1. Operation Information

Operation ID
P165425

Operation Name
GY Financial & Fiscal Stability - PDPC

Country
Guyana

Practice Area (Lead)
Finance, Competitiveness and Innovation

Non-Programmatic DPF

<table>
<thead>
<tr>
<th>L/C/TF Number(s)</th>
<th>Closing Date (Original)</th>
<th>Total Financing (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-62860</td>
<td>30-Jun-2019</td>
<td>34,214,168.21</td>
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| Bank Approval Date | Closing Date (Actual) | |
|-------------------|-----------------------| |
| 22-Jun-2018       | 30-Jun-2019           | |

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<tr>
<th>IBRD/IDA (USD)</th>
<th>Co-financing (USD)</th>
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<td>Original Commitment</td>
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<tr>
<td>Revised Commitment</td>
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<tr>
<td>Actual</td>
<td>34,214,168.21</td>
</tr>
</tbody>
</table>

Prepared by
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Krishnamani

Reviewed by
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Pellekaan

ICR Review Coordinator
Christopher David Nelson

Group
IEGSD

2. Program Objectives and Pillars/Policy Areas

a. Objectives

This Development Policy Credit (DPC1) operation was the first in a series of two planned operations aimed to support Guyana's financial and fiscal management practices. The second operation was cancelled (for
reasons discussed in section 2b of this review). The Program Development Objectives (PDOs) as stated in the Program Document (PD, page 16) were:

"To promote sound financial development and strengthen fiscal management".

There were three sub-objectives of the PDO embedded in the PD (paragraphs 41 and 42).

1. To support the Bank of Guyana's (BOG) ability to manage financial stress including through establishing a deposit insurance scheme (pillar/policy area 1).

2. To support regulatory reform in the insurance sector and for domestic and international payments (pillar/policy area 2).

3. To support fiscal management through establishing a sovereign wealth fund (SWF) and debt and public investment management (pillar/policy area 3).

b. Pillars/Policy Areas

There were three pillars/policy areas.

I. Strengthening financial stability and depositor protection. These policy reforms supported strengthening financial sector oversight, improving the sector's ability to manage financial risks, and protecting the interests of depositors of licensed financial institutions (PD, paragraph 47).

II. Enabling sound financial management. These policy reforms supported regulatory oversight of the insurance sector, and strengthening domestic and international payment systems (PD, paragraph 59).

III. Strengthening fiscal management to promote macroeconomic stability and long term growth. Specifically the policy reforms supported strengthening fiscal management practices including through establishing a SWF, improving debt management strategy and management of public investments (PD, paragraph 71).

c. Comments on Program Cost, Financing and Dates

Program cost. An IDA credit of US$35.00 million financed the operation. By the time the project closed, it had disbursed US$34.21 million of this credit.

Dates. The Bank approved the operation on June 22, 2018, and the operation became effective on August 22, 2018, with a planned closing date of June 30, 2019. The first operation closed as planned. The second operation was cancelled (discussed below).

Other changes. There were two significant changes during implementation. One, the proposed second operation was cancelled due to the difficult political context, that resulted in the absence of a fully-functioning Government to engage with the World Bank. and two, Guyana's public health systems were seriously impacted by the COVID-19 pandemic. This hampered completion of some of the planned financial sector reforms, as the BOG was involved in implementing several COVID-19 relief measures for the financial sector (including moratorium on loan payments by consumers and regulatory forbearance on the classification of non-performing
loans). The fiscal policy reforms (pillar three) were only introduced as triggers for the second operation, which was subsequently cancelled (ICR, paragraph 63).

3. Relevance of Design

a. Relevance of Objectives

**Country context.** Guyana, a small country in the Caribbean coast, is a resource-rich country. However its economy is highly concentrated, with 90% of the export earnings coming from six commodities (gold, bauxite, timber, rice, sugar and shrimp). The discovery of potentially large off-shore oil and gas in the years before appraisal presented opportunities and challenges (oil production commenced in 2019). On the one hand, it provided opportunities for diversification of the economy through human and physical capital investments (both by the private and by the public sector). However, the discovery presented challenges, given volatility of oil prices and empirical evidence that showed that resource-rich countries saved less, and that the growth prospects of such countries are often no better than that of non resource-rich countries. A fundamental challenge for the Guyanese economy was to transform the oil wealth into human and physical capital for diversifying the economy.

This operation addressed two development challenges: One, the need to strengthen financial sector management, given that investments in non-resource sectors by the private sector require a well-functioning financial sector that allocates resources efficiently; Two, the need to strengthen public sector management, given that public sector investments in non-resource sectors require effective investment management systems, and adequate capacity to design and implement capital projects.

**Government strategy.** The government's 2017 budget identified the reform priorities as improving the efficiency of public investments, strengthening public debt management and improving public sector efficiency. The government initiated measures for enhancing transparency, and on October 15, 2017, Guyana became a member of the Extractive Industries Transparency Initiative (an internationally recognized transparency and oversight mechanism of extractives, requiring disclosure of minimum information related to exploration, production and exports of extractives). Since then, the government published online four production-sharing agreements with the global oil companies. This operation was well-aligned with three of the seven aspects of the government's medium-term strategy articulated in the Green State Development Strategy Vision 2040 issued in 2017: (i) inclusive social transformation through diversifying the economic base; (ii) sustainable natural resource management; and (iii) international cooperation, trade and investments. This program's objectives support the government's transparency on events that have broad financial implications.

**Bank strategy.** The reform areas of this operation were well-aligned with the Country Engagement Note discussed by the Bank Board on March 23, 2016. This note recognized the importance of linking from the outset, financial support with systematic technical and training support given Guyana's weak institutional and fiduciary capacities. The Bank's first Country Partnership Framework for Guyana is planned for 2022.

**Prior Bank experience.** The Bank has a history of engagement with Guyana. In 2016, the Bank provided advisory services for a Financial Sector Assessment Program (FSAP) that prioritized the financial sector reform agenda. The FSAP intensified an already active financial sector advisory agenda within the Bank of Guyana. The Bank also provided technical assistance through the First Sector Reform and Strengthening Initiative, and through a systematic Country Diagnostic. The Bank had also assisted Guyana in its national risk assessment in an Anti-Money Laundering/Combating the Financing of Terrorism (AFL/CFT)
initiative. Another previous Bank project supported the preparation of an oil and gas institutional capacity and transparency project.

This first programmatic operation supported the Government in moving the financial sector policy reforms to a higher level than the earlier FSAP. The planned second programmatic operation was to further advance the financial sector reform agenda with a focus on critical fiscal reforms.

b. Relevance of Prior Actions

Rationale

Pillar I. Strengthening financial stability and depositor protection. The policy reforms sought to promote financial stability, and address the risks posed by failing banks to the financial system. There were three prior actions.

Prior Action # 1. Bank insolvency resolution. The relevance of this prior action is satisfactory.

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 (Program Document, paragraph 48).

This prior action sought to strengthen the legal framework for addressing insolvent banks. Prior to this operation, insolvencies were court-administered, and there were no resolution tools for failing banks (other than through liquidation). This prior action allowed for: (i) transferring partial assets and assets and liabilities from weak to sound banks; and (ii) replace the court-administered bankruptcy procedures with new resolution tools for minimizing financial disruptions through keeping the depositor accounts of weak banks via their immediate transfers to sound banks. Under this prior action, the BOG was responsible for the chain of actions toward the resolution of failing banks.

Prior Action # 2. Deposit insurance. The relevance of this prior action is satisfactory.

The Recipient, through the Ministry of Finance, has submitted to the National Assembly, for approval thereof, a bill to improve depositor's protection and provide enhanced deposit protection in periods of stress of the financial system by establishing a deposit insurance scheme comprising a deposit insurance fund and a deposit insurance corporation (Program Document, paragraph 51).

This prior action sought to protect the interests of depositors of financial institutions, through establishing a deposit insurance fund and a deposit insurance corporation. Given that a well-funded deposit insurance fund can help in avoiding "bank runs" and reduce the need for interventions by the state or use of fiscal resources to repay depositors of failed banks, this prior action fulfilled a critical need of small savers. However, notwithstanding the benefits to small savers, there is the risk that deposit insurance could lead to moral hazard, without appropriate conditions for managing the downside risks. Following the recommendations of the Bank's 2016 FSAP, this prior action identified bank resolution (discussed above) and emergency liquidity
assistance (discussed below) as critical preconditions, and that deposit insurance would be triggered only when other tools have been exhausted.

**Prior Action # 3. Emergency Liquidity Assistance (ELA).** *The relevance of this prior action is satisfactory.*

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 BOG’s short-term lending to illiquid but solvent banks as a banking safety net measure, by delineating the modalities of: (a) the BOG’s lending and collateral requirements; (bi) the Recipient’s explicit backing of BOG’s outlays to illiquid banks for longer terms; and (c) the terms and conditions of such financing (Program Document, paragraph 55).

This prior action authorized the BOG to provide short-term ELA to otherwise solvent banks experiencing temporary liquidity issues. This prior action was in line with international practices that authorized central banks to provide ELA, albeit at above market rates to reflect risk and fully collateralized (e.g. through government securities or other safe assets).

Each of the three prior actions addressed a critical need for financial sector stability and are therefore assessed as satisfactory. As a group they are assessed as satisfactory.

**Pillar II. Enabling sound financial management.** The policy reforms in this area are aimed to promote financial inclusion. Specifically the three prior actions in this area are aimed at strengthening the regulatory oversight of the insurance sector and improving the payment systems for domestic and international investors. There were three prior actions.

**Prior Action # 4. Insurance.** *This relevance of this prior action is rated as satisfactory.*

The Recipient, through its Ministry of Finance, has upgraded the oversight arrangements of the 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 BOG with respect to inspections and corporate governance (PD, paragraph 59).

This prior action aimed at improving the oversight of the insurance sector by: (i) revising the legal framework of the sector so that it is consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and with local market conditions and constraints; and (ii) enhance the powers of the BOG with respect to inspections and of corporate governance.

Prior to appraisal in 2009, the failure of CLICO, one of the largest insurance providers in the Caribbean highlighted the weakness of Guyana's insurance sector. In the wake of this event, the BOG assumed responsibility for the oversight of the sector (as recommended by the World Bank's 2016 financial sector assessment program), and the government enacted legislation for setting solvency requirements for the sector. Given that this prior action responded to a critical for strengthening confidence in the insurance sector, this prior action was relevant and satisfactory.

**Prior Action # 5. Payment services.** *The relevance of this prior action is assessed as satisfactory.*

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 (PD, paragraph 62).

This prior action intended to reduce the scope for cash-based financial transactions in the economy. Prior to appraisal, Guyana's economy was mainly cash-based, with 99.9% of transactions through paper-based instruments (such as cash, checks and paper vouchers). This limited the potential for the economy to conduct all personal, business, government, financial transactions and remittances from workers employed abroad through the international payments system. Evidence showed that it was not viable for most banks and financial institutions to provide financial services especially to the poor, due to their frequent but small, financial cash-based transactions. Estimates provided in the Bank's Guyana "cost of cash" study, showed that the annual cost of cash-based transactions for consumers was Guyana $15 billion, or 2.45% of Gross Domestic Product in direct and indirect costs. (PD, paragraph 63). Given that this prior action aimed at transitioning to electronic payments which in turn would help in financial inclusion of the poor, the relevance of this prior action was satisfactory.

Prior Action # 6. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) arrangements. The relevance of this prior action is assessed as moderately satisfactory.

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 (PD, paragraph 66).

This prior action aimed to improve enforcement of the existing legal framework for money laundering, and improving the effectiveness of the investigation and prosecution process by giving the authorities adequate time to collect evidence. Inadequate implementation of AML/CFT arrangements placed Guyana on the Financial Action Task Force grey list in the years before appraisal, and domestic banks were losing access to the international payment system for services such as trade finance, international check clearing, and the processing of remittances sent by Guyanese working overseas. Guyana enacted legislation in December 2015, May 2016, and in 2017 to curb the money laundering process, and these legislations helped in Guyana being no longer in the grey list (PD, paragraph 68).

Before the act of 2017, money laundering charges could be based only on summary convictions that provided a six months deadline for initiating charges against perpetrators. This time limit hampered the ability of investigative authorities to collect evidence and establish charges. Although money laundering investigations were ongoing, none of them actually resulted in actual charges due to this limitation. With the amendment to the legislation of 2017, the money laundering charges could be based on "conviction on indictment". While investigations help in addressing AML/CFT charges, given that the limited effectiveness of reforms in this area would depend solely on how these charges are acted upon through the judicial system, this prior action did not go far enough in addressing a critical development concern and its relevance is rated as moderately satisfactory.

Of the three prior actions in this pillar, two were rated as satisfactory, and one was rated as moderately satisfactory. Therefore, the overall relevance of the prior actions in this area is assessed as satisfactory.

Pillar III. Strengthening fiscal management to promote macroeconomic stability and long term growth. The policy reforms in this area aimed at fiscal reforms. Specifically the policy reforms in this area aimed at establishing a Sovereign Wealth Fund (SWF), and improving public debt and public investment management. The actions for reforms in this area were to be completed and were designed as triggers for
approval of the proposed DPC2. That operation was, however, cancelled due to the political context at the
time (ICR paragraph 2). Nevertheless, the policy reforms were pursued as part of DPC1, but since they were
no longer triggers for DPC2 they became "program actions" related to this pillar.

**Program Action # 1. Establish a SWF. The relevance of this program action is assessed as satisfactory.**

The Recipient establishes a savings and stabilization fund for oil revenue that will improve fiscal management
by stabilizing revenue and saving for future generations (PD, paragraph 71).

This action sought to enact legislation to establish a SWF that would improve fiscal management by stabilizing
revenue and savings for future generations. The legislation was to create the fund which would accept revenue
oil exports when oil production commenced in 2020, set conditions on transfers and withdrawals from the
fund, and establish rules for allocating oil revenue towards long-term savings, macroeconomic stabilization and
public sector investment programs via the national budget (PD, paragraph 72). Given that this program action
addressed a need for intergenerational savings, which assumed importance in the wake of discovery of oil and
gas reserves, it addressed a critical long term development strategy and its relevance is therefore assessed as
satisfactory.

**Program Action # 2. Public debt management. The relevance of this program action is assessed as
moderately satisfactory.**

The Recipient improves debt strategy formulation, modernizes debt management, and strengthens the
alignment between borrowing and macroeconomic policy (PD, paragraph 75).

This policy area required government's commitment to formulating a public debt management strategy for 2020
- 2022. Prior to appraisal, the Ministry of Finance's analysis of the legislative and institutional framework for debt
management identified a number of gaps and inconsistencies: the existing laws did not specify high level debt
management objectives expressed in terms of risk and cost; they did not require adopting a medium-term debt
management strategy; debt levels and ceilings were not linked to macroeconomic and fiscal conditions; and
legislation did not provide sufficient guidance on the organizational structure for debt management
(PD, paragraph 48). The debt management strategy was to address these shortcomings. While publication of a
strategy for debt management, although necessary, was not sufficient for effective debt management. The
relevance of this program action is therefore rated as moderately satisfactory.

**Program Action # 3. Public investment management. The relevance of this program action is assessed as
moderately unsatisfactory.**

The Recipient strengthens the appraisal and selection of investment projects and aligns the public investment
program with the medium term budget framework (PD, paragraph 77).

This policy area sought to strengthen the investment project appraisal system as a prelude to developing an
overall public investment management policy. Before appraisal, a 2017 public investment management
assessment identified weaknesses in the planning, budgeting, selection, procurement and implementation of
capital investment projects. Projects included in the budget were either poorly aligned with development
priorities or not ready for implementation; execution rates were low and year-to-year variation in capital
spending was high (PD, paragraph 52). These issues needed to be addressed when the government started
receiving oil revenue. While developing an overall public investment management policy is necessary, it is not
enough to ensure the expected results unless the legislation is approved and adopted by the government. The relevance of this program action is hence assessed as moderately unsatisfactory.

Of the program actions under this pillar, one was rated as satisfactory, one was rated as moderately satisfactory and one was rated as moderately unsatisfactory. Overall the relevance of the program actions under this pillar is therefore assessed as moderately satisfactory.

In sum, of the six prior actions, five were rated as satisfactory and one was rated as moderately satisfactory. Of the program actions, one was assessed as satisfactory, one was assessed as moderately satisfactory and one as moderately unsatisfactory. The overall relevance of the prior and program actions for DPC1 is assessed as satisfactory.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

There were nine indicators for the three pillars (three for each pillar).

<table>
<thead>
<tr>
<th>Results Indicator</th>
<th>Associated Prior Action/Program Action</th>
<th>Baseline/target</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar I. Strengthening financial stability and depositor protection</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Insolvency Resolution</td>
<td>Prior Action # 1</td>
<td>Baseline (2017): Only court administered liquidation is available as a resolution tool. Target (June 2020): BOG Resolution Committee is established.</td>
<td>Target partially met.</td>
</tr>
<tr>
<td>Depositor Protection</td>
<td>Prior Action # 2</td>
<td>Baseline (2017): 0 (no existing coverage). Target (June 2020): 95% or more of deposit owners covered.</td>
<td>Target met.</td>
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<tr>
<td>Emergency Liquidity Assistance (ELA)</td>
<td>Prior Action # 3</td>
<td>Baseline (2017): Regulations and operational procedures for ELA not in place. Target (June 2020): The ELA facility is operational.</td>
<td>The ELA facility is operational with improved collateral assets and time limits. ELA is available for all institutions if required.</td>
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</tbody>
</table>

**Pillar II. Enable Sound Financial Development**

| Insurance | Prior Action # 4 | Baseline (2017): Not available, as capital was not yet measured under the new risk-based regime. Target (June 2020): All 16 insurance companies are at 40% of the 2023 regulatory capital requirement. | May 2020: 15 companies have met 100% of the 2023 requirement and the other one is at 90%. Target exceeded. |
|---|---|---|---|---|

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|---|---|---|---|---|

**Program Actions.**

|---|---|---|---|---|

Pillar I. Strengthening financial stability and depositor protection. This pillar aimed at addressing the risk that an ailing bank could undermine confidence in the financial system.

Prior Action # 1. Bank resolution. Only court administered liquidation was available as a resolution tool for ailing banks at the baseline. A BOG Resolution Committee was to be established that would replace the court administered bankruptcy procedures with new resolution tools for transferring assets and liabilities from weak to sound banks. This was a process indicator and did not capture an intended outcome. The IEG concurs with the ICR's assertion (ICR paragraph 55), that in the absence of a counterfactual (a banking crisis), it is difficult to monitor the success of a reform geared towards crisis prevention. The relevance of this indicator is assessed as moderately satisfactory.

Prior Action # 2. Deposit insurance. There was no deposit insurance at the baseline. Targets were set to measure the percentage of depositors whose deposits were covered by insurance when the operation closed. This indicator was measurable and appropriate for monitoring results. The relevance of this indicator is assessed as satisfactory.

Prior Action # 3. Emergency Liquidity Assistance (ELA). There were no provisions for ELA from the BOG at the baseline to banks experiencing short-term liquidity issues. The target for this indicator was that the BOG operationalizes the ELA facility within specified time limits. Like the bank resolution indicator discussed above, this was a process indicator which did not capture an intended outcome. The IEG concurs with the ICR's assertion (ICR paragraph 55) that in the absence of a counterfactual (a bank liquidity crisis), it is difficult to measure in a precise way, the success of a reform geared at crisis prevention. However, such a facility would provide a financial safety net for banks experiencing short-term liquidity issues. The relevance of this indicator is assessed as moderately satisfactory.

Of the three indicators for this pillar, the relevance of one is rated satisfactory and for the other two their relevance is rated moderately satisfactory, signifying an average of 4.33 on a six point scale, namely moderately satisfactory.

Pillar II. Enabling sound financial management.
Prior Action # 4. Insurance. This indicator monitored whether the insurance companies complied with the 2023 regulatory capital requirement (40%). No such requirement was required at the baseline. This indicator was measurable and appropriate and its relevance is therefore assessed as satisfactory.

Prior Action # 5. Payment services. There were less than 5,000 cashless transactions at the baseline. Targets were set for the number of cashless transactions in 2020. This indicator was measurable and appropriate. Therefore the relevance of this indicator is assessed as satisfactory.

Prior Action # 6. Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT). The indicator was to monitor the number of reports on money laundering that were prepared and forwarded to the police (as compared to at the baseline). However, more filings may not necessarily lead to more indictments or convictions. Further, setting a target based on the number of reports could create a perverse incentive to increase reporting because it is being measured. A more appropriate indicator should have focused on the quality of filings and not just the number of filings. Therefore, the relevance of this indicator is assessed as moderately unsatisfactory. If the relevance of this indicator is in the unsatisfactory range, why was this prior action declared as among "the actions which the Recipient has already taken under the Program" in the Financing Agreement?

Of the three results indicators for this pillar, for two of them their relevance is satisfactory and the other's relevance is moderately unsatisfactory, signifying an average of 4.33 on a six point scale, namely moderately satisfactory.

Pillar III. Strengthening fiscal management to promote macroeconomic stability and long term growth.

Program Action # 1. Sovereign Wealth Fund (SWF). The target was to establish a SWF as a savings and stabilization fund for oil revenue. The indicator could have been more precise by measuring the amount of money deposited in the fund, and given the volatility of oil prices, the indicator could have specified the percentage of oil earnings that should have been deposited in the fund each year. The relevance of this indicator is assessed as moderately satisfactory.

Program Action # 2. Public debt management. The target was to regularly and adopt a new Public Debt Policy for 2021 -2024. The term "regular" was non-specific and should have focused on completion of a "first" strategy, given the short length of time available to meet the target. The relevance of this indicator is assessed as moderately unsatisfactory.

Program Action # 3. Management of public investments. The indicator on public investment management called for developing an appraisal system "system in place" that ranked and prioritized public sector projects. A more precise and measurable indicator would have looked at the number of projects assessed using the new appraisal system. The relevance of this indicator was assessed as moderately satisfactory.

Of the program actions, the relevance of two indicators were rated moderately satisfactory and the other was rated moderately unsatisfactory. Hence the average relevance of the indicators for program actions was moderately satisfactory.

Summary. Overall, the average score for the relevance of indicators across all pillars is 3.66. The overall rating of the relevance indicators for the three pillar is therefore assessed as moderately satisfactory.
### Relevance ratings for the Results Indicators (RIs) by pillar and efficacy ratings

<table>
<thead>
<tr>
<th>Results Indicators</th>
<th>Relevance rating</th>
<th>Efficacy rating</th>
<th>Pillar efficacy ratings</th>
<th>Overall efficacy rating</th>
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<tbody>
<tr>
<td><strong>Pillar I. Strengthen Financial Stability and Depositor Protection</strong></td>
<td></td>
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<tr>
<td>Bank Insolvency Resolution</td>
<td>MS</td>
<td>S</td>
<td>S</td>
<td>S</td>
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<tr>
<td>Depositor Protection</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td></td>
</tr>
<tr>
<td>Emergency Liquidity Assistance.</td>
<td>MS</td>
<td>S</td>
<td>S</td>
<td></td>
</tr>
<tr>
<td><strong>Pillar II. Enhance Sound Financial Development</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Insurance</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
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<tr>
<td>Payment Services</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
</tr>
<tr>
<td>Anti-Money Laundering/Combating the Financing of Terrorism</td>
<td>MU</td>
<td>S</td>
<td>MS</td>
<td></td>
</tr>
<tr>
<td><strong>Pillar III. Strengthening fiscal management to promote macroeconomic stability and long-term growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sovereign Wealth Fund</td>
<td>MS</td>
<td>S</td>
<td>S</td>
<td>S</td>
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<tr>
<td>Public Debt Management</td>
<td>MU</td>
<td>MU</td>
<td>MU</td>
<td>MS</td>
</tr>
<tr>
<td>Management of Public Investments</td>
<td>MU</td>
<td>MU</td>
<td>MU</td>
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</tr>
</tbody>
</table>

**Rating**

Moderately Satisfactory

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5. Achievement of Objectives (Efficacy)

**OBJECTIVE 1**

**Objective**

Strengthening financial stability and depositor protection.

**Rationale**

Under this pillar, the program supported three policy areas: alternative methods of resolving failing banks, increased coverage of depositors through deposit insurance, and providing emergency liquidity assistance to banks.

**Bank insolvency resolution.** The Resolution Committee was established. Unlike in the past, when courts administered cases of failing banks, under the new guidelines, the BOG was responsible for administering the
new tools (such as transferring assets and liabilities from weak banks to sound banks). Guidelines for the new tools were prepared. These guidelines had not yet been approved by the National Assembly when the operation closed. This review anticipates they would be approved.

**Deposit insurance.** The deposit insurance for protecting depositors was activated. The insurance scheme was to cover deposits of each depositor up to Guyanese $ 2 million (approximately US$10,000). Based on the 2017 deposit data, 95% of depositors of eligible financial institutions were to be fully covered with this deposit coverage. This represented coverage of all small savers. A fund was to be established to back the guarantee and over time this fund would be funded by the banking industry based on their deposit bases. When the operation closed, 94% of the depositors were fully covered, marginally short of the target of 95%.

**Emergency Liquidity Assistance (EML).** The ELA facility was fully operational when the operation closed with improved collateral assets and specified time limits, to provide short term liquidity to banks facing temporary liquidity problems. All licensed financial institutions could avail themselves of the ELA if needed. As called for in the trigger, a subsequent internal policy document was prepared with Bank assistance to clarify the procedures to be followed should the need arise. This internal policy document had not been approved by the National Assembly when the operation closed.

Given that the expected outcomes were realized or expected to be realized, the efficacy with which this pillar was achieved is assessed as satisfactory.

**Rating**
Satisfactory

**OBJECTIVE 2**

**Objective**
Enabling sound financial management.

**Rationale**
Under this pillar, the program supported three areas: improved oversight of the insurance sector, greater usage of electronic payments, and better enforcement of the existing legal framework for anti-money laundering and combating financing of terrorism (AML/CFT).

**Insurance sector.** At the base line in 2016, there was no solvency requirement for the insurance companies, as capital was not yet measured under the new risk-based regime. When this operation closed, fifteen of the sixteen insurance companies in Guyana had 100% of the 2023 regulatory capital requirement (40%), and the remaining company had 90% of the requirement.

**Payments system.** This pillar aimed to transition towards cashless payments in the economy. At the baseline in 2017, there were less than 5,000 cashless payments per year. This pillar expected aimed at 200,000 cashless payments per year beginning in 2020. In 2020, there were 208,721 cashless payments. In the first four months of 2021, annual target was significantly exceeded with 272,028 cashless payments (including from remittances from workers employed abroad).
Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT). This pillar aimed to strengthen AML/CFT framework, by giving the authorities adequate time to collect the evidence. At the baseline, twenty Financial Intelligence Reports (FIUs) - ten new and ten updates to existing cases - were referred to the police for money laundering investigations. This pillar was expected to lead to 25 FIUs by June 2020. Twenty five reports were referred to the police between June 2019 to June 2020. Between April 2020 and April 2021, twenty five reports were referred to the police. This included eighteen new cases.

Given that the expected outcomes were realized for the most part, the efficacy with which pillar was achieved is assessed as satisfactory.

Rating

Satisfactory

OBJECTIVE 3

Objective
Strengthening fiscal management to promote macroeconomic stability and long term growth.

Rationale
Under this pillar, the program supported three areas in the fiscal sector.

Sovereign Wealth Fund (SWF). The SWF was established as targeted to accept oil revenue prior to oil production (after the exploratory phase). As of end of April 2021, US$281 million of SWF fund was deposited with the New York Federal Reserve Bank. There were no withdrawals from the fund as yet (despite to the strains to the budget from the COVID-19 pandemic). This objective was realized.

Public debt management. A public debt management act was drafted to strengthen debt management. This draft included provisions to strengthen discipline on public borrowing, align government borrowing with macroeconomic policy objectives, modernize debt management and increase transparency and accountability. A new Public Policy for 2021 -2024 was published and adopted as targeted. A new Public Debt Management Act is scheduled for submission to parliament in 2022. The ICR however provides no details on how the strategy is to be enforced. The achievements of this program action is therefore assessed as modest.

Public investment management. This pillar aimed to strengthen the appraisal and selection of public investment projects and align the public investment with the medium-term budget framework. There was no project appraisal system at the baseline in 2017. This pillar expected a project appraisal system to be in place when the operation closed. A new framework was developed and approved by Cabinet in 2019, but it has not yet been implemented due to the political turmoil and capacity constraints. The achievements of this program action is therefore assessed as modest.

Given the modest achievements in two fiscal reform areas, this pillar is rated as moderately unsatisfactory.

Rating
Overall Achievement of Objectives (Efficacy)

Rationale

The achievements of pillars one and two are assessed as satisfactory, as the financial sector targets were for the most part realized. Of the three program actions for pillar three fiscal sector activities, one is assessed as satisfactory and two were assessed as moderately unsatisfactory. Given that the fiscal policy reforms were subsequently cancelled, this operation at best provided limited support in advancing the fiscal reforms (ICR, paragraph 63). Taking this into account, overall efficacy is assessed as moderately satisfactory.

Overall Efficacy Rating
Moderately Satisfactory

6. Outcome

Rationale

This review rates the relevance of this Development Policy Credit's design as satisfactory. Of the program's three pillars, two pertained to the financial issues (strengthening financial stability, depositor protection and sound financial development) and the other focused on the fiscal issues (fiscal management) and macroeconomic stability. The two pillars for the financial sector issues were clear, and the outcomes substantial. The outcomes for the pillar on the fiscal sector and macroeconomic stability were, however, modest. Given that fiscal policy reforms were only introduced as program actions for the proposed second operation (DPC 2) which was subsequently cancelled, this operation did not provide support in the fiscal area comparable to the support provided for financial stability and development. Taking this into account, the overall outcome of DPC 1 had moderate shortcomings and is assessed as moderately satisfactory.

a. Rating
Moderately Satisfactory

7. Risk to Development Outcome

Government commitment. There is moderate to low risk of sustainability of the development outcomes. The reforms that supported financial sector development were successfully implemented. The ICR (paragraph 73) notes that the first operation has catalyzed other potential complementary reforms including an Investment Policy Loan from the World Bank to support upgrades in the payment systems infrastructure for achieving greater efficiency and stability of payments. The government also remains highly committed to
moving the financial and fiscal reform forward. Also on the positive side, while the global pandemic has resulted in worsening fiscal sustainability for many countries, this impact is mitigated in Guyana by its small population and the significant revenues that are projected from the ongoing oil production.

**Macroeconomic risk.** There are, however, macroeconomic risks in the short run. This is due to the uncertainty regarding the length and breadth of the economic impacts of the COVID-19 crisis on economic activity in general. A higher deficit of 9.4 percent of non-oil wealth was estimated for 2020 primarily due to the increased public spending related to the pandemic. Government revenues were also lower, given the impact of mitigation measures on economic activity. Public debt climbed to 47.4% of GDP driven by the higher deficit and the inclusion of overdrafts with the central bank, not previously included in public debt reporting. However, these are more likely to be near term risks and offset as existing oil fields reach full operation.

**Political risk.** Political instability resulting in the absence of a fully-functional government and legal challenges to the election results contributed to cancellation of the proposed second development policy credit. However, the ICR (paragraph 20) notes that the legal challenges to the election results were resolved five months after election day.

### 8. Assessment of Bank Performance

#### a. Bank Performance – Design

**Rationale**

The analytical underpinnings of the operation were sound. These included; (i) the Bank's Country Engagement Note of 2016, which recognized the importance of linking financial support with systematic training support; (ii) the World Bank's 2016 Financial Sector Assessment identifying the financial sector reform priorities; (iii) technical assistance by the Bank on insurance supervision; and (iv) the recommendations of the "Guyana: Public Investment Management Assessment" conducted by the Fiscal Affairs Division of the International Monetary Fund, December 2017. The World Bank prepared this program in close collaboration with the stakeholders including the International Monetary Fund and the Inter American Development Bank on financial sector and resource wealth management policy reforms.

The preparation identified several substantial risks at appraisal. These included: (i) political risks, such as the success of the operation's dependence on the National Assembly enacting enabling legislation (e.g. bank resolution, deposit insurance, ELA, and establishing SWF); (ii) macroeconomic risk such as a global fall in oil prices due to slower than expected world economic growth; and (iii) implementation and fiduciary risks. The World Bank incorporated several risk mitigation measures such as twinning policy actions with advisory services and technical assistance throughout the implementation period.

The monitoring arrangements were sound with the Ministry of Finance working in collaboration with the BOG to monitor the operation's activities. Although many of the indicators were quantified and measurable, some of the indicators were qualitative and process-oriented and were not amenable to simple quantification. A grievance redress mechanism was established to address stakeholder concerns.
However, there was one shortcoming at entry. The prior actions for fiscal policy, intended to be addressed at the second operation, could have been moved up to the first operation, to give more time for the implementation of prior actions for the second operation. Given that fiscal policy reforms were only introduced as program actions for the second operation which was subsequently cancelled (for reasons outside the Bank's control), this operation "did not provide any support in this area" in order to advance the fiscal reform agenda (ICR, paragraph 63).

Summary: This review rates the Bank's support for program design as satisfactory.

Rating
Satisfactory

b. Bank Performance – Implementation

Rationale

The supervision team supported four pieces of legislation (e.g. bank resolution, deposit insurance, ELA, and establishing SWF). The Bank provided technical assistance throughout implementation and this enabled strong achievement of results in the financial reform agenda, well beyond the prior actions which focused mainly on enactment of legislation. This helped in completely overhauling the financial safety net in just under two years. The cancellation of the second operation which was to focus on the fiscal reform agenda was driven by the domestic policy situation and outside the Bank's control.

Summary: This review rates the Bank's performance in supporting implementation of the program as satisfactory

Although there were some minor shortcomings at quality-at-entry, overall Bank performance is assessed as satisfactory.

Rating
Satisfactory

c. Overall Bank Performance

Rationale

Although there were some minor shortcomings at quality-at-entry, overall Bank performance is assessed as satisfactory.

Overall Bank Performance Rating
9. Other Impacts

a. Social and Poverty

The following aspects of the operation would have positive, though indirect, poverty and social impacts.

According to the ICR (paragraph 64) financial instability and financial crises affect poverty in Guyana through several channels. The channels include: (i) possibility of economic slowdowns with increased unemployment, cuts in social programs, income transfers and wages. The deposit insurance would benefit the poor and middle-income savers, given the threshold adopted for the maximum size of insured deposits. Increased use of cashless payments would also benefit the poor, especially those in isolated areas not served by banks.

The creation of a well-managed SWF would help in reducing poverty in the long-run, as it may enable to government to build buffers in good times and thereby avoid a major economic contraction at the end of the oil boom, and when necessary provide targeted social assistance (ICR, paragraph 66)

b. Environmental

This operation aimed to promote financial stability and inclusion. No adverse effects on the environment were foreseen at appraisal. There was no environmental classification at appraisal. There were no adverse environmental impacts during implementation. The ICR (paragraph 67) noted that the policy measures supported by this operation were designed to support the Green State Development Strategy of the Government, which included sustainable management of natural resources.

c. Gender

d. Other

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10. Quality of ICR

Rationale

The ICR is concise and clear. The ICR candidly discusses the challenge of striking a balance between quantitative and qualitative indicators, and provides a clear justification for why process driven targets were used. The ICR also candidly discusses the issues associated with fiscal policy reforms, which could not be
addressed in the proposed second development policy credit for reasons beyond the World Bank’s control. The ICR draws reasonably good lessons from the experience of implementing this operation.

a. Rating

Substantial

11. Ratings

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12. Lessons

IEG supports the following main lessons that the ICR draws from the experience of implementing this project, with some adaptation of language.

1. **The use of the Development Policy Credit (DPC) instrument can be constructive in moving the reform agenda that otherwise might have stalled or not have been implemented quickly.** This DPC’s operation provided the motivation to accelerate much needed reforms in the financial sector which led, through the implementation of prior actions, to the passage of four significant pieces of financial sector legislation in less than a year. The lesson from the first DPC operation was that it contributed to progress on financial reforms in a timely fashion.

2. **Strong analytical underpinning strengthens program design for DPCs.** This operation benefitted from the preceding robust analytics in the Financial Sector Assessment Program which provided a roadmap for financial sector reforms which were undertaken by the Government. This together with support from the International Monetary Fund and the Inter African Development Bank, and parallel technical assistance during implementation, contributed to the success of the financial sector reform components in this operation.

3. **A strong champion is paramount to the successful implementation of the prior actions.** Although the Ministry of Finance was the lead agency for this operation, the BOG was the primary counterpart for five of the six prior actions. The BOG played a key leadership role in championing these reforms and through successful outreach was able to enlist support from the wider government to make these reforms a priority.

4. **Careful attention should be paid to ensure that indicators measure outcomes and that targets are sufficiently challenging to stimulate the reform agenda.** The indicators needed to strike a balance between qualitative and quantitative measures and results need to be outcome oriented. In the case of financial stability,
it was difficult to find a credible quantitative indicator because of the absence of a counterfactual which would be a banking crisis. In such instances it is reasonable to use process-driven indicators.

13. Project Performance Assessment Report (PPAR) Recommended?

No