

## TC Document/Appendice

### I. Basic Information for TC

▪ Country/Region:	GUYANA
▪ TC Name:	Strengthening Institutional Capacity of Bank of Guyana and the Investment Framework of the National Insurance Scheme (NIS)
▪ TC Number:	GY-T1166
▪ Team Leader/Members:	Anganu, Jaiwattie (IFD/CMF) Team Leader; Gauto, Victor (CCB/CGY) Alternate Team Leader; Greco, Maria Sofia (LEG/SGO); Marquez, Claudia M (IFD/CMF); Persaud, Katryn (CCB/CGY); Porras Herrera, Fanny Eliana (IFD/CMF); Prats Cabrera, Joan Oriol (IFD/CMF); Secundino, Eva (IFD/CMF); Solorzano Salazar, Lorena (CID/CID)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	30 Oct 2019.
▪ Beneficiary:	Guyana, Bank of Guyana and the National Insurance Scheme
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$700,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	January 2020
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	CCB/CGY-Country Office Guyana
▪ 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:	Institutional capacity and rule of law

### II. Description of the Associated Loan/Guarantee

2.1

### III. Objectives and Justification of the TC (estimated length: 1 page)

- 3.1 Guyana's economic growth strengthened in 2018 with broad-based expansion across all major sectors. Real GDP grew by 4.1 percent, led by construction and services sectors, up from 2.1 percent in 2017. Economic growth is projected at 4.4 percent in 2019, extending the broad-based expansion across all major sectors. The current account deficit is estimated to rise to 22.7 percent of GDP on the back of higher imports related to oil production, which will be largely financed by FDI in the petroleum sector.<sup>1</sup>
- 3.2 Since 2015 there have been a total of 14 oil discoveries with estimated reserves of more than 6 billion barrels of oil. The commencement of oil production in 2020 will substantially improve Guyana's medium- and long-term outlook. It embodies a crucial

<sup>1</sup> In 2015, a significant offshore oil discovery was made in the Stabroek block, estimating 4 billion barrels of oil equivalent (boe). Commercial production is planned to commence by 2020, with an initial output of 120,000 boe and projected to reach 300,000 boe/day in 2025.

and unprecedented opportunity for economic growth and sustainable development. The oil sector is projected to grow rapidly, accounting for around 40 percent of GDP by 2024 and supporting additional fiscal spending annually of 6.5 percent of non-oil GDP on average over the medium term, which will help meet critical social and infrastructure needs<sup>2</sup>. This new energy scenario represents an important shift in Guyana's development trajectory.

- 3.3 These developments are expected to have profound economic impacts mainly affecting the fiscal and external sectors. The public sector is expected to benefit from increased revenues (profit-sharing and royalties), while the external sector will be affected by more trade and investment. Guyana, having never been an oil producer, needs to immediately build capacity within all institutions affected and impacted by the impending O&G sector. These developments are expected to have implications for price levels and the exchange rate. The Central Bank, which is responsible for monetary and exchange rate policies lacks the capacity to adequately incorporate this into its national accounts, balance of payments, monetary and exchange rate policies given its newness to Guyana<sup>3</sup>.
- 3.4 The National Insurance Scheme (NIS) in Guyana was established by law in 1969 providing old age benefits, and survivors' benefits based on the contributions of working contributors. The NIS will become unsustainable at its current rate as current contributions will narrowly cover the awarded benefits. A recent actuarial study indicated that under current conditions, the NIS is expected to run operational deficits beginning in 2030. The NIS has approximately US\$140 million in investment representing about 4% of GDP. A majority of these investments are private and public sector bonds (48%), private and public equity (23%), and fixed deposits (21%).
- 3.5 The investment framework of the NIS is somewhat dated. These issues highlight the urgency of adopting policies to improve the NIS's financial sustainability.
- 3.6 The IDB has been actively supporting the Government of Guyana efforts to transform the energy sector through financing for several activities, institutional strengthening, and policy reforms, among others. In this regard, the IDB has supported the Department of Energy with two ongoing TCs towards building the governments capacity to properly manage the nascent O&G sector (ATN/OC-16533-GY and ATN/OC-16532-GY). In addition, the IDB group approved an investment program (GY-L1066) to support the Department of Energy to develop a regulatory framework and improve institutional capacity and governance of the O&G sector. A technical assistance (GY-T1154) for strategic communications and knowledge sharing has also been approved for the hydrocarbon sector<sup>4</sup>. Lastly, the IDB also supported Guyana with a multi-tranche Policy-Based Loan (GY-L1067) to support the energy sector in Guyana with the formulation and adoption of key early policy measures needed to take

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<sup>2</sup> Article IV International Monetary Fund 2019.

<sup>3</sup> The main policy development has been the creation of the Natural Resource Fund (NRF), an important first step to safeguard macroeconomic stability. By design, oil revenues will mostly be saved abroad and transferred gradually to the National Budget on an annual basis. In the long term, annual transfers to the budget will be limited to 3% of the balance of the NRF, which are earmarked for economic development activities.

<sup>4</sup> We will coordinate closely with this TC as it supports the Bureau of Statistics to strengthen the national accounts as related to oil and gas. The consultant(s) hired for the Central Bank will need to work in tandem with the consultants at the Bureau of Statistics.

the initial steps towards building the O&G sector and fostering the diversification mix towards a sustainable electricity generation. Given the recent developments in the O&G sector, a Donor Coordination initiative<sup>5</sup> has been established to manage the activities of the sector. There has been no prior support to the National Insurance Scheme.

- 3.7 The intent of this technical cooperation is to support the institutional capacity of the two institutions, the Bank of Guyana and the National Insurance Scheme, given the importance of their work in the national economy.
- 3.8 These activities are aligned with the Bank's Update to the Institutional Strategy 2010-2020 (AB-3008) in terms of strengthening institutional capacity of the state. The project is aligned with the IDB Group Country Strategy with the Cooperative Republic of Guyana 2017-2021 (GN-2905). The strategy focuses on four areas: natural resource management, sustainable energy, private sector development, and public-sector management. The TC supports establishing a modern investment framework and development of a ten-year strategy for the NIS. The TC will also strengthen the Central Bank's capacity to incorporate the effects of the oil and Gas sector into its monetary and exchange rate policies.

#### **IV. Description of activities/components and budget**

- 4.1 Component 1: Support to the Bank of Guyana. This component will strengthen the BOG's research, analytical, and modelling capacities to incorporate oil and gas related activities to the national accounts, balance of payments, inflation targeting and monetary and exchange rate policies. Specifically, the following activities will be supported:
  - a. Strengthening the compilation of balance of payments data considering Guyana's new economic context.
  - b. Develop modeling tools to analyze the flow oil revenues from the Natural Resource Fund into the budget and implications for the economy, government spending, inflation, and the exchange rate.
  - c. Provide policy recommendations regarding monetary and exchange rate policies to maintain macroeconomic stability; review current policies on incorporating O&G.
  - d. Transfer knowledge to Bank of Guyana staff and potentially also to Bureau of Statistics staff on the changes that would require in order that O&G is incorporated across accounts of the Central Bank and the Bureau.
- 4.2 Component 2: Support to the National Insurance Scheme. The objective is to develop a 10 years strategic plan and to improve and modernize the NIS's investment policy

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<sup>5</sup> An Oil and Gas Donor Group was formed in 2016 and is currently being co-chaired by the IDB and the US embassy. Members of the international community that participate in these meetings include the British High Commission, the Canadian High Commission, the Embassy of Brazil, the Embassy of Mexico, the Delegation of the European Union, and the United Nations Development Program (UNDP). The purpose of these meetings is to share information about each partners' activities in an effort to coordinate plans and avoid duplication of efforts. Meetings are held every two months.

framework to garner better quality returns on investments. This component will finance the following activities:

- a. Updating the Strategic plan for the NIS for the next ten years. Current one ends in 2019
- b. Developing a Funding Policy and a Prudential Investment Framework (PIF) for 2020-2025 with an Implementation Plan.
- c. Developing a Risk Management Policy with a Monitoring and Evaluation Framework to assess the impact of the strategic intervention.
- d. Transfer of knowledge to NIS staff on the tools developed.

#### 4.3 Indicative Budget

##### Indicative Budget

Components	Description	IDB Funding (USD)
Component 1	Strengthen the Bank of Guyana's capacity	400,000
Component 2	Support to the National Insurance Scheme	300,000
	Total	700,000

#### V. Executing agency and execution structure

- 5.1 The Bank will act as the executing agency at the request of the Government as per the letters of request.
- 5.2 The Bank will leverage its extensive network of stakeholders, particularly the Donors Coordination Initiative in the O&G sector. The IDB will lead implementation, programmatic oversight of the different activities and coordinate results reporting with other organizations operating in the field.
- 5.3 The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of CMF/CJA, Navita Anganu. The focal point for the TC in the Country Office of Guyana will be Victor Gauto, CCB/CGY. There will be need for a transactional budget to facilitate technical supervision.
- 5.4 Procurement. All activities to be executed under this TC have been included in the Procurement Plan and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-20 for logistics and other related services.

#### VI. Major issues

- 6.1 The principal risks to the implementation of technical cooperation activities under both components I and II are political changes (given that Guyana goes to the polls in March 2020) and inadequate human resources. While the Government has set forth an ambitious program to improve the capacity of the state to deliver better services and critical infrastructure; the implementation of the activities can be affected by political changes and insufficient human capital—given Guyana's extraordinarily high emigration rate of tertiary-educated nationals.

- 6.2 Mitigating associated political and implementation risks will require extensive and widespread consultation with stakeholders, utilization of technology to increase transparency, and a commitment from the highest levels of government. Efforts will be undertaken jointly by the authorities and the IDB Group to work with all stakeholders and manage expectations accordingly. Institutions will also have to ensure that adequate staff are trained, (train the trainers) and materials, tools and models are transferred for its further use in the event of staff turnover.

**VII. Exceptions to Bank policy**

- 7.1 There is no exception to Bank policy.

**VIII. Environmental and Social Strategy**

- 8.1 As per the IDB Environmental and Safeguards Compliance Policy of the IDB, (OP 703), the project Classification is "C"; the project implementation has no associated potential negative environmental and/or social impacts.

**Required Annexes:**

[Request from the Client\\_66243.pdf](#)

[Terms of Reference\\_20544.pdf](#)

[Procurement Plan\\_21446.pdf](#)