strategy for 2020–22 has been published.

Trigger #7: The Recipient strengthens the appraisal and selection of investment projects and aligns the public investment program with the medium-term budget framework.

⁴² These are described in detail in Cooperative Republic of Guyana, "Public Debt Annual Report 2015," October 2016.



Rationale

78. **Improving the Co-operative Republic of Guyana's public investment management system is a prerequisite to closing the country's infrastructure gap.** A 2017 public investment management assessment found that, despite having many desirable features, the Co-operative Republic of Guyana's public investment management system is less efficient than those of comparator countries.⁴³ The assessment documents weaknesses in the planning, budgeting, selection, procurement, and implementation of capital projects. Consequently, projects are included in the budget that are poorly aligned with development priorities or are not ready for implementation (or both), execution rates are often low, and year-to-year variation in capital spending is high.⁴⁴ If not addressed, these effects will be magnified when the GCRG begins receiving oil revenue.

Substance of the trigger

79. **MOF is taking steps to strengthen the investment project appraisal system and is considering the development of a public investment management policy.** MOF plans to establish rules for project identification, appraisal, and selection that rank and prioritize proposals. It will also require line ministries to provide more information on future spending related to projects. The authorities expect that some of these measures will be in place to guide preparation of the 2019 budget.

Expected Results

80. **Introduction of a project appraisal system is the key result of this action in the short turn.** Over time, the reform will increase the efficiency of capital spending and the quality of public investment projects, which will contribute to long-term inclusive growth.

Indicator i: The development of an appraisal system that ranks and prioritizes public sector investment projects.

- Baseline (2017): No system exists.
- Target (2020): System is in place.

Table 5: PDPC Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar I: Strengthen Financial Stability and Depositor Protection	
Prior Action #1: Bank resolution The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to strengthen its bank insolvency legal framework through the adoption of new rules for the	2016 FSAP: recommended the amendments to the FIA including to improve bank resolution. 2014 FIRST Initiative TA: funded technical assistance discussed pre-conditions for deposit insurance Similar advice was provided by CARTAC.

⁴³ Lewis Murara, Richard Allen, Ana Cristina Calderon, Laura Doherty, Leslie Harper, Guohua Huang, and Fabienne Mroczka, "Guyana: Public Investment Management Assessment," International Monetary Fund, Fiscal Affairs Division, December 2017.

⁴⁴ For example, spending on projects financed from government revenue (i.e., excluding donor-financed projects) fell by 46 percent in 2015 and grew by 57 percent in 2016. Between 2007 and 2017, the magnitude of year-on-year change was greater than 15 percent (in absolute value) in every year but three. These large swings in spending add to the volatility of activity in the construction industry.



<p>resolution of licensed financial institutions that: (a) allow partial transfers of assets and liabilities from weak banks to sound banks; and (b) replace the court administered bankruptcy procedure for banks with administrative resolution powers and additional resolution tools; as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 5/2018.</p>	
<p>Prior Action #2: Deposit insurance The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to improve depositors’ protection and provide enhanced depositor confidence in periods of stress of the financial system by establishing a deposit insurance scheme comprising a deposit insurance fund and a deposit insurance corporation, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 7/2018 .</p>	<p>2016 FSAP: Recommends establishing pre-conditions prior to implementing deposit insurance</p>
<p>Prior Action #3: Emergency Liquidity Assistance The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to establish a prudent legal framework for the Bank of Guyana’s short-term lending to illiquid but solvent banks as a banking safety net measure, by delineating the modalities of: (a) the Bank of Guyana’s lending and collateral requirements; (b) the Recipient’s explicit backing of the Bank of Guyana’s outlays to illiquid banks for longer terms; and (c) the terms and conditions of such financing, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 6/2018.</p>	<p>2016 FSAP: recommends procedures for operationalizing ELA</p>
<p>Pillar II: Enable Sound Financial Development</p>	



<p>Prior Action #4: Insurance</p> <p>The Recipient, through its Ministry of Finance, has upgraded the oversight arrangements of its insurance sector by: (a) revising the legal framework of the insurance sector to make it consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and with local market conditions and constraints; and (b) enhancing the powers of the Bank of Guyana with respect to inspections and corporate governance, as evidenced by: Regulations No. 1 of 2018, (Regulations Made Under the Insurance Act 2016), dated April 9, 2018, published in the Recipient's Official Gazette No. 66/2018(891), dated Tuesday, April 17, 2018.</p>	<p>2016 FSAP: Advised on passage of the draft insurance law</p> <p>2011 First Initiative TA: advised on legal and regulatory framework for insurance</p>
<p>Prior Action #5: Payment Systems</p> <p>The Recipient, through its Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to increase safety and efficiency of the national payments system by: (a) providing legal clarity and certainty of electronic payments and settlement activities; and (b) strengthening institutional policies, tools and capacity to oversee the national payments system to minimize and mitigate risks, as evidenced by: the "National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018," introducing Recipient's Bill No. 4/2018.</p>	<p>2016 FSAP: highlighted payment system development as a key priority for financial sector development, inclusion, and efficiency.</p> <p>2016 First Initiative TA: advising on legal and regulatory framework for payments.</p>
<p>Prior Action #6: AML-/CFT</p> <p>The Recipient has enhanced the enforcement of the existing legal framework for anti-money laundering by improving the effectiveness of the investigation and prosecution process by giving the authorities adequate time to collect the evidence, as evidenced by: Recipient's Act No. 21 of 2017 (Anti-Money Laundering and Countering the Financing of Terrorism (Amendment) Act 2017), dated August 4, 2017, published in the Recipient's Official Gazette No. 192/2017(2003), dated Tuesday, August 22, 2017.</p>	<p>National Risk Assessment: offers an action plan on improving legal and institutional arrangements for AML-/CFT.</p>

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

81. The 2016 Country Engagement Note (CEN) emphasizes the GCRG's strategy of laying the ground for private sector development, including the financial sector. The CEN outlines the Bank's strategy for



strengthening the relationship with the Co-operative Republic of Guyana for a two-year period. The note highlights the importance of a well-functioning financial sector. It discusses assistance in financial sector strengthening including the legal and regulatory environment for banking, insurance, and credit cooperatives, AML-/CFT, and consumer protection in financial services. It also identifies the need to develop the country's payment system and highlights the FSAP as a tool to achieve the needed reforms.

82. In the context of IDA18 and needs expressed by the GoG, the WBG has developed a comprehensive approach within the CEN framework to address the challenges in relation to the financial, the fiscal, and the emerging oil and gas sector that have emerged since 2016. This includes the proposed DPC and a second DPC with a focus on both financial sector and fiscal management, as well as a technical assistance investment project to support GoG efforts to build institutional capacity and enhance the fiscal, legal and regulatory frameworks for the oil and gas sector. The upcoming lending program is expected to be further supported by grant funded advisory assistance, and coordination with donor partners

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

83. The BOG has, often with World Bank participation, consulted on the ongoing reforms. A consultation was held in February 2018 on the legal changes pertaining to Pillar I of this DPC. The financial industry was particularly interested in understanding the timing of the deposit insurance and the expected premiums to be paid. The new legal framework for insurance supervision was discussed prior to the passage of the new insurance law in June 2016, and further discussions were held about the new regulatory environment in March 2018. The insurance industry welcomes the oversight arrangements. The payment system law was similarly consulted on with stakeholders in October 2016.

84. The team is collaborating with the IMF and IDB on financial sector policy and on resource wealth management. The Bank undertook the 2016 FSAP jointly with the IMF and has since been in ongoing contact including with IMF and its technical assistance center, CARTAC. Finally, the team is participating in the ongoing IMF Article IV consultation. Furthermore, the Bank is an active participant to the donor partners' group meetings regularly held in Georgetown Guyana.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

85. The DPC is expected to have a positive poverty and social impact through the actions supporting financial stability.⁴⁵ Financial instability and financial crises affect poverty through several channels. They lead to economic slowdowns with increased unemployment among both formal and informal workers.^{46,47} Fiscal strains

⁴⁵ Development Research Group, 2008, "Lessons from World Bank Research on Financial Crises," Policy Research WP 4779, World Bank

⁴⁶ Baldacci, E., de Mello, L., and Inchauste, G. (2002) "Financial Crises, Poverty, and Income Distribution" IMF WP. 02/4.

⁴⁷ Bourguignon, F., and Morrison, C. (1992). "Adjustment and Equity in Developing Countries: A New Approach" OECD.

Morley, S. (1995). "Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980s" J. Hopkins University.

Walton, M., and Manuelyan, T. (1998). "Social Consequences of the East Asian Financial Crisis" in *East Asia: The Road to Recovery*, The World Bank.



impose cuts to social programs, income transfers, and wages⁴⁸. Currency depreciations, often associated with financial crises, increase the cost of tradable items like food⁴⁹. Not only are the already poor affected by financial crises, but new households fall into poverty as middle-income groups are particularly exposed to crisis shocks.^{50,51} The following analysis assesses effects of prior actions on poverty and shared prosperity, as well as other social indicators, such as labor market outcomes and health. Lack of updated poverty data limits the quantitative accuracy of poverty impact projections. As a result, a qualitative analysis was used to assess possible poverty and distributional impacts, based on development indicators and the latest country poverty assessment of 2008.

86. Prior actions under Pillar 1 will support financial stability and thus are expected to have indirect positive poverty and social impacts. Although adverse distributional effect can potentially arise from generous deposit insurance schemes, the moderate coverage level envisaged in the Co-operative Republic of Guyana keeps the emphasis on low- and middle-income savers. Benefits from deposit insurance depend on how well it is designed and administered.⁵² Deposit insurance is a critical element of the financial safety net that can reduce the probability of a crisis and contribute to keep fiscal contingent cost at bay. A generous deposit insurance can raise concerns about distributional fairness as only those who have access to banking services will benefit directly from a deposit insurance. Although information on the share of depositors in the total population are not available, the coverage contemplated in the Co-operative Republic of Guyana focuses on the low- and middle-income savers.⁵³ Whereas for example the US covers up to US\$250,000, the coverage contemplated in the Co-operative Republic of Guyana is moderate at approximately US\$10,000. While the envisaged coverage covers all accounts, it only covers 36.1 percent of the deposit volume because the deposit volume is concentrated in large deposits.

87. Under Pillar 2, increased usage of electronic payment systems is expected to benefit poor and rural areas as an inclusive infrastructure and customer base is established. The Co-operative Republic of Guyana is a cash-based economy, with nearly 99.9 percent of payments in the Co-operative Republic of Guyana conducted through paper-based payment instruments – cash, checks, vouchers. Evidence shows that it is not viable for most banks and financial institutions to provide financial services to the poor due to their frequent but small financial transactions that are conducted mostly in cash.⁵⁴ Storing, transporting, and processing cash is expensive for banks and financial institutions. Together with limited physical access points to financial services in poor and rural areas, these costs prohibit the poor from having the benefit of financial transactions. According to the World Bank's Guyana "Cost of Cash" study, it is estimated that the annual cost of cash for consumers is G\$15 billion, or 2.45

⁴⁸ Lanjow, P., and Ravallion, M. (1999). "Benefit Incidence, Public Spending Reforms, and the Timing of Program Capture" World Bank Economic Review, Vol. 13 (May), pp. 257-73.

⁴⁹ Sahn, D., Dorosh, P., and Younger, S. (1997). "Structural Adjustment Reconsidered: Economic Policy and Poverty in Africa" Cambridge University Press.

⁵⁰ Ravallion, M. (2009). "The Developing World's Bulging (But Vulnerable) Middle Class." Policy Research WP 4816, World Bank.

⁵¹ Crises in Bangladesh, Mexico, and the Philippines show that newly poor households suffer much larger income losses (25–50 percent) than average households (3–5 percent) – see Habib, B. & Narayan, A. & Olivieri, S. & Sanchez, C., (2010). "The Impact of the Financial Crisis on Poverty and Income Distribution: Insights from Simulations in Selected Countries," World Bank - Economic Premise, The World Bank, issue 7, pp. 1-4, March.

⁵² Demirgüç-Kunt, A., Kane, E. (2002). "Deposit Insurance around the Globe: Where Does it Work?" Journal of Economic Perspectives 16(2).

Demirgüç-Kunt, A., Kane, E., and Laeven, L. (2008). "Determinants of Deposit Insurance: Adoption and Design." Journal of Financial Intermediation 17 (3): 407-38.

Demirgüç-Kunt, A., Kane, E. and Laeven, L. (2008). Deposit Insurance around the World: Issues of Design and Implementation, MIT Press.

⁵³ For an adult population of approximately 522,000 Guyanese, there are about 519,000 deposit/transaction accounts clients. However, data are not consolidated across banks, so a client with accounts in two banks is counted twice.

⁵⁴ The Gates Foundation and McKinsey&Company (2013) Fighting poverty, profitably Transforming the economics of payments to build sustainable, inclusive financial systems.



percent of GDP. Electronic payment systems, which are much cheaper than the paper-based systems, allow financial services to be extended to low income populations and those living in remote areas. Financial inclusion can be a key driver of poverty reduction, and the development of an inclusive payments system infrastructure is an essential prerequisite. Evidence from the Co-operative Republic of Guyana show that women in particular adopt mobile payment services with 60 percent of mobile money users are female.

88. Increased insurance inclusion could help protect the poor against vulnerability and livelihood risks. Improved regulatory framework to enhance the regulation and the supervision of insurance companies will prevent future crisis and foster sound growth of the insurance sector. The current low penetration rate with gross written premium amounting to 1.8 percent of GDP suggests that these benefits currently do not reach the poor. Improved competition and penetration in the insurance industry could help extend positive effects to low income populations by increasing access of the poor to insurance instruments.

5.2. ENVIRONMENTAL ASPECTS

89. The proposed DPC measures are not expected to have adverse effects on the environment or natural resources. The policy measures supported by the DPC are designed to support the GSDS, which includes the sustainable management of natural resources and expansion of environmental services. The DPC will therefore promote financial stability and financial inclusion which supports this, with no impact on the environment.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

90. The Co-operative Republic of Guyana's public financial management (PFM) systems have been strengthened in recent years. The Co-operative Republic of Guyana has made positive strides in improving their PFM systems since the last 2012 Public Expenditure and Financial Accountability (PEFA) assessment. However, despite these improvements, the Co-operative Republic of Guyana's PFM system performance still needs strengthening to support improvements in the quality and efficiency of public expenditures. The authorities have confirmed their intent to conduct a third PEFA assessment during 2018. In addition, reforms to modernize revenue administration and strengthen public financial management capacity ahead of oil production remain critical near-term priorities for the authorities.⁵⁵

91. Fiscal policy should be guided by a transparent rules-based fiscal framework. Fiscal policy should be guided by a transparent rules-based fiscal framework, to be in place by 2020, ahead of the start of oil production. Investment in priority infrastructure will be guided by priorities defined in the GSDS.

92. External audit and scrutiny are areas of significant strengths. The Audit Office of Guyana (AOG) is active in carrying out financial and compliance audits. The office adopted international best practices in accordance with the International Standards of Supreme Audit Institutions and International Organization of Supreme Audit Institutions auditing standards to improve the impact of the AOG, through modernized audit plans and techniques and strong staff development programs.

⁵⁵ Guyana: IMF Staff Concluding Statement of the 2018 Article IV Mission. May 9, 2018



93. **The Co-operative Republic of Guyana publishes the budget and makes fiscal information available to the public through annual audit reports and half-year budget performance reports.** Additionally, End of Year Outcome Statements and Mid-Year Reports (MYR) are presented by the Minister of Finance to the National Assembly. The information provided, however, is only at a highly aggregated level. The Co-operative Republic of Guyana also publishes a brochure, Budget at a Glance, that attempts to explain the annual budget in layman terms and stimulate citizen engagement and demand for transparency.

94. **Foreign exchange management systems.** The most recent safeguards assessment of the BOG by the IMF was completed in May 2007. Overall, the assessment noted capacity constraints, including in the internal audit function. Recommendations were made to enhance internal audit reporting and to improve external audit quality to enable compliance with International Standards on Auditing (ISA) and International Financial Reporting Standards (IFRS). The BOG continues to be audited by the Audit Office of Guyana and the latest audited financial statements for the year ended 31 December 2016 are included as part of BOG's Annual Report and available within the BOG website. The 2016 financial statements were audited in accordance with ISA and presented in accordance with IFRS, except for the treatment of foreign currency transactions, provisions, and gains and losses on foreign investment by BOG. Additionally, as part of the audit of the 2016 financial statements, AOG evaluated the system of accounting and internal controls of the BOG and suggested improvements relating to organization structure, accuracy and reliability of accounting records, and safeguards of assets. However, the noted deviations from IFRS and comments on internal controls were not material and did not require the AOG to modify their unqualified audit opinion on the 2016 financial statements

95. **Disbursement and auditing arrangements.** The proposed credit will follow the World Bank's standard procedures for disbursement and auditing arrangements for development policy support. The proceeds of the credit will be disbursed against satisfactory implementation of the program (specified prior actions achieved). The World Bank will disburse an equivalent amount of the credit proceeds, denominated in SDRs, into a USD account of the Bank of Guyana (Central Bank, or BOG) specified by the GCRG. BOG will then immediately ensure that, upon deposit in said account, an equivalent amount in Guyanese dollars will be credited into the GCRG's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GCRG, through its MOF, will provide the Bank with written confirmation of the amount deposited into a BOG foreign currency account, and that the equivalent amount has been credited in the GCRG's accounting system to an account that finances budgeted expenditures. No specific audit of the deposit of the credit proceeds will be required. However, the World Bank reserves the right to request such an audit at its discretion.

96. **Overall, the PFM system, and the GCRG's commitment to reform, taken together, are sufficient to support the operation.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

97. **The Ministry of Finance will be responsible for collecting and monitoring the indicators.** The Ministry will collaborate with the BOG in providing the indicators. The World Bank has worked closely with the BOG in both policy discussions and technical assistance and is confident in its ability to deliver the identified indicators.

98. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy



Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

99. **Political risks are substantial because the project depends on the National Assembly passing several laws.** The GCRG has produced four key pieces of legislation that are now awaiting parliamentary approval. The GCRG has drafted laws in consultation with financial sector participants, which helps build support for the passage of the laws. The risk of undue influence and improper prosecutions is mitigated by a second DPC, which will support the implementation of these laws. As with most countries that have AML/CFT laws, the Co-operative Republic of Guyana's laws consider money laundering crime to be a serious crime and its investigation and prosecution authorities are equipped with the appropriate timeframe and tools to investigate these cases effectively. The country's money laundering crime definition largely complies with the international standards (FATF 40 Recommendations).⁵⁶ Therefore, the 2017 amendment to its AML/CFT laws does not appear to have any abusive or extraordinary element or other terms uncommon in comparable laws of other countries. The amendment seems in line with the revised FATF Recommendations (2012) which placed "effectiveness" at the center of the international standards. Rule of law as measured by the World Justice Project suggests that the Co-operative Republic of Guyana has some room for improvement with a rank of 20 out of 30 Latin American and Caribbean countries. The GCRG is collaborating with the Interamerican Development Bank on criminal justice reforms including to "provide better legal assistance to individuals accused of non-violent offenses, improve the prosecutors' ability to handle cases according to the seriousness of the offense, strengthen the judiciary, and design and implement a restorative justice program."⁵⁷

100. **Macroeconomic, fiscal and financial risks are substantial.** The outlook is subject to external and internal risks, and the GCRG is taking steps to manage them. On the one hand, slower than expected world economic growth could slow the increase in commodity prices and undercut the Co-operative Republic of Guyana's terms of trade and both export and fiscal revenues. On the other hand, faster than expected growth could lead to increasing interest rates. This could create depreciation pressure on the Guyanese dollar, thus increasing both the GCRG's and private sector's debt servicing costs. The MOF is taking steps to strengthen fiscal policy and management, and legislation to establish a savings and stabilization fund is being prepared. GCRG efforts in managing macroeconomic and fiscal risks are planned to be supported by a DPC in FY19. A severe shock to the financial sector would undermine the objectives of developing financial intermediation. The failure of a large bank or another systemic shock to the sector would impede confidence, stability, and development of financial services. By undermining trust, it could delay the effectiveness of the developmental aspects of the operation.

⁵⁶ The Post-Plenary Guyana 11th Follow-Up Report (November 2016) by Caribbean Financial Action Task Force (CFATF).

⁵⁷ IDB Press release, December 15, 2016 "IDB to support criminal justice reform in Guyana to help overcome prison overcrowding."



Authorities report increased supervisory scrutiny on non-performing loans, and increasing provisions are reflecting that effort. Moreover, the actions under Pillar I are designed to help manage the risk by providing for low cost resolution of deposit taking institutions and to underpin confidence with deposit insurance. The project aims to better manage financial risks and their impact therefore depends on the effective implementation of the project.

101. **Implementation risks are substantial.** These risks could result from not appropriately twinning the policy actions with advisory services. For example, for deposit insurance to be effective, a fund must be established, and for the payments law to be effective, regulations must be issued. This is mitigated by the fact that all prior actions have been associated with technical assistance, in recognition of capacity needs, as well as through planned technical assistance follow up. A recently approved grant from FIRST underpins Pillar I of the operation.⁵⁸ Finally, payment system implementation is being supported both through FIRST-funded technical assistance and investment project finance for the financial infrastructure needed at the BOG.

102. **Fiduciary risks are substantial.** The 2012 PEFA report concluded that the Co-operative Republic of Guyana PFM environment is mixed and has weaknesses in internal controls, comprehensiveness and transparency of the budget, and accounting and reporting. To mitigate these risks, the Co-operative Republic of Guyana is continuing its ongoing PFM reform process. Once an updated PEFA report is conducted, the Co-operative Republic of Guyana will prepare a time-based action plan to address the weaknesses areas noted, the performance of which will be monitored through this programmatic engagement.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Moderate
Overall	● Substantial

⁵⁸ Strengthening Financial Safety Net and Deposit Insurance (P165708)





ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPC 1	Triggers for DPC 2	Indicator Name	Baseline	Target
Pillar I: Strengthen Financial Stability and Depositor Protection				
<p>Prior Action #1: Bank resolution</p> <p>The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to strengthen its bank insolvency legal framework through the adoption of new rules for the resolution of licensed financial institutions that: (a) allow partial transfers of assets and liabilities from weak banks to sound banks; and (b) replace the court administered bankruptcy procedure for banks with administrative resolution powers and additional resolution tools; as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 5/2018.</p> <p>Status: Completed.</p>	<p>Trigger #1:</p> <p>The recipient establishes provisions and guidelines to operationalize the purchase and assumption tool that allows partial transfers of assets and liabilities from weak banks to sound banks as well as the new administrative resolution powers.</p>	<p>Indicator a:</p> <p>Operational procedures in place to undertake resolution with modern tools including purchase and assumption options.</p>	<p>Only court administered liquidation is available as a resolution tool (2017).</p>	<p>BOG Resolution Committee is established, and internal procedural guidelines and policies, documented, approved and in effect.</p>
<p>Prior Action #2: Deposit insurance</p> <p>The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to improve depositors’ protection and provide enhanced depositor</p>	<p>Trigger #2:</p> <p>The Recipient improves depositors’ protection and provides enhanced depositor confidence in periods of stress of the financial system by: (a) establishing a deposit insurance scheme</p>	<p>Indicator b:</p> <p>Share of eligible deposit clients falling within the stipulated coverage, excluding financial</p>	<p>0 (no existing coverage) (2017)</p>	<p>95 percent or more deposit owners covered.</p>



Prior actions and Triggers		Results		
confidence in periods of stress of the financial system by establishing a deposit insurance scheme comprising a deposit insurance fund and a deposit insurance corporation, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 7/2018 . Status: Completed.	comprising a deposit insurance fund and a deposit insurance corporation; and (b) establishing the regulations for the implementation of the deposit insurance scheme.	institution deposits, ⁵⁹ are fully covered by deposit insurance scheme		
Prior Action #3: Emergency Liquidity Assistance The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to establish a prudent legal framework for the Bank of Guyana’s short-term lending to illiquid but solvent banks as a banking safety net measure, by delineating the modalities of: (a) the Bank of Guyana’s lending and collateral requirements; (b) the Recipient’s explicit backing of the Bank of Guyana’s outlays to illiquid banks for longer terms; and (c) the terms and conditions of such financing, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 6/2018.	Trigger #3: The Recipient facilitates the implementation of the ELA framework of the Bank of Guyana by adopting the supporting regulations.	Indicator c: Emergency short term liquidity facilities activated and in place, and subject to eligibility for solvent but illiquid banks with sufficient collateral.	Regulations and operational procedures for ELA not in place (2017).	ELA facility is operational with improved collateral assets and time limits for use of the instruments .

⁵⁹ Certain deposits such as interbank deposits and financial institutions deposits are not covered in line with international best practice.



Prior actions and Triggers		Results		
Status: Completed.				
Pillar II: Enable Sound Financial Development				
Prior Action #4: Insurance The Recipient, through its Ministry of Finance, has upgraded the oversight arrangements of its insurance sector by: (a) revising the legal framework of the insurance sector to make it consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and with local market conditions and constraints; and (b) enhancing the powers of the Bank of Guyana with respect to inspections and corporate governance, as evidenced by: Regulations No. 1 of 2018, (Regulations Made Under the Insurance Act 2016), dated April 9, 2018, published in the Recipient's Official Gazette No. 66/2018(891), dated Tuesday, April 17, 2018 . Status: Completed.		Indicator d: All licensed insurance companies meet the phased target of the new solvency requirement	Not available, as capital is not yet measured under the new risk based regime (2016)	All 16 insurance companies are at 40 percent of the 2023 regulatory capital requirement .
Prior Action #5: Payment Systems The Recipient, through its Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to increase safety and efficiency of the national payments system by: (a) providing legal clarity and certainty of electronic payments and settlement activities; and (b) strengthening institutional policies, tools and capacity to oversee the national payments system to minimize and mitigate risks, as evidenced by: the "National Assembly		Trigger #4: All regulations under the new legal framework issued.	Indicator e: Cashless transaction through interbank facility	<5,000 per year 200,000 per year



Prior actions and Triggers		Results		
Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018," introducing Recipient's Bill No. 4/2018.				
Status: Completed.				
Prior Action #6: AML-CFT				
The Recipient has enhanced the enforcement of the existing legal framework for anti-money laundering by improving the effectiveness of the investigation and prosecution process by giving the authorities adequate time to collect the evidence, as evidenced by: Recipient's Act No. 21 of 2017 (Anti-Money Laundering and Countering the Financing of Terrorism (Amendment) Act 2017), dated August 4, 2017, published in the Recipient's Official Gazette No. 192/2017(2003), dated Tuesday, August 22, 2017.		Indicator f: The number of the FIU intelligence reports referred to police for money laundering investigations	20 reports (10 new and 10 updates to existing cases) (2017)	25 (June 2019-June 2020)
Status: Completed.				
Pillar III: Strengthen Fiscal Management to Promote Macroeconomic Stability and Long-term Growth				
	Trigger #5: Sovereign wealth fund The Recipient establishes a savings and stabilization fund for oil revenue that will improve fiscal management by stabilizing revenue and saving for future generations	Indicator g: Sovereign wealth fund is in place.	No fund exists (2017)	Fund is created and ready to accept oil revenue prior to oil production.



Prior actions and Triggers		Results		
	Trigger #6: Debt management The Recipient improves debt strategy formulation, modernizes debt management, and strengthens the alignment between borrowing and macroeconomic policy.	Indicator h: Regular approval and publication of a medium-term debt strategy	No strategy published (2017).	Strategy for 2020–22 has been published.
	Trigger #7: Public investment management The Recipient strengthens the appraisal and selection of investment projects and aligns the public investment program with the medium-term budget framework.	Indicator i: The development of an appraisal system that ranks and prioritizes public sector investment projects.	No system exists (2017).	System is in place.



ANNEX 2: FUND RELATIONS ANNEX

Guyana—Assessment Letter for the World Bank

April 13, 2018

Recent Developments

1. Economic growth slowed in 2017, but became more broad-based. The economy grew by 2.1 percent, down from 3.3 percent in 2016, on the account of very weak performance in the sugar and forestry sectors, and weaker than expected mining output. Nonetheless, non-mining growth rebounded to 3.9 percent following a contraction in 2016. The rice sector recovered from weather-related shocks, and has been able to access new export markets. Construction expanded significantly for the first time since 2015, buoyed by higher public investment. Inflation remained stable at 1.8 percent at end-October 2017, with core inflation at -0.3 percent. The central government's deficit remained stable at around 4.5 percent of GDP in 2017, lower than the budgeted 5.6 percent. Adverse terms of trade and an increase in service imports contributed to the current account balance turning negative in 2017, with a deficit of 4.2 percent from a 0.3 surplus in 2016. Gross international reserves stood at 3.3 months of imports at end-2017. Bank capital adequacy ratios appear comfortable, and the banking system remains stable. But nonperforming loans (NPLs) remain high, at 12.2 percent of total loans at end September-2017 and provisioning remains low (48.5 percent at end-September 2017). Credit to the private sector grew by only 2 percent in 2017 as banks continue to strengthen their balance sheets.

Outlook and Risks

2. Guyana's medium-term prospects are very favorable. In 2015, Exxon Mobil made a significant offshore oil discovery. Commercial production is planned to commence in mid- 2020, with an output of 100,000 barrels/day (bpd), rising to 300,000 bpd in 2025. Economic growth is projected to hover around 3.6 percent during 2018-19, driven by an increase in public investment and continued expansion in the rice sector. The current account deficit is projected to average 5 percent of GDP during 2018-19. Growth will substantially increase, and the balance of payments will record large current account surpluses once oil production starts. Reaping the benefits of this mineral wealth will hinge on structural reforms to strengthen the fiscal framework, improve the business environment, increase resilience to external shocks, promote inclusive growth, and the effective use of the oil windfall. The main direct effect of the oil sector on the domestic economy will be through fiscal revenue. Oil-related revenues are projected to place the public debt ratio on a strong downward trajectory, given its impact on GDP.

3. Overall, risks are tilted to the downside in the short-term but to the upside over the long-term. Guyana remains vulnerable to external shocks given its reliance on imported oil, and the concentration of its exporters on gold, rice, sugar and a few other commodities. On the domestic side, a disorderly collapse of the structurally uncompetitive sugar sector could have large economic and social costs. On the upside, additional oil discoveries and production can further improve the medium- to long-term outlook.



Policy Framework and Settings

4. Fiscal policy remains expansionary, but a combination of revenue administration measures and delays in public investment have led to lower than budgeted deficits in the past two years. The authorities continued restraint from non-concessional external borrowing against future oil wealth is commendable. While debt sustainability concerns are attenuated in the medium-term with oil revenues, financing near-term deficits could pose a challenge given the available official financing envelope and limited domestic debt options. At present, domestic debt consists of short-term T-bills. The authorities should follow-up on the IMF TA recommendations provided in 2017 on developing the domestic bond market. Guyana would benefit from relying to the extent possible on financing from IFIs, including non-concessional financing, for budget support.

5. Management of mineral wealth. Authorities are working closely with the IMF and other TA providers to adopt a transparent and rules-based fiscal framework for managing their oil wealth. Plans for establishing a natural resource fund are well-advanced, and legislation is expected to be presented to the Cabinet and to the National Assembly later this year.

6. Monetary Policy has been accommodative, which was an appropriate stance given the contraction in non-mining GDP and weak credit growth. But as the economic recovery becomes broad based, reverting to a neutral monetary policy stance will be needed to contain inflationary pressures. The exchange rate could play a more active automatic stabilizer role.

7. Financial Sector Policy. Authorities continue to implement the 2016 FSAP recommendations. The Bank of Guyana holds more frequent discussions with banks on asset quality, credit risk management and remedial actions to reduce NPLs.

8. Structural Policies. Productivity-enhancing reforms are critical to strengthening competitiveness and promoting inclusive growth. Reforming public enterprises, particularly the unsustainable business model of the state-owned sugar company, remains critical. It is important to provide a safety net to protect those affected by this process given the economic and social implications of these reforms, and facilitate the retraining of workers and diversification into other crops and higher value-added activities. Infrastructure limitations and high energy costs remain obstacles to growth. The reduction of economic and social disparities between the coast and the Hinterland remains a priority for the authorities.

9. IMF Relations: The 2017 Article IV consultation was concluded by the IMF's Executive Board on May 24, 2017.



Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators						
Population, 2016 (thousands)	768				Population not using an improved water source (%), 2015	1.7
Life expectancy at birth (years), 2015	66.5				Gini index, 1998	44.6
Under-five mortality rate (per 1,000 live births), 2016	32.4				HDI rank, 2015	127
Population living below the poverty line (%), 2000-06	35					
II. Economic Indicators						
	2014	2015	2016	2017	Projections	
					2018	2019
(Annual percent change)						
Production and prices						
Real GDP	3.8	3.1	3.3	2.1	3.5	3.7
Real GDP per capita	3.4	2.7	3.2	1.8	3.2	3.3
Consumer prices (average)	0.7	-0.9	0.8	2.1	2.6	2.9
Consumer prices (end of period)	1.2	-1.8	1.5	2.3	2.8	3.0
Terms of trade	-8.8	19.0	12.8	-7.2	-2.2	2.3
(In percent of GDP)						
Central government						
Revenue	22.9	24.8	24.5	25.2	25.2	25.8
Grants	0.7	1.0	1.1	2.0	1.4	1.7
Expenditure	29.1	27.1	30.0	31.8	32.1	32.9
Current	21.1	22.5	23.5	24.1	24.7	24.3
Capital	8.0	4.7	6.4	7.6	7.4	8.6
Overall balance (after grants)	-5.5	-1.4	-4.4	-4.5	-5.4	-5.4
Total public sector gross debt 1/	51.9	50.3	50.7	51.2	51.4	54.6
External	39.5	35.9	33.2	34.8	32.0	33.3
Domestic	12.3	14.4	17.6	16.4	19.4	21.3
(Annual percentage change, end of period)						
Money and credit						
Broad money	3.3	3.7	5.4	-0.7	14.3	5.4
Domestic credit of the banking system	10.5	12.3	7.8	1.5	8.3	8.6
Public sector (net) 2/	13.6	34.4	23.6	0.4	20.1	19.4
Private sector	9.7	5.8	2.0	2.1	3.0	3.0
(In millions of U.S. dollars, unless otherwise indicated)						
External sector						
Current account balance	-291.5	-163.3	11.1	-151.0	-196.8	-186.0
(Percent of GDP)	-9.5	-5.1	0.3	-4.2	-5.3	-4.8
Gross official reserves	665.6	598.5	596.7	584.6	551.8	585.4
Months of imports of goods and services	3.7	3.7	3.7	3.3	3.1	3.0
Memorandum items:						
Nominal GDP (G\$ billion)	635.3	657.4	723.6	762.9	805.9	849.6
Per capita GDP, US\$	4,029	4,151	4,563	4,710	4,850	5,047
Guyana dollar/U.S. dollar (period average)	206.4	206.5	206.5	210.3	...	...
Sources: Guyanese authorities; UNDP Human Development Report; and Fund staff estimates and projections.						
1/ The 2015-16 public debt to GDP ratios adjusted to reflect unsettled government balances at the central bank.						
2/ The increase in public sector (net) is from a small base, which makes the series volatile.						



ANNEX 3: LETTER OF DEVELOPMENT POLICY

49 Main & Urquhart Streets,
Georgetown,
Guyana.



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May 17, 2018

Dr. Jim Yong Kim
President
The World Bank
1818 H Street NW
Washington DC 20433

Dear Dr. Kim,

First Programmatic Financial and Fiscal Stability Development Policy Credit

The Government of the Cooperative Republic of Guyana (GCRG) appreciates and welcomes the technical and financial programme of support by the World Bank for the successful achievement of the goals, outcomes and reform measures articulated in Guyana's national Green State Development Strategy (GSDS). The objective of the GCRG is to reorient and diversify the national economy, reducing reliance on traditional sectors and opening up new sustainable income and investment opportunities in higher value-added and higher growth sectors.

The GSDS has been established along seven central themes: (i) green and inclusive structural transformation, involving diversifying the economic base, accessing new markets and creating decent jobs for all; (ii) sustainable management of natural resources and expansion of environmental services; (iii) transition to renewable energy and greater energy independence; (iv) resilient infrastructure and spatial development; (v) human development and well-being; (vi) governance and institutional capacity development; and (vii) international cooperation, trade and investment.

The government believes that fiscal management is critical for macroeconomic stability, economic diversification, and long-term growth. The Government is strengthening its systems to ensure prudent fiscal policy – especially as receipts from oil production grow – and to invest public resources effectively. This will create a framework for a steadily growing economy in which the private sector has the confidence to invest.

The Government appreciates the importance of a stable and well-functioning financial sector as an indispensable condition towards the achievement of the nation's goals. To this end, a sound and fully developed financial sector forms a key pillar in the strategies of the Government of Guyana and the Bank of Guyana (BoG).

Successful financial sector development will require improved oversight over the banking and insurance sectors, coupled with efficiency-enhancing measures such as a Payments Act – to promote electronic payments – and a Deposit Insurance Act. In addition, greater progress in Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)



oversight will enhance trust in the sector and allow for efficient financial intermediation, which, in turn, will drive private sector growth.

Background

Economic growth in Guyana has accelerated, and debt was reduced during the last decade. GDP per capita has expanded by 41 percent in the last ten years. In spite of this, economic growth is still tied to the evolution of exports, which depend on a limited number of commodities. Price and output dynamics in these sectors drive volatility in GDP and balance of payments; hence, the focus of the GSDS is to re-orient and diversify the national economy.

Sustainable management of natural resources becomes critical, as the country's new oil and gas discoveries are made. Offshore exploration has discovered estimated gross recoverable resources of more than 3.2 billion barrels of oil equivalent (gross) in the Stabroek Block. The emergence of the oil sector will provide diversification from current exports and will remove an external vulnerability, as the country switches from being a net oil importer to a net exporter. The change will bring challenges of its own, with the growing oil sector becoming a source of concentration and thus volatility, as revenues start flowing in 2020.

The Government faces the challenge of transforming the oil wealth into human capital, physical capital, and financial assets. Only by investing in such assets can the country sustain its wealth over time. Our Government is cognizant of the importance of human capital development as a prerequisite for the effective implementation of the GSDS. Physical capital investments by the private sector require strong public financial management systems, hence the need for improved Government capacity to undertake public investment. Lastly, financial asset investments require effective management of investments outside of the country.

The prospect of oil and gas production makes improving fiscal management systems especially important. The Government is actively working to address challenges that will come with the sudden large, but volatile, oil revenue. The Government is grappling with a number of issues, in this regard, including how much to allocate to current spending and inter-generational equity; and how much should be saved abroad relative to that invested locally. Attendant to these questions are a number of challenges such as the mobilization and transparency of revenue from the extractive industries; the establishment of a sovereign wealth fund and the associated fiscal rules; the management of public debt; and the enhanced management of public investments, involving proper selection and appraisal, and efficient and timely implementation. The Government recognizes the importance of building strong systems and institutional capacity, to ensure maximum return per dollar invested in public investment. Enhancing public investment management – including management of projects financed through public-private partnerships (PPPs) – will help, also, to underpin long term growth and diversification of the economy.



The Government is committed to building societal consensus for the long-term sustainable management of our resources. We have held an international conference on the transformation of the Guyanese economy, and we have organized workshops that leveraged international experience in the management of oil and gas and resource wealth. Through public consultation on our policies, we contribute to vibrant public debate on the prudent use of our petroleum revenue.

The Government is undertaking a range of structural reforms with the objectives of reinforcing financial sector stability and underpinning its market-based development. These two objectives form the pillars of ongoing reforms to the financial sector. The Bank of Guyana's actions to support these endeavors are demonstrated through its strategic plan for the period 2018-2022, which outlines efforts to promote an efficient and resilient financial system through efficacious monetary policy; a modern payments system; an expansion and deepening of the regulatory and supervisory framework for banks and non-banks financial institutions; and improvement of the Bank's internal controls or enablers.

Reforms for a stable banking sector and deposit protection

To ensure readiness for managing shocks to the financial system, the Government is making considerable progress on tools to manage any potential crisis and to protect depositors. New bank resolution tools, which are aligned with international standards, will allow us to effectively resolve failing banks, while containing the losses imposed on the Government or depositors. The sound establishment of emergency liquidity assistance arrangement will allow the BoG to handle systemic shocks to liquidity. Lastly, the establishment of deposit insurance and a deposit insurance fund will not only protect small savers in the financial system, but it will also protect the system against bank runs.

The Government has collaborated closely with the World Bank and the International Monetary Fund on these reforms. The 2016 Financial Sector Assessment Program (FSAP) offered strategic guidance on the priority of reforms. Both before and after the FSAP, the BoG has been engaged with technical assistance on banking supervision as well as the development of deposit insurance. Moreover, the IMF's Caribbean Regional Technical Assistance Centre (CARTAC) has provided technical assistance on crisis management.

Reforms to develop the financial sector

To ensure that the financial sector develops to better serve the country's economic needs, reforms have been pursued for insurance supervision, payments, and AML/CFT. After the failure of an international life insurance company, the supervisory arrangements were strengthened and brought up to international standards. This will facilitate the sectors sound future expansion, while contributing to re-establishing trust in the sector. The overwhelmingly cash-based society is moving towards electronic payments, supported by both financial infrastructure investments and a new legal framework. Lastly, upgrading the AML/CFT framework is ensuring trust in the financial system as well as Guyanese banks' access to international banking and thus the ability to serve clients with international transactions.



The Government continues to collaborate with the World Bank on these reforms. A FIRST Initiative funded technical assistance grant program has supported both insurance and pension supervision. The development of the national payment systems has been supported both with technical assistance and through an investment project that finances the infrastructure for payments and reforms to the legal and regulatory framework. Finally, the World Bank has assisted the country in its national risk assessment of AML/CFT.

Reforms to promote sound fiscal management

The Government is establishing a sound legal, institutional and policy framework to address the macroeconomic consequences of oil and gas production. Drafting the Sovereign Wealth Fund Act (SWFA) is well advanced. A Green Paper will inform Cabinet's discussion of the Fund and its associated fiscal rules for spending, saving and investing oil receipts. The SWFA legislation will be made available for public discussion and consultation, following Cabinet's deliberation. The Guyana Revenue Authority (GRA) is building capacity to effectively manage receipts from the oil and gas sector. The Government expects that Guyana's participation in the Extractive Industries Transparency Initiative (EITI) will also contribute to sound financial management of oil revenue.

The Government is modernizing and strengthening public debt management. Our debt has remained sustainable, but our current laws limit borrowing and assign debt management responsibilities to various agencies. What is needed is a clear legal framework that supports Government's determination to modernize the institutions, instruments and procedures. To this end, a new Public Debt Management Act has been drafted and is being reviewed currently. It will establish high-level debt management objectives, expressed in terms of cost and risk, and mandate implementation of a medium-term strategy that links borrowing plans with broader macroeconomic and fiscal performance.

Guyana's economic fortune is premised, in part, on the speed with which we are able to improve, modernize and expand the country's infrastructure. The need to invest in infrastructure for job creation, the expansion of industries and the growth of the private sector is paramount in a growing economy. A strong public expenditure and investment system that is backed by periodic public expenditure reviews is, therefore, an imperative. The Government has begun piloting a procurement planning training programme with key sectors, and is in the process of designing an eProcurement platform. Also, the Government is preparing a Public Investment Management Policy (PIMP) and a detailed plan of action for implementation. These efforts will result in the embedding of a rigorous system of identification, appraisal and selection of projects. The Government has adopted a PPP as a tool for attracting private capital to undertake large projects, thereby widening the public fiscal space to undertake spending in other priority areas, especially in the social sectors.



The Government of the Cooperative Republic of Guyana believes that the policies and actions described in this letter will take us a long way toward achievement of Guyana's diversification, growth and resilience strategy. The Government has been engaged in its reform agenda and has received systematic technical and training support from the World Bank and the IMF to enhance the country's institutional and fiduciary capacities. A continued engagement with the World Bank will strengthen the outcomes under the country's development strategy.

Sincerely,


Winston Jordan
Minister of Finance

Copied:

1. Ms. Tahseen Sayed Khan, Country Director, Latin America and the Caribbean Region
2. Mr. Steen Byskor, Task Team Leader
3. Mr. Zafer Mustafaglu, Practice Manager
4. Dr. Gobind Ganga, Governor, Bank of Guyana



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar I: Strengthen Financial Stability and Depositor Protection		
<p>Prior Action #1: Bank Resolution</p> <p>The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to strengthen its bank insolvency legal framework through the adoption of new rules for the resolution of licensed financial institutions that: (a) allow partial transfers of assets and liabilities from weak banks to sound banks; and (b) replace the court administered bankruptcy procedure for banks with administrative resolution powers and additional resolution tools; as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 5/2018.</p>	No significant effect on the environment.	Strengthening the financial safety net and provisions for orderly bank resolution reduce the probability of a crisis and contribute to keep fiscal contingent cost at bay. No direct poverty or social effect is expected.
<p>Prior Action #2: Deposit insurance</p> <p>The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to improve depositors’ protection and provide enhanced depositor confidence in periods of stress of the financial system by establishing a deposit insurance scheme comprising a deposit insurance fund and a deposit insurance corporation, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament</p>	No significant effect on the environment.	This prior action is expected to have positive impacts on the welfare of low- and middle-income savers, although a negative distributional impact can be expected on low income households without bank accounts. Credit unions and microfinance institutions are not prudentially supervised and will not be subject to deposit insurance.



of Guyana to be held at 2:00 pm on Thursday April 26, 2018," introducing Recipient's Bill No. 7/2018 .		
<p>Prior Action #3: Emergency Liquidity Assistance</p> <p>The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to establish a prudent legal framework for the Bank of Guyana's short-term lending to illiquid but solvent banks as a banking safety net measure, by delineating the modalities of: (a) the Bank of Guyana's lending and collateral requirements; (b) the Recipient's explicit backing of the Bank of Guyana's outlays to illiquid banks for longer terms; and (c) the terms and conditions of such financing, as evidenced by: the "National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018," introducing Recipient's Bill No. 6/2018 .</p>	No significant effect on the environment.	An effective ELA framework will contribute towards a reduction in the probability of financial instability and financial crisis. No direct poverty or social effect is expected.
Pillar II: Enable Sound Financial Inclusion and Development		
<p>Prior Action #4: Insurance</p> <p>4. The Recipient, through its Ministry of Finance, has upgraded the oversight arrangements of its insurance sector by: (a) revising the legal framework of the insurance sector to make it consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and with local market conditions and constraints; and (b) enhancing the powers of the Bank of Guyana with respect to inspections and corporate governance, as evidenced by: Regulations No. 1 of 2018, (Regulations Made Under the Insurance Act 2016), dated April 9, 2018, published in the Recipient's Official Gazette No. 66/2018(891), dated Tuesday, April 17, 2018.</p>	No significant effect on the environment.	Enhanced regulation and supervision of insurance companies will prevent future crisis and foster sound growth of the insurance sector. No direct poverty or social effect is expected. However, if some regulations lead to the promotion of competition and penetration, potential positive effects on low income populations could be realized 'from increasing inclusion.
<p>Prior Action #5: Payment Systems</p> <p>The Recipient, through its Ministry of</p>	No significant effect on the environment.	Potential positive impact is expected on condition of an establishment of inclusive



<p>Finance, has submitted to the National Assembly, for approval thereof, a bill to increase safety and efficiency of the national payments system by: (a) providing legal clarity and certainty of electronic payments and settlement activities; and (b) strengthening institutional policies, tools and capacity to oversee the national payments system to minimize and mitigate risks, as evidenced by: the “National Assembly Supplementary Order Paper for the 87th Sitting of the National Assembly of the First Session (2015-2018) of the Eleventh Parliament of Guyana to be held at 2:00 pm on Thursday April 26, 2018,” introducing Recipient’s Bill No. 4/2018.</p>		<p>infrastructure. Electronic payment systems are expected to lower the cost of financial services and increase financial inclusion. This prior action could have positive impacts on the welfare of poor households who usually lack access to financial services due to low physical banking penetration.</p>
<p>Prior Action #6: AML/CFT The Recipient has enhanced the enforcement of the existing legal framework for anti-money laundering by improving the effectiveness of the investigation and prosecution process by giving the authorities adequate time to collect the evidence, as evidenced by: Recipient’s Act No. 21 of 2017 (Anti-Money Laundering and Countering the Financing of Terrorism (Amendment) Act 2017), dated August 4, 2017, published in the Recipient’s Official Gazette No. 192/2017(2003), dated Tuesday, August 22, 2017.</p>	<p>No significant effect on the environment.</p>	<p>No significant positive or negative impact on poverty.</p>



ANNEX 5: THE FINANCIAL SECTOR IN GUYANA

1. **The financial system provides substantial intermediation, but intermediation spreads are high, long term finance is poorly developed, and transactions remain predominantly cash based.** Financial system assets amount to 122 percent of GDP, but the small size of the economy results in assets concentrated in just 6 banks along with a few non-bank financial institutions (Figure 3 in the main text). Three of the six banks in the Co-operative Republic of Guyana are foreign-owned and account for about a half of banking sector assets. The three domestic banks are owned by mixed conglomerates with activities in the food and trading sectors. They have concentrated portfolios with the largest 20 exposures in each accounting for about half of total exposures. The concentration is natural for a small economy, but it highlights the need for effective crisis management.
2. **The activities of the financial sector will have to adjust its activities to reflect the changing structure of the economy and associated risks as oil and gas revenues begin to accrue.** As fiscal revenues start flowing in, the need for the GCRG to borrow domestically declines. As a result, banks and institutional investors will increasingly look to other investment opportunities. New macroeconomic volatilities arising from exported commodities and capital inflows must be managed well to underpin financial stability.
3. **The banking sector has adequate solvency and liquidity buffers, but asset quality is a source of risk (Table A1).** Liquidity is good with 29 percent of bank assets in liquid securities. The capital adequacy ratio of 27.1 percent is high, but strong solvency must compensate for asset concentration and related party lending risks. Non-performing loans (NPLs) amount to 12.2 percent of gross loans as of December, 2017.⁶⁰ The 2016 FSAP highlighted a need for stronger NPL supervision, and authorities have explained that intensified supervision has resulted in better NPLs recognition as well as increased loan loss reserves observed since 2015. Profitability is declining with a still healthy return on equity of 16.2 percent.

Table A1. Commercial Banks - Credit Risks, 2017

Percent	RBL	GBTI	BNS	DBL	CBI	BOB	All 2017	All 2015
Capital / Risk-weighted Assets	19.5	29.6	24.6	37.9	31.5	46.3	27.1	23.9
Capital and reserves / Total Assets	10.0	15.1	19.0	16.2	16.3	19.3	14.6	13.3
Related party loans / Gross loans	0.1	10.0	.	5.1	4.5	0.4	3.4	4.7
Top 20 borrowers exposure/Total exposure	17.6	38.7	16.0	54.6	31.5	27.8	29.3	16.0
Non-performing loans / Gross loans	5.8	24.3	9.7	7.1	12.8	26.7	12.2	11.5
Reserve for loan losses / NPLs	104.9	36.5	25.0	58.9	59.3	25.6	48.5	38.0
Gross loans / deposits	55.1	61.5	81.1	48.4	68.9	51.3	60.9	60.2
Return on assets	1.8	1.6	3.6	3.5	1.4	2.4	2.3	2.7
Return on equity	18.7	11.0	18.7	22.0	8.9	14.1	16.2	21.1
Liquid assets / Gross assets	19.6	26.3	24.5	58.5	31.9	25.8	29.4	28.8
Deposits / Gross assets	82.1	77.3	74.1	77.2	78.1	73.6	78.3	80.5
Share of Banking System Assets*	33.7	22.6	15.6	13.6	10.9	3.7	100.0	

Source: Bank of Guyana; Data as of December, 2017. *Assets as of 2015.

4. **In light of new risks, updating the framework for crisis management is a priority.** The FSAP identified bank resolution, emergency liquidity assistance (ELA) arrangements, and the lack of deposit insurance to be key reforms to effective crisis management. The current bank resolution relies on court supervised liquidation, and

⁶⁰ One domestic bank accounts for about half of NPLs.



the provisions for ELA do not provide the adequate instruments. Finally, the Co-operative Republic of Guyana is one of few countries that do not offer deposit insurance, which not only protects small savers, but also helps maintain trust and stability during times of stress.

5. **The market for insurance and pension products remain small albeit growing, but despite having long term liabilities, they do not invest in long term private sector assets in the Co-operative Republic of Guyana.** Long-term financing is virtually inexistent outside of the residential mortgage market, and the capital market largely consist of short-term government securities that do not have an active secondary market.

6. **Payments are overwhelmingly cash based, with 99.9 percent of consumer initiated payments being in cash.**⁶¹ 99.9 percent of all government transactions occur in cash, checks, and paper vouchers. In 2015 and 2016, several banks were losing international correspondent banks, which allow them to perform international financial transactions. Credit to the private sector (Figure 4 in the main text) has gradually expanded, reaching 35.3 percent of GDP in 2017 (27.1 percent in 2006),⁶² in line with growth patterns in the LAC region (45 percent) and an aggregate of small states (41 percent).

7. **Access to banking services are most limited in the hinterland regions while in other regions the majority of electronic credit transfer and mobile money users are the high-income group.** Due to the smallness of population and remoteness of some mining and savanna communities in the hinterland regions, it is not viable for banks to establish branches in those areas. As of 2015, there was no bank branch in Potaro-Siparuni. With a limited number of bank branches (one in Barima-Waini, three in Cuyuni-Mazaruni and two in Upper Takutu-Upper Essequibo) and a dispersion of communities, population in the hinterland regions, most of them living below the poverty line, are expected to incur a high cost of reaching the closest bank branch.⁶³ In addition, limited internet access and telecommunication services prevent them from using electronic transfer and mobile money. Outside the hinterland regions, electronic transfer and mobile money are used among the high-income and highly-educated group while the low-income group rely on paper-based transactions.⁶⁴ There is also a gender disparity among the use of electronic payment methods where 63% of electronic credit transfer users are male and 60% of mobile money users are female.

8. **The authorities are implementing key recommendations of the 2016 FSAP to enhance efficiency and improve the ability to manage risks.** A new insurance law providing for an oversight approach consistent with international standards was adopted in 2016. Improved legal, institutional and supervisory arrangements were implemented including through two legislative changes in 2016. To improve its crisis management ability, new tools for bank resolution and emergency liquidity assistance is needed, and a deposit insurance would both protect depositors and the stability of the banking system during stress. Enhancements to the efficiency of domestic payments and access to international transactions will ensure that the financial sector is able to efficiently serve and develop its role in the economy.

⁶¹ RETAIL PAYMENTS A PRACTICAL GUIDE FOR MEASURING RETAIL PAYMENT COSTS – DEMAND SIDE
Results from the Guyana Surveys

⁶² Based on IMF's International Financial Statistics (IFS).

⁶³ List of Commercial Banks and Branches 2015, BOG.

⁶⁴ Retail Payments: A Practical Guide for Measuring Retail Payment Costs – Demand Side, Results from the Guyana Surveys (October 2015), Financial Infrastructure Series: Payment Systems Policy and Research, The World Bank Group.



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