DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# GUYANA

# MICRO AND SMALL ENTERPRISE (MSE) DEVELOPMENT AND BUILDING ALTERNATIVE LIVELIHOODS FOR VULNERABLE GROUPS

## (GY-G1003)

## PROPOSAL FOR OPERATION DEVELOPMENT

This document was prepared by the project team consisting of: Navita Anganu-Ramroop, CMF/CJA, Project Team Leader; Claudia Stevenson, IFD/CTI, Alternate Team Leader; Graham G. Watkins, VPS/ESG; Susan Olsen, OMJ/OMJ; Wayne Beecher, MIF/CJA; Derise Williams, CCB/CGY; Bernardita Saez, LEG/SGO; Roy Parahoo, FMP/CSU; Richard Raghoo, CCB/CGY; Naveen Jainauth-Umrao; FMP/CGY; and David A. Ochoa FMP/CGY.

# CONTENT

| Annexes | |
|---|---|
| Annex I | DEM Summary |
| Annex II | Results Matrix |
| Annex III | Fiduciary Arrangements |
| Annex IV | Safeguard Policy Filter Report |

## Electronic Links

**MANDATORY**

1. Development Effectiveness Matrix (DEM)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36629177
2. Annual Operations Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37028269
3. Project Monitoring and Evaluation Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914483
4. Environmental and Social Management Report (ESMR)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914479
5. Procurement Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37028770
6. Risk Assessment Matrix
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914484

**OPTIONAL**

1. Cost-Benefit Analysis (CBA)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914473
2. Institutional Analysis
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36414480
3. Detailed Budget by Output
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914475
4. Mc Garrell, C.D. (November 2009). Needs Assessment on the Small Business Sector in Guyana, Final Report
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36744536
5. Microfinance Sector Review, Guyana 2011
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914481
6. Draft Program Operational Regulations
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36914477
7. Low Carbon Development Strategy 2010
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37028351
8. Guyana Small Business Act 2004
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36744340
9. Poverty Reduction Strategy Paper 2011
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36757947

## ABBREVIATIONS

| | |
|---|---|
| APO | Annual Plan of Operations |
| CGAP | Consultative Group to Assist the Poor |
| GBTI | Guyana Bank for Trade and Industry |
| GoG | Government of Guyana |
| GoG-PMO | Government of Guyana – Project Management Office |
| GRIF | Guyana REDD+ Investment Fund |
| HCS | High Carbon Sectors |
| IPED | Institute of Private Enterprise Development |
| LCDS | Low Carbon Development Strategy |
| LCS | Low Carbon Sectors |
| MFI | Micro Financial Institutions |
| MINTIC | Ministry of Tourism, Industry and Commerce |
| MSE | Micro and Small Entrepreneurs |
| NCSU | National Competitiveness Strategy Unit |
| PFIs | Partner Financial Institutions |
| POD | Proposal for Operation Development |
| PP | Procurement Plan |
| PRSP | Poverty Reduction Strategy Paper |
| REDD+ | Reducing Emissions from Deforestation, Forest Degradation and Sustainable Forest Management |
| RPL | Republic Bank Limited |
| RS | REDD-Secretariat |
| SBB | Small Business Bureau |
| SBC | Small Business Council |
| SBDF | Small Business Development Fund |
| SBDFT | Small Business Development Finance Trust |
| SDS | Skills Development Training |
| SME | Small and Medium Size Enterprises |

# PROJECT SUMMARY
# GUYANA
# MICRO AND SMALL ENTERPRISE (MSE) DEVELOPMENT AND BUILDING ALTERNATIVE LIVELIHOODS FOR VULNERABLE GROUPS
# GY-G1003

## Financial Terms and Conditions

| | | | |
|---|---|---|---|
| **Beneficiary:** The Co-operative Republic of Guyana | | **Disbursement period:** | 3 years |
| **Executing Agency:** Small Business Bureau (SBB) | | **Execution period:** | 2 years |
| **Source** | **Amount (US$)** | **Currency:** | US Dollar |
| Guyana REDD+ Investment Fund (GRIF) Trust Fund | 5.00 million | | |
| **Total** | **5.00 million** | | |

## Project at a Glance

**Project Objective/Description:**

The goal of this program is to support the government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the Low Carbon Sectors (LCS). Specifically, the program will facilitate the creation of employment via Micro and Small Enterprises (MSE) in the identified sectors of the Low Carbon Development Strategy (LCDS). MSEs will be targeted by enhancing access to credit and tobusiness development training (see ¶1.23).

**Special contractual clauses:**

**Conditions prior to first disbursement of program resources** (i) Approval by the SBB of the Program Operational Regulations (POR), in accordance with terms previously agreed upon with the Bank; (ii) the appointment/hiring of key personnel as identified in ¶3.7, in accordance with terms of reference approved by the Bank; and (iii) establishment by the SBB of an Environmental and Social Management System (ESMS) and a screening tool in accordance with terms agreed upon with the Bank (see ¶2.2).

**Conditions for execution.** (i) A partner financial institution must enter into a Loan Guarantee Agreement (LGA) with the SBB, in accordance with terms previously agreed upon with the Bank, in order to be eligible to participate in the program; and (ii) a training institution must enter into a Memorandum of Understanding (MOU) with the SBB, in accordance with the terms previously agreed upon with the Bank, in order to be eligible to participate in the program (see ¶2.3).

**Special disbursement.** Once the agreement between the beneficiary and the Bank has been signed and entered into effect, and after the general conditions prior to first disbursement have been complied with by the beneficiary, the Bank may disburse to the beneficiary up to the amount of US$150,000 to assist with the compliance of the special conditions prior to first disbursement (see ¶2.4).

**Retroactive financing.** The Bank may finance retroactively expenses incurred by the Executing Agency (EA) after May 25, 2012 and prior to the date of approval of the operation, as long as these are carried out in accordance with Bank procurement policies. These expenses may include costs for project managers and Small and Medium Enterprises (SME) specialists to complete the Program Operational Regulations (POR), a local attorney to draft and finalize the MOU and legal agreements, and the purchase of hardware and software to facilitate the project preparation work. The total expenses will not exceed 20% of the grant resources (US$1 million) (see ¶3.9).

**Exceptions to Bank policies:** None.

# I. Description and Results Monitoring

## A. Background and justification

1.1 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. In June 2009, the Government of Guyana (GoG) launched its Low Carbon Development Strategy (LCDS)[1] which aims to transform Guyana's economy on to a low carbon, sustainable development trajectory, while combating climate change. To achieve this, Guyana must, among other measures, promote investments in identified Low Carbon Sectors (LCS)[2] while reforming and limiting other Carbon Emitting Sectors (CES) such as forestry and mining.

1.2 **The need to protect the standing forest.** Deforestation and forest degradation occur because they have economic benefits to individuals and businesses. The consequences of these acts however, result in carbon emissions which are far-reaching and devastating. Globally, forest-based Greenhouse Gas (GHG) emissions comprise about 17% of all global emissions – more than the gas emissions of the entire European Union and greater than the global transport sector. To prevent deforestation and degradation, the GoG developed the LCDS for Guyana. This strategy will enable Guyana to avoid emissions of up to 1.5 gigatons of $CO_2e$[3] (carbon dioxide equivalent) by 2020 that would have otherwise stemmed from an economically rational development path, allowing the population to maintain their livelihoods via the forests.[4] It is noted that mining is what contributes mainly to deforestation in Guyana, not forestry.

1.3 **Guyana's Low Carbon Development Strategy (LCDS).** The LCDS outlines the framework of how Guyana can "combat climate change while simultaneously promoting economic growth and development while maintaining its standing forest to benefit not only its people but the world at large." It sets out how Guyana's economy can be realigned along a low carbon development path, by

---

1 A Low-Carbon Development Strategy, Transforming Guyana's Economy While Combating Climate Change (May 2010), Office of the President, Republic of Guyana (see Low Carbon Development Strategy (LCDS)).

2 The 2010 LCDS identifies two sets of LCS: (i) priority LCS, identified as fruit and vegetables' farming and processing, aquaculture, eco-tourism, sustainable forestry and wood processing, business process outsourcing, and bio-ethanol; and (ii) other LCS, identified as energy-efficient transportation and logistics, low carbon manufacturing activities, low carbon agriculture and agro-processing, apiculture, low carbon energy production and/or distribution, sustainable mining, professional and business services, internet and computer based services, entertainment, music and performing arts, arts and crafts, publishing and printing (for a detailed description of the proposed sectors please refer to Appendix I of the Environmental and Social Management Report).

3 Ter Seege (2001) found a typical Guyanese forest to have an average carbon stock of 351 tC/ha. To be conservative we use 400 tC/ha.- LCDS pg. 76.

4 LCDS, pg. 16.

investing payments received for avoided deforestation into strategic low carbon emitting activities."[5] 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. 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 the Trustee, towards priority projects identified in the LCDS.

1.4 The LCDS sets out eight priority strategies: (i) development of hydropower at Amalia Falls; (ii) acceleration of Amerindian land titling, demarcation and extension processes; (iii) establishment of an Amerindian development fund to support community development; (iv) expansion of the fiber optic digital infrastructure; (v) expansion of microfinance to support Micro and Small Enterprises (MSE) in LCS; (vi) establishment of an international bio-diversity research center, coupled with enhancement of the national school curriculum; (vii) support for the LCDS in the form of monitoring, reporting and verification systems; and (viii) achievement of adaptation funding, in line with the commitments made in the Copenhagen Accord.[6]

1.5 The fifth priority strategy tries to address the following problem: there is a higher propensity for labor market entrants to be driven to the informal, low capitalization CES (such as forestry and mining) because of low barriers in these sectors and the attractiveness of returns. In order to reverse this trend, the program will promote the creation of employment opportunities in the LCS that are attractive enough so that potential entrants into CES will switch to LCS.

1.6 In order to accomplish this, the program will facilitate access to credit for productive investments in capital in the LCS. If the program is successful and these capital investments are made, it is envisaged that the demand for labor will increase in the LCS.. For the purpose of the Cost Benefit Analysis the wage to be earned will be considered as income and the costs of the program, including administrative costs, will be accounted as costs.

1.7 The objective of the fifth priority strategy of the LCDS (expansion of microfinance to support MSE in LCS) is to create the necessary incentives to facilitate investments and employment opportunities in LCS, as opposed to CES. By promoting investment in LCS, people will be incentivized to stay out of sectors such as mining; thus, every job created in the LCS would mean one less job in CES. This, in turn, will contribute to the overall major goal of reducing carbon emissions in Guyana.

---

[5] Guyana REDD+ Investment Fund Fact Sheet, pg. 1, par. 2.

[6] LCDS, pg. 10.

1.8 MSE have proven to be catalytic in creating employment.[7] Small and Medium Enterprises' (SME) contribution to Guyana's GDP in 1998 was estimated to be around 28%, with approximately 22,000 micro and small firms in operation and contributing 40% to the overall employment.[8] MSE will be the vehicle to target the creation of employment in the LCS in Guyana since it is considered the first step in business formalization.[9]

1.9 However, there are binding constraints affecting MSE development in Guyana that need to be targeted. The constraints are: (i) lack of access to finance; (ii) insufficient export marketing capacity; (iii) lack of access to appropriate business advisory services; (iv) inadequate training in business and management skills; and (v) the absence of business systems for efficient and effective financial, operational and information management. The two predominant challenges are lack of access to finance and to appropriate training in technical and business skills, particularly so in LCS (Mc Garrell, Nov. 2009).[10]

1.10 **Access to finance by MSE.** Start-ups and MSE have a high degree of lending risk, given their susceptibility to economic shocks and historical high propensity to failure. Due to the high cost of obtaining information and inability to distinguish between good and bad loans, lending institutions are often hesitant to provide loans to MSE, or will add a higher risk premium to their standard rate of interest and to the collateral criteria. An analysis of the Micro Financial Institutions (MFI) in Guyana found that interest rates are much higher for MSE (up to 35% on average) due to: (i) lack of competition; (ii) higher perceived risk; (iii) higher costs of administration; and (iv) poor credit worthiness (see Microfinance Sector Review, Guyana 2012).

1.11 Commercial banks have experienced the following challenges: (i) information asymmetry; (ii) difficulty in screening applicants; (iii) inadequate training in business and technical skills; and (iv) clients' lack of responsibility in credit (Mc Garrell, Nov. 2009).[11] Central Bank statistics[12] indicate that financial resources of the MFI[13] increased by 2.5% or G$447 million (US$2.235 million) at

[7] ILO: Poverty Reduction through Small Enterprises by Paul Vandenberg 2006 and SEAF: Small Enterprise Assistance Funds - 2011 Development Impact Report.

[8] More recent data is not available but estimates put SME's contribution to GDP at 40%. The 28% however only captures the rice and sugar industry as data was not available on the other sectors. Microfinance issues and challenges in the anglophone Caribbean, Wenner and Chalmers, 2001. More recent data will be developed by the project. SME data is used since information on MSE is not available.

[9] The ease of creating and executing incentive programs for MSE as opposed to individuals leads to this conclusion. Furthermore, it encourages formalization of businesses which would otherwise not be accounted for in the formal economy.

[10] Mc Garrell, C.D. (November 2009). Needs Assessment on the Small Business Sector in Guyana, Final Report.

[11] Scotia Bank Guyana sold its microfinance portfolio to Development Financing Limited South America (DFLSA) due to difficulties in dealing with this sector.

[12] The Bank of Guyana Half Year Report 2011.

[13] These include the Institute of Private Enterprise Development (IPED), Small Business Development Trust (SBDT) and DFLSA.

the end of June 2011 compared to the prior year. Although there was notable growth in the value of their loan portfolio, the absolute number of loans to enterprises remained relatively flat. According to Mc Garrell (Nov. 2009), "Despite the fact that there is a current over liquidity in the banking system and a softening of lending policy by commercial lending institutions, small businesses still find it difficult to access loans from such institutions due to their high interest rates and collateral and other requirements." Further, the lack of a credit bureau[14] and a secured transactions framework makes it difficult for MSE to access financing and more costly for lenders to do business with this target group. Given this scenario, financial institutions are reluctant to expand lending in the face of such risk, at least without adequate risk mitigation strategies.

1.12 **Business development services.** The provision of business development services in Guyana is limited to a few institutions providing basic training,[15] not geared to market conditions and lacking depth and sophistication needed for new and developing entrepreneurs, in particular in LCS. In addition, over 40% of the clients of MFI are women, most of them being single parents. This makes the delivery and uptake of training more challenging.

1.13 Providing different training at different stages in the entrepreneurial business cycle is critical to the sustainability of the MSE (Mc Garrell, Nov. 2009). Thus, it is important to ensure appropriate training in two categories: (i) operational, geared toward start-up entrepreneurs who require basic operational business training in areas such as business plan preparation, accounting, marketing, inventory control, costing, pricing and sales forecasting; and (ii) strategic, for mature entrepreneurs who face different constraints as they look for expansion, growth and profitability opportunities for their businesses. Mature entrepreneurs need training that is specific to their industry. Topics can range from negotiating contracts to finding new energy-efficient ways to do business or access new markets.

1.14 **Proposed program.** The proposed program seeks to contribute to the fifth priority strategy of the LCDS (see ¶1.4) towards its goal of reducing carbon emissions in Guyana. This program aims to propel the economy unto a low carbon path, by supporting the development of MSE in strategic and high potential low carbon economic sectors, through the creation of incentives. This is envisaged to reduce the need to engage in economic activities in CES. In order to do this, the program will address the predominant development needs of MSE, as described in ¶1.10 to ¶1.13 above, while augmenting the risk mitigation capacity

---

[14] With a prior Bank intervention, the Support for Competitiveness Program (GY-G1006), Guyana now has the necessary legislative framework for a credit bureau. Expressions of interest are being reviewed by the Bank of Guyana to set up the first credit bureau.

[15] Training providers currently focus on areas like small business finance, management, MIS, record keeping, marketing, packaging and auditing. The current training providers are the IPED, EMPRETEC, the Business School, Kuru Kuru Co-op College, Consultative Association of Guyanese Industries (CAGI) and the American University of Peace Studies.

of the financial institutions to address the limitations of MSE financing. These needs are categorized as: (i) financial products or credit; and (ii) non-financial services or business development services, such as market information, management and vocational skill training and business advisory in LCS.

1.15 The target beneficiaries of the proposed program are MSE and vulnerable groups[16] that meet the criteria established for small businesses in the Small Business Act (SBA)[17] and operate in the LCS identified in the LCDS, hereafter referred to as the "beneficiaries."

1.16 **Government strategy.** In 2004, Guyana enacted the SBA "to provide for an incentive regime and support program for small business; the establishment of the Small Business Council (SBC), the Small Business Bureau (SBB), the Small Business Development Fund (SBDF) and for all matters connected therewith and incidental to this objective."[18] Although both the SBC and the SBB have been established, the SBDF was never created due to lack of funds. The SBC and SBB have therefore been unable to fulfill their mandate under the SBA, due to lack of resources in the SBDF. Guyana has also approved the legislative framework to facilitate the creation of a credit bureau. This will ultimately assist with the assessment of the credit history of borrowers, and act as the impetus in reducing interest rates for this target group.

1.17 Synergies to this operation will also be created with the Amerindian Development Fund (ADF), also financed with GRIF resources. Since ADF covers one project per community and individual businesses are not supported, the current program complements the ADF activity, covering the unattended Amerindian community in the LCS. Also, the IDB approved the first GRIF-financed operation (GY-G1002)[19] for the institutional strengthening of the PMO to provide oversight to all GRIF-financed operations in Guyana. The PMO will support the SBB in the development and implementation of an Environmental and Social Management System (ESMS) and a tool for the environmental and social screening of projects.

1.18 **Other donor interventions.** Other donors working within the SME sector in Guyana are: (i) USAID, through a mutual guarantee program with the Institute of Private Enterprise Development (IPED), providing access to subsidized interest rates on loans and collateral benefits; and (ii) CIDA, via the Caribbean Local Economic Development (CARILED) program, strengthening sustainable local economic development through the growth of the Micro, Small and Medium-size

---

16 Vulnerable groups include individuals and groups without access to credit and or appropriate business and technical training who have been affected by the restructuring of the sectors, such as mining, forestry, sugar and bauxite and/or those wishing to participate in one of the identified low carbon sectors.

17 Small businesses are defined in the Small Business Act (SBA) in Part 1 Sections 1 and 2. However since the SBA offers no distinction as to micros, for the purposes of this program, micros and small business shall be construed to be defined as small business per the SBA (see Guyana Small Business Act, 2004).

18 Guyana SBA, Page 3, Paragraph 1.

19 Institutional Strengthening in Support of Guyana's LCDS.

Enterprise (MSME) sector and the strengthening of competencies and capacities in local governments.

1.19 **Other IDB operations.** The program is expected to benefit from the Support for Competitiveness Program (GY-L1006), which will see the creation of the credit bureau, currently underway by the Central Bank. Also, coordination will be done with the recently approved MIF program GY-M1021 (Leveraging Natural Capital in Guyana's Rupununi) to avoid overlaps. MIF program's objective is to strengthen and create environmentally-sustainable business models for eco-tourism and agricultural community-based enterprises in the Rupununi.

1.20 **Strategic alignment.** The proposed program is consistent with the GRIF objectives. It also contributes to the Bank's country strategy with Guyana 2008-2012 under the pillar for enhancing competitiveness by strengthening the business environment, and the financial sector reform pillar, that identifies access to finance as a key constraint for SME. Furthermore, the program streamlines into two Sector priorities established by the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9): (i) the Environment and climate change sector priority, through the promotion of low carbon financing for SME; and (ii) the Financial services sector priority, through the strengthening of SME lending. The program is also aligned with the GCI-9 Lending program priority of supporting small and vulnerable countries.

## B. Objectives, components and costs

1.21 The goal of this program is to support the government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the LCS. Specifically, the program will contribute to the reduction of economic activity in CES by facilitating the creation of employment via MSE in the identified sectors of the LCDS, through the enhancement of their access to finance and business development training.

1.22 In line with the problems described in ¶1.10 to ¶1.13, the program will consist of two components. The first component will address the core issue of access to finance, specifically through the development of instruments that will help harmonize the current capacities of the beneficiaries of the LCS with the basic requirements of the financial sector. The second component will address the issue of lack of access to proper training, by providing resources for technical and business development training activities for the beneficiaries of the program.

### 1. Component I: Access to finance

1.23 The objective of this component is to mitigate the structural problems faced by the beneficiaries in the LCS, with regards to their limitations on access to credit (see ¶1.10 and ¶1.11). Resources from this component will be used to finance the implementation of three sub-components: (i) a Credit Guarantee Fund (CGF);

(ii) an Interest Payment Support Facility (IPSF); and (iii) a Low Carbon Grant Scheme (LCGS) to assist potential beneficiaries with seed capital to start up or expand their businesses.

1.24 **Credit Guarantee Fund.** Under this sub-component, resources of the program will be used to provide part of the collateral requirements of lending institutions in order to reduce the perceived risk of the beneficiaries and increase their likelihood to be approved for financing. Eligible lending institutions[20] will sign a Loan Guarantee Agreement (LGA) with the SBB in order to become participating institutions of the program, as Partner Financial Institutions (PFI). Through this mechanism, resources of this sub-component will be used to guarantee up to 40% of the PFI's collateral requirements per loan but in no case should the maximum guarantee value per loan exceed G$12,000,000 (US$60,000). The percentage of the collateral will be determined so that the PFI retains enough risk to ensure that it distinguishes between good and bad loans and that it carries out adequate monitoring functions once the loan is provided. Similarly, beneficiaries of the program are expected to take on enough risk to ensure that the incentive to pay back the loan is not lost (see ¶3.3 for implementation details).

1.25 **Interest Payment Support Facility.** This sub-component will provide resources to eligible PFI which will then transfer these onto the beneficiaries in the form of a reduction on the interest cost of their loans (estimated on some 300 to 500 basis points). Beneficiaries under the CGF can also be eligible, and a higher interest rate reduction will be granted to the identified priority LCS loans (see footnote 2). The PFI will make a preliminary assessment on the eligibility of beneficiaries, with the subsequent approval by the SBB. Loans will then be made to the beneficiaries with the subsidized interest rates and the PFI will request re-imbursement from the SBB on a periodic basis to be agreed between the parties. Re-imbursements for the IPSF will be done from the program account (see ¶3.4 and the Operational Regulations for implementation details).

1.26 **Low Carbon Grant Scheme.** This sub-component seeks to facilitate MSE access to financing through grants to be used in LCS. Access can be facilitated in a number of ways, such as to assist a low carbon business owner to expand his/her business with a partial grant towards a loan request, thereby reducing the amount needed for the loan, or to encourage persons to set up a business in a LCS with an initial grant which may make them eligible for a loan in the future. Resources of up to G$300,000 (US$1,500) per applicant will finance the implementation of beneficiaries' business proposals. Grants will be provided to those who are already operating a business and require additional financing to further develop LCS-related activities, and to individuals or groups starting new ventures in the LCS, who have completed business plans but are unable to secure financing from any lending institution because of their high perceived risk as borrowers. Grants

[20] Eligible financial institutions are all regulated banks as well as microfinance institutions that are properly registered under Guyana's legislation.

can be used for equipment upgrade, technological innovations, and compliance with various laws and regulations for operating in Guyana, including standards compliance, research and development, and marketing, among others (see ¶3.5 for implementation details).

### 2. Component II: Access to business development training

1.27 The objective of this component is to contribute to the improvement of the insufficient technical and business skills of the beneficiaries (see ¶1.12 and ¶1.13). The training curriculum will be developed via assessment of clients of Component I, with the objective of infusing sound business principles, as well as technical knowledge necessary to improve participants' likelihood of success.

1.28 The aforementioned will be addressed through a multi-faceted intervention: (i) a skills voucher scheme, developed with approved training institutions of the program for delivery of training to the target group;[21] and (ii) technical/'hands on' training at the community and sector levels, delivered to beneficiaries by specialists of the training institutions. Training will be in both technical and business support areas. At the technical level, training will include areas such as safe and sustainable farming and use and maintenance of energy efficient technologies for productive purposes. At the business support level, training will be offered in areas such as financial statement preparation, accounting, marketing, and business plan preparation, among others. Beneficiaries will be targeted by a collaborative exercise between the SBB and the PFI.

## C. Key results indicators

1.29 Outputs will be measured as: (i) the number of guarantees granted to beneficiaries; (ii) the number of beneficiaries who have accessed interest subsidies; (iii) the number of grants approved to beneficiaries; and (iv) the number of beneficiaries who accessed technical and business skills development through training. The outcome will be measured as the number of employees (or equivalent full-time employees) in low-carbon emission activities, as it is assumed that every job created in the LCS would mean one less job in the CES. The impact of the program will be its contribution to the overall sustainability or reduction of the deforestation rate. The indicator measures the rate of conversion of forest (area change of forest to non-forest, excluding degradation) with aims to validating that the rate remains at least equal (see Annex II, Results Matrix).

## D. Technical and economic viability

1.30 A cost-benefit analysis was carried out to evaluate the economic feasibility of the program. The expected benefits are calculated based on the main outcome of the program, namely the number of new jobs generated by the MSE projects in

[21] Costs of training by the identified institutions range from GYD 35,000 to GYD 50,000 (US$175-250) per course.

strategic and high potential low-carbon economic sectors that will be financed. It is assumed that, in the absence of the program, this new employment would potentially have gone towards CES, both formal and informal. The benefits are quantified in terms of income generated for the families of the new workers employed in the beneficiary low carbon sector MSE. Based on the analysis presented, the economic benefits exceed the costs of the program, resulting on a net present value that is positive (see Cost-Benefit Analysis).

1.31 An evaluation of the program will be conducted in order to measure impact on increasing employment in the low carbon sectors. The results from the impact evaluation will help determine whether and to what extent the program is successful in increasing employment in the LCS via the development of beneficiary MSE. This evaluation will help the GoG and the IDB understand how the program worked and how it could be improved in the future to make it more effective (see Monitoring and Evaluation Plan).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing and contractual conditions

2.1 This program for US$5 million will be executed from 2012 to 2014[22] and financed by the GRIF Trust Fund. The program will be executed by the SBB, with the Bank as partner entity, in accordance with the Administration Agreement signed between the Royal Norwegian Ministry of Foreign Affairs and the International Development Association of the World Bank, which has been designated as Trustee of the GRIF. This program is consistent with the objectives of the GRIF. The GRIF Steering Committee approved the program's Project Concept Note (PCN) on October 13, 2011, and the POD on XXX[23]. The operation is structured as an investment grant to be disbursed according to the table below.

| Task Name | Year 1 GRIF Funds (US$000) | Year 2 GRIF Funds (US$000) | Total |
|---|---|---|---|
| **Component 1: Access to Finance** | **1,810.00** | **940.00** | **2,750.00** |
| 1.1. Collateral Guarantee Facility | 1,575.00 | - | 1,575.00 |
| 1.2. Interest Payment Facility | 135.00 | 540.00 | 675.00 |
| 1.3. LCS Grant Scheme | 100.00 | 400.00 | 500.00 |
| **Component 2: Access to Business Development Training** | **763.50** | **710.00** | **1,473.50** |

[22] A second stage may be pursued if the results of this intervention are proven successful by middle of year 2. This could also be financed by the GRIF for an additional US$5 million.

[23] This date will be inserted after GRIF Steering Committee approval but before IDB Board approval.

| | | | |
|---|---|---|---|
| 2.1. Low Carbon Skills Development Training | 763.50 | 710.00 | 1,473.50 |
| **Project Administration and Institutional Support to SBB** | **421.25** | **355.25** | **776.50** |
| 3.1. Institutional Strengthening of SBB and SBC | 191.00 | 198.00 | 389.00 |
| 3.2. M&E Systems and Public Awareness Campaign | 122.75 | 49.75 | 172.50 |
| 3.3. Audit | 7.50 | 7.50 | 15.00 |
| 3.4. Contingency | 100.00 | 100.00 | 200.00 |
| **Stage 1: Totals** | **2,994.75** | **2,005.25** | **5,000.00** |

## B. Special contractual conditions

2.2 **Conditions prior to first disbursement of program resources.** (i) Approval by the SBB of the Program Operational Regulations (POR), in accordance with terms previously agreed upon with the Bank; (ii) the appointment/hiring of key personnel as identified in ¶3.7, in accordance with terms of reference approved by the Bank; and (iii) establishment by the SBB of the ESMS and the screening tool in accordance with terms agreed upon with the Bank (see ¶2.6).

2.3 **Conditions for execution.** (i) A partner financial institution must enter into a LGA with the SBB, in accordance with terms previously agreed upon with the Bank, in order to be eligible to participate in the program; and (ii) a training institution must enter into a MOU with the SBB, in accordance with the terms previously agreed upon with the Bank, in order to be eligible to participate in the program.

2.4 **Special disbursement.** Once the agreement between the beneficiary and the Bank has been signed and entered into effect, and after the general conditions prior to first disbursement have been complied with by the beneficiary, the Bank may disburse to the beneficiary up to the amount of US$150,000 to assist with the compliance of the special conditions prior to first disbursement.

## C. Environmental and social safeguard risks

2.5 On February 16, 2012, the ESS of this program was cleared by the Bank's Environmental and Social Review Unit and the program was determined to be a B.13, with medium to high risks. The Environmental and Social Management Report (ESMR) discusses these potential risks and indicates that presently the SBB does not have an environmental and social management system for sub-projects and will rely on compliance with national requirements for environmental and social management.

2.6 Section VI of the ESMR includes the Bank's requirements that will be part of the Investment Grant Agreement. These requirements include the establishment and implementation by the SBB, before first disbursement, of: (i) a screening and exclusion tool, to determine environmental and social eligibility for sub-projects to be supported by the CGF so as to minimize any high risk projects; and (ii) an

ESMS to evaluate compliance of sub-projects and any proposed environmental and social management actions against the national environmental and social requirements, and those of the Bank. The Bank will support the SBB in the development of the ESMS and the screening tool. Such tools will also consider Guyana's Environmental Protection Agency (EPA) requirements.

### D. Program risks

2.7 The project team, in consultation with key stakeholders, has identified the major risks of the program: (i) sustainability of the project; and (ii) fiduciary and procurement risks due to lack of personnel in the SBB and lack of familiarity with Bank's procedures. To mitigate these risks, the government is committed to supporting the SME via the SBA and will request a phase II to this operation to be financed with GRIF resources in the immediate future. The accomplishments of these two phases together are expected to have a demonstration effect that will encourage financial institutions to provide more credits to MSE for LCS projects. Further, staff will be hired and trained in procurement, financial administration and Bank policies and procedures.

2.8 **Financial audits.** An external audit of the program will be performed by a firm acceptable to the Bank. The audit will be contracted and managed by the SBB and financed with program resources. Standard financial reporting requirements of the Bank will apply, including: (i) the annual financial audit report to be submitted within 120 days following the end of each fiscal year; and (ii) a final financial audit report of the program to be submitted within 120 days after the date of the last disbursement.

## III. Implementation and Management Plan

### A. Summary of implementation arrangements

3.1 The SBB, created in 2004 by the SBA, is the Executing Agency (EA) of the program. The Ministry of Tourism, Industry and Commerce (MINTIC), through the SBC, will provide oversight of program execution. This oversight entails approval of work plans, review of progress reports and approval of the Program Operational Regulations and changes therein. The SBC reports on progress of the project to the Minister of MINTIC.

3.2 The responsibilities of the SBB include, among others, the following: (i) preparing Annual Operating Plans (AOP) for the activities under the program; (ii) acquisition of goods and services in accordance with the approved Procurement Plan, the Bank´s procurement policies and procedures (documents GN-2349-9 and GN-2350-9), and the Program Operational Regulations; (iii) making disbursements and payments in accordance with approved payment schedules and Bank's applicable policies and procedures; (iv) maintaining books, records, documents, and other evidence in accordance with the accounting procedures set forth by the Bank, to sufficiently substantiate the use of the GRIF funds transferred to it; the financial administration of program resources will include the establishment of a Project Financial Accounting System based on the program code of accounts described in the POR; (v) preparing semi-annual progress reports on the implementation of activities, results achieved, and the financial status of the activities under its responsibility. In addition, the SBB will: i) prepare all other required reports and submit them to the Bank; ii) contract services for the annual external audits of the program and its final evaluation.

3.3 **Credit Guarantee Fund (CGF).** The CGF will be made operational by means of an advance of funds at the time the program becomes eligible for disbursement. The advance will be in an amount equivalent to 100% of the resources assigned to this sub-component. This disbursement modality, which will be made into a sub-account of the program, is necessary to operationalize this sub-component, whose funds will serve as collateral for the loans granted by the PFI to beneficiaries. This sub-account will later be used to make payments to the claimant PFI.[24] The Bank will implement additional fiduciary monitoring and safeguards requirements for this account. These funds will be managed and reported on by the SBB and the interest earned will be re-invested for further leveraging of the resources.

3.4 **Interest Payment Support Facility (IPSF).** Each PFI will submit a list of potential beneficiaries for the activities to be financed under this sub-component, in accordance with the criteria applicable to each loan applications and in consultation with the SBB on the environmental safeguards and low carbon criteria, for ensuing approval by the SBB on a first-come first-served basis. Based on approved loans made to the beneficiaries, participating PFI will receive a reimbursement from the SBB on a periodic basis to be agreed between the parties. Reimbursements will be done from the project account, which will be maintained and reported on by the SBB. Further details on the procedures to access to resources from this sub-component will be laid out in the POR.

3.5 **Low Carbon Grant Scheme (LCGS).** The LCGS will be administered by the SBB who will assist applicants on the preparation of their business proposals. Potential beneficiaries will have to submit an application for a low carbon grant for their business ventures, which will include four main criteria for selection: (i) details on the type of business or activity that the grant will be funding; (ii) justification on the low carbon nature of the business proposal; (iii) details on preliminary approval for credit, if any, from a financial institution; and (iv) details

[24] The CGF is valued at US$1,575,000. The SBB will sign LGA with the various PFI. The guarantees will be granted within the two-year execution period of the program. Individual guarantees may be granted for a period that may not exceed four years from date of eligibility of the program (further details will be laid out in the POR). The IDB will assess the balance in the CGF via the audited financial statements and fiduciary reports from the EA at the end of the program disbursement period. Unused funds (if any) of the CGF would be utilized by the EA under its exclusive responsibility for the continuation of the financing of guarantees, as set forth in Component 1 of the program, to support beneficiaries acting in LCS. The Bank will supervise and monitor the use of resources during the 4-year guarantee period.

on the ability and willingness of the applicant to provide co-financing for the business proposal. A committee will meet regularly for selection of beneficiaries of the LCGS. The committee will be composed, at least, by a representative of a financial institution,[25] a representative of the SBB, a representative of the Project Management Office (government office for the GRIF), among others. A small portion of the grant fund will be used to assist applicants to the CGF and the IPSF on meeting the requirements of the SBA with regards to registration, and getting compliances if necessary. The procedures to access the grant element will be laid out in the Program Operational Regulations.

3.6 **Program administration and institutional support to the SBB.** Resources from the program (US$776,500) will finance the institutional strengthening of the SBB and program administration costs. This includes technical and administrative support, developing a monitoring and evaluation system, implementing a public awareness campaign, and contingencies for the program.

3.7 To perform its duties, the SBB will hire additional staff and will be responsible for ensuring that monitoring activities are undertaken as described below. Specifically, the program will have a CGF manager; a procurement officer and a finance officer, who will contribute to mitigate identified fiduciary risks (see ¶2.7). Due to the additional responsibilities placed on SBB staff in program implementation, they will receive monetary and non-monetary incentives based on program work completed outside their normal responsibilities. This will be based on Bank and MINTIC's agreed payment criteria for acceptance of deliverables and in accordance with Guyana's Country Financing Parameters (document CP-2402-8). Non-monetary incentives include staff capacity building and equipment as part of the program's allocated budget for the administration and institutional strengthening of the SBB.

3.8 Procurement for the proposed program will be carried out in accordance with the Policies for the procurement of works and goods financed by the Inter-American Development Bank (document GN-2349-9), and the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9), as well as with the provisions established in the GRIF/Grant contract and the program's Procurement Plan.

3.9 The Bank may finance retroactively expenses incurred by the EA after May 25, 2012 and prior to the date of approval of the operation, as long as these are carried out in accordance with Bank procurement policies. These expenses may include costs for project managers and SME specialists to complete the POR, a local attorney to draft and finalize the MOU and legal agreements, and the purchase of hardware and software to facilitate the project preparation work. The total expenses will not exceed 20% of the grant resources (US$1 million).

[25] The involvement of the financial institutions in the selection committee will provide with the incentives to steer the selection towards better qualified potential borrowers, as well as more sound business proposals. PFI in turn will benefit from having access to a detailed database of potential clients.

**B. Summary of arrangements for monitoring and evaluation**

3.10 A Monitoring and Evaluation Plan has been designed for the program to ensure the level of achievement of the planned outputs, results and impacts observed. The SBB will be responsible for implementing this plan, as well as consolidating the progress reports and compiling them into semi-annual and final reports for submission to the Bank.

3.11 Semi-annual progress reports will be submitted to the Bank by end of February and end of August of each year of project implementation. The reports will focus on the progress of output and results indicators presented in the Results Matrix, and will include the activities defined in the APO. The semi-annual progress reports should also include: (i) an analysis of the factors that may have affected implementation, including problems encountered and the measures that have been taken or are proposed to correct or mitigate these problems; (ii) the disbursement projections; and (iii) the updated procurement plans.

3.12 The SBB will prepare a mid-term evaluation of the program, within 60 calendar days from the date when 50% of the program resources have been disbursed or 12 months have elapsed from contract effectiveness, whichever happens first.[26] An impact evaluation will be carried out six months before program completion and will be financed by the Bank (see Monitoring and Evaluation Plan).

[26] The terms of reference for this evaluation will require the no-objection of the Bank.