Review of Financial Development and Inclusion for Guyana: Assessment and Options for Reform

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Review of Financial Development and Inclusion for Guyana: Assessment and Options for Reform

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Abstract

Guyana's economy is on the verge of a historic transformation owing to recent oil discoveries. In this context, maximizing the benefits of faster growth and increased revenues will depend crucially on the financial sector. This paper presents an assessment of financial development, access, and inclusion for Guyana. Policy recommendations that flow from this analysis include the importance of durably addressing macroeconomic imbalances, reinforcing the regulatory and institutional frameworks, supporting the availability of information regarding credit and related counterparty risks, and developing a coordinated approach to institutional and policy reform aimed at promoting financial inclusion (e.g., via development of a national financial inclusion strategy).

JEL Codes: G1, G21, H6, O1, E5, E6

Key Words: financial access, financial deepening, financial sector development, financial inclusion, banking sector competition, Guyana

CONTENTS

FIGURES

TABLES

BOXES

A. Overview

Guyana is a country on the verge of a historic transformation. It is a resource-rich economy, that has in the past relied on a wealth of commodities exports, particularly gold, rice, and bauxite. In 2018, these commodities represented almost 80 percent of total merchandise exports. More recently, Guyana has become a hotbed for new oil exploration. Since 2015, there have been 19 oil discoveries, resulting in estimated recoverable petroleum resources of more than 8 billion barrels. In this context, production began in late 2019, and estimates released in the same year suggested that Guyana's economy might grow by an average annual rate of 28 percent between 2019 and 2024, leading to a proportionally large increase in government revenues (for example, see IMF, 2019a).[1] Based on these estimates, Guyana was expected to be the fastest growing economy in the world for years to come.

In this context, an important objective of the government has been to develop the policies necessary to translate this newfound wealth and income into faster and more inclusive economic development. Guyana faces development challenges in a number of areas, including institutional capacity and infrastructure deficits, underdeveloped domestic markets, and with respect to human capital development. One important area worthy of considerable focus is financial sector development and access. While related issues are crucial for all developing countries, this is doubly so in the case of Guyana given its rapid expected increase in growth.

This paper reviews indicators related to financial market development, access, and inclusion in Guyana, and provides a diagnostic of key impediments in related areas.[2] It also considers some country-specific challenges that Guyana faces with respect to financial deepening and inclusion. To this end, Section B introduces the concepts of financial development, access, and inclusion, as well as reasons why related issues are increasingly seen as crucial focal areas for development. Section C considers Guyana's socio-economic circumstances and the history of macroeconomic and financial policies that have had implications for the development of Guyana's financial sector. Sections D and E review the structure of Guyana's financial sector, as well as various indicators of access and inclusion. Section F considers country-specific barriers to financial access and inclusion, linked to cross-country evidence regarding common challenges. Section G considers policies and programs underway in this area, and the final section puts forward some observations, conclusions, and recommendations for future reforms.

B. Introduction

Recent research suggests strong positive linkages between financial sector depth, access to financial services, and economic development outcomes. For example, the World Bank's 2014

[1] Note, however, that the COVID-19 crisis has created considerable uncertainty with respect to both commodities prices and prospects for future exploration in this sector.

[2] This paper builds on diagnostic methods and data developed for previous publications, particularly Mooney (2015; 2016; 2018).

Global Financial Development Report found that financial inclusion—typically defined as the proportion of individuals and firms that use financial services (see Box 1 for definitions of terms)[3]—is important for development and poverty reduction, and that the poor stand to benefit considerably from the use of basic payments, savings, and insurance services. Similarly, for firms, particularly small and newly established enterprises, access to financial services is associated with stronger innovation, job creation, and growth performance. In this context, policies that promote financial inclusion are increasingly recognized as key pillars of effective strategies aimed at accelerating inclusive economic development.

Box 1. Defining Terms

What do we mean by financial development and inclusion? Financial depth and development, access, and inclusion are distinct but related concepts, particularly for developing countries (Mooney, Schmid, and Zegarra, 2019).

- **Financial depth** generally refers to the degree to which financial markets—particularly credit markets—are sufficient to meet the needs of domestic agents, including the public and private sectors.
- The concept of **financial development** extends beyond the sufficiency of markets to include a broader set of financial instruments and services, including securitized assets (e.g., debt and equity), synthetic instruments (e.g., futures, forwards, options, etc.), and other financial services (e.g., pensions, insurance, etc.).
- **Financial access** centers on the degree to which actors are able to make use of financial products and services, regardless of the degree to which the market is developed—for example, where public entities have ready access to financial products and services, while private agents have difficulty doing so.
- **Financial inclusion** focuses on the ability of vulnerable and marginalized groups within a country (e.g., small and micro enterprises, those in the informal sector, poor and/or rural communities, minorities, etc.) to participate in the financial system or to make use of related services such as deposit accounts, borrowing, insurance, pensions, etc.

Financial inclusion also has been identified as a key enabler as it relates to achieving the United Nations (UN) Sustainable Development Goals (SDGs). Access to financial services for people and businesses is considered to be among the most important building blocks for achieving the 2030 SDGs, and related issues are featured as targets in 8 of the 17 goals (see Box 2).[4] These include SDG 1 on eradicating poverty; SDG 2 on ending hunger, achieving food security, and promoting sustainable agriculture; SDG 3 on promoting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation, there

[3] Financial services can include any form of transaction, payment, savings, credit, or insurance.
[4] See the following for additional information: http://www.uncdf.org/financial-inclusion-and-the-sdgs

is an implicit role for greater financial inclusion through greater savings mobilization for investment and consumption that can spur growth.

Box 2. United Nations Sustainable Development Goals

The SDGs were developed to succeed the Millennium Development Goals (MDGs). There are 169 targets for the 17 goals. Each target has between one and three indicators used to measure progress toward reaching the targets. In total, there are 304 indicators that will measure compliance. The 17 SDGs are listed below, and those with a direct link to financial inclusion are highlighted (blue bold text). For a discussion of the specific targets related to each goal that link to financial inclusion, refer to the United Nations Sustainable Development Knowledge Platform.

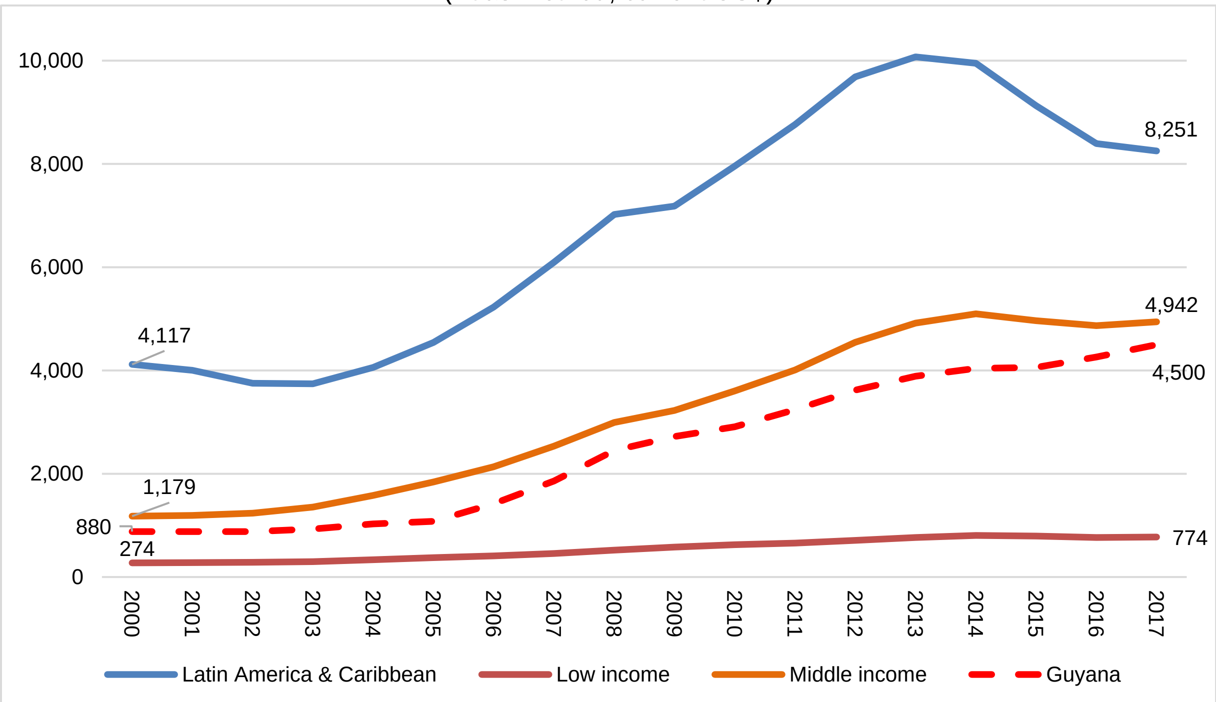
Goal 1. End poverty in all its forms everywhere.
Goal 2. End hunger and achieve food security and improved nutrition and promote sustainable agriculture.
Goal 3. Ensure healthy lives and promote well-being for all at all ages.
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Goal 5. Achieve gender equality and empower all women and girls.
Goal 6. Ensure availability and sustainable management of water and sanitation for all.
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
Goal 10. Reduce inequality within and among countries.
Goal 11. Make cities and human settlements inclusive, safe, resilient, and sustainable.
Goal 12. Ensure sustainable consumption and production patterns.
Goal 13. Take urgent action to combat climate change and its impacts.
Goal 14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels.
Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Source: UN Sustainable Development Knowledge Platform.

C. Economic and Social Context—Links to Financial Development

Guyana has sustained positive economic growth rates for more than a decade. Although per capita income levels continue to be relatively low compared to the average for Latin American and Caribbean (LAC) countries, they have increased at slightly faster rates. Per capita income levels have increased by 435 percent (nominal terms) from 2000 through 2018—from a gross national income (GNI) per capita of US$890 to US$4,760 (Figure 1). Over the same period, average per capita income grew by 110 percent for the LAC region as a whole—from US$4,150 to US$8,700. Similarly, the increase in the average per capita income for middle-income countries was about 335 percent, and 196 percent for low-income countries.

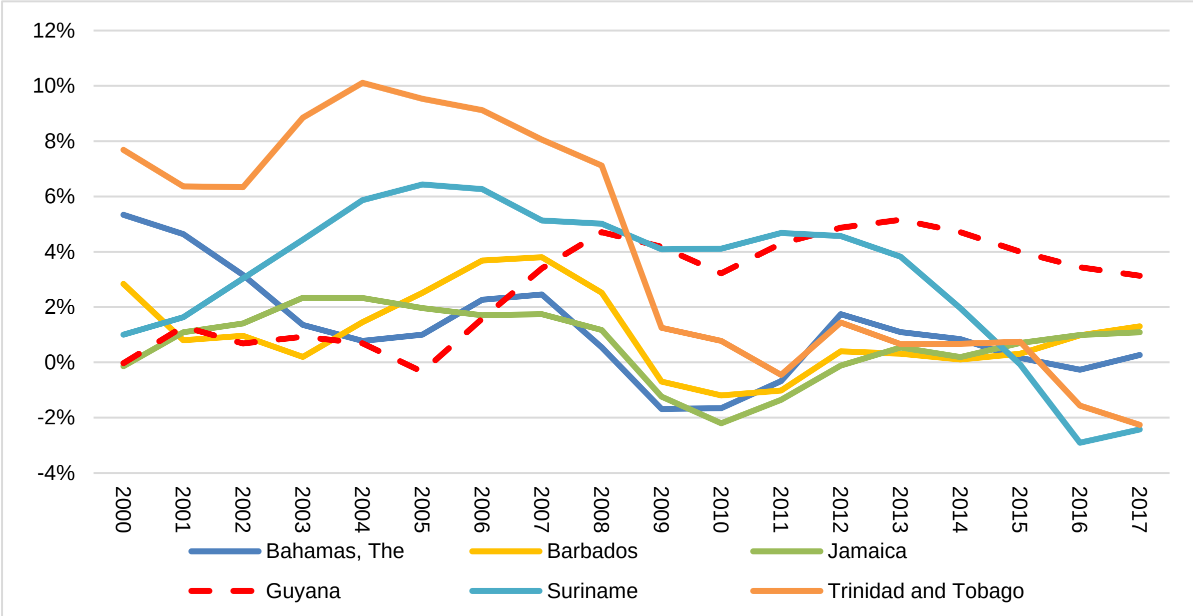
Figure 1. Per Capita Gross National Income (GNI)—Guyana vs. Peer Groups
(Atlas method, current US$)



Source: World Bank World Bank Development Indicators database.

From 2000 to 2018, Guyana's real GDP grew at an average annual rate of 2.8 percent, which was faster than that achieved by many regional peers, including The Bahamas, Barbados, and Jamaica (Figure 2), as well as the annual average for all LAC countries (2.6 percent) during the same period. Guyana's growth rate was relatively modest before 2008, including because the early 2000s where characterized by public debt management challenges and the effects of a natural disaster in 2005. During this time, Guyana benefited from extensive debt relief from official lenders. Since 2006, the economy has seen an acceleration of growth performance, and benefitted from rising commodities prices. Average annual real GDP growth reached about 4 percent between 2006 and 2017—the highest in the Caribbean region over the period.

Figure 2. Real GDP Growth in Guyana and Selected Peer Countries
(3 month moving average, percent)

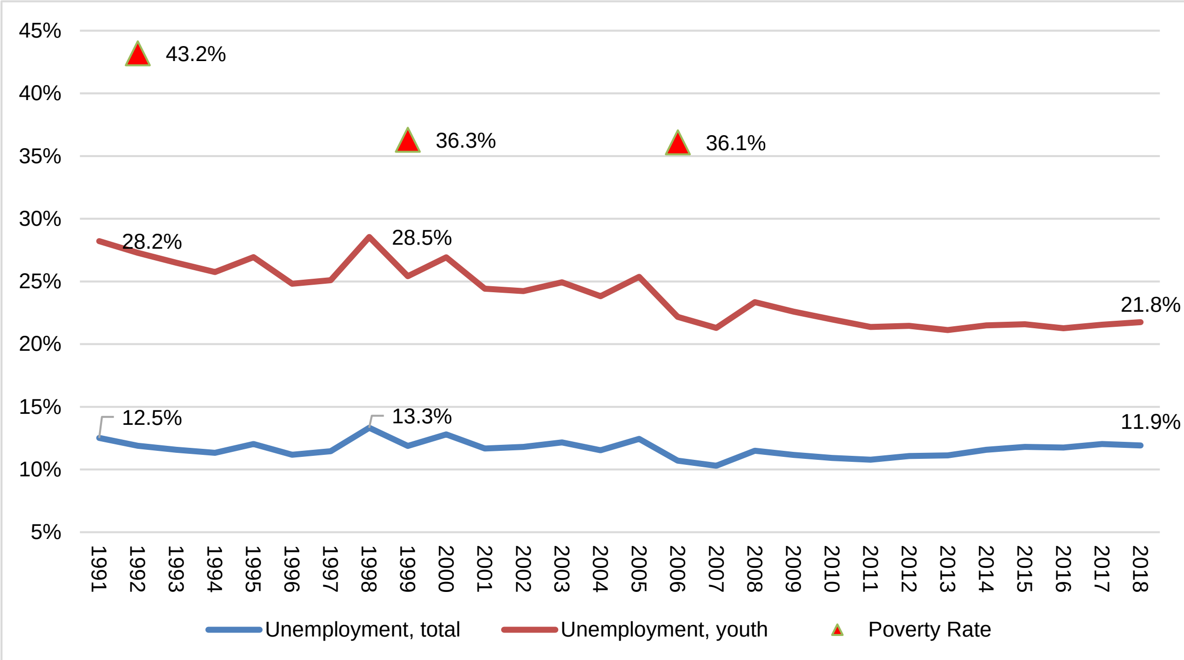


Source: World Bank WDI database.

Socio-economic indicators have improved somewhat since 1990, mainly in terms of employment. The highest level of unemployment was recorded in 1998, when it reached 13.8 percent. It subsequently fell to about 10 percent in 2006, coinciding with accelerating growth. After the end of the commodities price boom beginning in 2014, unemployment levels slightly increased, and stood at about 12 percent at the end of 2019. Over the same period, youth unemployment decreased from a high of 28.5 percent in 1998, to about 21.8 percent in 2018. Poverty measures based on a poverty line of approximately US$ 1.90 per day were taken three times in Guyana, in 1992, 1999, and 2006.[5] The greatest decline was observed between 1992 and 1999, with poverty dropping from 43.2 percent to 36.3 percent (Ministry of Finance, 2011). The most recent measure based on the Guyana Labor Force Survey, and a poverty line of US$ 5.50 per day, resulted in a poverty rate of 41.2 percent, suggesting declining levels of poverty (Beuermann and Schwartz, 2018). With respect to other socio-economic indicators, school enrollment rates for primary and secondary school-aged children meet or exceed the LAC average, as does immunization coverage. However, the latest data on life expectancy at birth and maternal mortality are below LAC averages. Life expectancy at birth was 67 years in 2017 compared to the LAC average of 76, while the maternal mortality rate was 169 per 100,000 live births in 2015—well above the LAC average of 74 per 100,000 live births (World Bank Development Indicators (WDI).

[5] The poverty rate is based on the share of the population below the national poverty line. In 2006, the income threshold defining the poverty line included an allowance of food and basic non-food items, set at US$1.75 a day. The measures of poverty were built using data from Household Income and Expenditure and Living Standards Measurement Surveys of the Guyana Bureau of Labor Statistics.

Figure 3. Unemployment and Poverty Rates



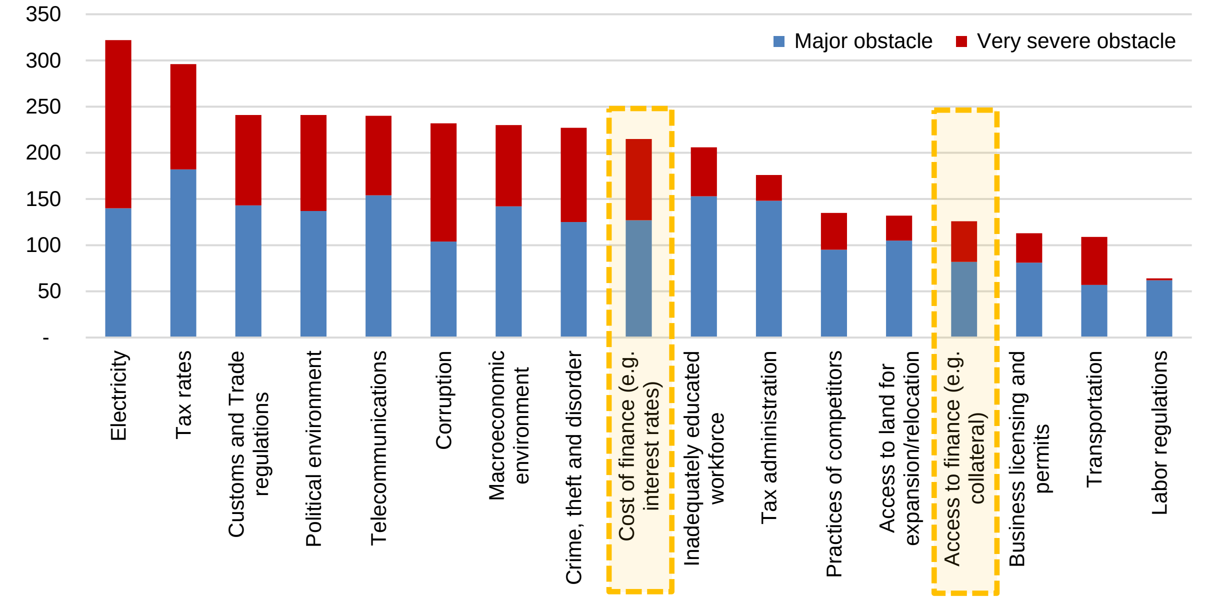
Note: Poverty line = US$5.50.
Source: Guyana Labor Force Survey, World Bank WDI, and Ministry of Finance data.

Financial access has long acted as an impediment to firm productivity and performance in developing countries—this is also true for Guyana. Across the globe, a lack of access to finance and the high costs of financial services have been identified by many firms as important constraints to private sector productivity and expansion. As shown in Figure 4, both of these issues were considered significant constraints to firm productivity and performance by firms responding to the 2014 PROTEqIN Caribbean Enterprise Survey.[6] Electricity, tax rates, customs and trade regulations, and the political environment were also identified as among the most pressing challenges.

[6] PROTEqIN is a Caribbean enterprise and indicator survey, first undertaken as part of the World Bank's 2010 Latin American and Caribbean Enterprise Surveys. It was last updated in 2014. The methodology was designed to: 1) benchmark economies' business and investment climates across the world; and 2) assess effects of conditions and changes in business environment constraints on firm-level productivity and performance. The project was sponsored by Compete Caribbean, which is funded by the Inter-American Development Bank (IDB), the UK's Department for International Development (DFID), and the Government of Canada.

Figure 4. Constraints to Firm Productivity and Performance in Guyana

(Survey Responses to 2014 PROTEqIN Caribbean Enterprise Survey, number of firms responding)



Source: 2014 PROTEqIN Caribbean Enterprise Survey.
Note: Population results based on the number of firms sampled in each country.

Addressing impediments to financial access is an imperative if Guyana is to create conditions for faster and more inclusive development. Any robust and effective development strategy must identify binding constraints and focus on addressing the most burdensome obstacles to progress in a sequential manner. That said, some challenges are easier to address than others, inasmuch as they are more directly linked to policy levers within the control of the government or other actors operating in the economy. Guyana's electricity challenges are high on the government's agenda, as outlined in the new Green State Development Strategy (Government of Guyana, 2019), which includes plans to diversify the generation matrix by shifting from reliance on heavy fuel oils to natural gas and renewable sources. Other challenges, including those related to corruption, crime, and citizen security may require long horizons, considerable investment, and actions across a broad range of policy areas. The rest of this publication focuses on challenges linked to financial access for both firms and individuals, including their antecedents and policy options that may help to address related constraints.

D. Domestic Credit Markets—A Diagnostic

Guyana's financial sector is relatively shallow compared to middle-income countries, but in line with the average for countries from the LAC region. While any assessment of financial sector development will depend on the selected metric, Guyana's ratio of domestic private credit[7] to GDP of 48.9 percent in 2015—a common indicator of financial sector depth[8]—was similar to the

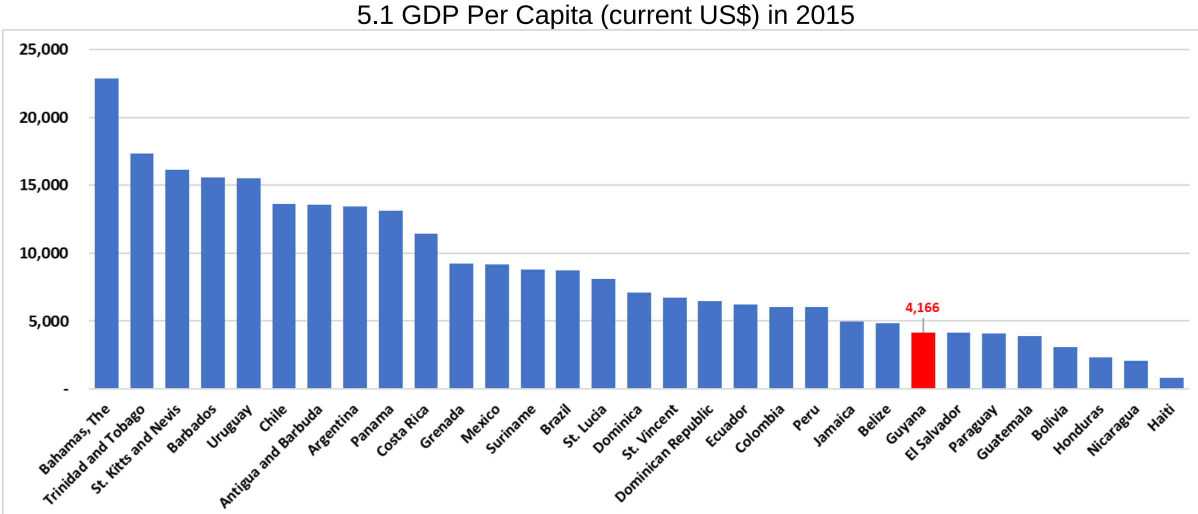
[7] Private credit includes funds provided to the private sector by financial corporations—e.g., loans, purchases of non-equity securities, trade credit, and other accounts receivable establishing a claim.
[8] See IMF, "Financial Sector Assessment—A Handbook", for a discussion of related measures.

average for all LAC countries (49 percent). Compared to other Caribbean countries, Guyana ranks higher than peer countries such as Jamaica, Suriname, and Trinidad and Tobago, but below the Bahamas and Barbados—both countries with higher incomes and financial sectors that include a focus on offshore banking activities.

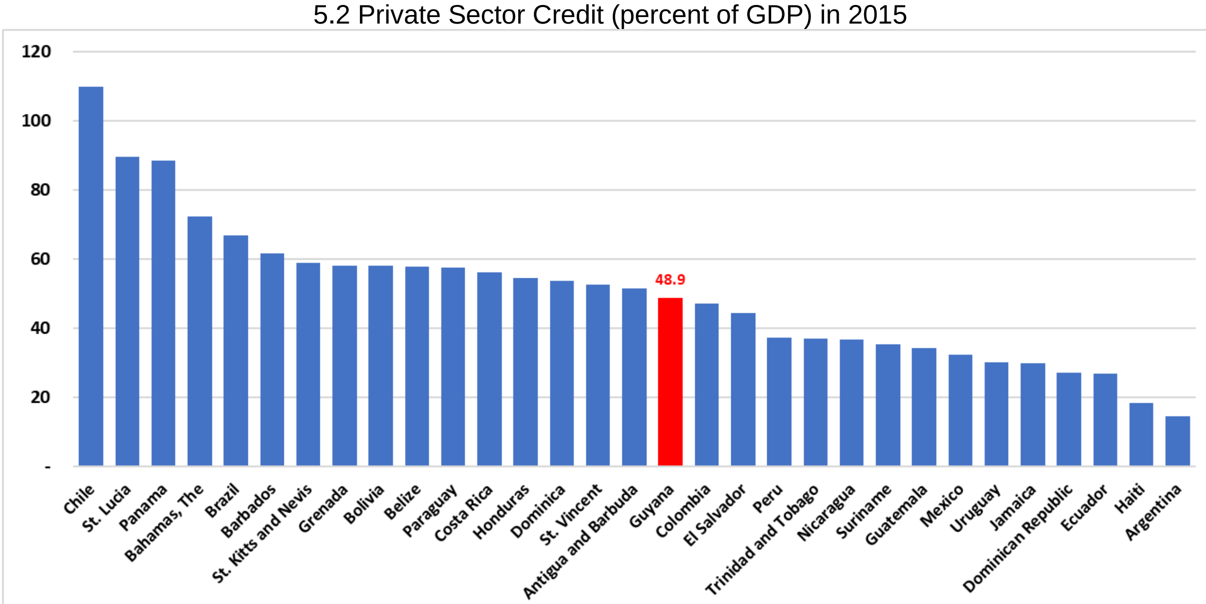
Guyana ranks towards the middle of the regional distribution regarding financial depth, but towards the bottom of the distribution in terms of per capita income. Guyana's per capital GDP ($4,166 in 2015)[9] ranked 24th out of 31 LAC economies in 2015 (Figure 5.1), while private credit to GDP (48.9 percent) ranked 17th out of 31 countries in the region (Figure 5.2).

Figure 5. Financial Development in Latin America and the Caribbean

5.1 GDP Per Capita (current US$) in 2015



5.2 Private Sector Credit (percent of GDP) in 2015

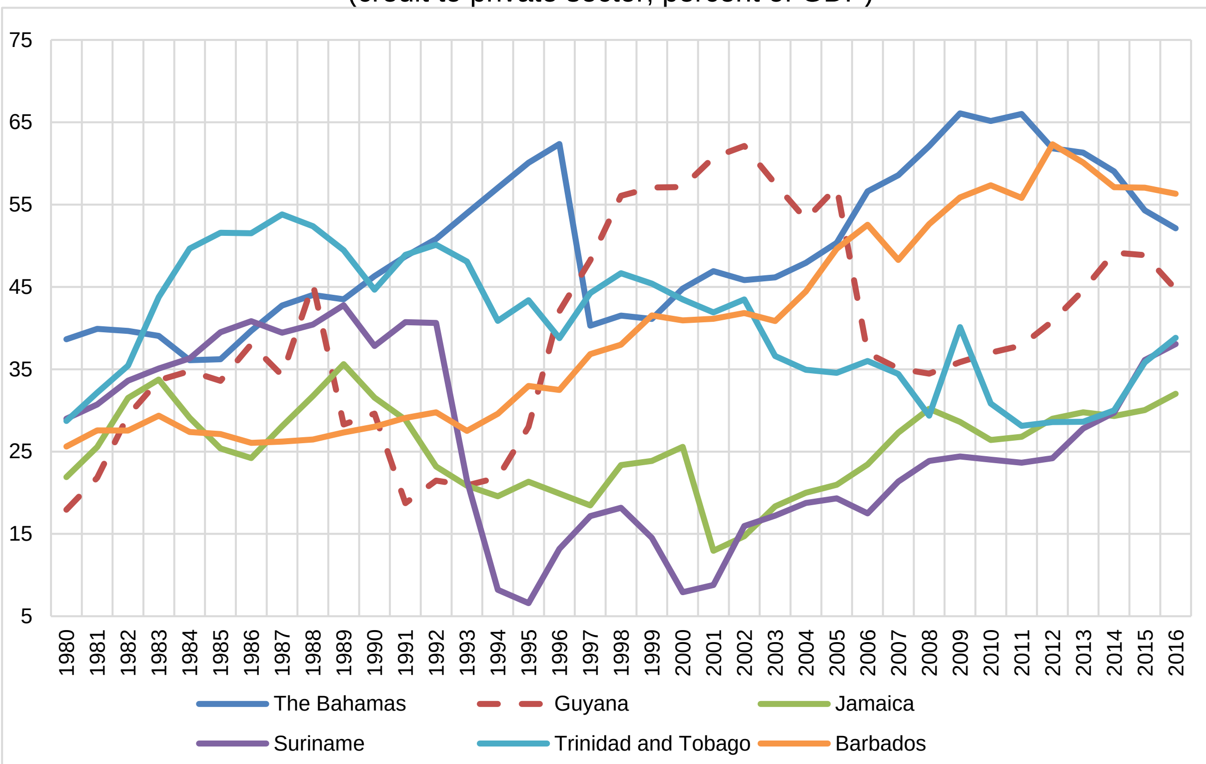


Source: World Bank WDI and IMF WEO databases and author calculations.

[9] Data for 2015 were used as they allow for the broadest possible cross-country comparison. More recent data would not materially change rankings across countries.

The pace of financial deepening has been relatively rapid in Guyana, with private credit-to-GDP ratios increasing from 13 percent of GDP in 1974, to 48.4 percent in 2018 (see Figure 6). In comparison, the average for other middle-income countries (in the aggregate) has increased from relatively low levels in the 1970s (22 percent of GDP) by a factor of four in 2018, reaching over 100 percent.

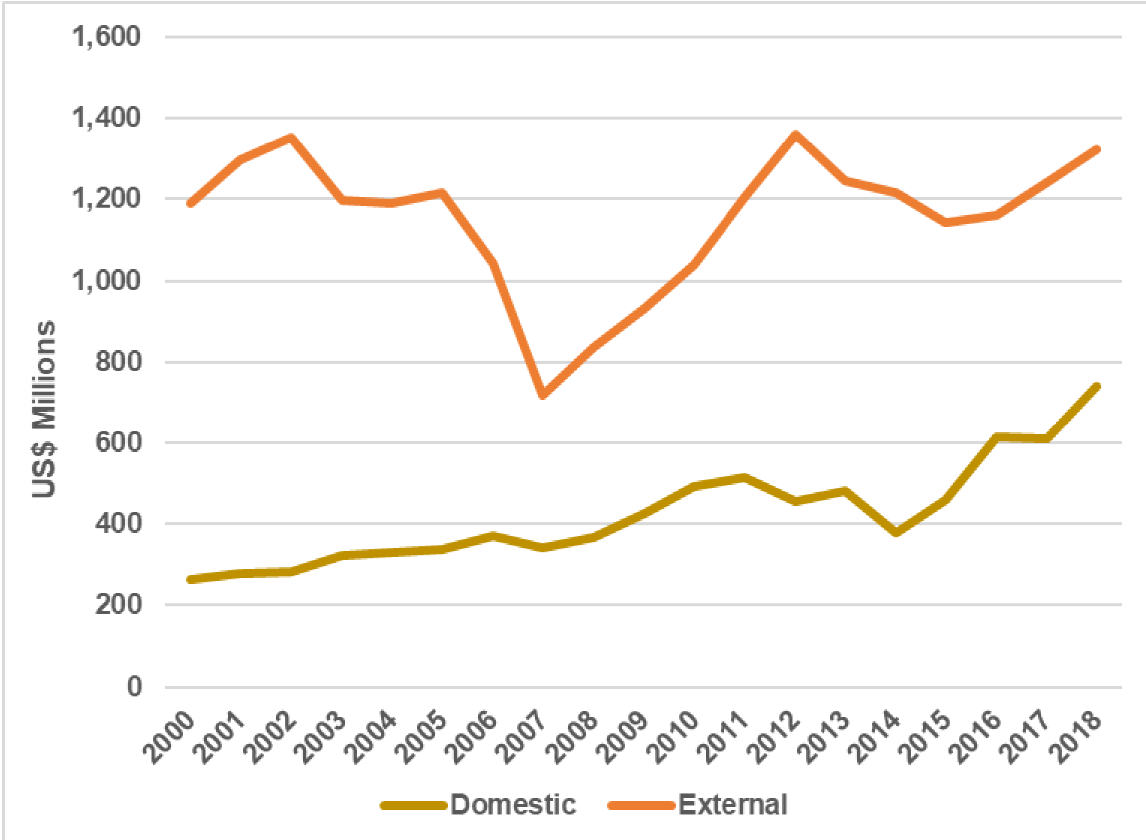
Figure 6. Financial Deepening in Caribbean Countries since 1980
(credit to private sector, percent of GDP)



Sources: World Bank, World Development Indicators; International Monetary Fund, World Economic Outlook; and author calculations.

Historically, Guyana's main challenge in terms of economic management has revolved around high public debt levels and debt sustainability. The country benefited from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), amounting to about US$2 billion. These programs and related economic reforms over the years have contributed to a reduction of Guyana's debt-to-GDP ratio from 142 percent in 2002, to about 53 percent in 2018 (IMF, 2019a). While this reduction in public debt has undoubtedly supported domestic financial sector development through its positive implications for economic stability, the public sector's reliance on domestic funding has increased over time (Figure 7).

Figure 7. Public Borrowing by Source Sector



Source: World Bank WDI, IMF WEO databases, and author calculations.

An important challenge for financial development is the fact that the government funds itself primarily with short-term debt instruments, and there is no private bond market. The government issues short-term T-bills with maturities of up to one year. This creates a series of challenges. First, the options for long-term investors are limited, given that in Guyana they can only hold short-term assets with relatively low returns. Second, this creates a mismatch in maturities since potential long-term loans are constrained by the short-term nature of deposits. Finally, the absence of government funding benchmarks at longer maturities limits the ability of the private sector to price longer-term debt for non-government entities, which serves as an impediment to developing a domestic market for private debt securities.

This has contributed a situation of chronic excess liquidity, with banks using government T-bills and maintaining unremunerated excess reserves at the Bank of Guyana. The fact the government only issues T-bills for local funding purposes makes it difficult for market participants to determine whether issuances are linked to debt management or monetary policy prerogatives. As Guyana may soon graduate from eligibility for concessional financing owing to rising income levels linked to oil discoveries, deepening the domestic credit market by expanding the scope of instruments would be ideal. In addition to traditional longer-term debt instruments for funding and domestic yield curve benchmarking purposes, the government should also consider innovative financing

approaches, including sustainable or ‘green’ bonds. This would be particularly relevant given the significant oil discoveries of recent years, as there is now an added premium on environmentally responsible policies and initiatives (see Box 3 for a description).

Box 3. Sustainable Financing Initiatives

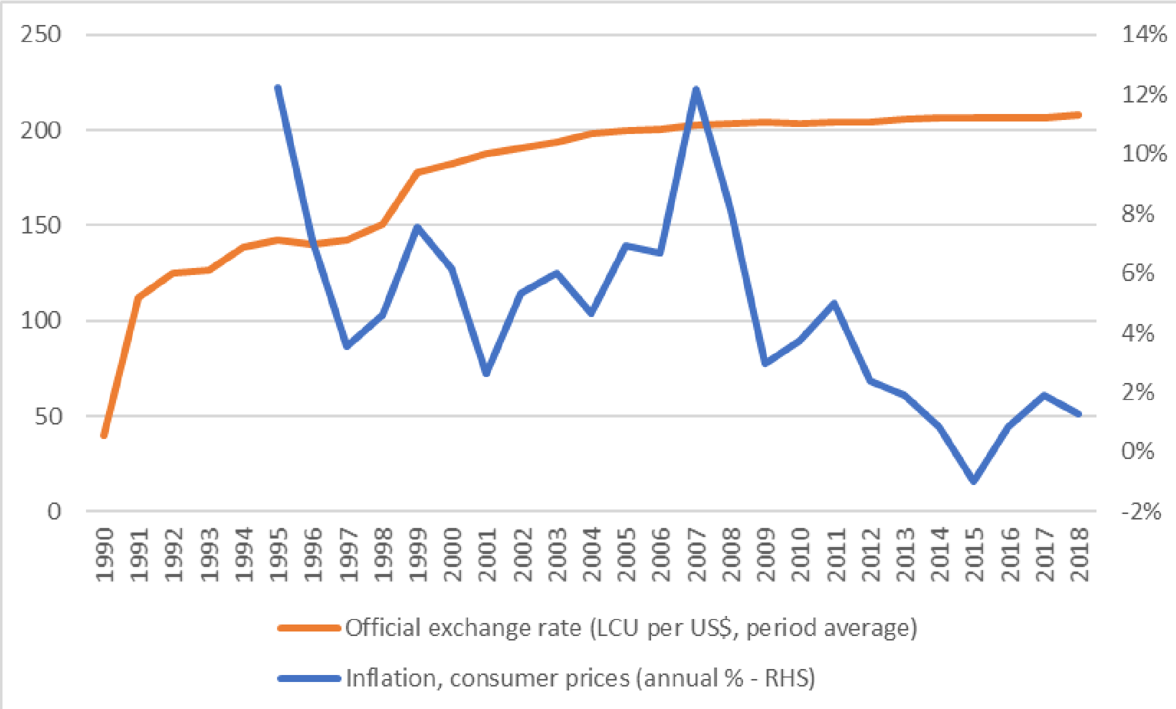
The global market for sustainable or ‘green’ bonds has grown significantly over the past several years. According to the Climate Bond Initiative, green bond issuances have increased from US$11.5 billion in 2013, to more than US$257 billion in 2019. In this context, the IDB supported the issuance of the first green bonds in 2017 by the Colombian National Development Bank and is discussing similar initiatives with a number of institutions in other countries. Moreover, the IDB recently created the Green Bond Transparency Platform to support green bond reporting and facilitate issuances. Taking into consideration that Guyana has developed a Green State Development Strategy, which considers environmental awareness in its development plans—including a transition to renewable sources of energy, the restoration of mangroves, and several social projects—, green bonds could represent a suitable source of financing, consistent with both financial sector development and a socially- and environmentally-responsible development strategy.

How do government bonds support financial inclusion?

The large excess reserves held by banks in the Bank of Guyana exceeded the statutory requirement by an average of 25 percent between 2010 and 2016 (IMF, 2016). Because these excess reserves at the Bank of Guyana are unremunerated, banks have incentives to charge higher interest rates to compensate for the foregone income. If the government provided banks with alternative investment opportunities—including green bonds—, banks would almost certainly reduce their levels of excess reserves. This could reduce the need to maintain wide interest rate spreads, thus reducing overall loan interest rates. Lower interest rates are consistent with greater credit access and demand, competition, financial deepening, and financial inclusion. This could increase competition in the financial sector, which would benefit consumers.

Other key macroeconomic indicators also point to challenges for domestic financial market development. While inflation has fallen considerably over the past decade, it has historically been both high and volatile (Figure 8). In this context, inflation hinders financial sector development as it distorts incentives to save and invest domestically, and encourages dollarization—i.e., savers will convert local currency into hard currencies such as the US dollar to hedge themselves against domestic inflation. Similarly, while the exchange rate regime was liberalized in 1991, as part of a broader liberalization of economic policies during the 1990s (Bossogo, 2000), this led to a large devaluation. This is also likely to have influenced behavior of market participants, and like inflation, created incentives to shift both savings and investments to other currencies as a hedge against possible future devaluations.

Figure 8. Inflation and Exchange Rates since 1990



Source: World Bank Development Indicators database.

E. Financial Access in Guyana—An Overview

The size and structure of the credit sector, as well as the ability of the population to access banking and related services, affect the development of the broader retail financial system. Data on related issues have recently become more readily available, thanks in part to growing awareness of the importance of financial access and inclusion for development and poverty reduction, as well as the existence of new surveys undertaken by multilateral institutions and alike.

The financial sector in Guyana is characterized by a relatively small number of financial service providers, where loan and exchange rate operations drive business activity. There are six commercial banks operating in Guyana, of which three are owned by a foreign parent. There are six non-bank financial institutions, of which two are deposit-taking institutions providing savings and mortgage services, among others. The Bank of Guyana supervises commercial banks, non-bank financial institutions, insurance companies, finance companies, pension plans, money transfer services, and currency exchange houses. In 2018, commercial banks accounted for 65 percent of the sector's total assets, while non-bank financial institutions (including deposit and non-deposit taking) represented 17 percent of total assets. Insurance companies represented a further 9.5 percent of assets, while pension plans accounted for another 8.5 percent.

Indicators of physical access to the retail banking system in Guyana have improved over the past decade. The number of commercial banks has remained unchanged, but commercial bank

presence in terms of branches nearly doubled, from 23 in 2005 to 40 in 2018. The number of ATMs has also doubled over this period, increasing from 53 in 2005 to 116 in 2018, further facilitating access to financial services. The number of mobile money outlets also increased between 2015 and 2018, which is consistent with improvements in the supply of services and communications technology (Table 1). However, the number of credit unions and financial cooperatives—providing services mainly to low- and middle-income households—has declined over this period.

Table 1. Retail Banking Sector Overview

	2005	2010	2015	2018
Commercial Banks	6	6	6	6
Number of Branches	23	28	40	40
Branches per 100,000 adults	6.1	6.8	8.5	8.3
Branches per 1,000 km^2	0.15	0.17	0.23	0.23
Other Institutions				
Credit Unions and Financial Cooperatives	48	29	28	29
Insurance corporations	14	13	16	16
Other deposit-takers	3	2	2	2
Deposit Accounts commercial bank				
Number of Deposit Accounts	406,468	511,566	532,788	505,677
Household share (percent)	91.8 percent	92.7 percent	98.0 percent	97.7 percent
Loan Accounts commercial bank				
Number of Loan Accounts	20,000	24,006	54,951	50,019
ATMs				
Number of ATMs	53	74	91	116
ATMs per 100,000 adults	11.1	14.6	16.9	20.9
ATMs per 1,000 km^2	0.27	0.38	0.46	0.59
Mobile money outlets: active				
Number of outlets			112	172
Outlets per 100,000 adults			20.8	30.9
Outlets per 1,000 km^2			0.57	0.87

Source: IMF Financial Access Survey Database.

The number of deposit and loan accounts has also increased. Household bank accounts as a share of total accounts increased from 92 percent in 2005, to 98 percent by 2018 (Table 1). Loan accounts per 1,000 adults at commercial banks doubled between 2005 and 2018. These increases are partially attributable to the economic boom of the late 2000s, when commodity prices increased significantly, propelling demand for credit. During this time, the volume of commercial bank private loans also doubled, increasing from approximately US$330 million in 2008 to US$730 million in 2018 (Bank of Guyana Annual Report, 2008 and 2018).

Guyana compares well with other middle-income and LAC developing countries on some selected indicators of financial access. In terms of both the number of deposit accounts at commercial banks, and the volume of deposits relative to the size of the economy, Guyana ranks slightly below both middle-income and LAC averages. In 2018 there were a total of 909 deposit accounts per 1,000 adults, compared with 1,155 and 1,182 deposit accounts per 1,000 adults in middle-income and LAC developing countries, respectively (Table 2). However, access to credit indicators remain weak compared to many peers. While the number of loan accounts per 1,000 adults increased from 42 in 2005 to 89 in 2018, this remains below the middle-income and LAC averages of 328 and 540 in 2018, respectively. Similarly, domestic credit to the private sector from banks stood at 37 percent of GDP in 2018, which is well below the LAC average of 50 percent.

Table 2. Financial Access Indicators

	Guyana			Middle-income	LAC
	2005	2010	2018	2018	2018
Savings (deposits)					
Commercial banks (deposit accounts per 1,000 adults)	853	1,013	909	1,155	1,182
Commercial banks (deposits in percentage points of GDP)	63.5	45.2	41.4	57.9	54.7
Credit (loans)					
Commercial banks (loan accounts per 1,000 adults)	42.0	47.6	89.9	327.9	540.2
Domestic credit to private sector by banks (percent GDP)	47.7	29.5	37.3	101.6	49.5

Source: IMF Financial Access Survey, World Bank World Development Indicators, and author calculations.

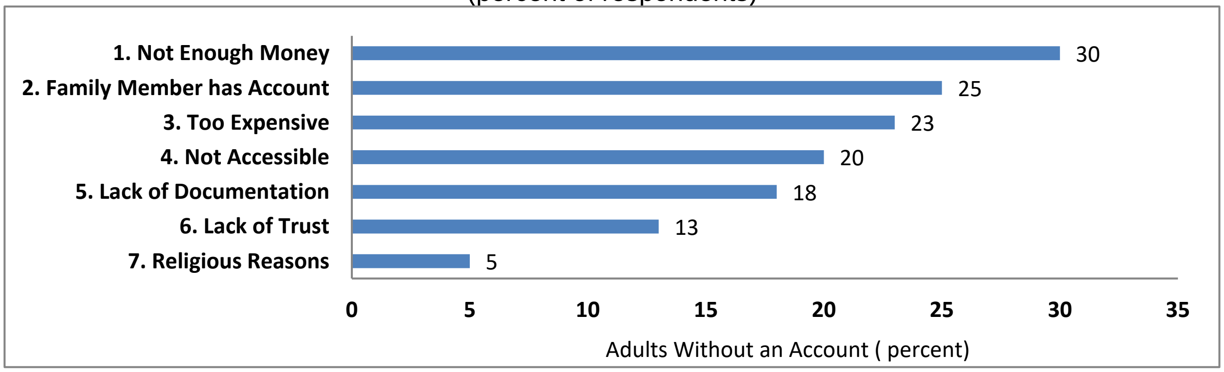
In summary, while indicators of access have improved over the past decade, data suggest that Guyanese citizens continue to face challenges. On the deposit side, physical access to bank branches and ATMs remains relatively limited. Similarly, the credit market is relatively shallow. The following section will consider recent research into key factors limiting financial access and inclusion across the world, and how these may relate to Guyana's own country specific circumstances. While there are limits to what can be inferred from such an analysis, some characteristics of the Guyanese economy, population, and other factors do point to commonly cited barriers to inclusion from other countries at similar levels of development across the world.

F. Country-Specific Barriers to Financial Inclusion

The World Bank's 2014 Financial Development Report provided an extensive analysis of financial development, access, and inclusion issues. This analysis identified seven major reasons why people from both developed and developing countries do not have or use formal bank accounts, based on a cross-country survey of 70,000 unbanked individuals across regions. The survey found that a lack of financial resources (no. 1), high costs of opening and maintaining accounts (no. 3), and a lack of accessibility of financial service providers (no. 4) were among the most

common reasons for remaining outside of the formal financial system (Figure 9). Many of the impediments to financial inclusion identified from the cross-country survey are relevant to Guyana.

Figure 9. Reasons for Not Having a Bank Account
(percent of respondents)



Note: Respondents could choose more than one reason.
Source: World Bank Financial Development Report 2014.

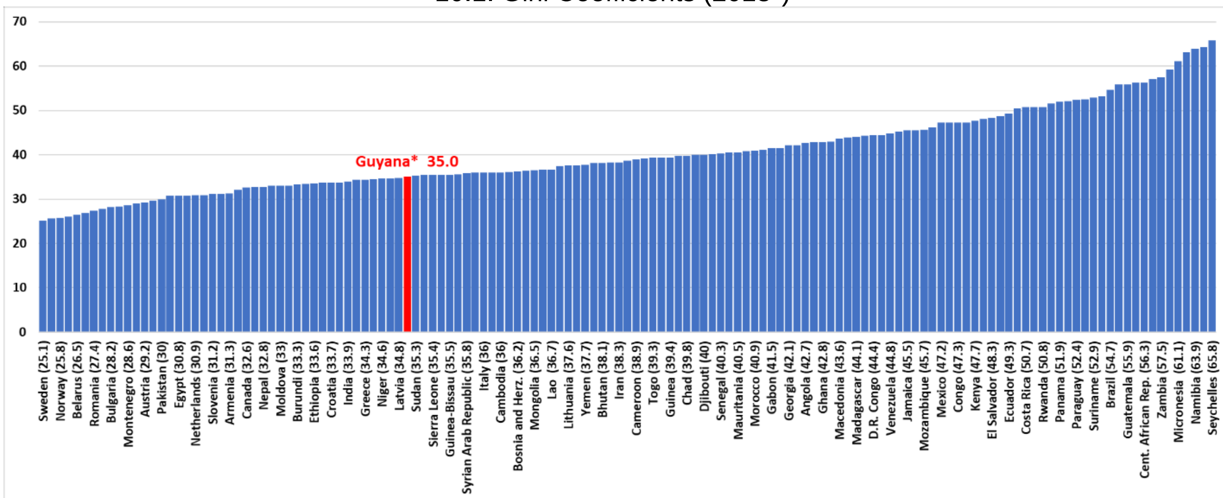
Guyana is towards the bottom of the middle-income spectrum, so the most commonly cited factor—lack of resources—is a driver of financial inequality. As indicated in the World Bank survey, 'not enough money' was the most significant factor limiting financial inclusion for the countries and demographic groups assessed. With a per capita GDP level of US$4,166 in 2015, Guyana was in the lower half of the middle-income bracket of between US$1,026 and US$12,475 for that year. Furthermore, low per capita income is only part of the problem, as the income distribution is highly skewed toward the wealthiest.

The income distribution in Guyana suggests considerable inequality. Guyana displayed a Gini index coefficient of 35 in 2006 (the last available data from household surveys)—where an index of zero implies perfect income equality, and a coefficient of 100 implies perfect inequality—and a share of national income held by the richest 20 percent of the population of 42 percent (Figure 10). While the positive relationship between poverty, inequality, and a lack of formal participation in the financial system has been well established[10], efforts to reduce poverty and improve the distribution of income must involve the full spectrum of public policies over long horizons.

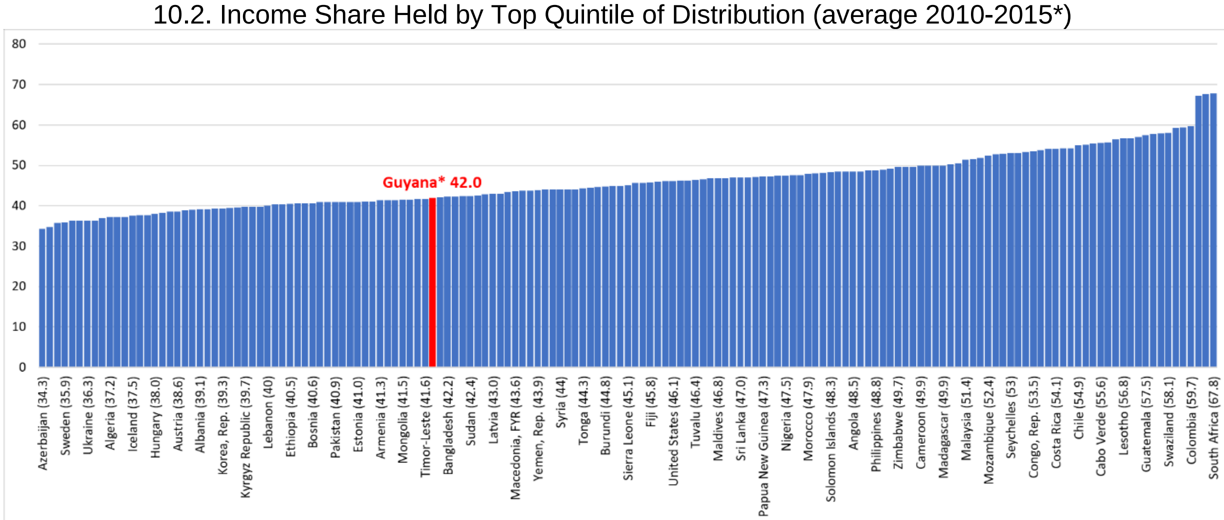
[10] For example, see "Financial inclusion, rather than size, is the key to tackling income inequality." (BBVA Research Paper, Feb. 2015). This study finds that FI contributes significantly to reducing income inequality, although the size of the financial sector per se is not an important factor.

Figure 10. Income Inequality

10.1. Gini Coefficients (2013*)



10.2. Income Share Held by Top Quintile of Distribution (average 2010-2015*)

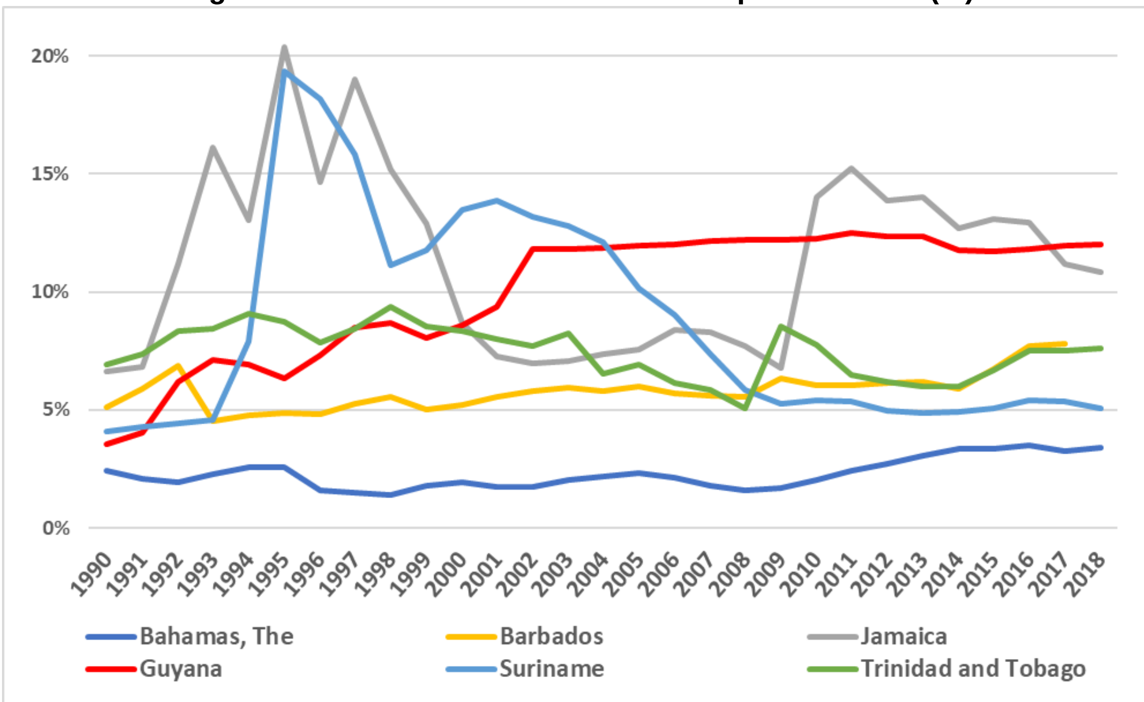


Notes: (*) The only available data for Guyana is from 2006. A Gini index coefficient of zero implies perfect income equality, and a coefficient of 100 implies perfect inequality.
Sources: United Nations, Human Development Indicators; World Bank, World Development Indicators, Guyana Ministry of Finance (2011).

The high costs of financial services and weak competition for at least some categories of lending appear to be barriers to inclusion in Guyana. The World Bank survey found the high cost of services to be the third most significant barrier to financial access and inclusion throughout the world. One indicator pointing to the high cost of accessing credit in Guyana is the spread between deposit and lending rates. High spreads make borrowing less attractive and/or feasible for consumers and businesses alike, and tend to dampen incentives to both save (e.g., low returns) and invest.

Deposit spreads have been increasing over time in Guyana. As Guyana moved towards market-oriented economic policies in the 1980s and the 1990s, deposit spreads climbed from 3.6 in 1990, to close to 12 percent by 2002, where they have remained (Figure 11).

Figure 11. Domestic vs Peer Financial Spreads Rates (%)



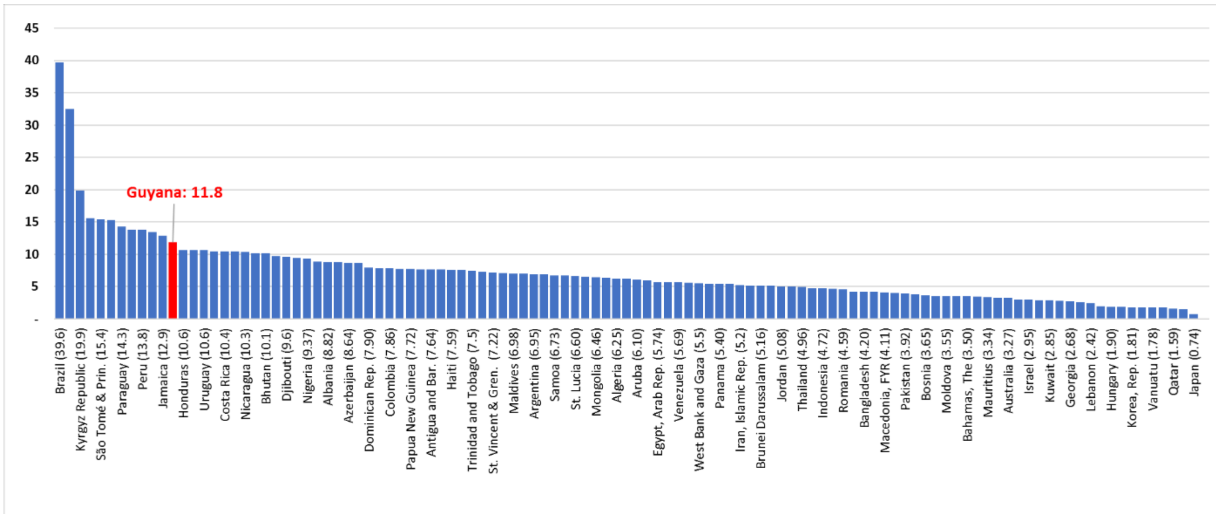
Source: World Bank – World Development Indicators

In this context, banks in Guyana display high levels of profitability, suggesting that the cost of services to consumers remains too high. In 2016, Guyana ranked in the 90th percentile of the 121 countries for which information is available in terms of deposit spreads (this was the last year for which comparable cross-country data was available). This was considerably higher than the average for all other middle- or low-income countries (6 percent and 8 percent, respectively), and LAC countries (8 percent). One factor contributing to high interest rate spreads in Guyana could be the limited number of banks, leading to limited competition in the sector (Figure 12.1). Another factor leading to higher interest rate spreads could be the lack of information regarding credit risk and borrower credit histories, which translates into higher lending rates.[11] Moreover, the financial sector has maintained high levels of liquidity in the form of excess reserves in the Bank of Guyana. The unremunerated nature of these reserves could also be contributing to higher levels of lending rates (IMF, 2017).

[11] There is one private credit bureau operating in Guyana, though it is still developing (IMF, 2017). According to the World Bank's Doing Business Index (2019), it covers approximately 60.5% of adults.

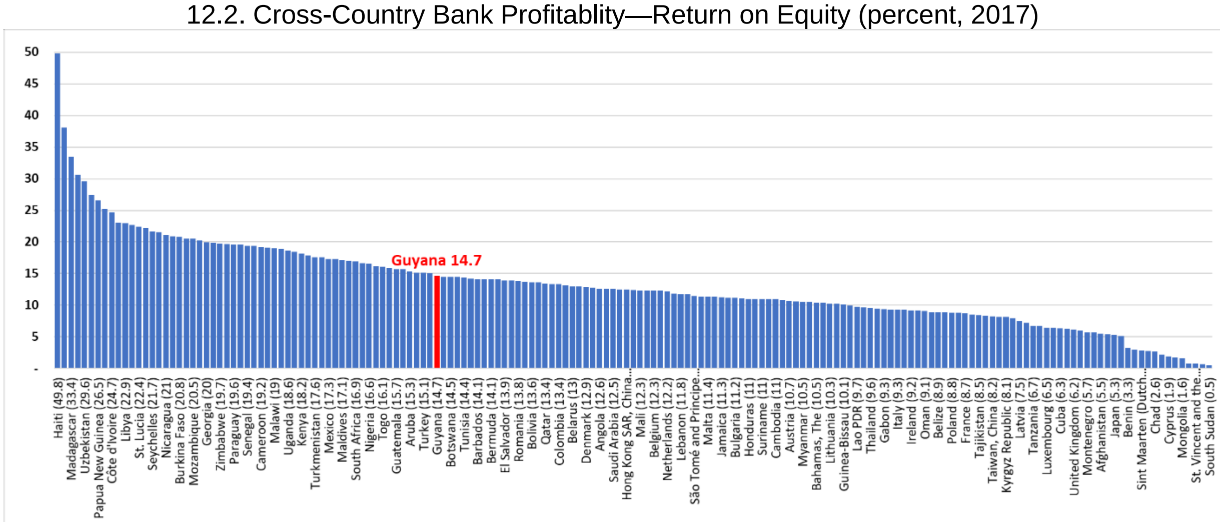
Figure 12. Costs of Financial Services and Lack of Competition

12.1. Cross-Country Costs of Banking Services—Interest Rate Spreads (percent, 2016)



Source: World Bank Development Indicators data. 111 countries with positive values shown.

12.2. Cross-Country Bank Profitablity—Return on Equity (percent, 2017)



Note: 171 countries with positive values shown.
Source: World Bank Financial Development and Structure database.

Another indicator relevant to the costs of credit in Guyana relates to profit margins and returns on equity (ROE) for commercial banks. As above, the banking sector is characterized by wide spreads between deposits and loans. In this context, one might expect ROEs to be higher than might be observed in countries where competition (or other factors) incentivizes financial institutions to compete on price. By this measure, Guyana hosts a highly profitable banking sector, with an average ROE of 14.7 percent in 2017, ranking it in the 67th percentile out of 171 countries for which cross-country data were available across all income groups and regions (Figure 12.2).

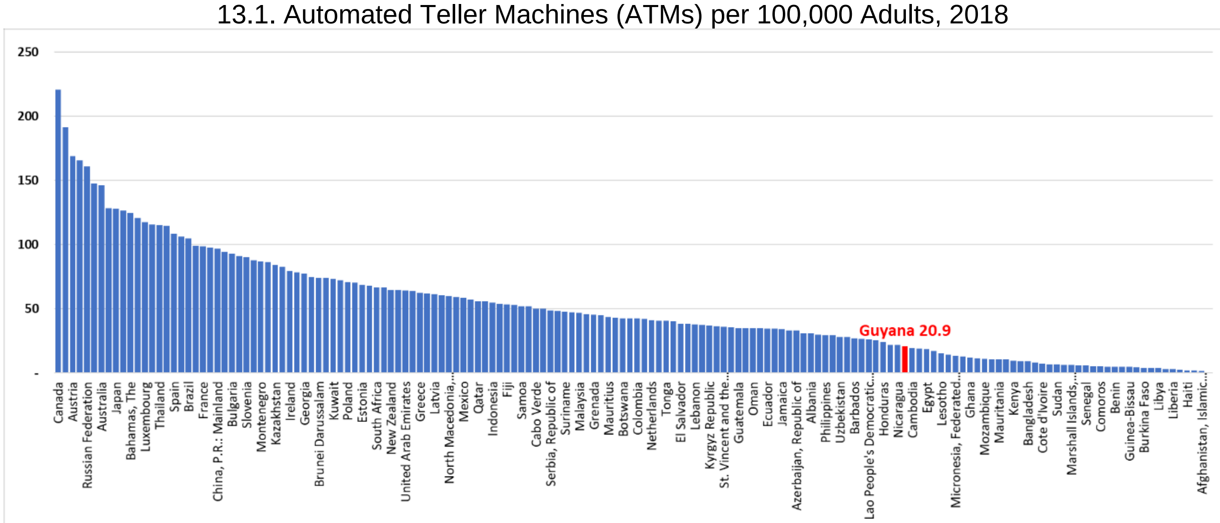
High interest rate spreads translating into high levels of profitability may indicate that banks are not incentivized to compete sufficiently with one another for deposits and customers.

Accessibility to financial services is another challenge reported by the World Bank financial access survey relevant to Guyana. The scarcity of banks and their branches or access points relative to the population suggests that lack of access is a potential impediment to financial inclusion in Guyana. A factor contributing to this concern is the relatively low level of urbanization. In this context, only 28.5 percent of the population resided in urban areas in 2014, where access points (particularly bank branches) for services tend to be most concentrated.

Guyana ranks relatively poorly in terms of the number of automatic teller machines and commercial bank branches relative to the country's population. Though the number of ATMs more than doubled between 2005 and 2018, Guyana continues to lag most countries. With 20.9 ATMs per 100,000 adults, Guyana ranks 118th out of 160 countries with information available (Figure 13). Similarly, Guyana has only 0.59 ATMs per 1,000 km^2, ranking it 116th out of 160 countries. In this context, Suriname shares Guyana's low population density, but boasts of 47.5 ATMs per 100,000 adults, and 1.3 ATMs per 1,000 km^2. An additional challenge stems from the lack of interoperability across service providers, which implies that ATM users can only bank at their own bank's ATM. This also applies to point-of-sale (POS) devices, requiring some retail establishments to have one POS device for each of the main banks.

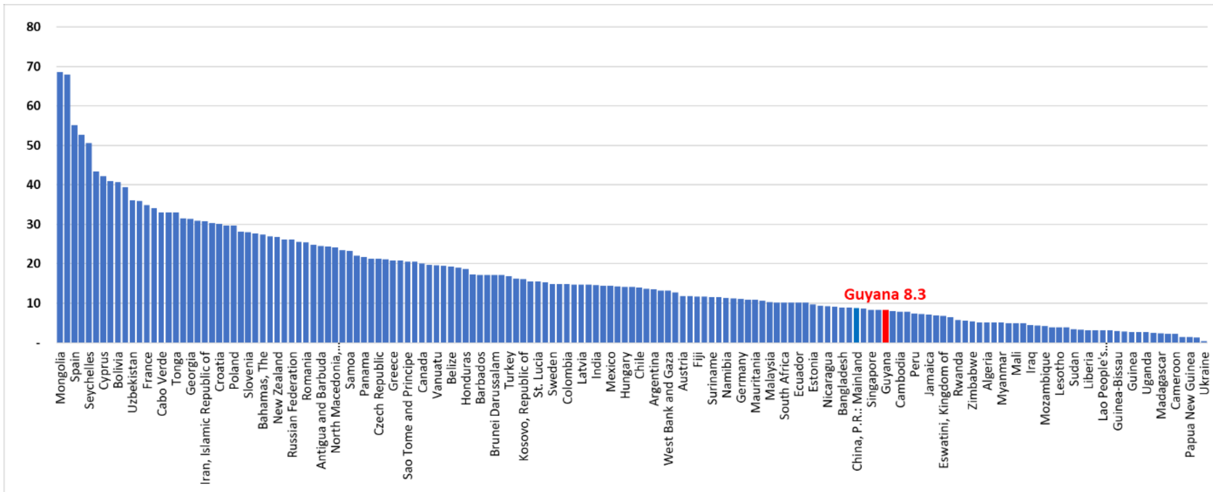
Figure 13. Financial Physical Access

13.1. Automated Teller Machines (ATMs) per 100,000 Adults, 2018



Note: 160 countries with available data.
Source: International Monetary Fund – Financial Access Survey.

13.2. Branches of Commercial Banks per 100,000 Adults, 2018.



Note: 160 countries with available data.
Source: International Monetary Fund – Financial Access Survey.

The availability of commercial bank branches is also limited. Guyana has 8.3 commercial bank branches per 100,000 adults, which ranks Guyana 116th out of 160 countries, placing the country in the 28th percentile. The median availability of bank branches per 100,000 adults is 80 (Mexico and Chile are LAC countries around this median). With 0.23 bank branches per 1,000 km^2 Guyana ranks 154th out of 159 countries, where the median availability is 10.2 branches per 1,000 km^2. As a reference, in Suriname there are 11.5 bank branches per 100,000 adults and 0.3 branches per 1,000 km^2.

Another key impediment to financial inclusion identified by the World Bank survey was a lack of trust in banks and the financial systems in which they operate. There are several issues relevant to this challenge, including assessments of a country's financial stability, the quality of regulation and/or supervision, and bank-specific risk characteristics. In this context, Guyana boasts of a well-capitalized and profitable financial sector, with strong performance on most indicators of financial sector soundness (Table 4). The system-wide average capital adequacy ratio has been near or above 20 percent since 2012, which is considerably higher than the minimum regulatory requirement of 8 percent. The main challenge facing the sector has been a doubling in the share of non-performing loans from about 6 percent in 2012, to about 12 percent of total loans by 2014 onwards. While still a concern, related systemic risks are mitigated by ample capitalization, suggesting that this issue alone is not likely to represent a major concern among the public.

Table 4. Financial Soundness Indicators

	2012	2013	2014	2015	2016	2017	2019*
Balance Sheet Growth (percent, year on year)							
Capital	16.2	14.5	11.7	10.5	8.0	4.7	8.6
Loans	25	25.1	19.2	7.7	10.3	15.7	17.3
Liquidity							
Domestic currency liquid assets 1/	36.19	38.72	35.66	38.12	37.42	56.96	40.03
Asset Quality							
Provisions for loan losses / NPLs	69.54	45.44	38.03	45.8	48.48	38.39	38.32
NPLs / loans	5.97	8.64	11.51	12.91	12.19	11.93	12.06
Capital Adequacy							
Capital adequacy ratio	22.47	21.77	23.87	25.39	27.14	28.72	26.55
NPLs / capital and reserves	24.51	33.82	42.87	46.31	41.1	38.38	37.69
Profitability (calendar year)							
Net interest income / operating income	64.84	66.96	66.6	66.42	65.54	65.96	65.90
Operating expenses / operating income	47.40	48.29	50.12	57.59	57.0	50.51	51.85
Return on equity (ROE)	24.46	22.73	21.4	16.26	16.17	17.39	N/A

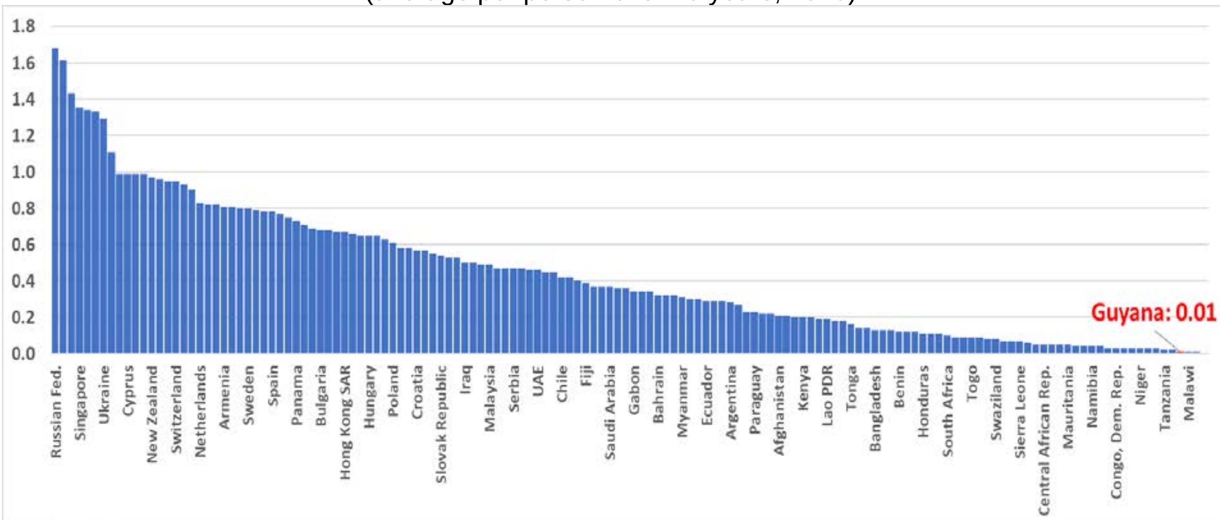
Notes: 1/ Percent of total demand and time liabilities. (*) Through September 2019.
Source: Bank of Guyana.

Another factor closely associated with the issue of trust in financial institutions is the level of financial literacy. Financial literacy refers to the level of knowledge and understanding that individuals have regarding the nature of the banking system, the advantages of using the formal financial system for savings and credit, and how these issues relate to their day-to-day budgeting. Some countries have undertaken detailed surveys of levels and perceptions regarding financial literacy.[12, 13] As in many countries, financial literacy is strongly correlated with levels of educational attainment. In this context, Guyana compared poorly with many other countries on a number of related measures, including relatively poor outcomes in terms of years of tertiary education (latest available cross-country data for 2010 outlined in Figure 14). At that time, adults in Guyana had undertaken an average of 0.01 years of tertiary education—which was comparable to Malawi, Mozambique, and Guatemala, based on a ranking of 143 countries for which data were available. Furthermore, Guyana has been identified as an economy with one of the highest emigration rates for highly skilled citizens, estimated at over 43 percent for those with a secondary education, and 89 percent for those with tertiary education between 1965 and 2000 (Docquier and Marfouq, 2004). While admittedly only a proxy for financial literacy, this and related data certainly suggest that financial literacy is likely to pose impediments to financial access and inclusion in Guyana.

[12] For a discussion of financial literacy surveys and related methodologies, see: http://www.oecd.org/finance/financial-education/2015finlitmeasurementexercise.htm

[13] In 2017, the Bank of Guyana announced that it would work towards improving financial literacy, including by developing a strategy and related actions.

Figure 14. Years of Tertiary Education
(average per person over 15 years, 2010)



Note: Reflects 143 countries for which data was available.
Source: World Bank Education Statistics.

G. Recent Policy Initiatives

The National Payments System Strategy

In March 2018, the Bank of Guyana launched a National Payments System (NPS) Strategy. This strategy outlines the government's plan to develop a new legal framework and the technological infrastructure needed to modernize and facilitate payments and economic transactions. The overall objectives of the initiative—set to be achieved by 2030—include a desire to build a robust, safe and sound, efficient and inclusive NPS that meets the current and future needs of the economy; such that the system supports financial activity, financial sector development, advances the use of electronic payments, contributes to financial risk mitigation, achieves compatibility with international systems, and adheres to the relevant international standards, guidelines and codes. (Bank of Guyana, 2018). The National Payment System Bill was passed in 2018 as part of the overall strategy to develop the sector. The bill passed along with the Bank of Guyana's proposed regulations addressing electronic funds transfers, agents, electronic money, and oversight.

The plan would help facilitate transactions in Guyana. According to a 2015 World Bank retail payments survey, over 99 percent of purchases of goods and services, as well as transfers of remittances were cash-based, while 95 percent of periodic bill payments were undertaken in cash. Similarly, 100 percent of payments to the government were cash-based (Bank of Guyana, 2018). Broader use of electronic payments could improve productivity and help support financial access and inclusion. The availability of more electronic payment facilities would, at a minimum, reduce

the effort required to reach branches and ATMs, and potentially increase demand for competitive banking services.[14]

The strategy and action plan for the development of the NPS of Guyana is based on the Nine Pillar National Payment System conceptual framework developed by the World Bank. The nine pillars represent the nine thematic areas of an NPS and are reproduced in the table below. Some of the practical improvements that the NPS strategy seeks includes enhancing the efficiency of payment processing, reducing settlement times for both retail and large value transactions, improving the dissemination of electronic payments by vendors, merchants and other providers, and advancing electronic collections and disbursements in the public sector, among others.

Table 5. Nine Pillars of a Robust National Payment System

Pillar	Description
I	**Legal Framework.** Payment systems work in a sound and robust legal environment.
II	**Large Value Payments.** Settlement mechanisms for large-value and time-critical payments are safe and efficient and comply fully with the CPMI-IOSCO Principles for Financial Market Infrastructures.
III	**Retail Payments.** Retail payment systems are efficient, sound and interoperable, and support a wide range of payment instruments and services.
IV	**Government Transactions.** Government collections and disbursements are fully and efficiently integrated with the National Payment System.
V	**Securities Depository, Clearing and Settlement.** Securities depository, clearing and settlement are safe and efficient; fully comply with international standards; and, support the development of capital markets.
VI	**Money Markets.** Interbank money markets are fully developed and closely integrated with settlement systems.
VII	**International Remittances.** International remittances and other cross-border payments are distributed rapidly and conveniently, and are cost efficient from the perspective of end users.

[14] The World Bank undertook a study that concluded that the modernization of the National Payment System could generate savings throughout the financial sector of approximately US$30 million (Bank of Guyana).

VIII	**Oversight.** The oversight framework for payments and securities settlement systems is clearly defined, and the oversight authority exercises oversight effectively in cooperation with other regulators and supervisors.
VIII	**Cooperation.** Effective, structured and fruitful cooperation is in place within the NPS.

Source: World Bank, Payment System Development Group (PSDG), 2015.

Deposit Insurance, Emergency Liquidity Assistance, and Financial Regulations

In 2018, the Deposit Insurance Bill was passed with the goal of providing partial protection to depositors and strengthening financial stability. In practice, the main components of the Deposit Insurance Scheme work together such that in the case that a financial institution were to face insolvency, deposit insurance would cover customers for up to US$9,500. This is an important policy development, partially for safeguarding savings, which could contribute to greater demand for banking services. This policy also seeks to mitigate risks of bank runs and banking crises, which generally strengthens the financial sector and the economy.

Other legal and regulatory improvements to support financial sector development are also in progress. First, amendments to the Bank of Guyana Act have been put forward to strengthen the emergency liquidity assistance (ELA) framework by giving the Bank of Guyana the power to accept an expand the range of collateral from borrowers, and extending the period during which assistance is available. Second, amendments to the Financial Institutions Act strengthen the Bank of Guyana by increasing its power to revoke licenses, issue directives and penalties, and improves the resolution framework for failing institutions. Finally, amendments to the Insurance Act update policies related to long-term contracts, the information and forms insurers must provide, as well as regulations regarding child beneficiaries of policies.

H. Conclusions

In summary, evidence regarding many of the common impediments to financial access identified by cross-country studies point to deficiencies in crucial areas for Guyana. Relatively low income levels, a lack of physical access to banking infrastructure, relatively high borrowing costs, and a lack of credit information represent important challenges to financial deepening and access in Guyana. While the level of economic and financial sector development, per capita national income, and income disparities are clearly barriers to inclusion, these are challenges that can only be addressed via a comprehensive program of macroeconomic and social reforms, that will only bear fruit over relatively long horizons. Other country-specific factors, policies, and market failures can, however, be addressed with more focused policies and initiatives, that have the potential to produce appreciable results over shorter horizons. In line with the challenges outlined above, such initiatives could include the following:

- **Development and implementation of a comprehensive financial inclusion strategy.** Many countries in the region and around the world have, with the support and assistance of international development partners, developed comprehensive financial development and inclusion strategies. The World Bank lists at least 34 countries that have developed financial inclusion strategies, including Haiti and Jamaica in the Caribbean, and Brazil, Colombia, Mexico, Paraguay, Peru, and Uruguay in Latin America. These strategies tend to take a holistic approach to identifying policy failures, infrastructure and institutional gaps, and other country-specific barriers to access and inclusion.[15] Guyana could consider exploring and developing such a strategy, with the support of international partners, that would help to identify key impediments, and also act as an important catalyst for progress in related areas.

- **Developing domestic financing instruments and markets.** The government should diversity its domestic funding practices and instruments, including to help the market develop. This would facilitate the development of private financing instruments, by creating pricing and risk benchmarks necessary to develop a domestic yield curve. Similarly, this would help market participants differentiate between funding and monetary policy actions. Finally, the use of sustainable or 'green' financing instruments could also help provide asset management alternatives for local financial entities, while simultaneously providing a useful source of funding for environmentally- and socially-responsible policies and investments—all the more important given the discovery of new sources of hydrocarbon-based revenues.

- **Reducing the costs of finance.** As noted above, banks in Guyana are quite profitable and display comparatively wide loan-to-deposit spreads, particularly when compared with regional and global peers. High interest rates may stem from several factors, including the funding structure of banks, and regulatory or supervisory issues. It may also relate to the risks inherent to borrowers and their intended uses of funds. Issues such as the availability of information regarding borrower histories and risk profiles are also relevant. While more analysis is required to properly target reforms or policies, efforts undertaken in other countries to improve the availability of credit- and risk-related information have proven helpful, as have efforts to improve the capacity of market participants to develop business plans and lending proposals. In this respect, continuing to support the work of the credit bureau would contribute to improving information.

- **Increasing physical and virtual access for customers.** Given the large proportion of the population living outside urban areas, financial access could be expanded by increasing access points in underserved areas. The expansion of mobile and virtual banking services could help in this regard, supported by national payment system reforms and related regulatory reforms.

- **Encouraging competition for banking services.** Strong bank profitability may be an indication of a lack of competition in the sector, which would tend to drive down profits as

[15] For example, see Jamaica's recently launched Financial Inclusion Strategy, which has been developed and implemented with support from the Inter-American Development Bank. Available at: http://boj.org.jm/pdf/Jamaica_NFIS_Final_Draft.pdf.

competitors attempt to attract customers. In this context, authorities might consider fostering competition in the sector via regulatory or policy measures (e.g., barriers to bank entry or establishment), to the extent that these would not compromise system integrity and stability. Similarly, and in line with the previous recommendation, efforts to facilitate lower-cost virtual banking services (e.g., mobile banking) could help reduce the costs of financial service provision, as well as encourage the entry of new market participants.

- **Enhancing financial literacy.** Initiatives aimed at improving financial literacy, particularly for rural or undereducated populations, would encourage the unbanked to seek out traditional and new financial services of banks and other providers. This could be accomplished through targeted information campaigns or other means of ensuring that underserved segments of the market have the information required to make better use of the system. The Bank of Guyana's work towards developing a national financial inclusion strategy will help in this regard, and its implementation could be further supported by embedding it in a broader national financial inclusion strategy.

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