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PRIVATE SECTOR ASSESSMENT OF GUYANA



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Executive summary

The Guyana Private Sector Assessment Report (PSAR) provides an overall assessment of private-sector development issues and makes recommendations regarding steps needed to accelerate private-sector investment, growth and development. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country report.¹ Secondary data were utilized to describe the state of the country at both the micro and macro levels.

Based on the PSAR's recommendations, private-sector expansion in Guyana will continue to be underpinned by the traditional productive sectors of mining and agriculture, which are dominated by domestic private companies—the main engines of economic growth. Other important factors contributing to Guyana's economic growth include remittances from abroad, and also public-sector consumption and investment. The services sector, which is also in the hands of domestic private companies, expands or contracts following the lead of mining and agriculture.

The mining and agricultural sectors are characterized by large numbers of small private producers. Gold, which makes up about 50% of Guyana's exports, is extracted by a large number of mining businesses that employ around 5-30 workers each. The situation is similar in agriculture, where rice and sugarcane are the main export products. Investment decisions are heavily influenced by international gold prices, which have been high since 2007. The expansion of the mining and agricultural sectors has a direct impact on aggregate demand in Guyana, owing to the fact that the income generated by exports stays in the country and is channelled into consumption and investment. Guyana's economic growth cycles are largely determined by investment decisions taken by domestic private companies.

Guyana's economic structure is also different from that of other regional countries in another way, in that there are strong links between the main engines of growth (mining and agriculture) and other domestic sectors. With the exception of the heavy machinery (and related maintenance) required for the extraction of gold, which is imported, most goods (both tradable and non-tradable) and services are bought in the domestic market. These forward and backward links enhance the multiplier effect of investment and spending generated by the mining and agricultural sectors.

Guyana's private sector is fragile, and the incentive framework is such that companies tend not to invest adequately. As a result of this underinvestment, companies do not modernize, and practices in mining and agriculture have not changed significantly for many years. Miners use obsolete extractive technologies, and they are frequently responsible for significant environmental damage, including water pollution. This is an issue that needs to be addressed, as the enforcement of laws and regulations is weak, and this may slow the

¹ The original reports can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

implementation of the government's Low Carbon Development Strategy and the agreement between Norway and Guyana for the disbursement of REDD+ funds.² Agriculture uses labour-intensive practices, and farmers have not invested in mechanization. Because Guyana's economy is small, future growth prospects will continue to depend on these primary sectors. As a small country, Guyana's industrial and services sectors cannot grow by supplying domestic demand, but building export capacity requires specialization and investment, as well as additional factors such as energy and skills, which take time to build up. Thus the focus of the PSAR is on identifying the factors that limit the modernization of the mining and agricultural sectors and the growth of the secondary and tertiary sectors.

The PSAR recommends improving the investment climate by strengthening the property rights of miners and farmers. This issue is not new, and has been noted in previous analyses of the problems facing the private sector in the country. The simplification of land registration, providing long-term property rights for miners and allowing sales of land by farmers, will have a positive impact on investment in the near term; at present, the weakness of land rights has the effect of deterring investment, slowing modernization and blocking access to finance. The modernization of mining and agricultural methods would also have a positive impact in terms of reducing environmental risk. More generally, the private sector would also benefit from the expansion of financial services to small and medium-sized enterprises (SMEs), which make up the vast majority of firms in the country. Local microcredit institutions, although very small, provide an illustration for larger financial companies of how to reach out successfully to SMEs. High tax rates limit the expansion of businesses and the integration of informal businesses into the formal economy. Limited supply of and investment in an educated labour force contributes to constraints in private sector growth. In addition, the PSAR notes that the high cost and unreliable supply of electricity increase the cost of industrial production and limit its expansion. It notes that government would benefit from the use of public-private mechanisms to fund steps to remedy the country's serious infrastructure inadequacies.

Finally, the PSAR notes that data on private-sector issues is limited, and points to priority information gaps. These data gaps limit the capacity to design policies, programmes and projects that could facilitate growth and development. The data gaps that need to be filled in include: a mapping of the private sector; a mapping of the financial sector and the services that are provided to the private sector; an analysis of labour markets; an analysis of the tax system and its impact on the informal sector; an analysis of property rights and proposals for modernization; and a mapping of licensing requirements.

² REDD stands for reduced emissions from deforestation and forest degradation.

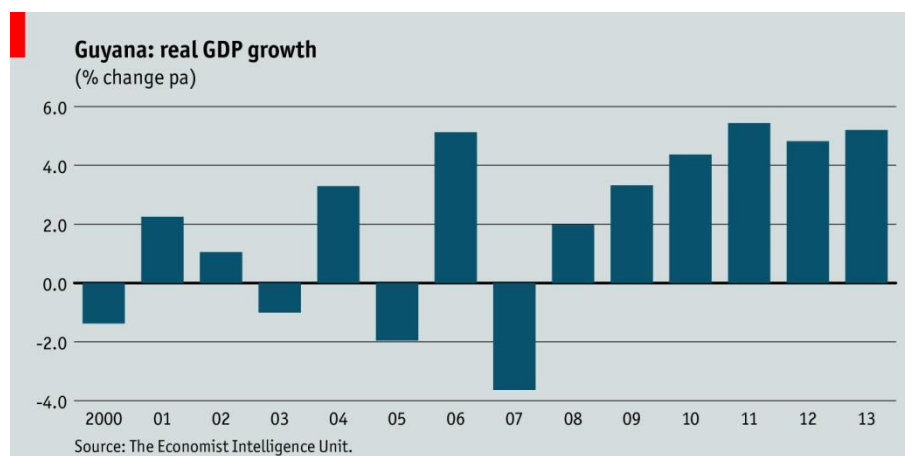
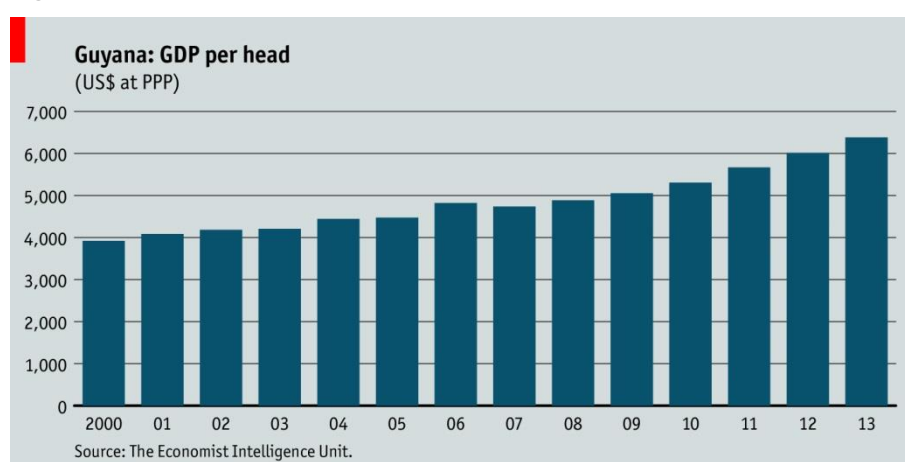
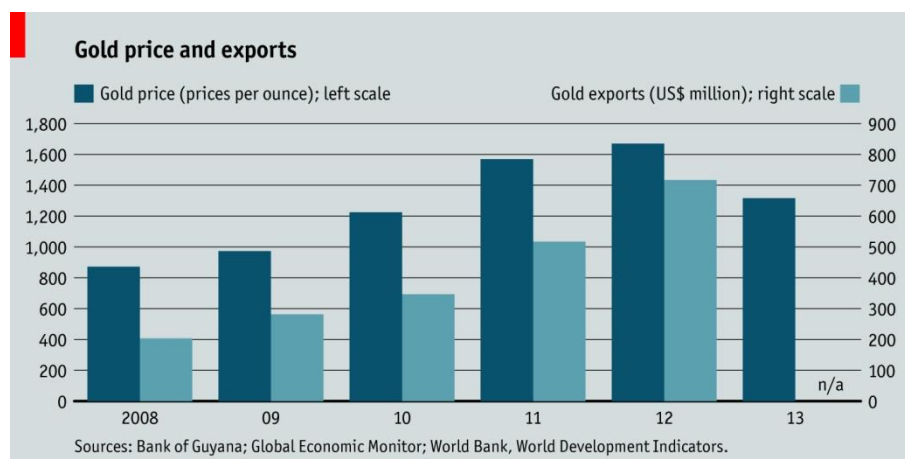
I. Private sector assessment

Background The government of Guyana has made substantial efforts in economic planning and has taken important actions aimed at facilitating private-sector development. Guyana leads the region in the preparation of development plans aimed at improving competitiveness and providing a clear framework within which the government supports the expansion of economic activity. In 2006 the government published a National Competitiveness Strategy (NCS), which guided efforts to expand and diversify the economy. Since then, this ambitious strategy has been partially implemented and has delivered some significant results, but more recently it has become less effective owing to dwindling funding. Complementing this formal effort to improve economic competitiveness, in June 2009 the government introduced a Low Carbon Development Strategy (LCDS), which provides a direction for the country's future generation and use of energy and for the preservation of Guyana's environmental assets. However, the strategy is in practice an ad hoc collection of projects, and has had little impact so far.

Macroeconomic overview The economy posted positive economic growth between 2008 and 2013. This is reflected in a pickup in GDP per head, which rose from US\$4,888 in 2008 and US\$6,400 in 2013, a 31% increase (see Figures 1 and 2). Several factors played a role in the solid economic performance during the period. Chief among these factors is the high prices for key commodity exports on international markets, and in particular for gold (see Figure 3).

Though there are downside risks to the economic outlook, such as negative factors affecting the competitiveness of the sugar industry, fluctuations in international commodity prices, and external environmental shocks, economic growth is forecast to remain strong in 2014 and 2015, at around 4% per year. Potential offshore energy projects—which have attracted foreign interest—could help to boost growth, as could rising demand from Venezuela for products such as rice.

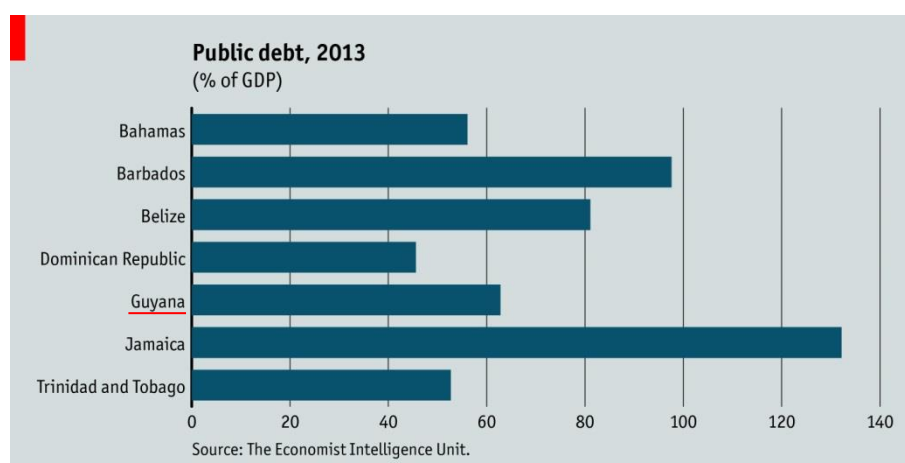
Although the economy has performed well in recent years, structural weaknesses remain. These weaknesses relate to the small size of the economy, and its dependence on demand for mineral and agricultural exports. For this reason, it is widely acknowledged by the government, private sector and international donors that additional reforms are needed to diversify the economy and its export base. In the short term, continued economic growth may depend on carefully nurturing those sectors that explain its current success: agriculture and mining. In the long term, as the business environment continues to improve, the economy may modernize and diversify.

Figure 1**Figure 2****Figure 3**

However, improved terms of trade explain only part of the recent success of the Guyanese economy. In recent years the Guyanese government has improved its fiscal and monetary policymaking. Better fiscal management, in particular showing some restraint in expenditure, has led to a stabilization in total public

sector debt. A relatively high level of public sector debt was a recurrent problem of Guyana, requiring several rounds of debt rescheduling and forgiveness by private, bilateral and multilateral creditors.

Figure 4



Overall public sector debt remains high at about 60% of GDP, but it is stable (see Figure 4 and Table 1). Reducing public sector debt from domestic sources decreases crowding out of the private sector for borrowing, but it also increases the exposure of Guyana to foreign currency risk (since external debt is foreign currency denominated). This is, however, an acceptable risk given the composition of external debt, which is on concessional terms with long maturity periods.

Past successful efforts to reduce Guyana's public sector debt have had a positive impact on economic performance. The country's experience in debt restructuring and forgiveness includes Paris Club renegotiations, Highly Indebted Poor Countries Initiative (HIPC), enhanced HIPC, and the Multilateral Debt Relief Initiative. These initiatives and subsequent policy reforms set the stage for a more stable macroeconomic environment, with increased social spending and improved overall competitiveness.

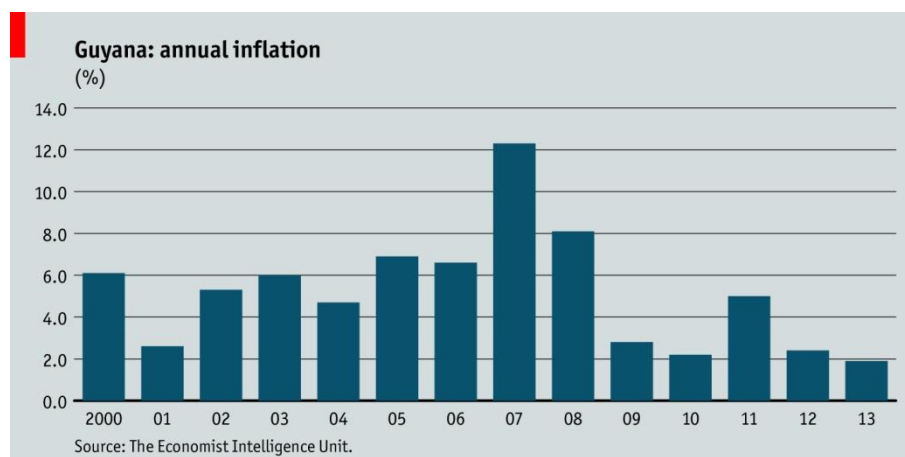
Table 1: Total debt/GDP (%)

	2008	2009	2010	2011	2012	2013
Belize	91.4	95.0	92.0	84.7	78.9	78.9
Dominica	67.2	56.0	52.5	52.9	57.4	62.6
Dominican Republic	22.3	24.0	25.4	26.5	27.9	30.7
Guyana	44.2	57.9	65.7	71.6	–	–
Haiti	30.8	22.3	14.7	10.5	14.8	17.0
Jamaica	75.5	91.4	107.0	99.3	96.9	106.8
St Kitts & Nevis	33.4	32.0	29.3	27.3	25.9	21.0
St Lucia	70.3	36.7	46.3	34.8	35.8	40.6
St Vincent & the Grenadines	29.4	32.9	40.1	41.8	38.4	34.9
Trinidad and Tobago	14.2	20.4	18.9	19.4	19.2	17.2

Source: Economist Intelligence Unit.

More conservative fiscal policy, coordinated with monetary and exchange-rate policy, has resulted in single-digit inflation of around 2%, which provides a stable price environment for private-sector investment (see Figure 5). Perhaps more importantly, the Bank of Guyana has been able to accumulate significant foreign-exchange reserves.

Figure 5



The overall favourable economic conditions for the country are reflected in increased investments. Both the public and private sectors have invested heavily in different sectors since 2010. The increase in private sector investment is particularly notable in the context of the Guyana PSAR. According to anecdotal evidence, these investments are geared towards the gold, rice and real estate sectors.

The private sector plays an important role in the growth of the economy, particularly those actors involved in mining and agriculture. The performance of these sectors is significantly impacted by international prices for key commodities. When prices rise—which was the case in recent years for gold, other minerals, and agricultural commodities—then the private sector invests and accelerates production for export markets. The benefits of these activities spill over to the rest of the economy, resulting in increased aggregate demand. In Guyana, the manufacturing and the services sectors are significantly impacted by upturns and downturns in aggregate demand.

Public investment also helps to boost domestic demand. The government is committed to large-scale investments in the near term, such as the construction of a Marriott hotel in Georgetown, due to open in February 2015. The construction and management of the project has been overseen by government-owned Atlantic Hotel, Inc. The government has also invested in the expansion of the Cheddi Jagan International Airport. These investments are in addition to the government's Public Sector Investment Programme, which also heavily emphasizes education, health and transport. These economic activities have a solid positive impact on growth and employment in the country.

Institutional effectiveness As the first minority government in Guyana's history, the People's Progressive Party/Civic (PPP/C) administration led by Donald Ramotar will continue to face huge difficulties in implementing its agenda in 2014-15, meaning that the political outlook is subject to substantial uncertainty. The basic division in the legislature is that between the ruling Indo-Guyanese PPP/C and Guyana's second-largest political party, the mainly Afro-Guyanese-supported People's National Congress-Reform, which is allied with a number of small parties under the banner of A Partnership for National Unity (APANU). Guyana's third party, the Alliance For Change (AFC), was established as a vehicle to break ethnic voting patterns and bridge the divide between Guyana's two main ethnic groups. Historically, voting has been along ethnic lines, but since 2006 there has been a movement to transcend race and focus on policy and governance. There is vibrant political debate that is widely followed by the press.

In terms of fiscal management, until a few years ago donors considered Guyana's budgetary processes to be among the strongest in the Caribbean, and according to many experts the country had the best budget preparation process in the region. In general, budgets were considered to be properly prepared, although execution and monitoring left room for improvement. However, consultation with the opposition is currently merely pro forma. The concerns of the majority opposition are generally summarily dismissed, and when the budget is read in parliament fierce political confrontation ensues. This has been the pattern for the past three years; it has resulted in 11th-hour votes on the budget or court cases, and in 2014 a vote to refer the finance minister to a sanctions committee for violating spending authority.

Owing to the current legislative deadlock, governmental efforts to deal with important national issues are subject to significant delays. For example, Guyana's parliament has not passed legislation to curb money-laundering and the financing of terrorism. Parliament's continued lack of action on this issue may trigger Guyana's inclusion on the Caribbean Financial Action Task Force's list of countries that lack appropriate legislation to prevent money-laundering. Its inclusion on this list could result in increased transaction costs related to international flows of funds, reflected in higher interest rates on loans.

Components of the productive sector

Overview of the sector

This section includes an overview of the private sector, which is characterised by many micro, small and medium-sized companies that are active in primary, secondary and tertiary economic activities.

Guyana's investment and production cycles are different from those in other countries in the region, as they are largely determined by decisions made by domestic producers, although some new exploration investments by multinational corporations in the mining sector are also having an impact. For the most part, when mining and agriculture are expanding, this is the result of increases in investment by domestic miners and farmers, leading to increased levels of production. The mechanism whereby wealth generated in these

sectors is transmitted to the rest of the economy may be summarised as follows: adequate incentives for mining and agriculture result in increased investment, which leads to higher levels of production and exports; investment in these sectors has a multiplier effect beyond mining and agriculture, which is amplified by earnings from exports that are spent or invested in the country.

Importantly, aggregate demand increases as a consequence of these large resources circulating in the economy. The fact that the country possesses only limited industrial capacity requires the import of a significant proportion of the goods that are consumed in the country. However, the domestic services sector, most notably construction and banking, directly benefits from the expansion of aggregate demand. For example, large investments in real estate are being funded by owners of mining companies who are seeking opportunities to invest their profits.

Another way in which Guyana's economic structure is very different from that of other countries in the region is that there are strong links between the main engines of growth (mining and agriculture) and other sectors. With the exception of the large machinery and related parts for its maintenance that are required for extraction of gold, which are imported, most goods and services are purchased in the domestic market. These forward and backward linkages enhance the multiplier effect of investment and spending generated by the mining and agricultural sectors, and as a result the largest share of the wealth created from these activities stays in Guyana.

As of October 2013 the Small Business Bureau's database included 6,756 businesses, of which about 2,500 had been validated as active businesses (a number of businesses were not active because they had closed or were improperly registered). About 73% of registered businesses in Guyana employ fewer than five people, while 22.3% employ 5-15 people and 4.7% employ more than 15. Most firms sell their goods and services only in the domestic market, with only 15% reporting that they sell to the Caribbean region and a mere 3.8% selling beyond the Caribbean.

As a small country, the industrial and services sectors cannot grow by focusing solely on satisfying domestic demand. However, building the capacity to export requires specialization, investment and the existence of additional factors, such as energy and skills, which take time to build up. Thus the focus of this Private Sector Assessment Report (PSAR) is on identifying the incentives that would encourage the modernization of the mining and agricultural sectors and the growth of the secondary and tertiary sectors. Table 2 summarises the composition of the private sector by share of GDP.

Table 2 Guyana: Composition of GDP by sector

Sector	% of GDP (2006 G\$ basis)					Real growth, 2008-12 (%)
	2008	2009	2010	2011	2012	
GDP at basic prices	100.0	100.0	100.0	100.0	100.0	19.2
Agriculture, forestry & fishing	21.4	20.9	20.5	20.0	19.8	10.3
Sugar	4.7	4.7	4.2	4.3	3.8	-3.6
Rice	2.5	2.7	2.6	2.7	2.7	27.7
Other crops	5.0	4.9	4.8	4.8	4.8	15.6
Livestock	2.7	2.7	2.6	2.6	2.9	25.2

Fishing	3.3	2.9	3.0	2.7	2.9	6.1
Forestry	3.1	3.1	3.3	2.8	2.6	-0.5
Mining & quarrying	11.2	10.5	9.5	10.8	11.8	25.6
Bauxite	2.6	1.7	1.5	1.9	2.1	-5.2
Gold	6.1	6.8	6.7	7.5	8.6	67.8
Other	2.5	2.0	1.4	1.4	1.1	-46.1
Manufacturing	6.9	7.0	6.7	6.8	6.6	14.4
Sugar	1.2	1.2	1.1	1.1	1.0	-3.6
Rice	1.6	1.7	1.6	1.7	1.7	28.1
Other manufacturing	4.1	4.1	4.0	4.0	3.9	14.5
Services	63.3	64.1	65.9	65.3	65.1	22.6
Electricity & water	1.8	1.8	1.8	1.7	1.7	13.0
Construction	9.9	9.7	10.2	10.0	8.5	1.7
Wholesale & retail trade	12.7	13.5	14.3	14.2	14.4	35.8
Transportation & storage	7.8	7.5	7.7	8.3	9.4	43.8
Information & communications	6.9	7.0	7.1	6.9	6.8	17.3
Financial & insurance activities	3.6	3.8	4.1	4.3	4.7	56.0
Public administration	8.9	8.6	8.3	7.9	7.6	2.0
Education	4.5	4.6	4.6	4.6	4.5	19.6
Health & social services	1.7	2.0	2.0	2.0	2.0	38.4
Real-estate activities	1.2	1.2	1.2	1.2	1.2	10.5
Other services activities	4.2	4.4	4.5	4.3	4.3	21.1

Source: Bank of Guyana.

Mining Guyana's mining sector is characterised by large numbers of small private producers. Gold, which accounts for about 50% of the country's total exports, is extracted by a large number of mining businesses that employ around 5-30 workers each and are fully owned by Guyanese nationals. In contrast with other large exporters of mined products, such as Suriname and Trinidad and Tobago, Guyana lacks large national or multinational corporations that have invested in this sector³.

The mining sector has experienced rapid growth since 2008, and gold miners' extraordinary success has been the highlight of the economy's recent performance. As Table 2 shows, in 2008-12, the gold-mining sector expanded by almost 68%. According to the Bank of Guyana (the central bank), during the first quarter of 2013 gold production increased 30.8% year on year, while diamond production rose by 47.9%. During the same period, bauxite production decreased by 23.9%. Local mining firms' technical, financial and managerial responsiveness to high international gold prices has been outstanding. Table 2 shows how quickly and significantly the sector has been able to invest in the extraction of gold in the country.

Nonetheless, despite recent investment, companies have not modernised, and practices in mining have not changed much over time. Firms use obsolete extractive technologies, and in many cases miners are responsible for significant

³ The exception to this is the bauxite- and alumina-mining companies that have historically been owned by multinational corporations. Currently, the largest investments in bauxite extraction and alumina production are owned by Rusal of Russia and Bosai of China. Exports of bauxite and alumina account for around 10% of Guyana's total exports.

environmental damage, including water pollution that has a significant negative impact on the health of indigenous populations living downstream.

Agriculture The agricultural industry accounts for more than 33% of employment and almost 40% of Guyana's export earnings. The World Bank estimates agriculture contributed to approximately 21% of GDP in 2012. Like the mining sector, the agricultural sector is characterized by large numbers of small private producers: rice and sugarcane production is completely in the hands of small farmers. Agriculture accounts for a larger share of total production in Guyana than in other countries in the region. Guyana's favourable conditions for growing rice and sugarcane, combined with historical development patterns that have resulted in specialization in these crops, are an asset and have proved in recent years to represent a feasible option for continuing expansion. A strong performance by the agricultural sector would result in increased exports and would also have a positive impact on employment and social benefits for a large portion of the rural population.

As Table 2 shows, rice production grew by 28.1% in 2008-12. According to the Bank of Guyana, in the first quarter of 2013 rice production increased by 68.8%, while sugar production decreased by 14.9%. Nonetheless, owing to underinvestment, companies have not sufficiently modernised and practices in agriculture have not changed much over time. Farmers use labour-intensive techniques and have not invested in mechanizing their processes. Guyana's PetroCaribe deal with Venezuela, under which the latter country sells oil to Guyana on soft terms, provides incentives for investment in the rice sector as a result of an agreement according to which Guyana pays part of its debt to PetroCaribe in the form of rice.

Services Guyana's largest economic sector, as in other countries in the region, is services. About two-thirds of value-added GDP is accounted for by the delivery of the services that are necessary for the functioning of the economy. Wholesale and retail trade is the largest services subsector, and grew by 35.8% in real terms in 2008-12 (see Table 2).

Transportation and storage is the second-largest services subsector. This is consistent with the fact that Guyana's small economy makes industrial production for domestic consumption very expensive; this means that, as the economy expands, demand is satisfied by increasing imports, which are delivered through retail and transportation services. Construction is the third-largest services subsector. Construction growth, although modest in 2008-12, accelerated in 2013 as a result of the investment of profits from the mining sector.

Financial services, although accounting for only a small share of total value added in the economy, has experienced significant growth (56% real growth in 2008-12), confirming that the sector is expanding as the economy grows. Information and communications technology and business-process outsourcing are also expanding. In the past few years Guyana has begun to host call centres that take advantage of the country's low labour costs and its educated workforce whose first language is English.

II. Key challenges for private sector development

According to the World Bank, Guyana is ranked below the regional average in terms of the ease of doing business, but better than three Caribbean states, namely the Dominican Republic, Suriname and Haiti (see Figure 6). Areas in which Guyana lags behind its peers include getting electricity, registering property, getting credit, paying taxes and resolving insolvency. The country does comparatively well in dealing with construction permits, protecting investors, trading across borders and enforcing contracts (see Figure 7).

Figure 6

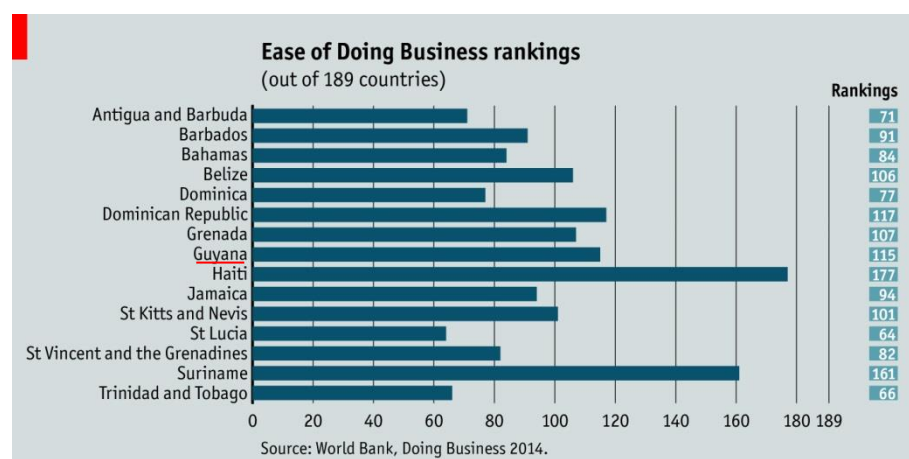
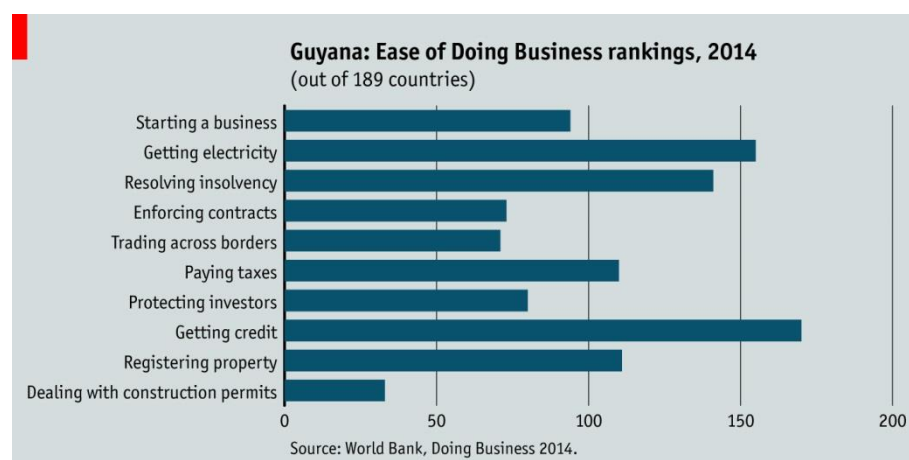


Figure 7



The Global Competitiveness Index compiled by the World Economic Forum (WEF) shows that Guyana's efforts to improve its business environment are paying off and can be measured by improvements in its ranking over a number of years. The 2013-14 index ranks Guyana 102nd out of 148 countries, representing an improvement from 109th previously. Much work remains to be done, however. The WEF's most recent Executive Opinion Survey identified the most problematic factors for doing business in the country as corruption, tax rates, inefficient government bureaucracy, inadequate infrastructure, and crime and theft. Some of the issues identified by the World Bank and WEF, namely

electricity and tax rates were also identified in a 2013 firm-level survey funded by Compete Caribbean. The survey identified the most critical obstacles to doing business as electricity, telecommunications, and tax rates (see Table 3), with more than half of all firms reporting these issues as major or severe obstacles.

Table 3: 2013 Snapshot of firm-level survey (major & severe obstacles)
(average % of firms indicating obstacle to doing business)

	All countries	Guyana
Telecommunications	14%	55%
Electricity	40%	62%
Transportation	21%	28%
Access to land	20%	28%
Tax rates	43%	54%
Tax administration	29%	28%
Customs and Trade regulations	20%	40%
Labour regulations	7%	8%
Inadequately educated workforce	28%	44%
Business licensing and permits	14%	20%
Access to finance	40%	19%
Political environment	11%	41%
Corruption	29%	42%
Crime, theft and disorder	31%	42%
Practices of competitors	35%	26%

Source: 2013 firm-level survey funded by Compete Caribbean.

This section presents a detailed analysis of private-sector development bottlenecks, clustered around the following issues: the structure of business-supporting institutions; access to finance; corporate taxation; technology and innovation; cost, reliability and ease of getting electricity; and property rights. Other issues addressed are gender and the environment. A recurrent problem for the analysis of private-sector development initiatives in Guyana is the lack of reliable information. The analysis compares Guyana with the following countries: Jamaica, the Dominican Republic, Suriname and Haiti.

Structure of business-supporting institutions

Guyana has many public and private institutions that directly or indirectly focus on the expansion of private-sector activities. Compared with other countries in the region, Guyana has a well-developed framework for growth and development. The current policy orientation is to favour capital expenditure aimed at addressing bottlenecks and infrastructure deficiencies, in energy, transport, sanitation, potable water, housing and schools.

This report analyses two public institutions in terms of weaknesses in promoting private-sector development: the Guyana Office for Investment (GoInvest, the national investment-promotion agency), and the NCS Unit, which is responsible for implementing the National Competitiveness Strategy (NCS). However, the list of institutions that are supportive of business in Guyana is much longer than this: there are a large number of such bodies (including trade associations), although they are generally at an early stage of their development and lacking in strength. This makes it difficult for the private sector to speak with one voice and to advance important reforms.

National Competitiveness Strategy (NCS) and NCS Unit

Launched in 2006 after extensive consultations, the NCS represents an ambitious attempt to increase competitiveness⁴. It includes 245 actions that are designed to improve competitiveness, are measurable and should improve Guyana's rankings, especially in the World Bank's Ease of Doing Business index. These actions are divided into core policies, sectoral policies, strategic subsectoral policies and overarching enablers. Out of the 245 actions, 57 (23%) have been completed while an additional 83 (35%) are in the late stages of completion⁵. However, 102 actions have either progressed little or are in the early stages of completion.

Despite the partial success of the NCS's implementation, much remains to be done. The NCS Unit, which has been leading the execution of the strategy, was funded by a loan from the Inter-American Development Bank (IDB). This project is in the late stages of implementation, and financial resources have almost been exhausted. The work done by the NCS Unit should be continued, but it is unclear what form the implementation body will take in the future.

GoInvest

The Guyana Office for Investment (GoInvest) is a public-sector institution that promotes private-sector investment. Modelled after similar institutions throughout Latin America and the Caribbean, GoInvest encourages interest in investing in Guyana by providing information, sponsoring trade shows and facilitating processes for investors. However, some interviewees for the PSAR noted that, despite the existence of a template approved by parliament that provides details of the incentives available for investing in Guyana, GoInvest's and the government's discretionary approach to identifying investments puts domestic businesses at a disadvantage. In addition, it was noted that GoInvest does not itself make decisions to approve investments or provide licences; rather, it co-ordinates the actions of other government units and facilitates processes. A number of observers have criticized GoInvest for operating too slowly or for its lack of ability to deliver licences. A one-stop shop for investors is needed, and the effectiveness of GoInvest has never been evaluated. These criticisms are likely to be addressed as GoInvest continues to expand.

Property rights

Underinvestment in modernizing the mining and agricultural sectors is the result of an investment framework that does not adequately protect property rights. Technology and know-how are not rare commodities and can be imported into the country. Similarly, agricultural technologies to mechanize processes are also available in the market and can be imported into Guyana. Moreover, both sectors reached maturity years ago, and by now should be undergoing a process of consolidation and growth as more successful companies buy smaller ones, in a process that many developing countries in Latin America have experienced. The miners and farmers interviewed for the

⁴ Enhancing National Competitiveness: A National Competitiveness Strategy for Guyana. Government of Guyana, in partnership with the private sector.

⁵ National Competitiveness Strategy Unit. "Monitoring and Evaluation Review of the National Competitiveness Strategy: 2006-2012". May 2012.

PSAR referred to technology that would significantly increase the productivity of their businesses and therefore their profits, but they showed little appetite for investing in it. The main reason for this situation is the general framework of insecure property rights that severely limits investment.

In mining, small and medium-scale operations have to renew their land leases every year. The government requires these renewals partly in order to collect revenue, as the process involves the payment of fees for exploration and exploitation of resources, as well as the placing of environmental bonds. It should be noted that once a plot has been granted to a mining company, there is an expectation that the grant will be renewed annually. However, because of the need to renew their leases every year, miners are constrained in their investments, as they cannot plan ahead due to the impossibility of accessing long-term financing. Gold extraction is a risky business, and the risk is amplified by the prevalence of a type of lease that does not provide enough legal protection to make it acceptable as collateral to banks. As a result, banks do not lend to small and medium-sized mining companies; these businesses are funded by family savings and inter-company loans, and by supplier credit from firms that sell heavy equipment, such as MACORP, the local company that sells the Caterpillar brand of equipment in Guyana⁶.

By contrast, the government facilitates the concession of large swaths of land to multinational firms for exploration and exploitation of resources, and these deals are offered on a long-term basis. There is thus significant asymmetry in the investment framework for small and medium-sized miners compared with large corporations. All gold production in Guyana is the result of investments by small and medium-sized miners, and such operators would benefit from a level playing field. (Multinational investors are involved in exploration for gold in the country, but have not yet started production.)

The problematic incentive framework that results from insecure property rights in the mining industry is replicated in the agricultural sector. Agriculture is dominated by a large number of individual farmers who lease small plots: the vast majority of farms are between 10 and 20 acres in size. The government grants these leases to individual farmers for periods of 25-49 years. In many cases, leases are held by individuals who no longer farm but instead sublease their land to active farmers. The standard rent for land is three bags of rice per acre each year, based on an average annual yield of 30 bags per acre, or about 10% of output. In general, smallholdings do not afford the economies of scale that would provide an incentive for investment in mechanization. For those farmers who sublease land, and who thus have larger plots on which mechanization would make sense, the practice of subleasing creates a disincentive for investment, as it is illegal. As a result, successful farmers cannot gradually consolidate their plots into larger ones, and face strong disincentives to invest in machinery. The limits imposed by the land tenure system on the development of the rice sector in Guyana are severe, and mean that the sector has remained stagnant and poor.

⁶ Lending and leasing terms are not favourable. Machines are expensive, usually in the US\$150,000-500,000 range. The maturity of the loans never exceeds three years, and interest rates are high, in many cases exceeding 15%.

Access to finance

Access to finance is an issue that was frequently mentioned during interviews for the PSAR as having a significant impact on private-sector expansion in Guyana. The most common criticism made by private-sector leaders is that the banking sector is too liquid and does not provide enough lending to new businesses, thereby limiting investment and economic growth. The banking sector's response to this criticism has been to argue that banks assess risk and the availability of collateral (consisting exclusively of real estate) to make all their business-lending decisions, and that the result of this is that the portfolio of loans to the private sector is growing faster than the economy. The end result is that lending is expanding, but is not doing so quickly enough to satisfy demand for loans. Structural barriers, such as the lack of availability of registries of movable property, legal frameworks regulating the use of financial instruments, and limited property rights for miners and farmers, impose restrictions on lending to some clients.

Table 4 shows that, as of May 2013, commercial banks held reserves 33% in excess of the level required by the Bank of Guyana (the central bank), which is currently set at 12%. As the economy has expanded and the banking sector has grown, excess reserves have increased, growing from 15% in 2011 to 22% in 2012.

Table 4: Guyana - Commercial bank liquidity indicators

(G\$ m unless otherwise indicated)

	Required reserves	Actual reserves	Surplus	Excess of reserves over minimum (%)
Dec 11	33,007.40	37,873.20	4,865.90	15%
Dec 12	37,466.30	45,541.50	8,075.20	22%
May 13	38,538.20	51,336.60	12,798.40	33%

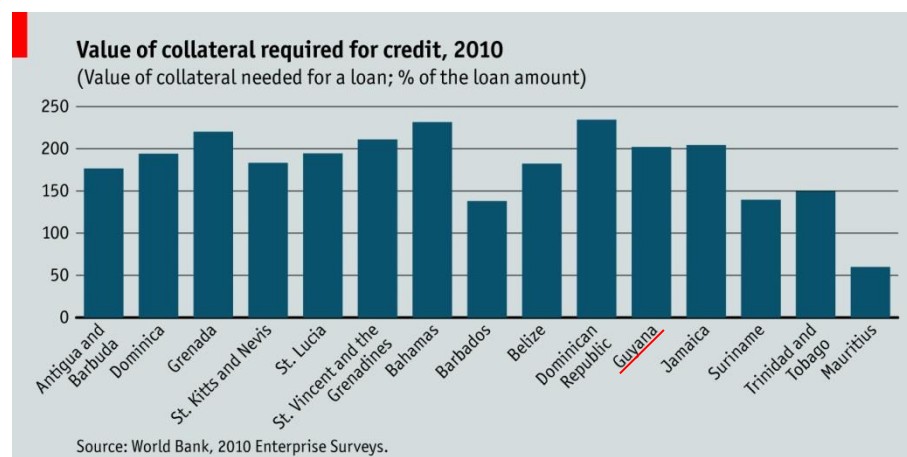
Source: Bank of Guyana.

According to the bankers interviewed, the traditional characteristics of the banks and their clients limit the expansion of credit to the private sector. In particular, they note that large and well-established businesses, especially in the services sector but also in manufacturing, are banks' preferred clients due to long-term established relationships. A long-standing problem in Guyana, partly resulting from the economy's small size, is the high concentration of loans to a few businesses—at the end of the first quarter of 2013, the exposure to the top 20 borrowers accounted for 15.9% of the total loan portfolio of the banking sector⁷. New businesses find it difficult to borrow, in part because of the current structure of the banking system (which is small and is focused on lending to large companies), but also because in many cases such businesses lack appropriate collateral (see Figure 8). Commercial banks require up to 150% collateral, and have cumbersome loan-application processes. This acts as a major constraint for small and medium-sized enterprises (SMEs). The regulatory system is biased towards the exclusive use of real estate as collateral, and the banking system offers only a limited supply of financial products such as leasing, factoring and the use of movable property as collateral. Moreover, property rights over land are insecure in the most promising sectors of the economy, namely mining and agriculture, making it difficult for traditional

⁷ Bank of Guyana. *Quarterly Report*, March 2013.

commercial banks to lend to these sectors. Miners must renew their leases every year, and this precludes lending to them by banks. Meanwhile, farmers lease land but cannot sell it, and a large proportion of land is subleased without a contract (illegally, as this is explicitly prohibited). Farmers cannot access bank finance under these conditions.

Figure 8



In essence, both sides of the argument on this issue are correct, but the problem remains, as many SMEs lack adequate access to finance. This report identifies this issue as one of the most important factors limiting the expansion of private-sector activities.

Table 5 shows selected interest rates in the financial sector in Guyana. Real lending rates are in the 5-7% range, around the average for the Caribbean region, and the banking sector is liquid. The nominal interest-rate spread has remained at 9-10% over the past five years. Although again being close to the regional average, such a spread is high, indicating inefficiency and suboptimal risk-screening and risk-management systems. Still, according to the Bank of Guyana the country's six commercial banks appear to be well capitalized and to be functioning properly, with the non-performing loan portfolio standing at about 5% of total loans⁸.

Table 5: Guyana - Selected interest rates

(annual average; %)

	2008	2009	2010	2011	2012	2013*
Bank of Guyana						
Bank rate	6.8	6.8	6.3	5.5	5.3	5.0
Treasury bill discount rate						
91 days	4.2	4.2	3.8	2.4	1.5	1.2
182 days	4.5	4.4	3.7	2.4	1.7	1.2
364 days	4.8	4.5	3.6	2.5	1.5	1.2
Commercial banks						
Small-savings rate	3.0	2.8	2.7	2.0	1.7	1.3
Prime lending rate (weighted average)	13.9	14.2	15.1	14.3	12.5	12.5

⁸ Bank of Guyana. The six commercial banks are Republic Bank (Guyana), Guyana Bank of Trade and Industry, Bank of Nova Scotia, Demerara Bank, Citizens Bank of Guyana and Bank of Baroda.

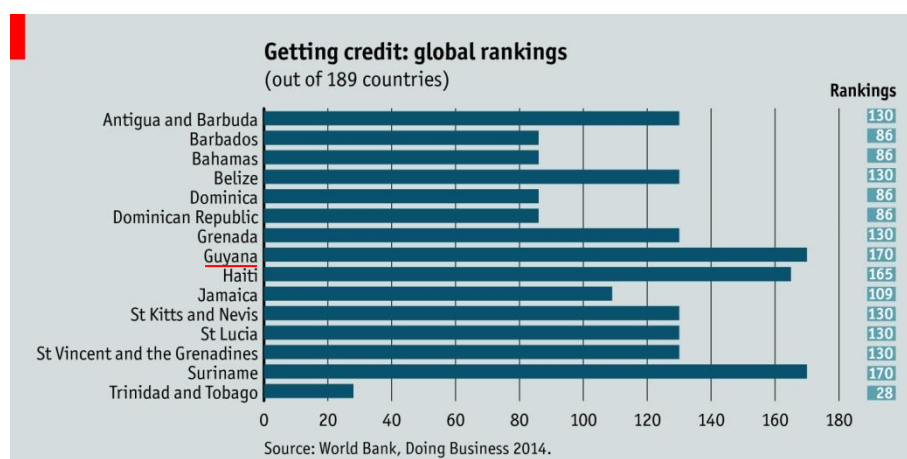
Prime lending rate	14.5	14.5	14.5	14.0	13.8	13.8
Commercial banks' lending rate (weighted average)	12.4	12.2	12.0	11.7	11.1	11.2
Interest-rate spread (commercial banks' lending rate minus small-savings rate)	9.3	9.4	9.3	9.7	9.4	9.9

*January-May 2013.

Source: Bank of Guyana.

The World Bank's Doing Business report for 2014 ranks Guyana 170th out of 189 countries for ease of getting credit (see Figure 9). The World Bank bases its rankings for ease of getting credit on four sets of measurable indicators: strength of legal rights, depth of credit information, public registry coverage and private bureau coverage. Guyana ranks poorly in all these areas, although the country did set up a credit bureau in 2013.

Figure 9



Corporate taxation

Stakeholder consultations revealed a number of key issues related to private sector development in Guyana, including tax rates, a high level of informality, the discretionary granting of fiscal incentives and the general perception of pervasive corruption in the country (See Figure 10 and Tables 6 and 7). According to a 2013 firm-level survey funded by Compete Caribbean the three most problematic factors with regard to doing business in Guyana are electricity (15.1%), corruption (12.6%) and tax rates (11.8%). Guyana's ranking (110th) for paying taxes in the 2014 Ease of Doing Business index is middling amongst regional comparators (see Figure 11). The indicators used to determine the ranking include the number of payments per year (35 in Guyana), the number of hours per year that are taken up with filling in tax forms (256 hours) and the overall corporate tax rate as a percentage of profits (32.5%).

Figure 10

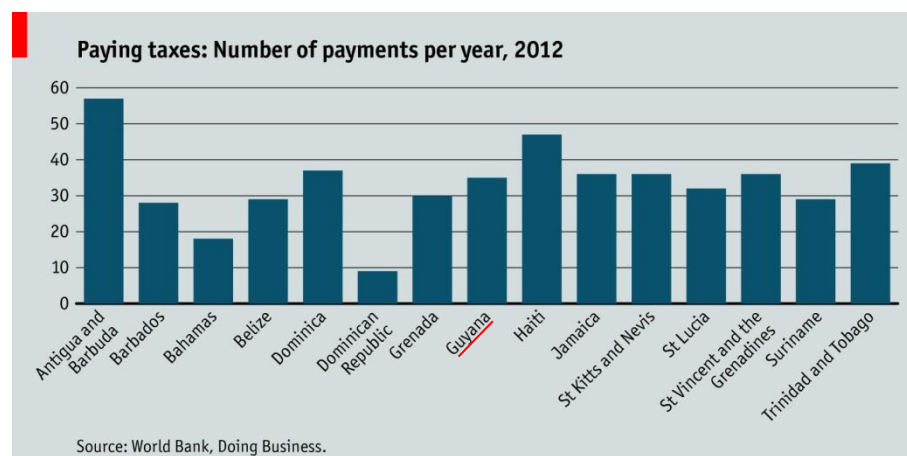


Figure 11

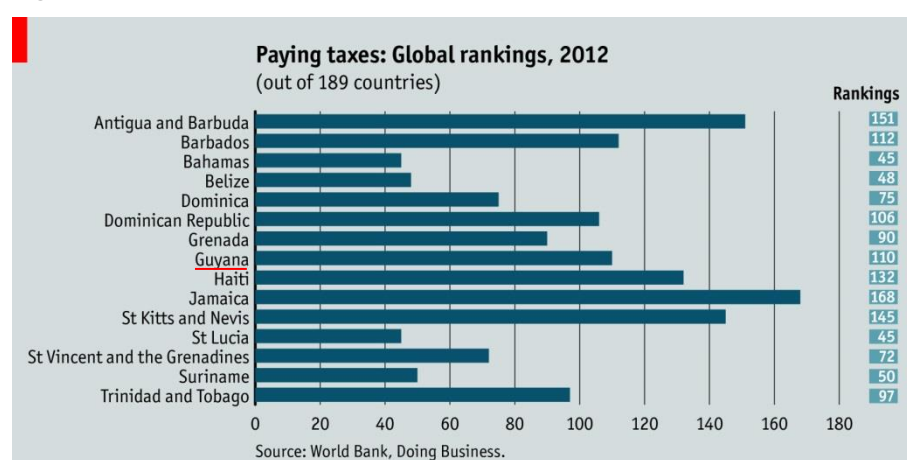


Table 6: Tax rates and the administrative burden of taxation, 2014

Indicator	Guyana	Latin America & Caribbean average	OECD average
Payments (number per year)	35	30	12
Time (hours per year)	256	369	175
Profit tax (%)	21.1	20.5	16.1
Labour tax and contributions (% of profit)	8.8	14.7	23.1
Other taxes (% of profit)	2.6	12.1	2.0
Total tax rate (% of profit)	32.5	47.3	41.3

Source: World Bank, Doing Business 2014.

Table 7: Tax rates

(% of firms indicating obstacle to doing business)

No obstacle	16.8
Minor obstacle	10.1
Moderate obstacle	23.5
Major obstacle	26.9
Very severe obstacle	22.7

Source: 2013 firm-level survey funded by Compete Caribbean.

Technology and innovation

Guyana is in the early stages of becoming a hub for the provision of business-process outsourcing (BPO) services. Qualfon, the first company to provide such services in Guyana, employs over 1,700 people in the country and plans to expand in the near term. Guyana offers an educated labour force that speaks English as its first language at competitive wage rates—factors taken into consideration by investors when deciding where to locate. Successfully expanding BPO services will require complementary investment in information and communications technology and in research and development. According to the WEF's Global Competitiveness Index, Guyana needs to invest in mobile broadband technology.

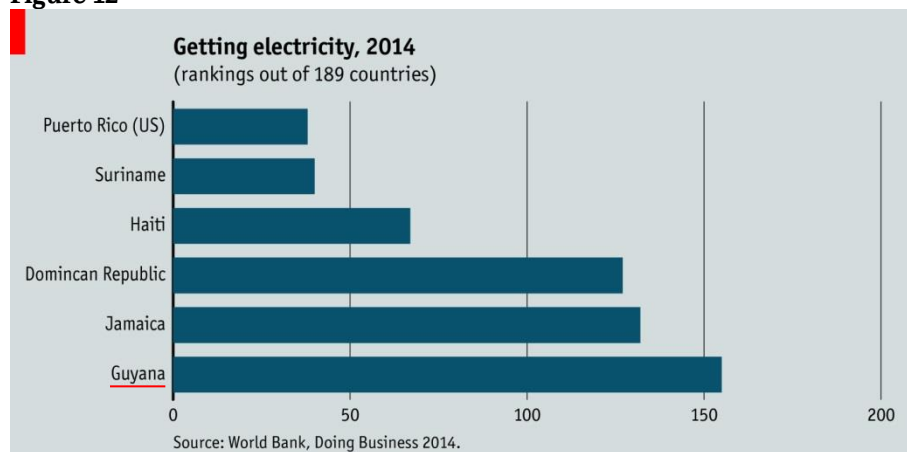
The country needs to take advantage of the opportunity offered by BPO services. This report suggests that an assessment of the specific needs of BPO firms and complementary services be performed. This would identify gaps in infrastructure and know-how that will need to be filled to enable Guyana to take full advantage of investments in BPO. The experience of other countries indicates that a concerted effort to facilitate the expansion of the services sector requires the participation of both public and private actors.

Cost, reliability and ease of access to electricity

The supply and cost of electricity is an important issue for Guyana. Most representatives of the private sector identified the high cost and unreliable supply of electricity as the most important factors limiting the expansion of private-sector activities, especially in manufacturing. According to interviewees, most medium-sized and large manufacturing firms use electricity generated by diesel generators, which are reliable but very expensive to run.

Figure 12 shows that Guyana is the worst performer among the comparator countries for access to electricity, being ranked 155th out of 189 countries on this indicator in the World Bank's Doing Business report. In order to obtain a supply of electricity, a business must perform eight procedures and wait 109 days. Electricity prices in Guyana are among the highest in the world, at an average of 39 US cents/kWh⁹. Improvements in the supply of electricity are important for the expansion of the private sector, and have been prioritised by the government, which is considering a plan to construct a hydropower plant at Amaila Falls.

⁹ http://www.caribbean360.com/index.php/news/guyana_news/776625.html#axzz2lamji3xb

Figure 12**Table 8: Electricity**

(% of firms indicating obstacle to doing business)

No obstacle	18.5
Minor obstacle	10.1
Moderate obstacle	13.5
Major obstacle	26.1
Very severe obstacle	31.9

Source: 2013 firm-level survey funded by Compete Caribbean.

Educated labour force

There is a need for increased investment in human capital to boost innovation in the country. A highly skilled and educated labour force would help to improve low labour productivity levels, pervasive skills mismatch and high unemployment. According to the 2010 Enterprise Surveys, an inadequately educated workforce was the number one constraint to doing business in Guyana. However, in the 2013 firm-level surveys funded by Compete Caribbean, it was the eighth-most cited obstacle. In its 2014 Article IV Consultations, the IMF indicated that there is a mismatch between the outputs of the educational system and the skills required by the private sector.

Public spending on education in 2012 was an estimated 3% of GDP compared with an average of 5.2% in the Latin America and Caribbean region¹⁰. The National Development Strategy speaks to promoting an educational policy that encourages vocational training, on-the-job training and skills training programmes. Despite these efforts, Guyana faces a severe brain drain, with one of the highest emigration rates to OECD countries (39.4% in 2010/2011) compared with 32% in Jamaica. Just under one-third of these emigrants are highly educated and around 90% of highly skilled Guyanese live in OECD countries¹¹.

¹⁰ UNESCO. The State of Education in Latin America and the Caribbean. 2013
<http://www.unesco.org/new/fileadmin/MULTIMEDIA/FIELD/Santiago/pdf/state-of-education-in-LAC-towards-2015.pdf>

¹¹ Total emigrants out of the total Guyanese population (including both migrants and non-migrants) that are currently residing in OECD countries. OECD and UN. 2013. World Migration in Figures.
<http://www.oecd.org/els/mig/World-Migration-in-Figures.pdf>

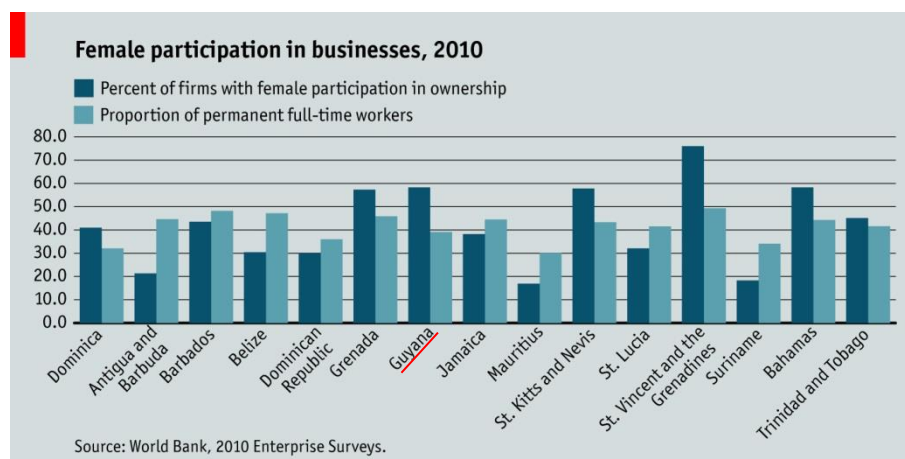
In response to the large outflow of highly educated Guyanese, the Ministry of Foreign Affairs has taken the lead in administering a Remigrant Scheme, which grants remigration status to returning nationals and provides tax exemptions as an incentive to return. The ministry, with initial funding from the International Organization for Migration, also manages the Guyana Diaspora Project. The project's aim is to acquire information on the number of persons, organizations and associations that constitute the Guyanese diaspora, including in which regions and countries they can be found and what skills they possess.

Gender Gender issues, and the question of how to address them, are important for government and civil society in Guyana. The constitution explicitly provides for equal rights for men and women in all spheres of political, economic and social life. An issue that has emerged recently that has an impact on gender equality concerns support for the work of the Women and Gender Equality Commission, which promotes women's rights and gender equality in Guyana. The third report prepared by the commission and presented to parliament in August 2013 recommended designing education programmes on human trafficking and sexual offences and the creation of a policy on sexual harassment in the workplace.

Data on gender issues in Guyana are not readily available. The World Bank's 2010 Enterprise Survey notes that women are underrepresented in firms' top management (see Figure 13). However, female participation in ownership of firms in Guyana is higher than the average for Latin American and lower-middle-income countries (see Figure 14). The EU's Country Strategy Paper for 2008-13 puts women's share of the workforce at 35% in 1990 and 42% in 2002, but no additional information on female participation in the labour force is available.

Figure 13



Figure 14

Environment

Arguably, Guyana's largest asset is its natural-resource endowment. Guyana is a small, sparsely populated country that has recognized the importance of protecting its natural resources. It aims to ensure their preservation through the Low Carbon Development Strategy (LCDS) and associated funding from the government of Norway. Approved in 2010, the strategy commits Guyana to implementing a sustainable, low-carbon development model that protects forests, water supplies and biodiversity¹². The strategy, and the current agreement with Norway for its implementation, recognizes the opportunity cost of exploiting Guyana's large rain forests and other environmental assets. The implementation of the LCDS commits Norway to paying Guyana annual instalments based on performance criteria linked to preserving its rain forests. The initial package is worth US\$250m for five years from 2009, paid out of a World Bank-administered trust fund, the Guyana REDD-Plus Investment Fund¹³. However, Guyana's REDD-Plus arrangement may not be viable in the longer term, as no further donor funding for the programme has been put in place. Moreover, Norway penalized Guyana for missing its deforestation target for 2014. In addition, despite the implementation of the LCDS, many mining companies in Guyana have not modernized and continue to use obsolete extractive technologies. In many cases miners are responsible for significant environmental damage, including water pollution that has a significant negative impact on the health of indigenous populations living downstream.

¹² A description of the LCDS is included as an annex to the full PSAR report.

¹³ REDD stands for reduced emissions from deforestation and forest degradation.

III. Emerging sectors

In the first quarter of 2013 rice and gold production continued to lead economic activity in Guyana. In order to identify other fast-growing sectors for this section, this report uses information collected by the Bank of Guyana on loans provided to individuals and firms in the private sector. This information excludes informal activities (which represent a significant amount of activity in the country), as well as activities that lack access to the banking sector. Table 9 presents details on commercial banks' loans and advances by sector.

Table 9: Guyana - Commercial banks' loans and advances to the domestic private sector, by sector
(G\$ m)

Sector	2008	2009	2010	2011	2012	Growth in 2008-12 (%)
Agriculture	3,934.10	5,086.90	6,755.20	9,617.90	11,331.70	188.0
Sugarcane	593.8	1,333.40	1,695.00	2,338.10	2,558.30	331.0
Paddy	1,133.70	1,818.30	2,682.10	3,865.60	5,163.00	355.0
Other farming	91.7	55.2	66.0	114.9	291.9	218.0
Livestock	741.3	597.5	930.6	1,219.90	1,401.10	89.0
Forestry	112.1	105.6	163.3	586.7	602.8	438.0
Shrimp & other fishing	1,261.70	1,176.90	1,218.10	1,492.80	1,314.70	4.0
Mining & quarrying	1,674.30	1,505.80	2,582.00	2,806.10	4,247.40	154.0
Bauxite	0.0	0.0	0.0	0.0	0.0	0.0
Other	1,674.30	1,505.80	2,582.00	2,806.10	4,247.40	154.0
Manufacturing	11,658.50	10,441.80	12,861.30	16,674.90	22,213.80	91.0
Timber & sawmilling	2,125.70	1,656.90	1,613.30	1,385.80	1,979.10	-7.0
Other construction & engineering	2,964.60	2,645.00	4,108.90	7,167.90	9,056.40	205.0
Sugar molasses	1.1	0.8	290.7	564.7	21.5	1,855
Rice milling	2,852.40	1,538.00	1,399.80	1,605.50	3,317.60	16.0
Beverages, food & tobacco	1,372.90	1,654.00	2,178.60	2,691.60	3,795.20	176.0
Textiles & clothing	77.9	61.8	78.3	143.6	192.1	147.0
Electricity	17.5	11.7	59.8	68.0	172.5	886.0
Other manufacturing	2,246.50	2,873.60	3,131.80	3,047.80	3,679.40	64.0
Services	23,880.70	25,074.80	28,687.70	35,468.30	44,486.50	86.0
Drainage & irrigation	20.5	13.1	6.9	17.6	4.5	-78.0
Transportation	2,356.90	2,452.20	3,014.80	3,329.70	3,698.30	57.0
Telecommunications	80.2	63.7	98.4	221.7	195.6	144.0
Entertaining & catering	1,873.90	1,959.00	2,914.60	2,891.80	3,383.40	81.0
Distribution	14,605.70	13,849.30	17,287.40	21,556.20	26,398.60	81.0
Education	24.7	23.6	218.7	472.1	850.5	3,343
Health	266.2	337.2	490.0	663.1	1,043.90	292.0
Professional services	684.0	781.6	1,015.10	1,207.90	1,287.10	88.0
Other services	3,968.60	5,595.20	3,641.80	5,108.10	7,624.70	92.0

Source: Bank of Guyana.

Table 9 shows that the services sector received the most credit from commercial banks in 2012, followed by manufacturing, agriculture and mining. The largest subsector in terms of credit received is distribution, followed by construction and rice paddy. Measured by credit growth, the largest subsectors in 2008-12 were education, molasses and electricity, although these three subsectors borrow very little and these results are probably skewed by a few large

transactions. Elsewhere, credit growth was fastest in forestry, rice paddy, sugarcane, construction and healthcare.

The information available regarding private-sector activities does not allow a more detailed identification of growing subsectors. This suggests that there may be a need for the collection of specific information on various subsectors in order to gain an understanding of their potential for expansion and the barriers that they might face in doing so. Nevertheless, business process outsourcing and the non-traditional agriculture and agro-processing industry are two emerging sectors that have been slated for success and are addressed below.

Business-process outsourcing (BPO)

Information and communications technology (ICT) and call centres are growing, high-value-added businesses. Qualfon, a company that specializes in back-office support and has offices in the US, the Philippines, Mexico, Costa Rica and China, employs over 1,700 people in Guyana's capital, Georgetown. The firm is investing in building a new 800-seat call centre in Providence, which may include the construction of a call-centre campus with an arts and culture centre, an accredited university and a medical facility; this call centre could potentially be expanded to up to 5,000 seats. According to Qualfon's management, its operating costs in Guyana are 10% lower than in the Philippines and 30% lower than in Costa Rica. Greater visibility along with improvements in telecommunications infrastructure will assist the BPO industry in Guyana to maximize its growth potential by attracting investment and expanding.

Agriculture and agro- processing

Greater efforts are being dedicated to utilizing technology to modernize, increase capital and labour productivity, and provide more support to non-traditional crops in the agricultural industry¹⁴. The government anticipates that exports of non-traditional crops such as coconuts, soya, and corn will become increasingly more important. Guyana's Agriculture 2020 Strategy speaks to the increase of non-sugar and non-rice exports by at least 25% by 2020. The five-tier strategy is referred to as the F5 Approach. One of the five tiers addresses the use of agricultural products in fashion and health (including cosmetics and medicine), while another addresses the use of agricultural products for the construction of furniture and crafts.

Recent agricultural cluster initiatives in non-traditional agricultural crops show significant export potential but require policy attention to sustain their development and growth trajectory. A number of subsectors have received foreign interest, including the pulp and paper (forestry) cluster, which specializes in the production of floors, decks, furniture and other wood products alongside a Malaysian multinational firm. The non-traditional agricultural products (such as fruits and vegetables) cluster has also received foreign interest, with an Israeli firm organizing the production and export activities of the local farmers and providing training, packaging and storage services to small local producers. In the coconut water agro-processing cluster many small farmers and a few larger farms sell coconuts to three processing plants, the largest of which is Trinidadian. Compete Caribbean is supporting

¹⁴ Non-traditional crops include all components of the agricultural sector except for rice, sugar, forestry, and fishing Guyana. See Guyana's National Development Strategy. <http://www.sdn.org.gy/nds/chapter12.html>

the preparation of a market development plan and the exploration of the feasibility of entering the organic and fair trade market in order to diversify into a new value chain.¹⁵ In an effort to push diversification in the agricultural industry, the Mahaica, Mahaicony, Abary (MMA) Scheme's Open Day in November 2014 issued leasehold titles for state lands to over 100 farmers. The terms of these leases will be monitored by the MMA.

¹⁵ Roberta Rabellotti . 2014. "Clusters in the Caribbean: Understanding their Characteristics, Defining policies for their Development". www.competecaribbean.org

IV. Priority areas and action plan

The Guyana Private Sector Assessment Report (PSAR) identifies a number of key challenges to private-sector development and several sectors that may drive growth in the future. The PSAR emphasises these interrelated issues, and uses them to develop recommendations and action plans to address issues relating to insecure property rights for miners and farmers, access to finance, tax rates, the cost of electricity, continuing efforts to improve competitiveness, the policy framework for development of the rice and gold mining sectors, investment incentives, and public-private partnership (PPP) policy.

Private-sector development initiatives are currently supported by the public sector, donors and stakeholders in Guyana. Several private-sector institutions—including the Guyana Gold and Diamond Miners Association, the Guyana Manufacturing and Services Association and the Georgetown Chamber of Commerce—are highly active and are promoting policy reform agendas designed to accelerate private-sector growth. The government is also promoting private-sector activity, mainly through the Small Business Bureau, GoInvest (the national investment-promotion agency) and the executing unit of the Support for Competitiveness programme, which is funded by the Inter-American Development Bank (IDB). The latter programme has been ongoing for the several years, and has involved an extensive range of reforms that have implemented elements of Guyana's National Competitiveness Strategy, resulting in significant improvements to the business climate in the country. The government has also announced a series of priority investments that would boost Guyana's economic performance; these projects include the construction of a Marriott Hotel and a specialist hospital, the expansion of the Cheddi Jagan International Airport and a hydropower plant at Amaila Falls.

In this context, the intention of the Guyana PSAR is to provide stakeholders with a complementary review of programmes, alternatives and options, including a proposal for priority interventions and an action plan. The PSAR is intended to facilitate dialogue with stakeholders in the private-sector development process, and thereby to contribute to efforts to stimulate growth. It is also hoped that the report will attract interest and funding from the donor community for some of the proposals that would result from the process.

Background

The PSAR's methodology calls for the preparation of an action plan for the implementation of the main recommendations. This is appropriate for many countries in the region that do not have a well-structured institutional framework to support an agenda for reforms to encourage private-sector growth and development. However, Guyana does possess such a framework. Guyana's National Competitiveness Strategy (NCS) and Low Carbon Development Strategy, as well as the institutions that are responsible for implementing these strategies and monitoring their results, should continue to take the lead. Ideally, the NCS Unit should incorporate the recommendations presented in this report into its programme, where appropriate.

Insecure property rights for miners and farmers

The cumbersome system of assigning property rights in Guyana has been extensively analysed over the years and has been summarized in various

reports. For this reason, no additional studies are needed to identify the problems. This PSAR proposes changing the framework governing how property is treated and valued in Guyana. Currently, government has a monopoly over land, resulting in an inefficient system of land distribution that is characterised by poor transparency and discretion. However, this system has been in place for many years, and replacing it would require new legislation, which in Guyana is difficult to achieve owing to the severe political friction that prevails in the country. It will therefore be best to adopt a phased approach that initially aims for only a partial solution to the issue of miners' and farmers' property rights.

Goal:

Register real estate so that it can be used as collateral for bank lending to mining and agricultural companies and individuals.

Proposed outcomes:

- Increased investments made by miners and farmers in modernizing productive practices and increasing productivity
- Significant increase in production and exports
- Less harm caused to the environment by productive practices, especially in the mining sector (modernizing mining practices would reduce the negative impact of the use of toxic chemicals) and forestry

Specific actions:

- Compile studies conducted in the last ten years, with an emphasis on mining and agriculture
- Using this information, prepare an action plan that will result in the provision of secure and long-term property rights and modern registration of property for farmers and miners

Limited access to finance

Access to finance: small and medium-sized enterprises (SMEs)

Access to finance is limited to large and established businesses and individuals. Recently formed SMEs find it difficult to access financial services in order to obtain working capital from the banking sector. Moreover, no firms, either recently founded or more established, have access to long-term financing on good terms for capital investments. In addition, lending almost always requires real-estate collateral, which in many cases greatly exceeds the value of the loan. The banking system does not offer modern financial services such as leasing, factoring and secured transactions.

Many private-sector leaders support the creation of a development bank that would plug the lending gaps that exist in the market. However, in Guyana, as in many other small countries in Latin America, the creation of a development bank would create incentives for rent-seeking and would add to the government's contingent liabilities. Thus, the solution to the shortcomings in the provision of financial services in Guyana should be addressed by strengthening the banking sector and facilitating its expansion.

Goals:

- Expansion of credit to the private sector
- Introduction of lending instruments that are not collateralized by real estate, using leasing, factoring and secured transactions
- Introduction of long-term instruments for funding capital investments by small, medium-sized and large enterprises

Proposed outcome: An increase in the lending portfolio of banks (as measured by total credit extended to the private sector as a percentage of GDP, total credit extended to SMEs as a share of total credit extended to the private sector, portfolio credit quality, interest rates, and portfolio maturity).

Specific actions:

- Survey banks to determine the extent of the use of leasing, factoring and secured transactions in the market
- Review bank regulations to facilitate the expansion of financial services
- Develop leasing and factoring services to be provided by the banking sector
- Create registries of movable property as required for the provision of secured-transaction services, with an initial focus on agriculture and commerce
- Train bankers on the design and implementation of programmes to create and expand leasing, factoring and secured transactions services
- Leverage the newly created CreditInfo (Guyana's first credit bureau launched in September 2013) and facilitate its expansion and use by the banking sector

Access to finance: micro businesses

Entrepreneurs in Guyana who need micro or small loans to grow their businesses face limited access to finance. However, there is an active non-banking financial system in the country that provides small loans to farmers and traders, and these institutions have accumulated significant experience in the market, as well as brand recognition and a stable client base. Expanding their reach would thus have a large positive impact entrepreneurs' access to loans.

Goal: Expansion of credit to the private sector by improving access to finance for individual entrepreneurs, with a focus on rice producers and traders in urban areas

Proposed outcome: An increase in credit to micro entrepreneurs in the private sector (as measured by the number and amount of microcredit loans to the private sector and the terms of such loans)

Specific actions:

- Map out the procedures and practices of microcredit institutions, such as the Institute of Private Enterprise Development (IPED)
- Analyse and review such institutions' practices, identifying the strengths and weaknesses of their approaches

- Facilitate the expansion of institutions that provide microcredit (co-operatives and other institutions, such as IPED, that specialize in the provision of micro and small loans)

Tax rates and the link with the informal sector

Tax rates and excessive government regulation have an impact on the size of the informal sector. By all accounts, the informal sector is very large in Guyana, but estimates of its exact size are not available. The IDB and other multilateral organizations have extensive experience in reforming tax systems, by (among other actions) cleaning tax registries and increasing tax yields. Information provided by the IDB indicates that some work in this area is already being facilitated by the World Bank and the US Agency for International Development.

Goals: Increased private-sector investment as a result of lower tax rates and expansion of the formal private sector as a result of lower tax rates

Proposed outcomes:

- Increased formal employment
- Increased private-sector investment

Specific actions:

- Prepare desk studies with national accounts/tax registries related to value-added tax collections, in order to provide an estimate of the size and composition of the informal sector
- Review the tax system with the goal of eliminating discretion and levelling the playing field
- Lower tax rates and increase the tax yield by expanding the number of taxpayers

High cost of electricity

If initial estimates are correct, Guyana possesses many potential sites for hydroelectric installations. Exploitation of these resources could drive down the cost of electricity. However, it is unclear how many hydroelectric sites have been identified and to what extent technical analysis has been performed. The country is currently debating investment in a large hydroelectric power plant at Amaila Falls, but political and technical issues have prevented the project from moving forward. According to the Guyana Energy Agency, the country has the potential to produce about 7,600 MW of electricity from hydroelectric projects, many of which would be small and medium-sized plants.

Goal: Increase energy generation to facilitate the expansion of private-sector activities, especially industry

Proposed outcomes:

- A reduction in the price of electricity to match regional averages
- Increased industrial output

Specific actions:

- Shift the emphasis to smaller hydropower projects that are less visible, less expensive and involve lower levels of risk
- Review the most promising of such small hydropower projects to divert attention from the contentious Amaila Falls project
- Select several small projects that could be executed in the near term

National competitiveness unit's work is winding down

The National Competitiveness Strategy (NCS), implemented by the NCS Unit, considers improvements to infrastructure in the areas of road, air, and sea and river transport. The unit was financed by an IDB loan, which is in the final stages of execution. The work of the NCS Unit should be continued. The way forward for the NCS Unit will be determined at the cabinet level.

Goal: Continue improving Guyana's competitiveness

Proposed outcome: Productivity increases

Specific actions: Consolidate the NCS Unit into a permanent institution. It could be absorbed into GoInvest, thereby strengthening the latter body's implementation capacity.

Strengthen the policy framework for the development of the rice and

The rice and gold-mining sectors lead economic activity in Guyana, but they face myriad challenges that limit their growth. The Jagdeo Initiative is a proposal for the development of agriculture within the Caribbean Community (CARICOM). This plan prioritises agricultural production, and sets the stage for future agribusiness development that could result in significant intra- and extra-regional trade. By 2015 the initiative proposes to make substantial contributions to economic development and social and environmental sustainability; to have a transparent regulatory framework in place at national and regional levels that promotes, attracts and facilitates capital and investments; to have significantly transformed agricultural processes and products; to have stimulated innovation and entrepreneurship; and to have enabled the region to achieve an acceptable and stable level of food security. This approach is particularly appropriate for Guyana, with its strong agricultural sector. It could become the foundation for the development of a long-term policy that focuses on the agricultural sector, emphasizing the role of the private sector and clearing away the barriers that impede agricultural growth and development.

Similarly, a development policy framework that introduces the appropriate incentives for the expansion of the mining sector in Guyana would set the stage for new, larger investments in the industry. Levelling the playing field for domestic miners is a particularly important objective. Mining firms face challenges related to property rights. Moreover, the mining sector is a high-risk business that requires significant initial investment, and the sector would therefore benefit from policies that facilitate such investment, such as tax deductions for failed investments and appropriate depreciation schedules for equipment. Additional factors that would be included in a policy framework for the sector include skills development, social and environmental issues, and the need to modernize extraction practices.

A level playing field for investments

The challenges facing the mining and agricultural sectors also affect other parts of the economy. Strengthening the capacity of GoInvest by ensuring that incentives apply equally to all participants regardless of sector, size or nationality would provide a level playing field. In essence, clear and transparent investment incentives should apply evenly to all players, and more reforms are needed in order to achieve this aim. There should also be continued focus on increasing investment in high-quality education and skills development, together with a focus on attracting highly educated Guyanese diaspora to contribute their skills and knowledge to the economy's growth.

Reassess PPP policy and the role of the private sector

The government has committed itself to the development of large projects that are considered priorities for the country, namely the Marriott Hotel in the capital, Georgetown: the expansion of the Cheddi Jagan International Airport; the construction of a specialist hospital; and a hydroelectric power plant at Amaila Falls. These projects could benefit from public-private partnership (PPP) schemes, and in some cases the government has started negotiations with relevant private-sector partners (Marriott Hotels is one example). These projects offer the opportunity to develop a framework for PPPs in Guyana, which could help to bridge the country's infrastructure investment gap. Guyana could benefit from an approach similar to that adopted by Peru, which has used PPPs to bring in the private sector to fund large infrastructure projects. This approach could attract much-needed investment in infrastructure without adding to the pressure on the government's budget. Guyana has experience of the PPP model through the construction and operation of the Berbice bridge. The facility is managed by the Berbice Bridge Company under a version of PPP that involved significant government participation in financing the project.

Conclusions

This Guyana Private Sector Assessment Report presents an overall assessment of private-sector development and recommendations for facilitating and accelerating private investment and growth. It is important to recognize that private-sector development initiatives are currently being supported by the government and other stakeholders in Guyana. The objective of this report is to respectfully contribute to the process of accelerating growth and development, rather than to compete with or upstage the country's existing private-sector development efforts. Guyana's National Competitiveness Strategy (NCS) provides a framework for private-sector expansion and growth, and this is complemented by the government's Low Carbon Development Strategy. These two strategies combine to offer an initial basis for development efforts. Moreover, the NCS Unit has played a central role in the implementation of the NCS and complementary activities. For these reasons, the proposals presented in this document should result in actions that are complementary to those already in place, and it is hoped that this report will provide sufficient support for the continuation of the NCS Unit's work.

- In addition to the recommendations already presented, it is also important to highlight data gaps that were identified during the preparation of this report and which need to be filled in. These include:
- Mapping of private-sector activities by sector

- Mapping of financial sector products available to the private sector—such as banking services on factoring, secured transactions, discount of letters, long-term lending terms and options, stock-exchange bond-issue conditions, credit ratings of individuals and companies
- Complete description and analysis of labour markets
- Complete description and analysis of the tax system
- Complete description and analysis of registries, real estate and movable property
- Complete mapping of licensing requirements by sector

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The following are the main sources of information used for this report. Data were collected from the Guyana Bureau of Statistics, the Bank of Guyana and the World Bank DataBank databases. Additional documents from many private-sector organizations were also used, especially those from the Consultative Association of Guyana Industries, GoInvest, the Guyana Competitiveness Unit, Invest Guyana magazine, Georgetown Chamber of Commerce and Industry, the Guyana Manufacturing and Services Association, the Institute of Private Enterprise Development (IPED), the Ministry of Foreign Trade and International Co-operation, the Private Sector Commission, the Small Business Bureau and the Tourism and Hospitality Association.

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