

TC Document

I. Basic Information for TC

▪ Country/Region:	Guyana
▪ TC Name:	Implementation of Secured Transaction Regime and Green Business Framework in Guyana
▪ TC Number:	GY-1141
▪ Team Leader/Members:	Navita Anganu, Team Leader (CMF/CJA); Claudia Stevenson, Alternate Team Leader; Beatriz Herrera; Valarie Pilgrim (IFD/CTI); Stefano Pereira (CTI/CBA); Sharon Miller; Derise Williams (CCB/CGY); Gerard Alleng (CSD/CCS); Paula Louis Grant (VPC/FMP); Stefan Wright (INO/SMC)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support
▪	
▪ Date of TC Abstract authorization:	May 12 th , 2017
▪ Beneficiary:	Ministry of Business, Cooperative Republic of Guyana
▪ Executing Agency:	IDB
▪ Donors providing funding:	Compete Caribbean Partnership Facility (CCP)
▪ IDB Funding Requested:	\$500,000.00
▪ Local counterpart funding, if any:	\$0.00
▪ Disbursement period	36 months
▪ Required start date:	June 15 th , 2017
▪ Types of consultants:	Individuals and Firms
▪ Prepared by Unit:	CMF/CJA
▪ Unit of Disbursement Responsibility:	Institutions for Development Sector (IFD/IFD)
▪ TC Included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; Economic Integration

II. Objectives and Justification of the TC

- 2.1 Guyana has an underdeveloped investment climate which creates serious challenges to sustainable development. Contributing to this problem is lack of access to credit and financing for local firms, particularly SMEs, which translates in an absence of transparency and security in the banking system. Macroeconomic policies, governance and institutions, and infrastructure determine the investment climate that provides the opportunities and incentives for firms to invest productively, create jobs, and expand.¹ Therefore, a sustainable and enabling investment climate is key to attracting the right kind of Foreign Direct Investment (FDI) as well as local investment.
- 2.2 Guyana currently ranks 124th out of 190 countries in the World Bank's Ease of Doing Business index. This is an improvement by 16 from the Doing Business 2016 report. This improvement was due to the reform action undertaken by the Government of Guyana, particularly within the area of Getting Credit. In the Getting Credit sub-index,

¹ "Investment Climate", The World Bank (2016). <https://www.wbginvestmentclimate.org/index.cfm>

Guyana has improved from 168 in 2016 to 86 in 2016 report. According to the World Bank, there are two types of institutions and systems which can facilitate better access to credit and finance and improve its allocation: (i) credit information registries or bureaus; and (ii) secured transactions² and bankruptcy laws. The introduction and functioning of a credit bureau³ has steered Guyana's improved performance in access to credit information, however, Guyana still lacks a Secured Transaction system with an electronic registry⁴. Such a system is critical to both reducing the perceived risks of financial and banking transactions, and promoting the availability of secured credit for borrowers.

- 2.3 The absence of secured transaction laws means that creditors perceive the risks associated with credit transactions to be high, and the cost of credit increases as creditors require increased compensation to evaluate and assume the increased risk. In Guyana, the absence of an efficient and effective Secured Transactions legislative regime has resulted in frequent complaints by small and medium sized commercial enterprises –as well as for consumers– that they cannot get access to credit. Markedly, 90% of women-owned firms in Guyana are SMEs⁵. Therefore, the implementation of a secured transaction framework would promote equal opportunity for growth and social mobility amongst women by improving their ability to access credit.
- 2.4 Concurrently, while Guyana takes concerted efforts to tap the wealth of its natural resources within the sectors of mining, forestry and fishery, stringent efforts are to be made to protect the environment and to use these resources in a sustainable manner. A great challenge lies in maintaining environmental sustainability while fostering the convergence of economic growth, greater national equity, and development. This challenge can be met by the private sector; however, government must provide the framework for such growth to exist. It is the mandate of the Government of Guyana to support and promote “green” or “sustainable” development with a view to preserve Guyana’s natural resources to maintain and further enhance its competitive advantage to improve the living standards for its people. Furthermore, given the large presence of indigenous communities in Guyana, efforts directed towards greening business practices can reduce the impact of climate change on vulnerable populations.
- 2.5 The objectives of this TC are to improve the business climate of Guyana through the implementation of secured transaction framework that improve access to credit and create a green business practice framework, to promote a sustainable business environment. Under this TC, it is expected that access to finance for businesses and individuals will be widened, and Guyana will be able to foster economic activities without degrading its environment. As a result, Guyana will be able to generate sustainable business activities and stimulate economic growth, which in turn will lead to a reduction in poverty and wealth disparities.
- 2.6 This TC is in line with the Ministry of Business’ objective to improve the ease of doing business. The Ministry is developing a comprehensive Action Plan for improving Guyana’s Distance to Frontier (DTF) on the World Bank’s ‘Doing Business Index’

² Modern Secured transactions law and collateral registries allow businesses particularly SMEs to leverage their assets into capital for investments and growth. Such registries increase the availability of credit and reduce the costs of credit.

³ Credit Bureaus, unlike the Collateral Registries is a credit reporting institution which helps with the information asymmetry between lenders and borrowers, and works as information brokers. The reduction of information asymmetries has positive implications for relaxing credit constraints.

⁴ World Bank Doing Business Report (2017)

⁵ PROTEqIN firm level survey (2014, <http://competecaribbean.org/proteqin/>)

(DBI). Additionally, the Government of Guyana has recently developed a Green State Development Strategy with a focus on maintaining environmental sustainability while fostering the convergence of economic growth, greater national equity, and development. The TC will also seek to develop a framework to encourage more green business practices and to leverage Guyana's green efforts to drive in foreign investment, trade and international cooperation.

- 2.7 This TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) as it is strategically aligned with the development challenges of: (i) productivity and innovation; and (ii) economic integration, including addressing the special needs of small and vulnerable countries and fostering development through the private sector. Moreover, the TC is also aligned with the cross-cutting issues of (i) climate change and environmental sustainability; and (ii) gender equality and diversity.

III. Description of activities/components and budget

- 3.1 **Component I – Secured Transaction System (US\$400,000).** This component will finance: (i) the completion of the legal framework for a secured transactions framework; (ii) the establishment of a modern electronic registry with the necessary software and hardware;⁶ and (iii) staff training and implementation of a public awareness campaign on the new registry. Specifically, this component will include extensive discourse on the legislative options available to Guyana among international stakeholders and Guyanese experts, draft bills and regulation for the Secured Transactions regime and design of an implementation plan for the training of all the parties involved in the efficient operation of the new system. This will involve the hiring of an individual consultant that will be responsible for the legal drafting. The component will also support the implementation of a modern, electronic registry for recording security interests. This will increase SMEs access to credit as the data base will collect information on the creditworthiness of borrowers (individuals or firms) in the financial system, and facilitate the exchange of credit information among banks and other regulated financial institutions. This will include the hiring of a consulting firm who will design and establish the collateral registry and commensurate training material. The firm will be expected to carry out the purchasing of goods in the form of one server and two computers. This will substantially reduce the transactions cost of registering collateral interests, thereby enabling greater access to sources of finance. The registry will be hosted initially by the firm in charge of designing it and then migrated to the commercial registry once the requisite servers are installed. Essential government users will subsequently be trained by the firm in the efficient use of the registry. Additionally, the registry will track gender use of moveable assets, the businesses that are applying for the loans, gauging the size, location and sectors of the businesses. This will help with identifying the typology of women-owned firms. Finally, this component will support an educational programme on secured lending which will enlighten relevant stakeholders via presentations and information dissemination materials. It will also finance dissemination, via briefs, during and after completion of this component to promote the Secured Transactions Reform and the benefits of the

⁶ Hardware (one server, two computers) not to exceed 10% of firm's contract who is developing the software. Any additional hardware will be provided by the counterpart as necessary. This hardware will not be necessary for making the Registry operational, but will complement it.

electronic registry. This includes the purchasing of collateral material (publications etc.) and venue costs.

- 3.2 **Component II – Framework to incentivize ‘green’ business practices (US\$100,000).** This component aims to develop a regulatory framework which will support businesses conforming to the global shift in productive behaviour to more sustainable practices and drive in foreign investment under arrangements that can encourage/reward investment in a “Green” Guyana. This requires effective policy direction and appropriate analysis. It entails the following activities: (i) Technical assistance to develop a policy framework for green business practices and incentives including: (a) drafting of a framework for green business practices, outlining incentives, environmental taxes, levies and schemes that can be leveraged to drive investment and encourage green practices, (b) facilitating workshops and seminars to communicate this framework through the active participation of the private sector, and (c) identifying skills gaps in green business practices with respect to policymaking; (ii) Training in green business practices in order to be equipped with the necessary skills to develop policies, including activities including facilitating workshops and training sessions for relevant technical staff of the Ministry with regards to policy and best practices in order to develop sustainable businesses will also be financed; and (iii) A survey of businesses to assess implementation of green business practices, which will seek to assess the effectiveness of the green business practice framework. The component will also finance activities including the review of the business - practices, methods and techniques adapted and use of eco-efficient equipment. Overall, this component will finance individual consulting services aimed at developing a framework for “green” business practices, and relevant training in “green” business practices, as well as the implementation a “green” business survey.
- 3.3 The total estimated cost of the project is US\$500,000, which will be financed by the Complete Caribbean Partnership Facility (CCPF).

Indicative Budget

Activity/Component	Description	IDB / CCP	Counterpart Funding	Total Funding
Component 1: Secured Transaction System	Legal Framework for Secured Transactions Framework	40,000	0	
	Support the Establishment of a Registry	300,000	0	
	Implement a Public Awareness Campaign	60,000	0	
Sub-total Component 1			0	400,000
Component 2: Policy Framework to Promote Green Practices in Businesses	Technical assistance to develop a framework for green business practices and incentives.	30,000	0	
	Training to acquire skills in green business practices policymaking skills.	30,000	0	
	A survey of businesses to assess implementation of ‘green’ business practice.	20,000	0	
Sub-total Component 2			0	80,000
Final Evaluation		10,000	0	10,000
Contingencies		10,000	0	10,000
TOTAL				500,000

- 3.4 Progress during the project implementation will be monitored via output, outcome and impact indicators under a Monitoring and Evaluation (M&E) plan, according to the Compete Caribbean Partnership Facility framework. Economists and analysts within the Ministry of Finance will be in close contact with the relevant agencies involved in the process and will support the M&E process. Evaluation/Progress Reports produced as under schedule will be designed by funding agency.

IV. Executing agency and execution structure

- 4.1 According to the Ministry of Finance request, the execution of this TC will be carried out by the Bank through the Capital Markets and Financial Institutions (CMF/CJA) in coordination with the Facility Coordination Unit (FCU) of the Compete Caribbean Partnership Facility based in Barbados, given the previous success and experience of Compete Caribbean FCU executing two similar TCs focusing on the implementation of a Secured Transaction Regime in Jamaica and Suriname. The project will be executed in coordination with the Ministry of Business.
- 4.2 The procurement of individual consulting services will be carried out by the IDB in accordance with Human Resources (HRD) Complementary Workforce Policy (AM-650). The procurement of consulting firms will be carried out by the IDB in accordance with the Policy for the Section and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1). The procurement of consulting services different from consultants will be carried out by IDB in accordance with Corporate Procurement Policy (GN-2303-20).

V. Major issues

- 5.1 Given the multi reform nature of this project, it faces the challenge of not only gaining priority and coordination among the number of major reforms in progress by the relevant agencies but also in coordinating the components lying within the project itself. These activities are broadly working toward the same aims, and yet all have their specific implementing agencies, operating plans, etc., also they necessitate dialogue between the public and the private sector.
- 5.2 In order to mitigate any potential disruption to the smoothness of this proposed project as a result of the simultaneous multi-agency interactions, there will be constant engagement with the decision makers and key agency heads and the respective stakeholder agencies working on similar projects to ensure an efficient, coordinated and coherent approach in the execution of various project activities. Namely, the Ministry of Business will undertake these engagements to ensure stakeholders buy in.
- 5.3 The increase in movable property registries may not necessarily result in a significant or transformative change in the volume of secured lending or a detectable drop in the interest rate. Factors that have been found to influence the effectiveness of such a system in other Latin American countries programme are: (1) collateral registration fees are too high for smaller credit operators; (2) a lack of independent valuation and development of secondary markets for moveable assets apart from vehicles; and (3) there is an incomplete or partial reform process with key institutions or regulations in the system lagging on their procedures, and dragging the smooth-running of the system. All of these potential risks can be avoided by researching and implementing

an appropriate, phased and comprehensive system that works to synchronize all parts of the new system.

- 5.4 These improvements on the business climate and policy reforms need to be coupled with institutional strengthening activities to achieve optimum output. In this regard, the legal framework produced as part of this project will seek to inform the Government of Guyana on drafting a piece of new legislation for the Secured transactions legislation, and repeal the Bills of Sale Act. After approval in Parliament⁷, the registry will be created and staff appropriately trained.⁸ Furthermore, while it is true that the delays in the passage of the secured transaction law can affect the implementation of the registry, the GOG is very motivated in improving its Doing Business indicators and is working on a broader strategy to accomplish this. This project is part of that strategy. Also, the Govt had a majority in Parliament, therefore minimizing the risks of delays in passing legislation.
- 5.5 Risk identified which relate to the green business practice framework is the lack of interest or capacity by businesses, particularly SMEs to adapt green practices given the investment cost. These risks can be mitigated through having stronger private sector involvement and through awareness on the potential benefits of actions within the project.

VI. Exceptions to Bank policy

- 6.1 No exception of the Bank Policy is required for this TC.

VII. Environmental and Social Strategy

- 7.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as “C” (See [Safeguards Policy Filter Report](#) and the [Screening Form](#)).

Required Annexes:

- Annex I: [Beneficiary Letter of Request](#)
- Annex II: [Results Matrix](#)
- Annex III: Terms of Reference: [Legal Framework](#), [Establishment of a Collateral Registry](#)
- Annex IV: [Procurement Plan](#)

⁷ The bill will be piloted by the Ministry of Business after broad based consultation with stakeholders including the Attorney General's Office and the Ministry of Finance.

⁸ The Government with the advice of the consultants will decide on the best location of the registry, whether the Ministry of Business (Small Business Bureau), Companies or Deeds Registry.