GUYANA
Project Profile (PP)

I. BASIC DATA

Project name:	Micro and small enterprise (MSE) development and building alternative livelihoods for vulnerable groups	
Project number:	GY-GXXX	
Inter-American Development Bank (IDB)Project team:	Navita Anganu, Team leader, Derise Williams, Alternate Team Leader, Marco Nicola (CCB/CGY), Rosina De Souza (LEG/OPR), Roy Parahoo (PDP/CSU), David A. Ochoa (PDP/CGY), Naveen Umrao (PDP/CGY) and Richard Raghoo (CCB/CGY)	
Beneficiary:	Republic of Guyana	
Executing agency:	Ministry of Tourism, Industry and Commerce (MINTIC)	
Financing plan (2012-2015):	Phase I (2012-2013)	US$ 5 million
	Phase II (2014-2015)	US$ 5 million
	GRIF Total:	US$ 10 million
Partner Entity:	Inter-American Development Bank	
Exceptions to Bank policies and procedures:	None	
Safeguards:	Policies triggered: OP-504	
	Classification:	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background on the Low Carbon Development Strategy

2.1 Guyana's rainforest covers over 85% of the country - approximately 18 million hectares – and contains over 5GtCO2 in above ground biomass. Guyana has a relatively low current and historical deforestation rate, estimated at 0.06 per annum in October 2009 to September 2010 as reported in the recent Guyana MRVS Report. With more than 90% of its population and the majority of its infrastructure and industry located along the low-lying coastal strip, Guyana is particularly vulnerable to the impacts of sea level rise due to climate change.

2.2 Guyana's 18 million hectares of rainforest have the potential to serve as a mitigation tool in the fight against climate change. Moreover, recent studies commissioned by the Government of Guyana (GOG) suggest that these forests can provide a cost effective carbon abatement solution.

2.3 Within recent years climate change has received priority attention by GOG. In June 2008 Guyana formally entered into partnership with the World Bank's Forest Carbon Partnership Facility (FCPF), and initiated activities in readiness preparation for entering into a carbon financing mechanism under REDD+ (reducing emissions from deforestation and forest degradation, and conservation of standing forests). [1]

2.4 In June 2009 the GOG launched its Low Carbon Development Strategy (LCDS)[2] which aims to transform Guyana's economy on to a low carbon, sustainable development trajectory, while simultaneously combating climate change. The LCDS aims to protect and maintain the forests in an effort to reduce global carbon emissions and at the same time attract payments from developed countries for the climate services that the forests provide to the world, which will be invested to foster growth and development along a low carbon emissions path.

2.5 The key focus areas of the LCDS are in investments in low carbon economic infrastructure, high potential low carbon sectors, climate change adaptation, and creating economic opportunities for all Guyanese. In particular, the LCDS seeks to expand access to services and new economic opportunities for indigenous and forest communities and vulnerable groups, to transform the village economy and to improve social services and create economic opportunities for the wider Guyanese population.

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

2.7 The GOG has identified the development of small and micro enterprises (MSEs) and providing alternative livelihoods to vulnerable groups as a key component of the LCDS to receive funding through the GRIF. In particular, it aims to address two of the major bottlenecks that constrain the development of MSEs and the ability of vulnerable groups to build alternative livelihoods in Guyana, which are i) limited access to finance and ii) limited technical and business skills. It will also strengthen the Small Business Bureau, which will administer the project components.

B. Project Justification

2.8 Start-ups, small and micro enterprises (MSEs) and vulnerable groups all carry a high degree of lending risk, given the economic reality in which they operate and a market failure known as asymmetric information. Due to the high cost of obtaining adequate loan feasibility information and distinguishing between good and bad loans within these economic groups, lending institutions are often hesitant to provide loans to

[1] Readiness Preparation Proposal (R-PP), FCPF, Jan 2011.
[2] A Low-Carbon Development Strategy, Transforming Guyana's Economy While Combating Climate Change, Office of the President, Republic of Guyana, May 2010.

MSEs and vulnerable groups, or will add a high risk premium to their standard rate of interest and to their standard security and collateral criteria. As a result, MSEs and vulnerable groups in Guyana with feasible business development proposals are not always able to access the finance they need to grow or to enter a new economic activity. In addition, many MSEs, vulnerable groups and potential entrepreneurs lack the skills and training necessary to develop and implement their business proposition successfully.

2.9 Providing improved access to capital and financial services helps households meet basic needs and protect against risks; furthermore improved financial services promote long-term self-sufficiency and wealth-creation strategies. Supporting MSEs through improved financial services and opportunities for skills development is essential for job creation, providing income to poor and marginalized groups and empowering them to engage meaningfully in the activities of society, promoting gender-equity and improving household well-being. MSEs also help to promote innovation, competition and economic growth.

2.10 Guyana's National Development Strategy and National Competitiveness Strategy both allude to micro-finance as one of the core elements of the Nation's competitiveness policy. There is strong evidence in Guyana that access to savings, services, and micro-loans has raised and stabilized the incomes of the poor. However, access to credit by small businesses remains a key constraint to job creation[3].

2.11 In 2004 the Guyana Small Business Act was enacted "to provide for an incentive regime and support programme for small business; the establishment of the Small Business Council (SBC), the Small Business Bureau (SBB), the Small Business Development Fund (SBDF) and for matters connected therewith and incidental to."[4] Although both the SBC and the SBB have been established, the SBDF was never created due to a lack of funds. The SBC and SBB have therefore been unable to fulfil their mandate under the Small Business Act of 2004.

2.12 The Act defines a small business as:

'an incorporated company or one registered by Business Name, a Partnership, a Private Limited Company, a Cooperative Society and a Holding Company that satisfies at least two of the following conditions:

i) Employs not more than twenty five (25) persons
ii) Has gross annual revenues of not more than G$60,000,000
iii) Has total business assets of not more than G$20,000,000'

Although there is no legal definition of what constitutes a vulnerable person or group, for the purposes of this project vulnerable groups are considered to include:

i) Women;
ii) Single Parents;
iii) Youth with limited education and skills;
iv) Disabled persons;
v) Poor households and communities with limited skills and access to finance;

[3] 2001. Guyana Poverty Reduction Strategy Paper
[4] Guyana Small Business Act, 2004. Pg 3, Paragraph 1

vi) Workers in sectors being restructured, such as mining, forestry, sugar and bauxite;
vii) Various groups who have limited economic opportunities[5]

2.13 The LCDS sets out the GoG's commitment to address two of the major constraints to the establishment and sustainability of MSEs and to the ability of vulnerable groups to build alternative livelihoods in Guyana, namely: i) limited access to finance; and ii) limited technical and business skills. Funds will be provided through the Guyana REDD+ Investment Fund (GRIF) for this purpose.

C. Objective and Components of Phase I.

2.14 This is a two phase project. Phase I will be carried out during the period 2012-2013. This phase will aim to address two of the major bottlenecks that constrain the development of MSEs and the ability of vulnerable groups to build alternative livelihoods in Guyana, which are i) limited access to finance and ii) limited technical and business skills. Access to finance will be addressed through two mechanisms: a mutual guarantee fund that is used to guarantee part of the collateral of a loan, thereby enabling an MSE to obtain a loan at an affordable rate; and a low carbon grant scheme to assist vulnerable persons with viable business propositions. Lack of skills will be addressed through a training voucher scheme which will enable MSEs to obtain the skills they require at existing training institutions.

2.15 In addition to the above-mentioned components, the project will consider post-2012 the development of an Innovation Incubator Hub, which will enable MSEs to quickly develop and become competitive through networking and providing access to sources of funds, media exposure, and a knowledge centre. It will also consider the establishment of MSE Business Centre to support the start up of small businesses through advisory and technical assistance, confidential business counseling, and support in development of business plans and financial projections.

<u>Component 1- Mutual Guarantee Fund</u>

2.16 The MGF is a pool of money that is used to guarantee enough of the collateral requirements of the lending institutions to allow a good MSE and vulnerable group business development loan proposal to be accepted by both parties. By assuming part, but not all of the risk, this fund seeks to entice the lending institutions into lending to the MSE. The degree of collateral offered will be carefully determined such that the lending institution maintains enough risk to ensure that it distinguishes between good and bad loans and that it carries out its adequate monitoring functions once the loan is provided, while the MSE takes on enough risk to ensure that the incentive to pay back the loan is not lost.

The MGF will be composed of two facilities:

[5] We exclude Amerindians from this group because the development of this ethnic group is targeted through the Amerindian Development Fund, although Amerindians will not be excluded from this project unless the service they require is provided under the Amerindian Development Fund.

a. A Collateral Guarantee Facility will guarantee a certain percentage of the debt for loans across all sectors of the economy, as long as they are low carbon sectors.
b. An Interest Payments Support Facility will help the MSE pay-off a percentage of its interest obligations on the loan, and will target key low carbon sectors that have been identified in the Low Carbon Development Strategy as being the basis for new economy: aquaculture, fruit and vegetable farming and agro-processing, sustainable forestry, sustainable mining, eco-tourism and business process outsourcing. This capital allocated to this facility will be smaller than the allocation for the collateral guarantee facility.

Component II - Low Carbon Grant Scheme

2.17 The Low Carbon Grant Scheme is a pool of money that will be set aside to assist vulnerable persons to access financing for their existing or potential business venture. Those eligible will be persons who are already operating a business and require additional financing.

Component III- Skills Voucher Scheme

2.18 Access to skills will be addressed through a skills voucher system whereby MSEs and vulnerable groups with sound business propositions in low carbon sectors are provided with training vouchers (grants) which can be only exchanged for the training enrolment they need at appropriate training institutions, such as IPED, Empretec, Business Schools or the University of Guyana. Training will be targeted towards strategic skills such as business management and marketing skills, financial management skills, and technical skills in key low carbon sectors or key transition sectors such as sustainable mining and sustainable forestry. The major advantage of a voucher scheme is that it ensures that the skills development is demand driven.

Component IV- Project Management

2.19 This component will finance the project administration costs for all components and includes, hardware, software, salaries for additional staff, training, knowledge exchange trips and consultancies to same effect.

D. Implementation

2.20 The financial mechanism for implementing the project will be the Small Business Development Fund (SBDF), which is mandated for in the Small Business Act of 2004, but is yet to be established. The mandate of the SBDF includes providing for access to finance for small businesses, and non-financial services and assistance to help small businesses improve productivity and competitiveness.

2.21 The implementation of the project components will be the responsibility of the Ministry of Tourism, Industry and Commerce (MinTIC). The Small Business Council (SBC), which was also established through the above Act, is a public private council with representation from government, small business associations, lending institutions and training institutions and which will be expanded to include representation from vulnerable groups, will have policy oversight of the SBDF. The Small Business

Bureau (SBB) is the secretariat of the SBC and will be responsible for the day-to-day administration and operations of the SBDF.

2.22 In order to implement this project, it will be necessary to strengthen the institutional capacity of the SBB, which will administer the mutual guarantee fund, grant scheme and training voucher system. The SBB currently has three staff: a Chief Executive Officer, an administrative assistant, and a research and marketing officer. This will need to increase to 10 and to include administrators of the MGF and voucher scheme and an accountant.

2.23 In the project preparation stage, three additional staff will need to be engaged including a training and development officer, an accountant/ project officer and a data entry clerk. A consultant will also need to be hired on a short term basis to develop the operational manual for the SBDF.

III. SECTOR KNOWLEDGE

3.1 The project will build on the Bank’s wide experience in private sector development specifically micro, small and medium enterprise (MSME) development. Specifically the IDB has designed and is in the process of implementing a Support for Competitiveness Program which supports the implementation of key recommendations of National Competitiveness Strategy. Key amongst these is business climate reforms which does not specifically cover all of the challenges of small business sector.

3.2 In 2004 the Government of Guyana enacted the Small Business legislation resulting in the Small Business Act 2004 which made the Small Business Council and the Small Business Bureau responsible for the development of the small business sector in Guyana. However based on a lack of resources, the Act was not implemented in its totality and the small business sector continues to languish. It is the intention of this project to meet this financing gap in order to fully support the small business sector.

IV. RISKS

4.1 Limited national institutional capacity for climate change activities and REDD+ activities may pose a risk to the timely implementation of this project. This risk will be mitigated through the strengthening of institutional capacity at the Small Business Bureau and Council.

4.2 Limited institutional capacities for project management could also pose a risk to the effective implementation of this project. Projects run the risk of facing delays due to inadequate advance planning, unclear accountability and inconsistent project control. To address these risks, the MINTIC (Small Business Bureau) will be strengthened through recruitment of experienced project managers. MINTIC will implement a project management control system that institutionalizes advance planning, clarifies accountability, and creates tight control processes, and ensures that project managers are able to achieve target results on time. Project managers will be required to develop work plans that: i) explicitly identify tasks required for successful delivery; ii) place tasks against a timeline for completion that identifies milestones and deadlines; iii) assign clear responsibility for each action to a specific manager or other individual; and iv) identify resource requirements in a budget that is aligned with the timeline.

V. SAFEGUARD AND FIDUCIARY SCREENING

5.1 Given the nature of the project as support for access to microfinance and skills development for MSEs and vulnerable groups, it is classified as a Category "C" operation because the project will not directly generate negative environmental and social impacts.

5.2 The project could facilitate projects undertaken by MSEs which may have environmental and social impacts. These include any initiatives undertaken by MSEs for which they obtain a loan or grant.

5.3 The GRIF requires the application of partner entity environmental and social safeguards. The implementation of the IDB Environmental and Safeguards Compliance Policy incorporates the need for assessment and management of the environmental and social risks in activities facilitated by projects in addition to directly financed activities.

5.4 As such, the project team will work with relevant Government agencies to build a shared understanding of the IDB safeguard standards for environmental assessment and management including mechanisms for implementation in projects facilitated by the support to MSEs.

VI. DISCLOSURE

6.1 This submission for the consideration of the GRIF Steering Committee is prior to initiating any formal approval process of this specific project by the Inter-American Development Bank.

VII. RESOURCES AND TIMETABLE

7.1 The proposed timetable for preparing this investment grant includes the milestones to distribute the POD to QRR on December 19, 2011 the approval of the Draft Investment Grant Proposal by OPC on January 30, 2012 and the approval of the Investment Grant Proposal by the Board on February 28, 2012.

7.2 The total amount required for the project and to be financed by GRIF over four years is US$10 million, as set out in the budget in Table 1. Phase I will cover the period 2012 to 2013.

Table 1: Project budget 2012-2015

Component	Phase 1 2012-2013 (US$)	Phase II 2014-2015 (US$)
Component 1- Mutual Guarantee Fund	2,250,000	2,400,000
Component II- Low Carbon Grant Scheme	500,000	800,000
Component III- Skills Voucher Scheme	1,420,000	970,000
Component IV- Project Administration and support to SBB.	600,000	600,000
Component V- Audit and Evaluation (mid and final)	30,000	30,000
Component VI- Contingency	200,000	200,000
Total GRIF Funding	**5,000,000**	**5,000,000**

7.3 IDB will be the partner entity of the project. The implementing agency will be the Ministry of Tourism, Industry and Commerce via the Small Business Bureau and its Council.

7.4 The selection and contracting of goods and services financed with GRIF resources will be a responsibility of the SBB and MINTIC and will be carried out in accordance with the Bank’s Policies for the Procurement of Works and Goods (GN-2349-7) and for the Selection and Contracting of Consultants (GN-2350-7).

7.5 It is expected that the SBB and MINTIC will incur project related expenses prior to the approval date of this operation. In this regard, and as per OP-504, the Bank will finance retroactively expenses incurred by the Implementing Agency prior to the date of approval of the operation. This will apply only to expenses that could be recognized according to the mentioned policies. The estimated expenses to be recognized retroactively will include costs for qualified project managers, sector specialists and additional personnel, amongst others.