CURRENCY EQUIVALENTS
(Exchange rate effective as of 03/31/2006)
National Currency is the Guyanese dollar (GY$)
US$1.00 = GY$199.75

FISCAL YEAR
January 1 – December 31

MAIN ABBREVIATIONS AND ACRONYMS

BBC  British Broadcasting Corporation
CARICOM  Caribbean Community
CBD  Caribbean Development Bank
CEM  Country Economic Memorandum
CHA  Caribbean Hotel Association
CIDAD  Canadian International Development Agency
CPAR  Country Procurement Assessment Report
CPI  Corruption Perception Index
CSME  Caribbean Single Market and Economy
DDL  Demerara Distillers Ltd.
DFID  UK Department for International Development
DSL  Digital Subscriber Lines
EU  European Union
FDI  Foreign Direct Investment
FIAS  Foreign Investment Advisory Services
FTA  Free Trade Agreement
GATS  General Agreement on Trade and Services
GDP  Gross Domestic Product
GNBS  Guyana National Bureau of Standards
GNI  Gross National Income
GO-INVEST  Guyana Investment Promotion Agency
GPL  Guyana Power and Light
GT&T  Guyana Telephone and Telegraph
GUYSUCA  Guyana Sugar Corporation
GWI  Guyana Water Inc.
HACCP  Hazard Analysis Critical Control Point
IAAC  Inter-American Accreditation Cooperation
ICAO  International Civil Aviation Organization
ICRG  International Country Risk Guide
ICS  Investment Climate Survey
ICT  Information and Communication Technologies
IDA  International Development Association
IDB  Inter-American Development Bank
IEC  International Electro-technical Commission
IFS  International Financial Statistics
ILAC  International Laboratory Accreditation Cooperation
IMF  International Monetary Fund
INATUR  Instituto Nacional de Turismo de Venezuela
IPA  Investment Promotion Agency
ISO  International Organization for Standardization
ISPs  Internet Service Providers
IPPs  Independent Power Producers
ITU  International Telecommunications Union
MBM  Multi-Buoy Mooring
MSTQ  Metrology, Standards, Technology and Quality
NAFTA North American Free Trade Agreement
NBFIs Non-Bank Financial Institutions
NDS National Development Strategy
OECD Organization for Economic Cooperation and Development
OECS Organization of Eastern Caribbean States
PAHO Pan-American Health Organization
PPP Purchasing Power Parity
PUC Public Utilities Commission
R&D Research and Development
SMEs Small and Medium Enterprises
TEU Twenty-foot Equivalent Units
THAG Tourism and Hospitality Association of Guyana
TFP Total Factor Productivity
TVET Technical and Vocational Education and Training
UNDP United Nations Development Program
UNICEF United Nations Children’s Fund
USAID US Agency for International Development
VAT Value-added Tax
WBI World Bank Institute
WDI World Development Indicators
WDR World Development Report
WEF World Economic Forum
WHO World Health Organization
WTO World Trade Organization

Vice President: Pamela Cox
Country Director: Caroline Anstey
Sector Leader: Charles Feinstein
Sector Manager: Susan Goldmark
Task Manager: Stefka Slavova
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ACKNOWLEDGMENTS

This report was prepared by a team led by Stefka Slavova. Team members included Leonid Koryukin (Labor Skills, Quality and Technology), Michael Goldberg, Alberto Didoni and Corinne N’Daw Amany (Finance), Emanuel Salinas (Electricity), Robert Stephens and Juan Manuel Galarza Tohen (Telecommunications), Bernice Van Bronckhorst (Crime and Violence), Ben Hackett and Maria Bertram (Transport), Taimur Samad and Patricia Lopez (Water), Joel Bergsman (Taxation and Foreign Investment Regime), and Elizabeth Crompton (Tourism). Stefka Slavova prepared the sections on Contract Enforcement and the Judiciary, and Business-Government Relations. Leonid Koryukin prepared the descriptive and econometric analysis of the survey data. Amit Burman and Atif Ansar provided excellent research assistance. Constantinos Stephanou shared information on the Guyanese financial system and reviewed the chapter on Finance. The survey managers were Giuseppe Iarossi (AFTPS) and Giovanni Tanzillo (DECRG), and in the early stages, Tilahun Temesgen (DECRG). Moustapha Rouis provided advice at the early preparation stage.

Additional inputs and suggestions were received from Caroline Anstey, Antonella Bassani, Susan Goldmark, Charles Feinstein, Marianne Fay, Pablo Fajnzylber, Jose Guilherme Reis, Homa-Zahra Fotouhi, Clara Ana Coutinho de Sousa, Angela Demas, David Satola, Adelaida Schwab, the IMF Guyana Team, Lucia Hanmer, Badrul Haque, Philip Keefer, Jack Stein and Daniel Wallace. Susan Goldmark and Jack Stein helped put together the team for this project and provided guidance at the concept stage. Alma Domenech and Eric Palladini provided excellent editorial and technical assistance with the document. Peer reviewers are George Clarke (AFTPS), Homa-Zahra Fotouhi (LCC3C), and Simeon Djankov (CICMA).
# Table 1 - Guyana’s Investment Climate at a Glance

<table>
<thead>
<tr>
<th>Topic</th>
<th>Guyana</th>
<th>Honduras</th>
<th>Nicaragua</th>
<th>Guatemala</th>
<th>Grenada</th>
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<td><strong>Macroeconomic Indicators</strong></td>
<td></td>
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</tr>
<tr>
<td>GNI per capita, PPP (current international $)</td>
<td>4,110</td>
<td>2,710</td>
<td>3,300</td>
<td>4,140</td>
<td>7,000</td>
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<tr>
<td>GNI per capita, Atlas method (current US$)</td>
<td>990</td>
<td>1,030</td>
<td>790</td>
<td>2,130</td>
<td>3,760</td>
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<tr>
<td>Population</td>
<td>765,000</td>
<td>7.1m</td>
<td>5.6m</td>
<td>12.6m</td>
<td>105,700</td>
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<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>93</td>
<td>35</td>
<td>22</td>
<td>17</td>
<td>47</td>
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<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>106</td>
<td>51</td>
<td>49</td>
<td>28</td>
<td>57</td>
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<tr>
<td>GDP growth (annual %)</td>
<td>1.5</td>
<td>4.6</td>
<td>3.7</td>
<td>2.7</td>
<td>-2.8</td>
</tr>
<tr>
<td>Gross fixed capital formation (% of GDP)</td>
<td>20.0</td>
<td>24.0</td>
<td>30.3</td>
<td>16.7</td>
<td>40.0</td>
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<td>Foreign direct investment, net inflows (% GDP)</td>
<td>3.5</td>
<td>2.9</td>
<td>4.9</td>
<td>0.5</td>
<td>14.2*</td>
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<td><strong>Infrastructure Indicators</strong></td>
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<tr>
<td>Percentage of firms that experienced a power cut</td>
<td>73</td>
<td>92</td>
<td>89</td>
<td>74</td>
<td>57</td>
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<td>Sales lost due to power outages (% of annual sales)</td>
<td>3.8</td>
<td>3.0</td>
<td>3.9</td>
<td>2.3</td>
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<td>Days to obtain an electricity connection</td>
<td>42</td>
<td>33</td>
<td>31</td>
<td>62</td>
<td>11</td>
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<td>Personal computers (per 1,000 people) *</td>
<td>27</td>
<td>14</td>
<td>28</td>
<td>14</td>
<td>132</td>
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<td>Percentage of firms using email in business operations</td>
<td>31</td>
<td>50</td>
<td>39</td>
<td>66</td>
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<td>Percentage of firms using a webpage for business purposes</td>
<td>17</td>
<td>22</td>
<td>17</td>
<td>29</td>
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<td>Days to obtain a telephone connection</td>
<td>84</td>
<td>175</td>
<td>118</td>
<td>48</td>
<td>26</td>
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<td>Losses while in transport (% of shipment value)</td>
<td>4.6</td>
<td>1.4</td>
<td>0.6</td>
<td>1.7</td>
<td>..</td>
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<tr>
<td>Losses due to water interruptions (% of annual sales)</td>
<td>1.5</td>
<td>2.5</td>
<td>6.4</td>
<td>2.7</td>
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<tr>
<td>Days to clear customs for imports</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>9</td>
<td>5</td>
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<td>Days to clear customs for exports</td>
<td>14</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td><strong>Governance Indicators</strong></td>
<td></td>
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<tr>
<td>Percentage of firms that do not trust the judicial system</td>
<td>15</td>
<td>39</td>
<td>41</td>
<td>48</td>
<td>14</td>
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<tr>
<td>Percentage of firms that do not trust government</td>
<td>20</td>
<td>46</td>
<td>46</td>
<td>71</td>
<td>14</td>
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<tr>
<td>Bribes on government contracts (% of contract value)</td>
<td>15.3</td>
<td>11.5</td>
<td>12.3</td>
<td>13.1</td>
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<tr>
<td>Payments &quot;to get things done&quot; (% of annual sales)</td>
<td>3.5</td>
<td>2.7</td>
<td>4.0</td>
<td>4.4</td>
<td>2.8</td>
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<td>Percentage of firms experiencing a crime</td>
<td>39</td>
<td>30</td>
<td>27</td>
<td>52</td>
<td>38</td>
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<tr>
<td>Losses due to crime (% of annual sales)</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
<td>3.9</td>
<td>4.0</td>
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<td>Days to register a business</td>
<td>46</td>
<td>100</td>
<td>32</td>
<td>50</td>
<td>30</td>
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<td>Days spent dealing with inspections (per annum)</td>
<td>46</td>
<td>12</td>
<td>21</td>
<td>10</td>
<td>5</td>
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<td>Senior management time spent dealing with government regulations (% of total time)</td>
<td>3.4</td>
<td>8.5</td>
<td>7.8</td>
<td>10.3</td>
<td>6.8</td>
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<td><strong>Technology, Quality and Training Indicators</strong></td>
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<td>Percentage of firms with a foreign license</td>
<td>9.8</td>
<td>15.2</td>
<td>9.1</td>
<td>19.6</td>
<td>30.7</td>
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<td>Percentage of firms with quality certification (ISO or other)</td>
<td>16.9</td>
<td>22.3</td>
<td>23.8</td>
<td>15.3</td>
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<td>Percentage of firms providing formal training to employees</td>
<td>26</td>
<td>49</td>
<td>37</td>
<td>55</td>
<td>84</td>
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<tr>
<td>Percentage of firms whose manager has higher education</td>
<td>45</td>
<td>66</td>
<td>62</td>
<td>75</td>
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<td>Days to fill a vacancy for a skilled technician</td>
<td>29</td>
<td>31</td>
<td>28</td>
<td>42</td>
<td>36</td>
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<td><strong>Finance Indicators</strong></td>
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<td></td>
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<tr>
<td>Interest rate for large firms(^1)</td>
<td>18.0</td>
<td>11.0</td>
<td>13.3</td>
<td>10.2</td>
<td>10</td>
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<td>Percentage of firms with a bank loan</td>
<td>30</td>
<td>51</td>
<td>44</td>
<td>44</td>
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<tr>
<td>Percentage of firms with audited financial statements</td>
<td>39</td>
<td>43</td>
<td>30</td>
<td>34</td>
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<td>Percentage of loan value required as collateral for loans</td>
<td>218</td>
<td>154</td>
<td>217</td>
<td>121</td>
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<td>Percentage of revenues reported for tax purposes</td>
<td>74</td>
<td>68</td>
<td>66</td>
<td>77</td>
<td>51</td>
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</table>

Note: An asterisk means that the data are as of 2002.

\(^1\) For GYD-denominated loans in Guyana; USD-denominated loans elsewhere.
Table 2 - Guyana’s Performance in International Investment Climate Rankings

<table>
<thead>
<tr>
<th>Source</th>
<th>Ranking</th>
</tr>
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<tbody>
<tr>
<td>Doing Business in 2006</td>
<td>Ease of Doing Business rank 105 out of 155 countries</td>
</tr>
<tr>
<td></td>
<td>Getting Credit Index rank 145 out of 155 countries</td>
</tr>
<tr>
<td></td>
<td>Enforcing Contracts rank 123 out of 155 countries</td>
</tr>
<tr>
<td></td>
<td>Trading across Borders rank 112 out of 155 countries</td>
</tr>
<tr>
<td></td>
<td>Closing a Business rank 104 out of 155 countries</td>
</tr>
<tr>
<td></td>
<td>Protecting Investors rank 101 out of 155 countries</td>
</tr>
<tr>
<td>World Economic Forum (WEF), Global Competitiveness Report 2005-2006</td>
<td>Growth Competitiveness Index rank 115 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Macroeconomic Environment Index rank 113 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Public Institutions Index rank 109 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Technology Index rank 112 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Business Competitiveness Index rank 106 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Quality of the National Business Environment Index rank 105 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Brain drain rank 117 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Pervasiveness of money laundering through banks rank 117 out of 117 countries</td>
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<tr>
<td></td>
<td>Reliability of police services rank 116 out of 117 countries</td>
</tr>
<tr>
<td></td>
<td>Centralization of economic policymaking rank 115 out of 117 countries</td>
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<tr>
<td></td>
<td>Irregular payments in public contracts rank 114 out of 117 countries</td>
</tr>
<tr>
<td>Heritage Foundation</td>
<td>Index of Economic Freedom rank 79 out of 155 countries, category Mostly Unfree</td>
</tr>
<tr>
<td>Transparency International</td>
<td>Corruption Perceptions Index: rank 117 out of 159 countries</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Background

1. This document presents the main findings of the Guyana Investment Climate Survey (ICS) conducted between November 2004 and March 2005.

2. Guyana possesses a number of strengths which could contribute to more investment in its economy and higher growth. Among Guyana’s strengths and potential sources of economic growth are the following: a relatively well-educated population, fluent in English; moderately low-priced labor; forestry and mineral resources; an untapped hydroelectric potential; natural, unspoiled scenic mountains, rainforest and rivers; and possibility to exploit the country’s location between northern Brazil and the sea.

3. Over the past year Guyana has witnessed some remarkable achievements in the economic arena. For example, economic growth is estimated to have reached almost 5 percent in 2006, and is expected to remain strong in 2007. This is in marked contrast to the early 2000s, when growth was substantially lower and very variable. The strong growth performance of 2006 reflects a recovery in private sector credit, high private remittances and more foreign direct investment. The expansion in private credit was partially led by increased mortgage lending and construction, ahead of the 2007 Cricket World Cup (CWC), which Guyana co-hosted with other Caribbean states in March-April 2007. Importantly, Guyana received foreign debt write-offs under the multilateral debt relief initiative (MDRI), the IMF-World Bank heavily indebted poor countries (HIPC) initiative and additional debt relief was granted by the Inter-American Development Bank (IDB). The macroeconomic environment remained stable, with average inflation slowing down in 2006 to a rate of 6.7 percent, and the exchange rate to the US dollar remaining stable since mid-2004. Despite a strong public expenditure program, mainly aimed at restructuring and modernizing the state sugar company, and growth in imports, foreign reserves went up at the end of 2006.

4. One of the cornerstones of the Government’s recent fiscal reforms has been the introduction of a value-added tax (VAT) as of January 1, 2007. This follows an ambitious program embarked upon in earlier years – such as removal of governmental discretion in issuing tax exemptions and holidays, as well as improving public financial management. New investor confidence is found in the construction boom in 2006 – such as private investment in hotels in preparation for the CWC, the building of a new cricket stadium, a new CARICOM headquarters building, the development of the Berbice Bridge project via a public-private partnership, the opening of a municipal airport under a public-private partnership, among others. A significant event in 2006 was the General Election, which passed peacefully and with the full participation of all political parties. Finally, the Government has made inroads into reducing crime and improving the security situation in the country.

5. Nearly 40 years after gaining its independence in 1966, Guyana’s economy continues to be heavily concentrated in the production of agricultural commodities and minerals (sugar, rice, bauxite and gold), with a low share of manufacturing in GDP (10 percent in 2004). This heavy dependence on sugar and rice is increasingly problematic due to heavy competition from countries such as China and Vietnam. In addition, Guyana – as other small
Caribbean economies exporters of sugar – faces the elimination of the preferential sugar arrangements by the European Union (EU) within the next four years, which will mean losses of markets, if costs of production are not lowered. Thus, since mid-2006 the price for Guyanese sugar paid by the EU has started to fall, and will drop by a total of 36 percent over a four-year period. This prospect, as well as stiff world competition, has led the Government to embark on a restructuring plan for the Guyana Sugar Company (Guysuco), which entails efficiency improvements through modernization of existing production facilities and substantial new investments2.

6. **Guyana faces a number of investment-climate-related weaknesses, but recent efforts by the Government and the private sector are directed at improving and strengthening the business environment.** Guyana is a country in urgent need of economic diversification and new opportunities for growth. Some of the key socio-economic characteristics of Guyana today are as follows: the population – as elsewhere in the Caribbean – is small (750,000) and has relatively low income (US$1,030 GNI per capita in 2005). This means a small internal market, with few economies of scale; huge out-migration (twice as many Guyanese – an estimated 1.5 million – live abroad as in Guyana3) and the associated brain drain (the worst among 117 countries around the world according to the World Economic Forum (WEF), 2005-2006), including entrepreneurs; deep divisions between the two main political parties with years of feuds and disagreements, which impede stable policies related to business and investment; criminal activities which deter investment; and expensive and unreliable infrastructure services, especially electricity, but also telecommunications and transport (roads, ports and bridges). Since the launch of discussions between the Government and the private sector in formulating a National Competitiveness Strategy in 2005, there has been a strong emphasis on improving conditions for the operation of private business and attraction of new investment.

7. **Guyana’s recent economic performance has been relatively modest, and subject to external shocks.** After growth recovery in the early-to-mid-1990s, Guyana’s recent economic growth performance has been modest (real GDP growth between 1999 and 2004 averaged less than 1.0 percent per annum). Growth was notably hurt by the significantly increased crime activity in 2001-2002, and then by the devastating floods of January 2005. The informal economy is estimated at around 30 to 50 percent of GDP4, a result of the high costs of doing business formally.5 In addition, organized crime and alleged drug trafficking – which have been on the rise in the Eastern Caribbean – pose additional costs to doing business, and weaken the security situation in Guyana. The relatively good education system in the country has not stimulated growth, as most well-educated Guyanese prefer to leave the country. In addition to the relatively high levels of crime and informality and problems with locating adequate labor resources, local businesses face a number of other difficulties, such as poor infrastructure (especially electricity), exorbitant cost of financing (despite significant liquidity in the banking sector), allegations of corruption, and economic policy uncertainty, to name a few.

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2 According to the World Bank (2005), Guyana is the lowest-cost sugar producer in the Caribbean. It is expected that even after the abolition of preferential prices, its sugar industry may survive, if efficiency is improved and costs of sugar production are lowered.

3 Many Guyanese live in the United Kingdom as well as in the US and Canada.

4 See US State Department’s Investment Climate Statement on Guyana, 2005. Available online at [www.state.gov](http://www.state.gov)

5 The relative size of the informal economy declined during the 1990s, after the start of economic reforms. For more on the evolution of the informal economy, see Faal (2003).
8. **In 2003 the Government took significant steps to improve the investment climate, which are currently ongoing.** These included the passage of a new Investment Bill, an amended Tax Law and a Competition and Fair Trading Bill; enactment of Value-Added Tax (VAT) and Excise Legislation; establishment of a mediation center and a Commercial Court; efforts to tackle crime; improving access to land through institutional reforms within the Guyana Lands and Surveys Commission (GLSC); reforms within the Guyana National Bureau of Standards (GNBS), as well as efforts to improve public accountability and transparency. Furthermore, in 2005 the Government together with the private sector and international donors initiated the preparation of a National Competitiveness Strategy – a process which is currently well underway, with consultations being held and studies being conducted. The current draft Strategy (May, 2006) identifies key areas of competitiveness and proposes reforms to improve the competitiveness of Guyanese firms in foreign markets as well as attract foreign firms in Guyana.

9. **A draft National Competitiveness Strategy (NCS) was presented at the First Presidential Summit on private sector development in May 2006, and proposes an Action Plan with 122 different actions.** These cover National Competitiveness Program activities in the areas of taxation policy, investment promotion, trade facilitation, access to finance, business registration and operation, resolution of commercial disputes, competition and consumer protection policy, and business development services. They also include activities related to infrastructure improvement, ICT and specific sector polices (sugar, rice, fisheries, agro-processing, forestry, non-traditional agriculture, manufacturing and tourism). It is an ambitious program, which, if implemented, could lead to substantial improvements in the business environment in which Guyanese firms operate. Importantly, some of the policy recommendations which the ICA proposes are chosen also for their being among the top activities considered by the NCS and discussed further at the May 2006 summit (taxation policy reforms, commercial court reforms, enterprise registration reforms, customs reforms). What is a move in the right direction is the planned addition of export promotion services at Go-Invest (Trade Point), and the Government’s commitment to strengthen Go-Invest and make its services available to all investors – foreign or domestic.

**The Investment Climate Survey**

10. **The ICA report provides an evaluation of different aspects of the environment of doing business in Guyana.** It covers governance-related obstacles, labor and technology issues, the financial sector, and infrastructure.\(^6\) The ICA is based on the results of the World Bank Guyana Investment Climate Survey (ICS), as well as other sources of information, including an opinion survey of Guyanese commercial bank managers, and interviews with Guyanese entrepreneurs and government leaders. Additional national and international data sources are utilized in the analysis as well as other World Bank analytical work. The ICS was conducted with the participation of 164 Guyanese manufacturing firms and 32 hotels and tourism sector establishments, utilizing a standard World Bank questionnaire and methodology of data

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\(^6\) This analysis complements a series of previous studies, such as the World Bank reports on “A Time to Choose: Caribbean Development in the 21st Century” (2005), the Caribbean Infrastructure Assessment Report (2005), statistical data based on recent World Bank Doing Business reports and reports by the World Economic Forum (WEF), the Heritage Foundation, Transparency International, the US State Department’s Investment Climate Statement 2005, and others.
collection. The survey measured a wide set of indicators related to the Guyanese business conditions in several thematic areas: access to and cost of finance; infrastructure; business regulations, crime and contract enforcement; labor skills, technology and quality. The purpose of the survey was to benchmark Guyana against other countries for which similar survey data exist, and to analyze intra-country variations in conditions for doing business (such as among firms of different size, location, sector, ownership, etc.) so as to assess how level-playing the field is.

Main Findings

11. **One of the leading findings of the report is that Guyana’s investment climate lags that of other countries in the Caribbean (e.g. Grenada, Trinidad and Tobago), and lags or similar to that of comparable Central American countries such as Nicaragua, Honduras and Guatemala.** This is confirmed by different international benchmarking reports (see Table 1) as well as by the ICS data. Guyana ranks especially low internationally on objective measures of infrastructure bottlenecks related to the electricity and telecommunications sectors, and on the regulatory burden related to taxation, business regulations, customs regulations, and contract enforcement. Additional constraints on firms’ operations are low access to credit and shortages of labor skills sought by the private sector.

12. **The analysis indicates that Guyanese businesses incur significant costs related to electricity (much of which is self-provided), expensive telecom services, delays at customs, long times to deal with government regulations, and to win public contracts.** Corporate taxation – despite recent efforts by the Government to streamline and reduce tax burdens – is an obstacle which indicators in this and other benchmarking reports (Doing Business, WEF) identify as being problematic. Insecurity and crime against businesses also raise firms’ costs of doing business.

13. **The surveyed Guyanese firms indicate that macroeconomic and political uncertainty is preventing investment and growth.** For example, 44 percent of interviewed manufacturing companies perceive macroeconomic uncertainty to be a major or severe obstacle to their operation and growth, second only to costs of finance (with 56 percent of interviewed firms). Political uncertainty is also ranked among the top binding constraints – with close to one-third of surveyed firms (30 percent) reporting that it is a major or severe obstacle to doing business. These findings are also confirmed by the Guyana Business Outlook Survey 2006, which found political stability (risk) to be the second top ranked external factor (out of a list of 31) perceived by firms as most likely to affect their businesses in 2006 (alongside fuel prices, electricity supply and rates, consumer spending power, and exchange rates).

14. **The playing field does not appear to be level across different firms in Guyana.** Micro and small firms, and to a lesser extent, medium ones are more disadvantaged than large ones. Large firms are usually the ones that export, have better access to credit, use more new technology and quality certificates, train more workers and have more educated and skilled workers and managers. Large firms (as well as foreign-owned and exporting firms) are the ones more insulated from binding constraints such as unreliable electricity or water. They are more likely to invest in own generators and wells which, of course, come at a cost. While large firms are found to enjoy better investment-climate conditions in other countries as well, it is
worthwhile to mention that Guyanese large firms seem to do worse than large firms in other countries. Even large firms face difficult investment climate conditions compared to firms in other countries. Therefore, their competitiveness is also hampered by investment climate deficiencies.

**Key recommendations**

15. **Reforms with the greatest potential to improve the investment climate in Guyana include:** i) further reforms of the contract enforcement regime and the judiciary; ii) establishing a credit bureau and credit information sharing; iii) reductions of the regulatory burden (further tax reform, customs, licenses and inspections, etc.), and iv) further enhancement of the transparency of public procurement. In some of these areas (contract enforcement, tax policy, procurement) reforms are already underway, with international donor assistance, and have also been recognized as priority areas by the National Competitiveness Strategy currently under discussion and formulation.

16. **On the other hand, electricity, transport and telecommunications – while also very important – are potentially costly efforts, likely to require substantial private investment and/or donor assistance, and longer to achieve desired improvements.** Incremental measures may be the best option here – such as improving distribution and transmission of electricity, rehabilitating roads, etc. Finally, some other areas such as loss of labor skills due to out-migration and insecurity due to crime and violence, while a high cost to firms, would require sustained long-term efforts.

17. **In the area of contract enforcement and the judiciary, use of the courts is low as they are slow and cumbersome.** Thus, firms rely more on trade with known customers, thereby inhibiting new entrants into the market. A relatively inexpensive remedy for case backlogs is to create a system of fast-track resolution of small claims (e.g. through a small-claims court or mandatory mediation), and to send larger commercial cases to a specialized Commercial Court or a commercial claims division in the High Court. The establishment of a Commercial Court is underway with IDB financing for training of judges, purchase of computers and other office equipment. Further strengthening of alternative dispute resolution (ADR) mechanisms such as mediation (a Mediation Center has been operational at the High Court since 2002) is desirable. Other than that, court case management and case flow in the courts need improvement; and some administrative tasks currently performed by judges could easily be assigned to court clerks. Finally, judicial reforms work best if they create the right incentives for litigants and judges. In that respect, more judicial statistics and information to assess where the main bottlenecks lie in court procedures need to be undertaken⁷. Court procedure rules – if too cumbersome – can also be amended in the relevant legislation⁸.

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⁷ Data from the Registrar of the High Court on cases filed and resolved points to substantial backlogs as of 2004.
⁸ Data on court procedures based on a survey completed by the Guyanese law firm of Hughes, Fields and Stoby in June 2004 suggest that many delays in court cases are due to procedural requirements. For instance, rules on service of process on a defendant require 1 to 2 weeks for personal service; if that fails, substituted service may take up to a month to complete (if publication in a newspaper is used). The defendant is then given another 42 days to appear in court after substituted service.
18. **In the area of access to finance, a credit bureau can help resolve problems with asymmetric information in the credit market.** A credit bureau is seen as another measure which can help lenders better assess risk through access to borrower information and records. It is a relatively cheap undertaking, but one that requires substantial consensus to amend relevant banking laws, confidentiality laws, etc. Recent reform experiences in setting up public credit registries or private bureaus in other countries could guide Guyana how best to do that.

19. **Concrete measures to reduce the taxation and regulatory burdens on private firms can stimulate investment and reduce informality.** Despite the fact that perceptions of local Guyanese firms about the regulatory burden and taxes are not very negative, objective measures (time spent on regulations, days to get operating licenses, days spent dealing with inspectors) from both the survey and additional international reports (WEF, Doing Business) suggest that the regulatory burden is heavy (high taxes, inspections, etc.). This is likely to affect foreign firms and potential foreign entrants very strongly. It is also plausible that local firms are less concerned about the regulatory burden as they have already found ways to go about dealing with different regulations. Nonetheless, it is conceivable that all foreign and domestic firms would benefit, if the burden of regulation were to be eased.

20. **Efforts to enhance the transparency of the national public procurement system should be deepened.** The Government of Guyana has made significant efforts to reform the national public procurement system. The rules governing public procurement were revised by the 2002 National Procurement Act, which was subsequently amended by the Tender and Procurement Act of 2003; National and Regional Tender Administration Boards have been established; and standard bidding documents and evaluation criteria have been developed according to international standards. Future Government efforts in this area should focus on establishing a functional procurement monitoring and evaluation system to monitor the application of the new legal and institutional procurement system, and appointing members of the Public Procurement Commission, which is entrusted with providing oversight for procurement matters. Even though corruption is not perceived as a major obstacle to doing business by interviewed Guyanese manufacturing firms, reported bribes to secure public contracts are very high – at 15 percent of the contract value on average across the surveyed sample of firms. This is an additional cost that firms have to bear. Generally, corruption can harm the investment climate in several ways: by raising entrepreneurs’ costs, creating a constituency in support of red tape, and distorting policymaking decisions. Enhancing the transparency of government-firm interactions has become one of the most common strategies of fighting corruption around the world. E-government and e-procurement have also been found to make public procurement more open, competitive, and subject to public scrutiny.

21. **In conclusion, the investment climate in Guyana has to be improved so that the private sector and the economy can grow.** The present ICA serves as a diagnostic tool to point to the main deficiencies and suggest possible solutions to them (see Table 3 for the main policy recommendations and Table A.1 in the Appendix for the full list of recommendations). The

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work to improve Guyana’s competitiveness is already underway, and the ICA can catalyze further investment climate reform as the Government and the private sector in Guyana implement the National Competitiveness Strategy in the months and years to come.
Table 3 - A Summary of Main Findings and Recommendations

<table>
<thead>
<tr>
<th>Issues by Aspect of the Investment Climate</th>
<th>Ongoing/short-term measures</th>
<th>Medium- and long-term measures or considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance and Insecurity:</strong></td>
<td><strong>Business Regulations and Taxes</strong></td>
<td><strong>Business Regulations and Taxes</strong></td>
</tr>
<tr>
<td><strong>Business Regulations and Taxes</strong></td>
<td>• Delays in government procedures (e.g. operating licenses), and lengthy inspections, especially those by the Municipal Police, and Sanitation and Epidemiology officials</td>
<td>• Implement a comprehensive fiscal reform that aims at increasing the tax base, reducing tax and import duty exemptions, reducing incentives for evasion and strengthening enforcement</td>
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<td></td>
<td>• Corporate tax rates are high (45 percent maximum) and complex, and, combined with several tax and import duty exemptions, distort incentives</td>
<td>• Consider lowering maximum corporate income tax rates (at present 45 percent)</td>
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<tr>
<td></td>
<td><strong>Contract Enforcement and the Judiciary</strong></td>
<td><strong>Contract Enforcement and the Judiciary</strong></td>
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<tr>
<td></td>
<td>• Resolution of business disputes in court is time-consuming</td>
<td>• Consider lowering import duties, some of which are too high</td>
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<tr>
<td></td>
<td>• Court case backlogs occur according to information from the Registrar of the High Court</td>
<td><strong>Corruption</strong></td>
</tr>
<tr>
<td></td>
<td>• Official court fees, while not high in an international perspective, are over $1,000 for filing a court case over a payment dispute, which is prohibitively high for micro and small firms</td>
<td>• Carry out annual audits of procurement operations</td>
</tr>
<tr>
<td></td>
<td><strong>Corruption</strong></td>
<td><strong>Implement e-procurement strategy</strong></td>
</tr>
<tr>
<td></td>
<td>• While corruption is not perceived as a major problem, bribes paid out by firms to secure public contracts are very high, at 15 percent of the contract value</td>
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</tbody>
</table>
**Infrastructure:**

**Electricity**
- Firms lose 3.8% of annual sales due to power outages, which is very high compared to other countries
- The reliability of electricity supply in Guyana is low, characterized by frequent and long outages (the highest incidence of outages in Latin America and the Caribbean (41 per year))
- Self-supply of electricity by Guyanese firms is widespread, especially among medium and large firms (82% and 100% of which own generators)
- Electricity prices in Guyana are the third highest in the LAC region largely due to losses in generation and distribution, and to reliance on imported oil for generation

**Telecommunications**
- Guyanese firms waited 84 days on average to obtain a fixed telephone line, longer than the average time to do so across LAC countries (67 days)
- Internet and email use by surveyed firms to interact with customers and suppliers is the lowest in the region
- The Public Utilities Commission (PUC) of Guyana is not an effective regulator

**Transport and Logistics**
- Surveyed Guyanese companies reported a 4.6 percent of shipment value lost due to transportation failures (theft, breakage and spoilage of goods in transit), which is very high

**Electricity**
- Ensure the stability of power supply and enhance the reliability of provision of services through improving distribution operations and reducing technical and non-technical losses
- Reduce service cost and raise quality through improvements in the distribution end of the business
- Enhance the regulatory framework, including the transparency and certainty in the definition of tariffs; avoid arbitrary interventions, and empower market participants to cut commercial losses

**Telecommunications**
- Adopt the recently drafted National ICT Strategy, and begin its implementation
- Present before the World Trade Organization (WTO) a Basic Telecommunications Commitment, which could pave the way for opening the country’s telecommunications market
- Introduce public tenders for all universal service/access projects

**Transport and Logistics**
- Carry out ongoing plans rehabilitation of existing roads
- Establish an integrated National Transportation Strategy in conjunction with the National Competitiveness

**Electricity**
- Improve collection of service payments
- Continue strengthening the regulatory framework
- Invest in new generation capacity (where feasible), and use of new, renewable energy resources (e.g. ongoing Bank Bagasse Co-generation Project) as well as hydropower generation
- Promote efficiency in the sector through an increase in competition

**Telecommunications**
- Restructure the Public Utilities Commission (PUC) within a two- to three-year period to allow it to regulate the whole industry
- The Regulator should negotiate a tariff rebalancing plan allowing GT&T to align its tariffs to costs (and improve efficiency); introduce lower long-distance rates over a two- to five-year period

**Transport and Logistics**
- Invest in critical trade infrastructure (e.g., plans for a new road between the Brazilian border and Georgetown), if investment financing is secured
- Develop regulations to improve the
- Customs processing times are long – on average 14 days for exporters, with a maximum time of 23 days to clear customs

**Strategy**
- Adopt an action plan for customs reforms through modernization of customs procedures (e.g. through electronic processing of customs declarations and documents)
- services provided by the Guyanese trucking industry
- Introduce more transparent customs procedures; set up a customs website with guidelines on procedures and documents required to export/import

### Skills, Migration, Quality, and Technology:

#### Skills and Migration
- The scarcity of skilled labor in Guyana was perceived as a major problem by firms
- A small proportion of firms provided formal training to their employees (26 and 35 percent of firms offered internal and external training respectively)

#### Quality
- Only 17 percent of surveyed Guyanese firms have quality certifications which are internationally recognized (ISO9000, etc.)
- The institutional infrastructure for metrology, standards, testing and quality is weak despite recent improvements in the operation of the Guyana National Bureau of Standards (GNBS)

#### Technology
- Only 38 percent of surveyed firms invested in new technologies, and the majority of these (77 percent) did so by purchasing new machines or equipment

### Skills and Migration
- Develop executive and business education programs, especially for hotel workers and managers, the eco-tourism and Information Communication Technology (ICT) sectors
- Develop a national training program that would correspond to the demand for skills sought by investors (foreign and domestic)

### Quality
- Stimulate firms’ demand for quality certification through public procurement
- Enhance the institutional infrastructure for metrology, standards, testing and quality (MSTQ) by further strengthening of GNBS

### Technology
- Encourage technology licensing and capital goods investment through fiscal or other incentives
- Establish appropriate financing mechanisms for the purchase of new equipment and machinery

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<table>
<thead>
<tr>
<th>Finance:</th>
<th>Initiate a feasibility study to create a credit bureau</th>
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<tbody>
<tr>
<td>• Only 30 percent of interviewed firms have a bank loan, which is very low</td>
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<td>• Banks impose a very high collateral requirement for most loans (all firms need collateral to get a loan; collateral-to-loan ratios are over 200 percent)</td>
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<tr>
<td>• Lack of assets accepted as collateral is a serious barrier for micro and small firms when they apply for bank loans</td>
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<tr>
<td>• Adopt the legal and regulatory norms for credit information sharing with a view to establish a public credit registry or a private credit bureau</td>
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<tr>
<td>• Improve corporate reporting requirements further</td>
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<tr>
<td>• Enhance creditor rights through amendments to the Companies Act (1995)</td>
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<tr>
<td>• Complete the ongoing land titling program and establish a single Land Registry</td>
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</tbody>
</table>

Source: Prepared by authors using the Investment Climate Survey data and additional sources of information
1. THE GUYANA INVESTMENT CLIMATE SURVEY

1.1 The present Guyana Investment Climate Assessment is based on a survey of 163 manufacturing firms performed between November 2004 and March 2005. About 20 percent of the firms surveyed were located inside of the capital city, Georgetown, with the remaining 80 percent located outside of the capital. The Guyana ICS sample was drawn from 6 sectors – food, wood, garments, textiles, chemicals and mining and quarrying. Of the firms covered in the survey, 69 percent are non-exporters and 91 percent of the firms are domestically owned. After determining the sample size at the sector level, the sample was stratified by location, size range, capacity and quality control. The final sample includes micro and small (46 percent of the sample), medium (36 percent), and large firms (18 percent). The data were collected by means of face-to-face interviews of company managers, performed by trained enumerators. The survey was executed by the private Guyanese firm CEMCO Inc. and the World Bank. Figure 1.1 shows the sample composition by sector. Additionally, 32 hotels, lodges and tourism firms were interviewed in the same period. Those data provide information on the main obstacles faced by tourism firms in Guyana, and are reviewed in detail in Chapter 6 of Volume 2.

![Sample Composition by Sector](image)

Source: World Bank Guyana ICS, 2005

1.2 Investment climate survey data provide both subjective and objective indicators about different obstacles which firms face. Among the former, are firms’ perceptions and rankings (Figures 1.2 and 1.3). Among the latter are a multitude of indicators such as the percentage of time spent on regulations; the percent of sales spent on informal payments; the percent of sales spent on security costs; the share of consignment cargo lost during transportation, etc. In the comparisons under each thematic area that follow, we mainly focus on objective indicators, especially when performing international comparisons.\(^{11}\)

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\(^{11}\) Comparing survey perception measures across countries is prone to problems to do with optimism/pessimism associated with recent economic growth performance, etc.
Box 1. What is an Investment Climate Assessment?[^12]

Investment climate assessments systematically analyze the conditions for private investment and enterprise growth in a country, drawing on the experience of local firms to identify the areas where reform is most needed to improve the private sector’s productivity and competitiveness. By providing a practical foundation for policy recommendations and involving local partners throughout the process, the assessments are designed to give greater impetus to policy reforms that can enhance the private sector’s performance. Produced by the World Bank Group in close partnership with a public or private institution in each country, the investment climate assessments are based on a survey of private enterprises designed to capture firms’ experiences in a range of areas — financing, governance, regulation, tax policy, labor relations, conflict resolution, infrastructure services, technology, and training, and others. All these are areas where difficulties can add substantially to the costs of doing business. The survey attempts to quantify firms’ costs associated with investment climate bottlenecks. Using a standard methodology, the assessment then compares the survey findings with those in similar countries to evaluate how well the country’s private sector is competing, and to benchmark the country’s conditions to those in other comparator countries.

The findings of the survey, combined with relevant information from other sources, provide a practical basis for identifying the most important areas for reform aimed at improving the investment climate. The findings and policy recommendations emerging from the assessments are discussed extensively with the private sector and other stakeholders in the country. This broad dissemination of the findings is aimed at engaging not only policymakers but also business leaders, investors, nongovernmental organizations, and the donor community in shaping the national private sector development strategy, forging consensus on the priorities for reform of the investment climate, and laying the groundwork for concrete responses to the problems identified.

The present assessment is based on a survey performed between November 2004 and March 2005, with a sample covering approximately 200 Guyanese firms. The sample covered establishments in seven industries, including 6 manufacturing sectors, plus hotel and hospitality services. The questionnaire was based on the standard World Bank ICS questionnaire, to contribute to the Bank’s cross-country data set of general business environment issues. Specific questions regarding tax regulations and tax and import duty incentives were added, as it became clear that these aspects were very important to assess the overall investment climate. All firm sizes were included, including micro, small, medium and large firms. For this purpose, the following classification for firm size by number of full-time workers was used, i.e. large (50+ workers); medium (15-49), small and micro (<15). A World Bank team and the Guyanese company CEMCO selected the survey sample. Trained enumerators collected the data in face-to-face interviews of company managers.

Finally, the Investment Climate Survey methodology differs from the Doing Business Project’s methodology in several key aspects. While both the ICS and Doing Business use surveys, the ICS is a survey of firm managers, whereas Doing Business employs a survey of lawyers, accountants, business consultants and government officials. The ICS sample is drawn using information about all registered firms in a country, and covers between 200 and 1,000 companies, depending on the size of the economy. In contrast, Doing Business typically relies on the answers of usually one law firm per topic, with two senior partners verifying the survey answers. Since Doing Business uses factual information about what laws and regulations say, and uses multiple interactions with the respondents to clarify potential misinterpretations, having a representative sample is not considered a problem. Therefore, one would expect differences in, say, the time to start a business or the time to resolve a court case, as measured by the Doing Business and the ICS for any given country.

Furthermore, Doing Business makes several crucial assumptions: usually the data are representative of regulations in the country’s most populous city, and in that respect may not be a good reference point for the rest of the country. The ICS, however, covers all geographic regions of a country. Doing Business often focuses on one type of legal form of a business – the limited liability company. In contrast, the ICS covers all legal forms, including sole proprietorships. Finally, Doing Business also assumes that the firm has full information about required regulatory processes and does not waste time in completing procedures. This is not the case with the ICS data.

[^12]: Adapted from World Bank (2006), Chile Investment Climate Assessment
Figure 1.2 - Ranking of Constraints to Doing Business: Percentage of Guyanese Manufacturing Firms who Rate Each Area as a Major or Very Severe Obstacle (0 – no obstacle, 4 – very severe obstacle)

Source: Guyana Investment Climate Survey, World Bank 2005
Figure 1.3 - Ranking of Constraints to Doing Business: Percentage of Guyanese Hotels who Rate Each Area as a Major or Very Severe Obstacle (0 – no obstacle, 4 – very severe obstacle)

Source: Guyana Investment Climate Survey, Hotels Module, World Bank 2005

Figure 1.4 - Percentage of Firm Sales Lost Due to Quantifiable Constraints in the Areas of Infrastructure and Governance

Note: Costs due to transport problems are expressed as percent of shipment value. All other losses and costs are expressed as percent of firms’ annual sales.
1.3 Guyanese manufacturing firms spend on average 13.5 percent of their total annual sales on different costs related to infrastructure bottlenecks (power and water interruptions), and to governance and insecurity, such as informal payments to “get things done” as well as direct losses related to crime and costs spent on security (Figure 1.4). These costs are higher since the 13.5 percent does not include transport losses (due to breakage, spoilage or theft during transportation of goods). The latter losses represent 4.6 percent of firms’ shipment values on average. Therefore, total losses are high, and above reported losses related to the same problems in Central American comparator countries (11.9 percent on average for Nicaragua, Guatemala and Honduras; 9.9 percent for El Salvador). Therefore, these objective measures, point to potential savings and improved firm competitiveness if some of these bottlenecks were to be removed.

1.4 International investment climate comparisons for Guyana are complicated by the fact that only one other Caribbean country (Grenada) had an Investment Climate Survey in 2004, with reasonably comparable data (the two surveys were not identical)\(^{13}\). Other small Caribbean states, such as the OECS, have not had such a survey completed, and are not covered by most of the international benchmarking reports such as Doing Business or the WEF’s Global Competitiveness Report. This leaves a set of Central and South American countries which have had Investment Climate Assessments and surveys in recent years, as well as other developing countries (mainly in Asia and Africa).

1.5 The comparator countries used in the Guyana ICA were chosen according to certain formal criteria, such as their per capita income, geographical location, population size, crime levels, ethnic polarization, and availability of ICS data. Following this approach, Nicaragua, Honduras (both low-income, IDA countries) were chosen as comparators. Caribbean countries are thought of as natural comparators for Guyana. Accordingly, an expanded comparator set included small states from the Caribbean such as Grenada, the OECS member states, as well as Jamaica and Suriname, where possible. In certain comparisons, e.g. crime and violence, Colombia, Jamaica, Trinidad and Tobago, and El Salvador were used, given similarity in crime levels. Mauritius and some other African countries where ICS data are available (Senegal, Uganda, Zambia) were used in limited comparisons related to emigration, training and worker skills. In all cases, comparisons with richer and larger countries should be treated with caution as small states possess a lower government capacity, and there may be high fixed costs of certain reforms, which – even if desirable – will be difficult to undertake in a small state.

\(^{13}\) As of March 2006, an Investment Climate Survey of firms in the Dominican Republic was completed; however, a full-fledged ICA was not prepared.
2. GOVERNANCE AND INSECURITY

BUSINESS-GOVERNMENT RELATIONS

2.1 High regulatory burdens – measured by the costs of interacting with government officials and regulators – are associated with worse rather than better economic outcomes. Governance, insecurity, contract enforcement and business-government relations are related facets of the business climate which affect risk in investment projects, and thereby firms’ decisions to invest. Recent theories of regulation and growing empirical evidence challenge the public-interest theory, according to which governments enact regulations of business activity to achieve socially desirable goals. Thus, a number of recent empirical studies (e.g. Djankov et al. (2002), Djankov et al. (2003), Glaeser and Shleifer (2002), Glaeser and Shleifer (2003)) find that a heavier regulation of business registration – measured in both the time required to register a firm and its cost – is associated with worse rather than better economic outcomes. For example, Djankov et al. (2002) review data for the time, official cost and number of procedures to start a new firm in 85 countries, and establish that countries with heavier regulations of entry have a larger unofficial economy and more corruption, but not better quality of private or public goods.

2.2 According to the ranking of investment climate constraints shown in Figure 1, Guyanese manufacturing firms interviewed by the ICS find finance, electricity and labor force skills as key constraints to doing business. Yet, they also indicate that macroeconomic and political uncertainty is preventing investment and growth. Among interviewed hotels, high tax rates, customs regulations and regulatory policy uncertainty feature high on the list of obstacles to doing business (Figure 1.2). In view of these perceptions, we next summarize some of the findings with respect to the regulatory environment and the corporate taxation burden in Guyana.

2.3 The ICS data reveal that Guyanese hotel managers spend significantly more time on dealing with government regulations (e.g. registrations, taxes, inspections, licenses, customs, etc.) than manufacturing managers do. On average, 8.6 percent of the working time of hotel managers is spent on such regulations, and this figure is comparable to what managers of large manufacturing firms spend (7.0 percent) (Figure 2.1). For comparison, the Grenada ICS – conducted in 2004 – also found that companies in tourism-related sectors encountered more administrative hurdles than other companies. Among Guyanese manufacturing firms, those in the chemical and pharmaceutical industry also devote a higher proportion of their time to regulatory matters – at 6.4 percent on average. In contrast, firms in the textile industry spend on average less than one percent of their time on dealing with regulations. Finally, foreign-owned firms spend longer on regulations than domestic ones do (8.3 percent vs. 3.2 percent of senior management’s time). More time spent on regulations is costly to firms, and it is generally associated with more opportunities for bribe requests by officials and less trust in the government by firms.
2.4 **Guyana’s business taxes are high and complex, and there are many exemptions, remissions, holidays, etc., to compensate for the high rates.** The corporate income tax (CIT) rates are 35 percent for manufacturing and 45 percent for trade and services, which are very high. The 45-percent rate is the highest in Latin America and the Caribbean, and the 35 percent rate is among the top half-dozen; in 2004 the average CIT rate in Latin America was 30 percent. Roughly the same is true for import duties and other charges for machinery and equipment. Combined import duties, consumption taxes and port charges can add up to as much as 90 percent for some equipment – a prohibitively high amount which no investor can, or should be expected to bear.

2.5 **Recently the Government has made efforts to reduce tax and import duty exemptions and minimize discretion in their granting.** Incentives or exemptions are no doubt the main reason why Guyanese manufacturing companies do not identify high tax rates as a serious problem, are nevertheless still available under the current tax law. Eligibility for these incentives has been codified to some extent by the Fiscal Enactment (Amendment) Act of 2003, which defines sectors and geographic regions where investments are eligible. Recent fiscal legislation reforms have targeted the removal or minimization of discretion in the granting of exemptions. In this regard, the earlier discretionary powers of the Minister of Finance to grant or not grant exemptions (to taxes on imports and on corporate profits) have been eliminated, and at present the Guyana Revenue Authority (GRA) has full autonomy over the granting of tax exemptions and concessions. To increase transparency, the GRA started in 2004 to publish annually the list of firms and persons benefiting from tax exemptions, including the amounts.

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14 As shown in Figure 1, only 17 percent of industrial respondents viewed Tax Rates as a major or very severe obstacle to doing business, which made Tax Rates the 12th-ranked obstacle. Tax administration was ranked even less problematic—18th out of 20 different constraints. Hotel managers, however, were far more critical about tax rates – ranking them in second place out of 21 constraints, with 57 percent considering Tax Rates a major or severe constraint.

15 It is because of these very high top corporate tax rates that Guyana received the worst score on its Corporate Taxation Index by the Heritage Foundation for 2005 (the ranking is on a 1-to-5 scale, with higher values indicating worse outcomes). See Heritage Foundation, 2005 Index of Economic Freedom, Guyana Country Page.
Furthermore, a five-year limit on income tax holidays was introduced (with the exception of certain sectors, where the limit is 10 years). Finally, administrative guidelines and procedures under the Customs Duties (Amendment) Order 2004 were adopted to minimize the scope of discretion in the granting of customs duty exemptions.

2.6 In line with the above, almost one-third of large Guyanese manufacturing firms reported having had tax exemptions between 2000 and 2003, as did also 44 percent of foreign companies and 28 percent of exporting companies interviewed in the ICS. Among the interviewed tourism firms, 12 percent were eligible for tax holidays, and 10 percent received such tax holidays. Tax exemptions were most common among firms from the mining (22 percent), chemical (20 percent) and wood (16 percent) industries.

2.7 The Fiscal Enactment (Amendment) Act of 2003 represents some potential improvement over the earlier legal framework. It simplifies to some extent the criteria for granting incentives and it moves toward removing political influence on the granting of incentives. But the Act does not go nearly far enough. It still permits broad discretion, and in practice, according to all persons interviewed by the ICA team, incentives are perceived as still being given out on a case-by-case basis and as being subject to political influence. It must be noted that a case-by-case approach is within the letter of the law since the law does not provide for automatically enforceable rules. If political influence is to be removed, “incentives” must be automatic and made part of the Tax Code.

2.8 Even though Guyana has adopted new tax legislation aimed at reducing discretionary tax exemptions, not much appears to have changed. There is a lingering sentiment among the interviewed Guyanese private businesses that discretionary exemptions still remain. Referring respondents to the new tax legislation, the survey asked them whether they expected to continue receiving the tax exemptions that they had received prior to the tax law reform in 2003. An overwhelming majority of companies (90 percent) expect to continue receiving the same exemptions in the future (Figure 2.2).

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16 Persons in Georgetown interviewed by the ICA team were unanimous on this point of case-by-case discretion. The US State Department’s “2005 Investment Climate Statement” reports the same.
2.9 Exemptions from import taxes and charges are rated by Guyanese business executives as more important than corporate income tax holidays. For instance, 21 percent of manufacturing ICS respondents rated import tax exemptions as very important for reducing costs compared to 11 percent for income tax holidays (Figure 2.3). Import taxes and charges are high, on the other hand, can be avoided only by smuggling or bribery, and come “upfront”. Taxable income is subject to more subtle adjustments (many of which are legal) and comes due only in the future, if and when profits begin to be earned.

2.10 The relative dominance of tax exemptions on imported inputs and capital equipment over tax holidays is also demonstrated by the surveyed 32 hotels in Guyana. More than half of them (52 percent) reported using such import tax/duty exemptions, which is all the firms that were eligible for such import exemptions to begin with. In contrast, only 12 percent of interviewed hotels were eligible for income tax holidays, and 10 percent used such tax
holidays. Both import tax exemptions and tax holidays were deemed equally important for firms’ business and exports, and equally expensive in terms of administrative and other costs, deemed from moderate to substantial. However, the time to get the two incentives differs markedly: tourism firms waited on average four and a half months (135 days) to get an import tax exemption, and only about two weeks (13 days) to be granted an income tax holiday (Figure 2.4). The latter finding probably reflects the higher importance attached to import tax exemptions.

Figure 2.4 - Eligibility and Use of Input Tax Exemptions and Tax Holidays by Guyanese Hotels

![Bar chart showing eligibility and use of input tax exemptions and tax holidays by Guyanese hotels.]

Source: Guyana ICS, Tourism module

2.11 While corruption does not feature high on the list of obstacles to doing business, bribes paid out by firms to secure public contracts are reported to be quite substantial\(^{17}\). Only 18 percent of manufacturing respondents indicated that corruption is a major or severe obstacle\(^{18}\). However, as shown in Figure 2.5, Guyana has a very high reported level of bribes to get government contracts – at 15 percent of the contract value. This is second only to Peru (20 percent) in the region, even though the other comparator countries also record high levels of informal payments for public contracts – from 15 percent in Ecuador to 13 percent in Guatemala. Furthermore, a high share of Guyanese firms report incidence of such payments. For instance, 12 percent of interviewed Guyanese manufacturing firms say that when doing business with the government informal payments are expected to get the contract. In contrast, in countries with more transparent public procurement systems the share of firms who indicate the need to pay gifts to government officials to get government contracts is substantially lower.

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\(^{17}\) While the Guyana ICS for industrial firms did not reveal serious perceived problems related to corruption, other sources point to corruption being a problem. For example, Transparency International’s 2005 Corruption Perceptions Index (CPI) for Guyana is 2.5 (on a scale of 1 (worst) to 10 (best)), placing it 117\(^{th}\) among 159 countries, on par with Afghanistan, Bolivia, Ecuador, Guatemala, Libya, Nepal, the Philippines and Uganda.

\(^{18}\) Note, however, that surveyed hotels complained more about corruption, with 41 percent rating it a major or severe obstacle.
Figure 2.5 – Reported Bribes to Obtain Government Contracts, percent of contract value

Source: World Bank Investment Climate Surveys, 2002-2005

2.12 Guyanese firms were inspected on average 11 times during 2004 by different government regulatory agencies; most frequently by officials from the Environmental Department (five times on average), Sanitation and Epidemiology (three times) and Labor and Social Security (twice on average). Each visit by inspectors lasted, on average, 128 hours or about five days. The lengthiest inspections were registered by officials from the Municipal Police – on average across 10 firms reporting such inspections – at 162 hours each (seven days) each. The latter, however, display wide variation: from one hour to 38 days. As shown in Table 2.1, both the frequency with which firms were inspected and the average length of a single inspection were higher in Guyana compared to Grenada.

Table 2.1 - Inspected Firms and Frequency and Duration of Inspections

<table>
<thead>
<tr>
<th>Agency</th>
<th>Share of Firms Inspected in 2004</th>
<th>Maximum Frequency (visits per year)</th>
<th>Median Duration (days/visits)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Guyana</td>
<td>Grenada</td>
<td>Guyana</td>
</tr>
<tr>
<td>Tax Inspectorate</td>
<td>59%</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Labor and Social Security</td>
<td>63%</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Fire and Building Safety</td>
<td>62%</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Sanitation/Epidemiology</td>
<td>47%</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Municipal Police</td>
<td>8%</td>
<td>N/A</td>
<td>52</td>
</tr>
<tr>
<td>Environmental</td>
<td>80%</td>
<td>7</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total Inspections (including by other agencies)</strong></td>
<td><strong>95%</strong></td>
<td><strong>N/A</strong></td>
<td><strong>121</strong></td>
</tr>
</tbody>
</table>

Source: Guyana ICS, and “Grenada – A Diagnostic Review of the Investment Climate”, FIAS report, 2004
RECOMMENDATIONS ON BUSINESS-GOVERNMENT RELATIONS

2.13 **With respect to corporate taxation, Guyana needs to deepen its ongoing tax reforms which aim at increasing the tax base.** The strategy should reduce the incentives for evasion while strengthening enforcement so as to increase the actual costs of evasion. At the same time, discretion in granting any remaining incentives should be drastically reduced or simply removed. This applies to corporate income tax, as well as to duties and consumption taxes on imports. Indeed, as mentioned earlier, reform in exemptions, remissions and tax holidays has already been underway as part of the IMF’s PRGF program. The discretionary powers of the Minister of Finance were removed in with the Tax Law amendments of 2004, and the Guyana Revenue Authority now has full autonomy over the granting of tax exemptions\(^\text{19}\).

2.14 **The enactment of a Value-Added (VAT) and Excise Tax Law in 2005 is an important step in the right direction – if VAT can be implemented well.** At present, progress is made with discussions involving the private sector on the regulations for implementing the VAT\(^\text{20}\). The Government has recognized that a small country such as Guyana, with high mobility of human resources and capital, should shift emphasis towards consumption taxes and away from taxes on income. Within consumption taxes, those on imports are too high, which creates incentives to smuggle and the need for legally-granted exemptions for investors. In this regard, VAT could create fiscal room to facilitate further reforms of income taxes and customs duties.

2.15 **The National Competitiveness Strategy envisages more reforms in the area of corporate taxation.** One issue is the implementation of VAT and excise taxes which are on track to be introduced on January 1, 2007. The Government is also planning to commission a study, examining different options for lowering the corporate income tax (CIT) rate, and to then take actions in lowering the CIT rate.

2.16 **Given the reported high levels of bribes to get a public contract, the Government should enhance the transparency of public procurement.** The Government of Guyana has made significant efforts to reform the national public procurement system. The rules governing public procurement were revised by the 2002 National Procurement Act, which was subsequently amended by the Tender and Procurement Act of 2003; National and Regional Tender Administration Boards have been established; and standard bidding documents and evaluation criteria have been developed according to international standards. Future Government efforts in this area should focus on establishing a functional procurement monitoring and evaluation system to monitor the application of the new legal and institutional procurement system, and appointing members of the Public Procurement Commission, which is entrusted with providing oversight for procurement matters.

2.17 **Inspections by officials of the Police, Sanitation and Epidemiology, and Environment departments need to be reduced.** In addition, the number of procedures for obtaining operating licenses, health permits and police licenses should also be shortened.

\(^{19}\) A Remissions Unit entrusted with making decisions on exemptions has been formed within the GRA, but reportedly capacity still remains an issue.

\(^{20}\) VAT will be introduced in January 2007. The legal and regulatory frameworks for VAT implementation have been approved and now preparatory work is ongoing.
While overall perceptions of the judicial system in Guyana are generally positive, the perceptions of court users point to significant problems in the courts. Thus, only eight percent of surveyed manufacturing firms found the judiciary a major or severe problem. However, the percentage of interviewed firms who do not believe that the courts will uphold their contractual and property rights in business disputes rises dramatically – from 15 percent to 29 percent – once the sample is restricted to firms that have, in fact, been involved in a court case in the 3 years preceding the ICS. In the same fashion, 43 percent of court users saw the legal system and conflict resolution as a major or severe obstacle to their business operation, in contrast to only 8 percent across the whole sample of surveyed firms. Only four percent of the firms who had not used the courts in the three years prior to the survey identified the legal system and conflict resolution as a major or severe obstacle. Therefore, Guyana has pronounced differences in perceptions of the judiciary and the legal system depending on whether or not firms have had actual experience with them (Figure 2.6).

Dispute resolution services do not feature high on the list of services provided by business associations. First, only 31 percent of interviewed firms are a member of a business association. Of these a quarter (26 percent) indicate that their membership is mandatory, and 19 percent report that membership of their association is restricted to include only members of their industry. In contrast, more than half of interviewed manufacturing firms in Guatemala and El Salvador belong to an association, and close to three quarters of survey respondents in Honduras and Brazil (Table 2.2). Second, only one-third of the firms that belong to a business association say that they get help from the association when resolving disputes with other firms, workers or government officials. This share is comparable to that in Ecuador (32 percent) and higher than in Peru (14 percent), but substantially lower than elsewhere in the region (column 2 of Table 3).

Note that the same percentage is substantially higher for the subset of interviewed hotels – 25 percent of them rank the legal system and the judiciary as a major or very severe obstacle to doing business.

Only 17 firms indicated having been involved in a court case in the three years prior to the survey; 123 firms responded that they have not been in a court case during the same period.
2.20 **Guyanese companies attach low importance to the dispute resolution services provided to them by the business association to which they belong.** Out of five different services and areas of assistance, interviewed companies which belong to an association and receive dispute resolution services rank these the lowest. Only eight percent of the same firms say that the dispute resolution services provided are the most important service afforded to them by their membership of an association. In contrast, in other Latin American countries at least one-third of the same subset of firms qualify the same dispute resolution services as being of high or crucial importance (on a scale ranging from 0 (no importance) to 4 (crucial importance)).

<table>
<thead>
<tr>
<th></th>
<th>Firms belonging to a business association, (share of all firms)</th>
<th>Firms, which report that the association helps in resolving disputes with Government, workers, and/or other firms</th>
<th>Firms which report that the association’s assistance in dispute resolution is of zero or low importance</th>
<th>Firms which report that the association’s assistance in dispute resolution is of high or crucial importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>31%</td>
<td>30%</td>
<td>NA</td>
<td>8%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>59%</td>
<td>59%</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>53%</td>
<td>75%</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>43%</td>
<td>54%</td>
<td>13%</td>
<td>48%</td>
</tr>
<tr>
<td>Honduras</td>
<td>71%</td>
<td>52%</td>
<td>27%</td>
<td>42%</td>
</tr>
<tr>
<td>Peru</td>
<td>47%</td>
<td>14%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Ecuador</td>
<td>97%</td>
<td>32%</td>
<td>22%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: World Bank Investment Climate Surveys, 2002-2004

2.21 **In Guyana, as elsewhere in the region, a larger fraction of medium and large firms than small firms use the courts to resolve their payment disputes (Table 4).** Out of 24 firms that indicated having had payment disputes in the last two years, ten (42 percent) say that none of their disputes went to court, i.e. overall 58 percent of the firms with payment disputes resorted to court action. This share is highest for medium and large firms (70 and 75 percent of those with payment disputes report some resolved in court). It is worth noting that in comparison to the four Central American countries, medium and large firms in Guyana seem more litigious – with twice to three times the share of firms with payment disputes going to court. In the micro and small firm category, however, the share of firms going to court (16.7 percent) is similar to that in Central America (Table 2.3).

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23 We need to emphasize here that the sample in Guyana is very small, and much smaller compared to those in Central America. Therefore, the results above are subject to this caveat.
Table 2.3 - Proportion of Firms with Overdue Payments That Have Filed Court Cases, by Size

<table>
<thead>
<tr>
<th></th>
<th>Micro Firms</th>
<th>Small firms*</th>
<th>Medium Firms</th>
<th>Large Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>..</td>
<td>16.7%</td>
<td>70.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>7.5%</td>
<td>16.4%</td>
<td>30.6%</td>
<td>24.2%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>9.8%</td>
<td>10.4%</td>
<td>16.2%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>4.9%</td>
<td>18.3%</td>
<td>35.4%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Honduras</td>
<td>4.4%</td>
<td>16.9%</td>
<td>36.2%</td>
<td>25.3%</td>
</tr>
</tbody>
</table>

Source: World Bank Investment Climate Surveys, 2002-2004

* The category of small firms in Guyana comprised both micro and small firms (with 1 to 15 full-time employees).

2.22 It takes longer for hotels to get a court case resolved compared to manufacturing firms: on average 453 days for the 6 hotels which were involved in a court case over the three years before the ICS. The time varies from two weeks to three years, with a median of 350 days. These figures are more in line with the duration of debt collection in court reported by the Doing Business database (Figure 2.7). In addition, a small proportion of hotels involved in payment disputes resorted to the courts – only three out of 27 – and it took on average 22 weeks to get these payment cases resolved. Court users from the hotel industry in Guyana also express substantially less confidence in the judiciary – half of them do not believe that the judicial system will enforce their contractual and property rights in business disputes. Only 14 percent of non-users from the set of interviewed hotels express the same lack of confidence in the judiciary.

Figure 2.7 - A Comparison of Court Duration Data for Guyana


* ICS Manufacturing refers to the duration of a court’s resolution of payment disputes.

2.23 About 14 percent of interviewed Guyanese firms think that bribing of court officials and judges occurs – the number rises to 33 percent, if we only consider the subset of respondents who had used the courts to settle payment disputes in the previous two years.

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24 It is not appropriate, however, to compare the time in court for any cases (as is in the Hotels ICS Questionnaire) with the time to resolve a payment dispute (as is used in the Manufacturing ICS Questionnaire). The time to resolve a payment dispute in court is 22 weeks for hotels and 29 weeks for manufacturing firms. The time for any court case for hotels is 453 days on average; the same question was not present in the Manufacturing Questionnaire. The difference in the average days to resolve any dispute in court and a payment dispute in court suggests that judging about court disposition times from payment cases only may be misleading.

25 Again, a caveat is in order – the average time for solving a court case is based on a very small sample.

26 The Doing Business and ICS data differ due to differences in methodology. See more in Box 1.1.
Large firms are more concerned about court bribes than medium and small ones - with one out of five (21 percent) reporting that bribe payments in the judiciary are common. Only 10 percent of medium firms and 14 percent of small and micro ones indicate that such bribes are common. Domestic firms are also more likely to think of bribes to court officials as being common – 16 percent of interviewed domestic firms think so as opposed to none of the interviewed foreign companies.

Figure 2.8 - Percentage of Firms which Think that Bribes to Judicial Officials Are Common

2.24 The time to enforce a commercial contract in Guyana according to the Doing Business database is longer than that in a number of comparator countries such as Jamaica (202 days), Peru (381 days), and Ecuador (388 days), but similar to that in Honduras (545 days). The time to collect an overdue payment has become a standard measure of how well the court system functions – with civil-law countries generally taking longer and having a more heavily regulated judicial process than common-law ones such as Guyana. The longer the duration of a court case, the higher the costs to both parties – both monetary costs and opportunity costs. The duration of a simple debt collection case through court action in Guyana is among the longest in Latin America, and much longer than the same for Caribbean countries with an English common-law legal system, such as Guyana.

27 As noted at the beginning, on the Enforcing Contracts index Guyana ranks 123rd out of 155 countries in the Doing Business database, indicating a cumbersome and slow judicial process. This is also confirmed by judicial statistics compiled by the High Court, where a regular civil court case is estimated to last on average 1.5 years (Annual Report for the Year 2003 of the Supreme Court Registry of Guyana).

28 In fact, Guyana has a dual legal system, based on English common law and Dutch Roman law.
2.25 **To improve court performance, measures need to be taken to reduce case backlogs.** One of the symptoms of slow justice is the case backlog – and there is evidence that typical civil cases in Guyana take 1 to 2 years from filing to disposition – something which was confirmed by the Doing Business data as well as statistics presented by the Supreme Court.29 A typical recommendation to address high caseload is to increase the number of judges or bring in more computers and equipment; studies, however, have shown that this seldom works. Instead, the focus should be on making sure that court procedures are less cumbersome, case management works well and certain types of cases – such as small claim cases or commercial cases go to a specialized court, or be put on a track for mandatory mediation, for instance by industry associations. Alternative dispute resolution mechanisms – such as mediation (conciliation) and arbitration – are a proven avenue to pursue in order to reduce case backlogs and improve access to justice.

2.26 **It is also important to improve court management and the collection of judicial statistics – on numbers of cases filed per year, numbers pending, types of cases, etc.** Improving court case management through computerization and assigning these tasks to court clerks rather than the judges has produced good results in some countries which have undertaken similar reforms in recent years (e.g., in some of the courts in Slovakia30). According to a World Bank study (2001), each judge currently has to spend 70 percent of his/her time on administrative tasks, thereby reducing their time for their main task – case adjudication. Clearly, this could be an area for improvement.

2.27 **Cumbersome judicial processes should be simplified as they breed judicial corruption and create delays.** As evidenced in the Doing Business and Guyana Supreme Court data, procedural complexity is high, and even though procedures are usually instituted to ensure fairness and impartiality of judgment, the empirical evidence suggests otherwise31. Simplification can apply to many elements of the typical civil judicial process – through instituting more oral rather than written procedures; through eliminating the need for plaintiffs to present legally motivated claims; through eliminating interlocutory appeals and motions, which defendants file just to delay payment; through improving the system of notifications of claim to the defendant and of the judgment to both parties.

2.28 **The Government of Guyana should also address the perceived lack of independence and impartiality among judges.** Both the World Economic Forum and the Heritage Foundation’s 2005 assessments raise doubts about the independence of Guyana’s courts. The US State Department’s 2005 Investment Climate Statement on Guyana expresses a similar sentiment: “The Constitution provides for an independent judiciary, but law enforcement officials and prominent lawyers questioned the independence of the judiciary and accused the Government of intervening in certain cases.” The Guyana Justice Sector Reform Strategy 2006-

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31 See Djankov et al. (2003).
2010 identifies judicial independence among the areas to work on, and proposes reforms to the budgetary process to insulate the finances of the judiciary from political manipulation.32

2.29 Reforms should also target information-sharing, which supports both execution of judgments as well as informal contract enforcement. Public credit registries are often cited as an example of information-sharing institutions, which can facilitate exchange by allowing a business to check the credit history of another business, thus expanding transaction opportunities. Credit and asset registries can also be helpful in ensuring that the debtor’s assets can be located and seized to pay the debt. Having a judgment without the ability to collect on it is not much use. Therefore, efforts could be made to institute and improve information-sharing among market participants. Improving the warehousing facilities of the execution agents (at present seized assets are kept in a location which is often burglarized) should be made a priority.

2.30 Moving commercial disputes to commercial courts could also reduce court delays and is something the Government should continue to pursue. The Government of Guyana is currently implementing a Commercial Court Project in Guyana and streamlining procedures for commercial cases. This is a welcome endeavor, and one that, if successful, can ease pressures on the civil justice system and reduce backlogs. At the moment one judge has been trained and a second is undergoing training in commercial litigation in the UK. The Commercial Court will have jurisdiction over insurance claims, banking claims, bills of exchange, liquidation of companies, trademarks, mortgages, etc.33 An important consideration is to take into account the experience of other countries, which instituted Commercial Courts and the challenges they faced.34

CRIME AND VIOLENCE

2.31 Guyana has high crime and violence rates, even by Latin American and Caribbean standards. Available crime statistics are poor, however, it is clear that, since the late 1990s Guyana's crime and violence have increased, and it is estimated that at its peak in 2002 the homicide rate reached 160 per 100,000 inhabitants (BBC, 2005). While overall levels appear to have largely stabilized, and indeed somewhat declined since 2003, even within the highly violent Latin American and Caribbean region, Guyana still ranks near the top in terms of its rates of intentional homicide, together with Jamaica, Trinidad and Tobago, Honduras, and El Salvador, among others (Harriott (2004)).

2.32 Results from the Investment Climate Survey (ICS) indicate that the crime and violence situation is one of the most serious obstacles that firms in Guyana face. Thus, 30 percent of Guyanese industrial firms consider crime, theft and disorder as a major or very severe

33 For more information, see Earle, J. “Commercial Court to be Launched Shortly – seen as fillip for investment”, Stabroek News, February 26, 2006.
34 For instance, Tanzania established a Commercial Court in 1999 in Dar-es-Salaam, with jurisdiction over larger claims (more than about US$12,500). It had a higher fee, but also handled claims much faster – in 3 to 4 months on average. By 2003, the court was experiencing difficulties as it did not have enough capacity to meet the growing demand for its services. Therefore, developing countries, especially small states, such as Guyana, where capacity is limited, may be better off instituting specialized commercial proceedings in the regular court, with training of judges and court personnel in commercial matters, educating lawyers, etc. See Finnegan (2004) for a detailed case study of the Tanzanian commercial court experience.
obstacle to their doing business – one of the top five perceived constraints (Figure 1.2). Hotels also rank crime as a serious obstacle – with 53 percent viewing it as a major or very severe one (Figure 1.3). Other sources of information also confirm that crime and disorder affect businesses negatively and are perceived as a problem by Guyanese firms (Guyana Business Outlook Survey, 2005).

2.33 The Investment Climate Survey indicate that a total of 38 percent of all firms have been a victim of theft or vandalism in the past year in Guyana (Figure 2.9). This affects firms in the capital city more than those in other towns (50 percent vs. 35 percent respectively); exporters more than non-exporters (51 percent vs. 33 percent respectively), and is particularly prevalent in the wood (60 percent), food (35 percent), and mining sectors (33 percent).

Figure 2.9 - Incidence of Theft, Robbery, Vandalism or Arson, percent of ICS respondents who have experienced a case of theft, robbery, vandalism or arson

![Graph showing incidence of theft, robbery, vandalism or arson](source: World Bank Guyana ICS, 2005)
2.34 Over 60 percent of interviewed Guyanese firms invest in security measures to guard their property and businesses (guards, equipment, professional security services) which reflects the losses they suffer due to crime (Figure 2.10). As shown above, medium and large firms are more frequently victims of criminal activities, and suffer higher losses as a result of such activities. The amounts are high – they exceeded several thousand US dollars in 2004. Large firms lost on average US$12,578 as a result of such events, with medium companies losing on average one third as much. Accordingly, a significantly higher share of large firms invests in security than small firms (92 percent vs. 39 percent). Generally, the shares of firms spending on security in Guyana are similar to the share of firms in Central America, which invest in security measures (Figure 2.11).
2.35 Security costs in Guyana are about 1.4 percent of annual sales, which is below the averages for Central America (between 3 and 4 percent). In Grenada, the median value of security costs was found to be 2 percent of annual sales in 2004. For the subset of firms which spend on security in Guyana, the average amount is 2.25 percent of annual sales. The corresponding figures range between 5 and 6 percent in the four Central American countries. Despite the relatively low figures of average security costs, 10 percent of the subset of Guyanese firms with a positive expenditure on security, spend more than 4 percent of their total annual sales to secure their businesses.

RECOMMENDATIONS ON CRIME AND VIOLENCE

2.36 A number of measures to prevent and reduce crime have been announced by the Government in recent years, and are currently underway. For example, the Government of Guyana has launched the National Drug Strategy Master Plan, 2005-2009, to help eradicate drug-trafficking and drug-related crime through a demand- and supply-reduction strategy. If implemented and fully funded, these initiatives may help reduce crime and violence in Guyana. The response to the rapid increases in crime and violence over the last few years has been inadequate and the Government has seemed unable to reverse the tide. The Guyana Police Force lacks sufficiently trained officers, and “as a general rule, is quite underpaid, and demoralized.”

2.37 It is fundamental to improve official data collection and the information systems of the institutions in charge of public security and justice, particularly those of the Guyana Police Force and the judiciary. This is critical to evaluate not only the general trends of crime but also the effectiveness of these institutions in deterring crime. In addition, there is a need to conduct frequent victimization surveys on the dimensions and impact of crime, especially to record unreported and under-reported crime. Lastly, the collection of information on the impact of crime on private sector activities needs to improve. The government’s Bureau of Statistics could include questions on crime victimization at the firm level when collecting firm-level data. Business associations, such as the Guyana Chamber of Commerce, could develop databases on the frequency and types of crimes against their members.

2.38 A comprehensive national security policy should also incorporate measures aimed at reducing the proliferation of firearms, strengthening judicial institutions, creating educational programs to promote conflict resolution, and broadening education and employment opportunities for at-risk groups. Efforts must also be made to increase the efficiency and effectiveness of the police and the judicial systems, so that they act as more effective deterrents of criminal activities. This will include improved educational qualifications, professional training, and sufficient pay and allowances for the police, as well as better training, rationalization of the police staffing structure, monitoring and performance indicators, and reviewing salary structures and incentives. Finally, in the case of at-risk youth, it is very important to make every effort to keep young people in the educational system for as long as possible, and to provide employment opportunities for those at a greater risk of joining criminal groups and gangs.

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35 Stabroek News, September 9th, 2005
2.39 **The active participation of the private sector in formulating and supporting the country’s policies against crime is crucial.** The participation of the private sector in the design, support and execution of policies to face the problems of crime and violence has been very limited. However, the business sector can play a much more important role, not only by supporting national campaigns and by producing information on the criminal cases that affect the members of business associations, but also by directly participating in educational and job training programs aimed at at-risk youth, as well as in other local and national crime prevention initiatives.

2.40 **Experience from the Latin America and the Caribbean region and from elsewhere suggests that one of the most effective entry-points for crime and violence prevention is the local level and some of the most successful interventions are targeted interventions (e.g. a high-crime area, youth at-risk, etc.).** This can be achieved through effective and multi-sectoral local partnerships with active private sector participation. An effective strategy must include elements of: (1) **Judicial/ Policing Reform** - ensuring that order, fairness, and access to due process is maintained in the day-to-day activities of the community and reducing the fear of crime; (2) **Social Prevention** - targeted multi-agency programs that address the causes and associated risk factors of crime and violence, with: (3) **Situational Prevention** - measures that reduce the opportunities for particular crime and violence problems through urban spatial interventions such as the Crime Prevention Through Environmental Design (CPTED) methodology. This involves integrating crime prevention principles in the design of public spaces, housing, lighting, public transport, recreational spaces, parks, etc.
3. INFRASTRUCTURE

ELECTRICITY

3.1 Access to reliable electricity at a reasonable price is important for all types of firms. Poor electricity supply is costly as firms are often forced to self-supply at a higher price, or suffer damage to equipment from electricity voltage fluctuations. Thus, poor electricity supply makes investments less attractive. On the contrary, earlier World Bank Investment Climate Surveys have established that a reliable electricity supply increases firms’ productivity.\(^{36}\)

3.2 The reliability of electricity supply in Guyana is low. Supply is characterized by frequent and long outages, load discharges and voltage variations. In turn, poor reliability is linked to technical and institutional deficiencies on the sector. From a technical standpoint, electricity generation capacity in Guyana is limited and relies on aged and inadequate equipment, while underinvestment in the distribution grid has translated into high technical losses and vast underserved areas. From an institutional perspective, incentives for efficient provision of service under the current structure of the sector are low.

**Figure 3.1 - Average Number of Power Outages in Latin American Countries**

[Figure showing average number of power outages]

Source: Investment Climate Surveys, 2002-2005

3.3 The poor reliability of electricity supply has placed a significant burden on companies in Guyana, which lowers their competitiveness. According to data from the ICS, 41 percent of industrial and 56 percent of hotel respondents consider the poor quality of electricity supply to be an obstacle for growth. Similarly, the survey data show that interruptions

in electricity supply were much more frequent (more than 40 times in 2004) than in other comparator countries in the region (Figure 3.1).

3.4 **The poor reliability of supply generates important losses for companies through lost revenues.** Companies’ losses attributable to energy outages are estimated to reach up to 4 percent of their total sales on average. However, the extent of these losses is larger for small companies (Figure 3.2), as they are more exposed to outages than larger firms, which can afford, and, indeed, invest in setting up their own power generation facilities to supplement or substitute the official supply. Losses are also higher for hotels (12 percent of sales on average). The ICS data show that while 100 percent of large firms participating in the survey have their own generators, the proportion of companies with such facilities along with the share of electricity generated internally decreases with the size of the firms (Figure 3.3).

**Figure 3.2 - Losses from Power Interruptions in Guyana, percent of total annual sales**

![Figure 3.3 - Self-Supply of Electricity in Guyana](source: Guyana Investment Climate Survey, 2005)
3.5 **Self-supply of electricity is costly and generates economic inefficiencies.** A side effect of self-supply of energy is that the corporate demand for electricity in some regions of the country has decreased significantly. While private generation temporarily eases the pressures on the overall capacity for the sector, it also prevents the realization of economies of scale at a system level. Indeed, the ICS data show that self-provision of energy appears more costly to companies (up to US$0.38 per KWh) than regional and even local tariffs (around US$0.22 and US$0.25 respectively on average).

3.6 **The electricity sector in Guyana suffers major losses in both distribution and commercialization activities, and these losses contribute to high tariffs.** Losses at the distribution level account for up to 40 percent of the energy generated (Figure 3.4). At a commercialization level, the utility has failed to enforce collection of bills, and to eradicate theft and corruption in under billing of the service.  

![Figure 3.4 - Transmission and Distribution Losses: An International Comparison](image)


3.7 **An announced tariff reform will aim to rebalance the loads between industrial and domestic use through an increase in the domestic tariff, and a reduction of the industrial tariff.** The new tariff structure will be implemented within a timeframe of 4 to 5 years after its approval by the Prime Minister.

3.8 **The installed power generation capacity in Guyana is below internal needs and that of regional peers.** The installed power generation capacity in Guyana stands at 226 megawatts (MW) or 0.4 MW per capita, which is lower than in other countries in the region (Figure 3.5), and is hardly sufficient to cover the current demand for electricity in the country.  

37 By some accounts, theft by domestic consumers is considered to have accounted for a loss above 25 percent of the total production of energy in 2003. In addition, up to 40 percent of large firms participating in the ICS mentioned that bribes are required to obtain an electricity connection.

38 Source: Guyana Energy Agency
3.9 The investment required to further develop the electricity sector in the long-term may be beyond the financial constraints of the Government of Guyana. The development needs of the power sector in Guyana include not only the enhancement of the installed generation and distribution facilities, but also the reduction of the reliance of the sector on fossil fuel and the improvement of energy efficiency. However, the required investments to meet these needs are high, which enhances the case for private participation. Indeed, the World Bank estimates that an increase in electricity intensity in Guyana to that of peer Caribbean countries would require investments over the next 10 years between US$805 million and US$1,497 million (between 10 and 19 percent of Guyana’s GDP), Figure 3.6.39 However, under the current ownership structure of the system, this level of investment would pose a significant burden on the Government of Guyana, and would create considerable debt sustainability concerns.

Electricity intensity refers to the amount of electric power used per person on average. Guyana’s power intensity stands at 0.8MWh, compared to a target of 3 to 4 MWh, World Bank (2005).
3.10 Independent Power Producers (IPPs) own and operate 45 percent of the installed generation capacity, which is thermoelectric. Moreover, all the installed capacity relies on oil for electricity production. There are plans for introduction of power generation facilities based on renewable resources, however, this would still account for a relatively small share (10 percent) of the generation capacity in the country.

RECOMMENDATIONS ON ELECTRICITY

3.11 A strong emphasis must be placed on reducing Guyana’s reliance on oil for electricity generation, through government initiatives for adoption of new technologies based on renewable resources. Guyana’s reliance on oil for power generation has translated into high electricity prices and under-provision of service. Going forward, the ability of the country to create a better mix in power generation that includes more use of renewable resources will be essential to ensure the stability of the sector and enhance the reliability of provision. To this end, it may be necessary to implement clear incentives for adoption of new technologies by GPL and independent producers. One example of expansion of capacity and access through renewable sources is the Guyana Sugar Corporation (Guysuco) Bagasse Co-generation Project\textsuperscript{40}, which is estimated to expand the company’s generation capacity by a further 30 MW by the end of 2006 through a bagasse co-generation scheme (as part of the US$110-million Skeldon Sugar Modernization Project)\textsuperscript{41}. One third of the new capacity would be allocated to the local grid\textsuperscript{42} through a Power Purchase Agreement.

3.12 The participation of the private sector in energy could strengthen the provision and quality of the service. Public ownership of electricity supply poses fiscal risks for the government and limits the possibilities for required investments. Efforts have been made to enable private participation in power generation. However, a significant enhancement of the regulatory framework will be required in order to ensure the viability of GPL as a potential private venture, and to encourage further private investment. While private participation is desirable, it may also not lead to significant improvements when regulatory capacity is weak and enforcement of contracts is insecure, as is the case in Guyana.

3.13 The Government should place a particular emphasis on improving the regulatory framework, including transparency and certainty in the definition of tariffs, avoidance of arbitrary interventions, and empowerment of GPL to cut commercial losses. The financial difficulties of GPL are due to a combination of net operating losses (i.e. tariffs below costs) and high commercial losses. With respect to operating losses, an adequate, transparent and enforceable tariff structure must be defined, taking into account that the implementation of price

\textsuperscript{40} The project will receive financial payments under the Clean Development Mechanism of the Kyoto Protocol through the purchase of Carbon Emissions Reductions.
\textsuperscript{41} Co-generation refers to the simultaneous generation and productive use of both thermal and electrical energy. Sugar mills represent good opportunities for co-generation as they require the provision of electrical and thermal energy in their production process: heating is required for the evaporation of sugar cane juice, while electricity is required for cane preparation and crushing equipment. Electricity generated using sugar bagasse can meet the mills’ needs and produce sellable residuals.
\textsuperscript{42} The local grid refers to the Berbice Interconnected System where there are 10,000 unserved customers according to Booker Tate (2004).
caps poses significant contingent liabilities to the government.\textsuperscript{43} Commercial losses are a major problem for GPL, and must be addressed in order to ensure the financial viability of the company, regardless of its ownership. Reducing these losses requires significant support by the Regulator, as well as empowering the utility to collect due bills from consumers.

3.14 The Government should consider additional short-term mechanisms to enhance efficiency in the sector through more competition. The consolidation of the institutional framework required to ensure a successful privatization of GPL may not be achieved in the short term. Some mechanisms can be further supported in order to create incentives for efficiency in the sector. One of these refers to the strengthening of competition in power generation. For example, a mechanism implemented in Jamaica requires a bidding process to supply energy to the utility, in which the generation arm of the utility itself must also participate, thereby subjecting the incumbent to market pressures.

\textbf{TELECOMMUNICATIONS}

3.15 Telecommunications are a serious bottleneck to business operations in Guyana. Nearly a quarter of industrial companies that responded to the 2005 Guyana Investment Climate Survey (ICS) identified telecommunications as a major or severe obstacle to business operations, the highest in Latin America, more than double the average in the region and four times the rates in El Salvador, Guatemala and Brazil. Telecommunications also ranked second after electricity as a perceived obstacle to business by Guyanese firms among infrastructure-related constraints.

3.16 According to the ICS data, Guyanese businesses face one of the longest delays in Latin America to obtain a fixed telephone line – 84 days on average\textsuperscript{44}, compared to an average of 67 days in the Latin American and Caribbean region as a whole (Figure 3.7). While Guyanese firms waited, on average, less than firms in Honduras, Ecuador and Nicaragua, the waiting time was substantially longer than that experienced by firms surveyed in Guatemala, Peru, El Salvador and Grenada, with the latter two countries’ firms waiting on average one week to get a telephone line. In addition, 10 percent of the Guyanese firms which applied for a mainline telephone connection in the two years preceding the survey revealed that an informal payment (a bribe) was expected or required to get the service.

\textsuperscript{43} Government subsidies may be required to maintain the operation of the company when price caps are implemented.

\textsuperscript{44} This is based on 55 ICS respondent firms which applied for a mainline telephone connection in the two years preceding the survey. Three of these 55 firms indicated a wait time of more than one year.
Figure 3.7 - Average Waiting Time for Telephone Line Installation (Number of Days)

Source: World Bank Investment Climate Surveys, 2002-2004
Note: The number of days for Grenada is the median across 44 firms which applied for a fixed telephone; elsewhere means are used.

3.17 **Guyana has the lowest percentage of companies interviewed by the ICS that regularly use email to interact with clients or supplies among Latin American countries.** It also ranks second lowest, after Nicaragua, on the percentage of firms that use a webpage to communicate with clients and suppliers (Figure 3.8). For example, only 17 percent of companies in Guyana regularly use a website to interact with clients or suppliers, compared to a Latin American average of 38 percent. In the same manner, less than one third of Guyanese firms (31 percent) use email regularly for interactions with clients, compared to more than one half of interviewed Peruvian firms, two thirds of Guatemalan firms, and about 90 percent of Chilean and Brazilian companies. This is important as previous Investment Climate Assessments (Honduras ICA, World Bank 2004) have found that use of Internet is significantly associated with higher firm productivity, controlling for other factors. Large exporting firms and firms located in Georgetown are using Internet more often than smaller, non-exporting firms and firms located outside of the capital (Figure 3.9). The lack of business use of the Internet in Guyana may be linked to the low quality and high cost of obtaining high-speed Internet connections.\(^{45}\) High-speed access to the Internet is increasingly seen as the key to generating productive use of the Internet by consumers and businesses. The only company that offers wire-line high-speed connections to the Internet (i.e. digital subscriber lines or DSL) is GT&T, and the highest upload and download speed available is only 128 kbs (typical DSL speeds in other countries are 256 kbs and 512 kbs). GT&T's DSL service is also reportedly very expensive and not very reliable.\(^{46}\) Though some companies are offering wireless broadband access in competition with GT&T,

\(^{45}\) Business users typically require access speeds of at least 256 kbps.
\(^{46}\) *Telecommunications and Information Highways*, page 12. Anecdotal information indicates GT&T's ADSL rates are US$65 for residential and US$175 for businesses users, which is very high compared to ADSL rates in other countries which range in the $35 to $50 range.
even these companies are arguably required to use GT&T in order to carry data traffic between Guyana and foreign countries.\footnote{Telecommunications and Information Highways, page 12.}

3.18 \textbf{In 2004 Guyana had a penetration rate of 13.4 percent for fixed telephone lines and a penetration rate of 18.8 percent for mobile lines.}\footnote{International Telecommunications Union (ITU) database 2005.} As can be seen in Figure 3.10, the fixed penetration levels have nearly doubled since 1998, while the mobile penetration level was practically zero in 1998. While Guyana compares favorably to other countries in terms of fixed telephony, it does not fare as well in terms of mobile telephony, as illustrated in Figure 3.11. Even though the mobile telephony has grown at a faster pace than its fixed telephony, Guyana has one of Latin America’s lowest mobile teledensity levels. Guyana, with a mobile teledensity level of 18.8 percent in 2004, trails the Central American average of 20.8, the Latin American average of 29.5, as well as the teledensity levels of Suriname (48.5 percent), Grenada (43.3 percent), Ecuador (34.4 percent), Paraguay (29.4 percent) and Guatemala (25 percent). When
comparing Guyana to 93 other countries in terms of mobile teledensity and GDP per capita, it is slightly below the trend line.\footnote{Guyana was plotted against countries in terms of mobile teledensity and GDP per capita PPP, using data from the ITU database and the World Bank World Development Indicators.}

\textbf{Figure 3.10 - Mobile and Fixed Penetration Rates in Guyana}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig3.10.png}
\caption{Mobile and Fixed Penetration Rates in Guyana}
\end{figure}

\textbf{Figure 3.11 - Cellular Teledensity and GDP per Capita in 2003}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig3.11.png}
\caption{Cellular Teledensity and GDP per Capita in 2003}
\end{figure}
3.19 **Guyana has one of the lowest local and national calling charges in the Latin America and Caribbean region, which are subsidized by one of the highest priced international call prices in the Americas** (Table 3.1). Local and domestic calling rates are very low, while international calling is among the most expensive in the region. For example, peak time calls to the USA are US$0.56 per minute (US$0.50 per minute off-peak). On the other hand, residential line rental charges are US$2.50 (US$7.50 for business lines). Local calls cost US$0.004 per minute during peak hours (US$ 0.002 per minute off peak), and long distance charges vary between US$0.012 and US$0.043 per minute, depending on the distance and time of day.

<table>
<thead>
<tr>
<th></th>
<th>Local call per min.</th>
<th>Residential line charge</th>
<th>Business line charge</th>
<th>International (per min. to the National US)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guatemala</strong></td>
<td>0.026</td>
<td>5.65</td>
<td>5.65</td>
<td>0.25</td>
</tr>
<tr>
<td><strong>Guyana</strong></td>
<td>0.004</td>
<td>2.50</td>
<td>7.50</td>
<td><strong>0.50</strong> <strong>– 0.012 – 0.043</strong></td>
</tr>
<tr>
<td><strong>El Salvador</strong></td>
<td>0.023</td>
<td>8.27</td>
<td>14.07</td>
<td>0.22</td>
</tr>
<tr>
<td><strong>Honduras</strong></td>
<td>0.020</td>
<td>2.29</td>
<td>5.74</td>
<td>0.84</td>
</tr>
<tr>
<td><strong>Nicaragua</strong></td>
<td>0.024</td>
<td>5.94</td>
<td>15.85</td>
<td>0.35</td>
</tr>
<tr>
<td><strong>Costa Rica</strong></td>
<td>0.008</td>
<td>4.09</td>
<td>4.97</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Source: National telecommunications regulatory agencies

**RECOMMENDATIONS ON TELECOMMUNICATIONS**

3.20 **The Government should engage in more rounds of consultations on developing and publishing a comprehensive ICT Policy.** Despite an excellent effort by the government in 2001 to develop an ICT-sector strategy, Guyana still lacks such a comprehensive policy for reform. The government should complete the 2001 effort and quickly issue its policy for the sector that includes its goals, strategy for obtaining those goals and an implementation timetable. In so doing, the government should conduct a broad stakeholder consultation process and work to obtain support from consumers, businesses and other stakeholders on the need for sector reform which will be critical to enabling the government to implement the strategy, including the recommendations in this report. The reform policy should be comprehensive, taking into account the legal, regulatory and market structure aspects of the sector.

3.21 **Recognizing that GT&T’s 20-year monopoly is the single biggest obstacle to the development of the ICT sector in Guyana, the Government should make a thorough assessment of the range of options it has before it to reform and liberalize the sector, as well as the consequences of those options, as the basis of its Policy development and to be**

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50 Stern, Peter (2006), *Promoting Investment in Information and Communications Technologies in the Caribbean*, Economic and Sector Studies Series, Inter-American Development Bank Washington D.C.
important lessons should be drawn from similar, successful efforts in other countries that have renegotiated long-term exclusive licenses and transitioned from sectors dominated by private monopolies to competitive multi-operator environments. These countries include Jamaica, the Eastern Caribbean and Samoa, to name a few. To be successful, this long-term effort needs high-level and pro-active political support, with donors providing assistance, acting as an honest broker, and, where appropriate, convening and facilitating consultations and other processes in connection with helping the government to realize its reform objectives.

3.22 The Government should submit a schedule of specific commitments under the World Trade Organization (WTO) Basic Telecommunications Agreement, which could pave the way for opening the telecommunications market. Although Guyana is a member of the World Trade Organization (WTO), it has not submitted its schedule of specific commitments on market opening and regulatory principles under the Fourth Protocol of the General Agreement on Trade and Services (GATS). Each country can tailor its commitment, subject to agreement of the Working Party (usually the major trading partners of that country who are members of the WTO). Some countries’ WTO commitments simply restate the existing legal and regulatory framework, while others are more ambitious and are used as reform levers to bring about changes in domestic market structure and the legal and regulatory enabling environment. In this context, it is important that due care be taken in evaluating the impact of these reforms on existing authorized operators. For example, reforms may have the effect of eliminating exclusive rights, which while developmentally not beneficial, may be legally binding. In evaluating the impact of reforms, an analysis of potential claims, and their merits, should be undertaken and, possible, provision made to address potential claims. A well-crafted WTO market-opening commitment implemented over a one- to three-year period can become a valuable tool to leverage change.

3.23 In accordance with its Policy and WTO Commitments, the telecommunications regulatory agency – the Guyana Public Utilities Commission – should be restructured within a two- to three-year period to allow it to regulate the whole industry and ensure fair competition. In particular, the regulatory authority should be able to enforce its regulations on all players equally, including GT&T, in order to mitigate the risk perception of potential private investors. In addition, the regulatory authority should have a higher degree of independence and a wider scope of regulatory authority in line with the WTO BTA Reference Paper, including transparency, fairness and non-discrimination in terms of competition policy, interconnection, licensing, management of scarce resources, and universal service.

3.24 The regulator should negotiate a tariff-rebalancing plan, allowing GT&T to align its tariffs to costs (and improve efficiency) and lower long-distance rates over a two to five-year period. Evidence suggests that there exist cross subsidies between long distance and local services. This situation is no longer sustainable in a competitive market and needs to be addressed.
3.25 **Guyanese companies involved in domestic and international trade rely heavily upon the country’s sea and land transportation infrastructure.** Guyanese companies rely on land and maritime transport to conduct business. Companies involved in international trade require the greatest amount of transportation infrastructure as their delivery process frequently involves trucking from factory to port (very occasionally air), and then from port to final destination. The principal mode of transport utilized by interviewed Guyanese firms depends on their characteristics. For instance, micro, small and medium companies rely mostly on land transportation – with 80 percent of them defining land transport as their main mode of shipment of final goods and inputs. In contrast, more than half of large firms use sea transport as their main mode of shipment of goods and inputs (Figure 3.12). Similarly, foreign firms rely much more heavily on maritime transportation than their domestic counterparts. Transportation by air is negligible except for exporting firms, 10 percent of which report that air transport is the main mode of shipping their goods.

**Figure 3.12 - Main Mode of Transportation of Firms’ Products and Inputs, by Type of Firm**

![Transportation Mode Chart]

Source: Guyana ICS, 2005

3.26 **Guyana has witnessed an important improvement in its inland transportation infrastructure over the past few years but still has no roadway into Brazil.** As a result, only a minority of the firms surveyed viewed the current transportation infrastructure as an obstacle to growth. The main road from Timehri to the port of Georgetown has been paved, thus enabling easier access to major factories in the Georgetown area and allowing goods to be transported to port more efficiently. The companies interviewed through the ICS agree that this effort has

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51 Only 17 percent of industrial firms surveyed deemed Transportation a major or very severe obstacle to doing business.
52 The Mahaica-Rosignol Roads Project was approved by the IDB in 1997. For more information, see online at: [http://www.iadb.org/EXR/doc98/apr/gv1094e.pdf](http://www.iadb.org/EXR/doc98/apr/gv1094e.pdf)
greatly improved trucking efficiency and reliability. In its current state, however, the road infrastructure in Guyana does not allow the trucking of goods between Guyana and neighboring Brazil, thereby impeding trade.

3.27 While most of Guyana’s primary roads are paved, a very high proportion of the secondary road network is not, and is in a poor condition. The existing road network is approximately 1,610 miles long, 19 percent of which comprises primary roads in the coastal and riverain areas serving the agricultural sector, while the road to Linden serves the mining and forestry sectors. Most access roads are reported to be in poor condition.\(^{53}\) Nearly 90 percent of the primary network is paved, while the proportion is below 15 percent for the feeder network. Virtually all the undeclared network – 1,570 km of interior roads and trails – are mostly unpaved and are likely to further deteriorate if their maintenance continues to be neglected. This situation has occurred largely because of inadequate financing and the failures of the government bodies placed in charge of their maintenance over the past twenty years.\(^{54}\) Some 99 percent of road passenger traffic and road freight transport takes place in the coastal area, thereby reflecting the focus of road maintenance activities.\(^ {55}\)

<table>
<thead>
<tr>
<th>Class of Road</th>
<th>Total/km</th>
<th>Of which paved/km(^ {56})</th>
<th>% of category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary roads</td>
<td>493</td>
<td>435</td>
<td>88</td>
</tr>
<tr>
<td>Coastal area minor roads (feeder roads)</td>
<td>514</td>
<td>66</td>
<td>12</td>
</tr>
<tr>
<td>Interior roads &amp; trails</td>
<td>1570</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2577</strong></td>
<td><strong>522</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

Source: EU Transport Sector Study

3.28 More than half of interviewed Guyanese companies (56 percent) report some losses due to breakage or spoilage of their goods during domestic shipments, and 15 percent report some part of the consignment value being stolen during domestic shipments. On average across all interviewed firms, 3.7 percent of the consignment value is lost either due to breakage, spoilage or theft during domestic shipments. Across the subset of firms that do experience some losses, the total value lost during domestic shipments is 6.9 percent of the average shipment value. The corresponding figure for international shipments, involving direct exports or imports, is 7.0 percent of shipment value. However, a significantly lower share of interviewed firms report losses due to damage or theft in international shipments – only 13 percent of surveyed firms report losses due to damage, and only 5 percent – losses due to theft.

3.29 Total shipment losses reported by Guyanese firms, at 4.6 percent of shipment value on average\(^ {57}\), are higher than in Central American comparator countries. For instance, total

\(^{53}\) SDNP Guyana Project
\(^{54}\) EU Transport Sector Study 2005 Technical Appendix 8
\(^{55}\) EU Transport Sector Study 2005 Technical Appendix 1
\(^{56}\) Paved roads are engineered roads with a wearing course of bituminous material or concrete.
\(^{57}\) Total losses during transportation amount to 4.6 percent of the shipment value across all surveyed firms, i.e. firms which experienced and firms which did not experience losses in the year before the ICS. When we restrict the sample to only those firms which experienced some losses (there were 92 such firms), the average amount of total losses rises to 8.1 percent of shipment value. The losses range from 1 to 52 percent of shipment value.
shipment value lost in transit was 1.7 percent in Nicaragua and 1.6 percent in Honduras. While 4.6 percent might appear high, this value is more likely the result of the high occurrence of accidents along main roadways, and does not reflect the improvements in road quality in recent years. Figures 3.13 and 3.14 illustrate the difference between the occurrences of damages in domestic shipments vs. international shipments. As exports are primarily shipped by sea and air, the risk of damage along the roadways is dramatically reduced since transit time along the road takes up a smaller share of total transit time. Figure 3.14 also indicates that mining goods and chemicals are more susceptible to damage during domestic shipment, while the garments industry experiences almost no shipment losses. Finally, losses due to theft affect mostly firms in the wood industry, which report losing about 2.6 percent of the typical cargo value to theft during domestic shipments. Firms in the food industry are affected by theft too, albeit to a lesser degree.

Figure 3.13 - Average Losses Due to Damage and Theft during Shipment of Goods, by Type of Firm and Type of Shipment

![Figure 3.13](image1)

Source: Guyana ICS

Figure 3.14 - Average Losses Due to Damage and Theft during Shipment of Goods, by Industry and Type of Shipment

![Figure 3.14](image2)

Source: Guyana ICS
**3.30** While Guyanese firms face high trucking costs in relation to the industrialized world, ICS data show that the companies interviewed do not regard these costs as prohibitive. Average trucking costs associated with moving cargo between the factory and the port of Georgetown range between 80 and 100 USD per TEU inclusive of insurance costs.\(^{58}\) The maximum trucking fee is 215 USD per TEU, with the minimum fee of 37 USD per TEU (depending on distance). These charges include the transfer of cargo between factory and port as well as the return trip of the truck and the delivery of imports from port to factory and the return of the truck to port. The Shipping Association of Guyana sets trucking rates on the basis of mileage and other costs. It is important to note that while travel from the West Bank over the Demerara River into Georgetown involves fewer miles than travel from some other locations east of the Demerara, West Bank trucking fees are higher due to bridge tolls incurred for traveling over the bridge. Shippers are charged both for the laden and the return trip of the truck across the bridge.

**3.31** Due to the low risk of theft in Guyana, the insurance charges for moving goods by truck are low and consequently most companies choose to obtain limited coverage. Of the firms surveyed, companies reported only a 1.1 percent of shipment value lost due to theft last year.\(^{59}\) The risk perception is such that some shipping companies choose to obtain liability coverage only, and bear the remaining risk themselves. For those who choose to obtain full coverage insurance for cargo, the costs are typically 0.5 percent of the cargo value. Traffic accidents and resulting delays pose the most prevalent security threat as speeding is common. The police force possesses some speed guns, but it is clear that speed limits are widely ignored, and that much dangerous driving continues to take place. This raises questions about the quality and supervision of driving schools, and the standards applied in driving tests.\(^{60}\) The cost of fatal accidents has been estimated at approximately US$8 millions per annum (equivalent to 1.5 percent of GDP). The cost of non-fatal road accidents has been estimated at about US$18 millions per annum (equivalent to 3.2 percent of GDP).\(^{61}\)

**3.32** While truck efficiency has improved with recent projects, there are still limitations to full efficiency. Trucking throughout the nation’s interior remains difficult. Roads leading to most factories\(^ {62}\) are passable but development of future factories should coincide with road development leading to them. Much of the trucking inefficiencies result from the floating bridge that allows passage across the Demerara River near Georgetown. Due to the nature of its construction, trucks are limited in their total weight to 22 tons. Thus, trucks carrying loads that push it above the 22-ton weight limit are forced to reload onto smaller trucks to traverse the river, increasing monetary costs as well as the opportunity cost of time. Currently, there is ongoing work to improve the Linden to Lethem road that leads to Brazil. Should this road be paved in its entirety to Lethem, and if the bridge connecting Lethem and Brazil is completed, the resulting trade increases will undoubtedly increase the demand placed on Guyana’s paved roadways.

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\(^{58}\) Shipping Association (GUY) Inc. Proposed Transportation Rates  
\(^{59}\) Guyana ICS  
\(^{60}\) EU Transport Sector Study 2005, Technical Appendix 8  
\(^{61}\) EU Transport Sector Study 2005, Technical Appendix 1  
\(^{62}\) Currently, only travel to rice factories remains difficult.
3.33 **Over 70 percent of interviewed Guyanese firms use their own transport for shipment of goods and inputs.** Among those that do so, the share of shipments made with own vehicles is 80 percent of total shipments on average. Medium and large firms are more likely to employ their own transportation – 75 and 74 percent of them respectively move goods with their own transportation means, as opposed to 69 percent of micro and small firms. Yet, the share of shipment made with firms’ own transport is higher, on average, for micro and small firms (83 percent) than for medium and large ones (78 and 73 percent of shipments respectively). In contrast, foreign and exporting firms are both less likely to use own transport, and if they do, they move a lower share of their shipments than domestic and non-exporting firms. Finally, more than three-quarters (78 percent) of the firms that report using their own transportation means to move goods use land transportation (roadways) as their primary mode of transport. Therefore, own transport essentially refers to trucks and road vehicles, and only seldom to boats and maritime transport means.

3.34 **Given the poor condition of Guyana’s land infrastructure, water transport remains the cheapest method of carrying goods over long distances.** Large companies and companies located in Georgetown use sea transportation more than smaller companies and those located outside of the capital city. On average, 23 percent of all companies in Guyana participating in the survey utilize the sea as their primary mode of transportation (Table 3.3). However, given the costs associated with bringing goods to port, this relatively low figure for exports is to be expected.

<table>
<thead>
<tr>
<th>Table 3.3 - Sea as Primary Means of Transport by Company Size and Location</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Percent of Firms Using Sea Transportation as a Primary Method</td>
</tr>
</tbody>
</table>

Source: World Bank Guyana ICS, 2005

3.35 **Guyana’s water infrastructure is along the banks of the country’s navigable rivers – Essequibo, Demerara and Berbice.** The main port of Georgetown, situated at the mouth of the Demerara River, is made up of several wharves, the majority of which are privately owned.\(^63\) New Amsterdam on the Berbice River is the largest port in Guyana in throughput terms. The major facility there is a multi-buoy mooring (MBM) for midstream transshipment of bauxite from river barges to bulk carriers.\(^64\) Estimates report that approximately 1,000 km of waterways in Guyana are used for commerce purposes. Guyana has an extensive and very important river system, much used for north-south freight transport to the interior, particularly to provide access to the ports on the Berbice and Demerara Rivers.\(^65\) On each river, however, rapids and other navigational obstructions limit navigational possibilities particularly on the Essequibo. Internal barge transport is crucial for transporting bauxite, sugar, rice and other commodities. Nearly 98 percent of the sugar produced for export is delivered to Georgetown by barge.\(^66\)

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\(^63\) SDNP Guyana Project
\(^64\) EU Transport Sector Study 2005  Technical Appendix 8
\(^65\) ibid
\(^66\) ibid
3.36 The port of Georgetown’s current depth and equipment levels are regarded as adequate by the companies interviewed. However, the port may be inadequate to adapt to trends in the global shipping industry. Georgetown is the location of Guyana’s chief port, handling sea trade for every commodity. Receiving, on average, 20 ship calls per month, the port deals with between 500-600 TEU per week in imports, and loads between 350-400 TEU per week in exports. The port has a draft of 7.5 meters in the harbor, and only 6.4 meters along the pier. For comparison, the Port of Spain in Trinidad has a depth of 12 meters at its deepest point. While this shallow draft inhibits larger ships from calling on Georgetown, the demand for larger ships does not currently exist. With average ship sizes ranging between 600-1000 TEU for container vessels and 3000-3500 metric tons for bulk vessels, coupled with low volume through the port, the need to handle 4,700 TEU Panamax-sized container ships is not pressing. Georgetown’s port equipment is also consistent with current volume. The port has several small cranes, used to load and unload rice bags, which can move 1 metric ton at a rate of approximately 50 metric tons per hour.

3.37 The most significant factor influencing trade and shipping to and from Caribbean ports is the freight rate from the U.S., followed by the rate from Europe and elsewhere. Freight rates are more important than port charges in terms of the cost of imports to and exports from the Caribbean. Port charges only represent about 10 percent of the freight rate from Miami, for example. The main driver of freight rates is likely to be volume. Freight rates for groceries and building materials from Miami to Georgetown are comparable to those to Barbados but are more expensive than the rates to Trinidad and the Dominican Republic.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Category</th>
<th>Georgetown</th>
<th>Port of Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>20’ Container</td>
<td>Discharge</td>
<td>$220</td>
<td>$135 – 160</td>
</tr>
<tr>
<td></td>
<td>Loading</td>
<td>$150</td>
<td>$90 – 104</td>
</tr>
<tr>
<td>40’ Container</td>
<td>Discharge</td>
<td>$440</td>
<td>$135 – 160</td>
</tr>
<tr>
<td></td>
<td>Loading</td>
<td>$225</td>
<td>$90 - 104</td>
</tr>
</tbody>
</table>

Source for data on Port of Spain: Colin Edghill, June 2005

3.38 Government policy should facilitate more inter- and intra-country port competition. Competition among ports within larger countries (Jamaica and the Dominican Republic), and among those in different countries has improved port performance. The port of Georgetown is more expensive, but is almost as efficient as the nearby port of Port of Spain, Trinidad (not including customs). The port of Georgetown’s statistics were benchmarked against those of Port of Spain’s for two reasons: first, Georgetown’s proximity to the one in Port of Spain makes it a competitor; and second, a portion of Georgetown’s exports are transshipped through the port of Port of Spain. It is important to note that Georgetown has a high long-term potential for demand as Guyana’s shared border with Brazil provides the country with a large market for trade requiring port access. However, in order for Georgetown to be truly competitive, its charges have to come down. Port discharge and handling costs are at present

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67 A portion of bauxite exports travel through the port of New Amsterdam.
68 Authors’ interview with Colin Edghill, June 23, 2005
69 Caribbean Infrastructure Assessment 2005, World Bank
significantly lower at the port of Port of Spain than at Georgetown (Table 3.5). This cost differential is largely due to the higher volume that Port of Spain receives over Georgetown, which allows it to realize economies of scale. However, Georgetown is more efficient when it comes to port-specific operations as it is able to move almost twice the dry metric tons per hour than Port of Spain. The key difference between the two ports is the volume they can and do receive. Not only is Port of Spain’s import and export traffic more than double Georgetown’s, but Port of Spain also handles transshipment traffic. A key factor underlying Port of Spain’s ability to handle increased traffic lies in its deeper draft and more sophisticated equipment. With a 12 meter draft, 11 gantry cranes, and rail infrastructure, Port of Spain is able to cater to the Panamax-sized container ship vessel, which is beginning to dominate the global shipping industry.

3.39 Georgetown needs to consider restructuring its port to accommodate the global growth in container trade. With its current infrastructure, Georgetown’s draft will not allow for large container ships that are increasingly dominating global trade. As Guyana’s trade in containers grows, its port will need to grow with it. This can either take the form of a dredging project or the construction of a different port with a deeper natural draft. However, current estimates by shippers suggest that the port of Georgetown has excess capacity, thereby implying that no drastic port restructuring is needed in the near future.

3.40 Customs clearance procedures in Guyana are associated with unacceptable delays and can be time-consuming. Although, more than half of the companies surveyed do not believe customs regulations are a hindrance to their operation and growth, exporters spend an average of 14 days in customs, with a maximum time of 23 days, compared to El Salvador, where exporters take an average of 1.6 days to clear customs and the average and longest delays reported by importers were between 6 and 12 days. The sluggish pace of the customs clearance process in Guyana does not seem to discriminate between firms of different size, as large and small companies alike spend approximately 12 days in storage, with medium companies spending closer to 18 days. Mining companies spend the least amount of time in customs at only 4 days, with wood, chemical and food companies spending the longest at 17, 14, and 12 days respectively. The Doing Business data on Trading across Borders which also measures the speed and efficiency of customs clearance confirms these findings, and even records longer times to clear customs for exports and imports.

3.41 A large proportion of Guyanese exporters and importers face additional costs in the customs clearance process. On average, 60 percent of interviewed Guyanese exporting firms reported that they make extra payments to expedite the clearance process. 67 percent of importers do the same. Interestingly, there are no major differences among the share of different size firms making extra payments in export processing at customs. In contrast, a larger share of

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70 The actual charges incurred at the Port of Spain are dependent on the size of crane needed to complete the work. Where Georgetown has fixed rates for 20’ and 40’ containers, Port of Spain accounts for different sized containers through the size of crane required.

71 This comparison analysis does not include time spent in customs.

72 Ships classified as ‘Panamax’ are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1000 ft long by 110 ft wide and 85 ft deep. Thus a Panamax ship will usually have dimension of close to 965 ft long (294m), 106 ft wide (32.3m) and a draft of 39.5 ft (12.04m).
interviewed medium and large companies compared to micro and small ones indicate that they had to make such extra payments during import clearance procedures. In terms of industry, food processing and wood companies are most likely to be subjected to extra payments (formal or informal) at customs (over 60 percent of both groups report making extra payments when exporting). 73

3.42 About one-third of exporting and importing firms that make extra payments to expedite customs clearance report that they make such payments informally. This represents 19 percent of all exporting firms and 20 percent of all importing ones – percentages which are not trivial (Figure 3.15). Furthermore, informal payments are made, for the most part, over and above what these companies pay in formal fees to agents and other facilitators to help with customs clearance. In that sense, costs of customs clearance are further increased.

Figure 3.15 - Reported Incidence of Informal Payments at Customs, by Firm Size

Source: World Bank Guyana ICS, 2005

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73 Due to small sample sizes, it is not possible to make inferences about extra payments made by the firms in the other 4 industries which were interviewed.
RECOMMENDATIONS ON TRANSPORT AND LOGISTICS

3.43 The potential for trade with neighboring Brazil suggests that the country needs to pursue its investment plans for improving and maintaining its road infrastructure. Long-term improvement measures will ultimately depend on when the road to Brazil is paved and fully functional for freight traffic between Guyana and Brazil. Currently, low disposable incomes by the Guyanese, low productivity, and lack of ability to transfer goods by truck (or rail) to neighboring countries results in low volume at the Georgetown ports. Should the road to Brazil become suitable for freight traffic, incoming and outgoing goods between Brazil and Georgetown would increase Georgetown’s volumes and justify a dredging project, or the construction of a deep-water port.

3.44 To improve efficiency and to facilitate the sustainable development of trade in the near-term, Guyana needs to address the deficiencies inherent in its transportation systems. The following recommendations follow Guyana’s National Development Strategy 2001-2010, the EU Transport Sector Study (2005) and the World Bank’s Caribbean Infrastructure Assessment (2005):

3.45 The construction of a national road transport network will provide the foundation for the economic development of the entire country. This includes:

- Without an institutional set-up which can help both to secure finance and to maintain the present improved technical capacity, there is a danger that the primary road network will again fall into the unacceptable condition of the past.74
- Improving intra-regional access will reduce journey times and fuel costs.
- Establishing road linkages between Guyanese regions and with Brazil and Venezuela will assist in the development and facilitation of trade through greater access to the country’s economic zones.
- Road and bridge capacities must be increased to reduce commuting times.
- Modern construction, operation and maintenance standards for the national highway system must be established.
- Specific revisions to the traffic laws, rules and regulations may be needed to provide the necessary framework for the Traffic Police to carry out effective targeted enforcement of the main traffic accident causes (i.e. speeding, impaired driving (driving under the influence of drink and/or drugs), reckless/dangerous driving, and overloading of public transport vehicles).75

3.46 Air infrastructure should be upgraded – including runways, taxiways, communications and navigational aids – in order to increase the viability of this form of freight transportation by widening Guyana’s air capabilities. Investment in safety and security standards will be essential to obtaining International Civil Aviation Organization (ICAO) certification – essential if Guyana’s tourism industry is to attract American tour operators.76

74 EU Transport Sector Study 2005
75 ibid
76 Please see Volume 2, Chapter on Infrastructure for more on air transport Guyana.
3.47 Institutional and physical improvements in port infrastructure are essential for Georgetown to become a regionally competitive port facility. This would involve the following:

- A Maritime Administration should be established in order to comply with the Caribbean Memorandum of Understanding on Port State Control.
- Wharves and berths should be upgraded to international standards.
- Enhancement of port safety is essential.
- The customs clearance time in the port of Georgetown needs to be significantly reduced, which requires streamlining of customs procedures.

**WATER**

3.48 Water is an important input for many Guyanese firms even though it does not account for a large proportion of their overall production costs. Over 70 percent of all firms surveyed use water in the production process. This ratio is relatively evenly distributed across firms of different sizes and those enterprises that either export or produce primarily for the domestic market. A greater percentage of firms in the food and beverage, textiles and chemicals sectors use water in the production process. On average, respondent firms receive 90 percent of water supply from the public utility and 9 percent of water supply is obtained from firms’ own sources. A very small percentage of the interviewed Guyanese firms get access to water from private vendors. As demonstrated in Figure 3.16 below, large firms, foreign-owned enterprises and exporting firms disproportionately depend on own-sources for water supply while small and medium-scale firms almost exclusively rely on water supply from the public utility network. While data on actual volume of usage were not available through the ICS, these findings seem to suggest that the largest-volume users are increasingly dependent on own sources with important implications for the medium- to long-term sustainability and costs of groundwater extraction.

**Figure 3.16: Use of Different Sources of Water for Production, percent of manufacturing firms**

Source: World Bank Guyana ICS, 2005
3.49 According to GWI and currently reported levels of service, the decision of potential commercial or industrial clients to self-provide water services is determined by demand, reliability, quality and cost concerns. Large manufacturing companies demand large volumes of water in their production processes, which the GWI supply system cannot accommodate. Many of these firms also operate 24 hours a day and require a reliable and continuous supply of water. The majority of the GWI water network, however, does not currently provide 24-hour supply. Furthermore, the incentives for firms – particularly in the food and beverage industry that require treated water in the production process – to access public water is limited, as source water treatment in some GWI areas is still non-existent, and firms have constructed on-site treatment facilities for their own-source water. A thorough financial analysis of the true costs of providing public and own-source water does not exist for Guyana. However, given the extremely high cost of electricity, it is not clear to GWI whether 24-hour public service would be considerably cheaper than self-provision for firms that rely on private generators.

3.50 Nonetheless, reliance on water supply from public sources is higher in Guyana when compared to other countries in the region. Over 90 percent of water supply to firms comes from public sources as compared to 56 percent in Honduras, 66 percent in Guatemala, 80 percent in El Salvador and 84 percent in Ecuador and Nicaragua (Figure 3.17). It is not clear what explains this pattern. It is not likely that public water supply is markedly more reliable in Guyana relative to these comparator countries. Other, more likely, explanations to be investigated may include the relatively higher costs of ground water extraction and the relatively weaker purchasing power of Guyanese firms.

Figure 3.17: Provision of Water from Public Sources, by Country

3.51 Despite recent improvements, the reliability of service remains a concern for firms. Approximately 18 percent of all firms experienced on average 4.7 water interruptions or periods of insufficient water supply in the year prior to the ICS. These interruptions lasted on average for 6.8 hours. In comparison, according to the firm-level survey conducted by FIAS for Grenada in 2004, 22 percent of firms experienced on average 12 interruptions lasting 6 hours.
each. When examined more closely, the ICS data for Guyana reveal that interruptions are a greater problem for small firms (8.9 interruptions per year) compared to large firms (1.9 interruptions per year). Interestingly, exporters and firms located in Georgetown experienced interruptions far more frequently than non-exporters and firms located outside of Georgetown.

3.52 The ICS data indicate that the impact of water service interruptions on firm profitability is moderate, and less than that in regional comparator countries. Figure 3.18 analyzes the value last to firms as a percentage of sales for Guyana, Ecuador, El Salvador, Nicaragua, Guatemala and Honduras. The cost to Guyanese firms that do experience interruptions in water service is estimated at 1.5 percent of sales as compared to 4.4 percent for Ecuador, 0.5 percent for El Salvador, 2.7 percent for Guatemala, 2.5 percent for Honduras and 6.4 percent for Nicaragua.

Figure 3.18: Costs of Water Interruptions: percent of annual sales across firms that experienced water interruptions, by Country

Source: World Bank Investment Climate Surveys, various years

3.53 It is important to note that the impact of water supply interruptions on the hotels sector is equally, if not more, acute. Over 73 percent of hotels surveyed through the ICA reported some form of interruptions or periods of insufficient supply which lasted for on average 25 hours. Interruptions adversely impact large hotels as compared to their smaller competitors. The duration of interruptions for larger hotels was over 68 hours as compared to 3.9 hours for small hotels and the overall economic cost to firms as a percentage of sales was 1.2 for all hotels and 2.2 for large hotels.

Connecting to the Network

3.54 Guyana also compares favorably in the region in terms of the length of time it takes to gain access to water supply. Figure 3.19 compares the delay in obtaining a water connection in days for Guyana, Ecuador, El Salvador, Nicaragua, Guatemala and Honduras. In Guyana firms report that it takes on average 27 days as compared to 63 days for Ecuador, 25 days for El Salvador, 68 days for Guatemala, 55 days for Honduras and 58 days for Nicaragua.
A closer examination of the Guyana data reveals that it takes small firms much longer (32.8 days) to get connected to the water network as compared to the 17 and 14.6 days it takes for medium-sized and large firms to connect. Additionally, foreign firms get connected much sooner (7 days) than domestic firms and it takes almost twice as long for firms outside of the capital to obtain water supply than firms located in Georgetown (explained in part by the relatively underdeveloped infrastructure network outside of the capital). Lastly, the data reveals that large (40 percent) and foreign (50 percent) firms are far more likely to be required to pay bribes to access service.

Figure 3.19: Average Number of Days to Obtain a Water Connection, by Country

Source: World Bank Investment Climate Surveys, various years

Recomendations on Water

Reforms of the water sector are ongoing. The Government of Guyana embarked in 2000 on a comprehensive reform of the water sector which has involved an improved regulatory framework, coherence in the institutional framework through the merger of two water utilities into GWI, the award of a performance-based management contract to an international operator and development and financing of a comprehensive investment program to improve service quality in the sector. It is estimated that these reforms have gradually improved the reliability of service to industrial and commercial users and a sharp increase in new capital investments in sector scheduled over the next five years will likely complement this trend.

Nonetheless, a series of specific measures could be taken by GWI and the Government of Guyana to increase the reliability of service for industrial and commercial users and to mitigate the potentially adverse impact of poorly regulated groundwater extraction. Through investments in increased capacity leading to 24 hour service, rehabilitation of networks to reduce in leakages and interruptions and more water treatment – GWI could increase the profitability of firms, contribute to the reduction of firm costs and increase incentives for firms to access public water supply. Additionally, the Government of Guyana may consider strengthening the regulatory environment surrounding the licensing of extraction rights and conducting new analysis on the sustainability groundwater resources.
4. SKILLS, MIGRATION, TECHNOLOGY AND QUALITY

4.1 Since the beginning of the 1990s, Guyana has made considerable progress in increasing the coverage of its secondary and tertiary education systems (Figure 4.1). While for the whole period between 1990 and 2002 the population grew by only 3.6 percent, the number of university-level graduates living in the country increased by more than 350 percent and the number of secondary-education-diploma-holders grew by more than 80 percent. In a large part, this is the result of a significant increase in government expenditure on education that rose from 4.9 percent of GDP in 1997 to 6.7 percent of GDP in 2004. The Government is now working toward introducing universal secondary education.

Figure 4.1 - Distribution of the Population by Educational Attainment, Guyana, 1990 and 2002

![Figure 4.1](image)

Source: Guyana National Bureau of Statistics and the World Bank

4.2 Guyana ranks well in international comparisons of educational attainment, measured by the share of the population with secondary or tertiary education. As Figure 4.2 indicates, with 44 percent of the population with secondary and tertiary education, Guyana is positioned relatively well in the Latin American and Caribbean region. This number represents a significant increase from only 24 percent in 1990, and was substantially higher than in comparator Central American countries in 2000.

Figure 4.2 - Proportion of Population with Secondary or Tertiary Education, by Country

![Figure 4.2](image)

Source: De Ferranti et al. (2003) and Guyana National Bureau of Statistics

Note: The data are for year 2000 for all countries, except for Guyana, for which the year is 2002.
4.3 Despite improvements in the level of educational attainment, the lack of skilled labor in Guyana is perceived as a major problem by the country’s businesses. Around 40 percent of industrial firms responding to the ICS rated the lack of skilled labor as a “major” or “very severe” obstacle to their growth and competitiveness. That number was even higher – 50 percent – for hotels. The two main factors underlying this problem are (1) the mismatch between the skills produced in the educational system and those required by businesses, especially in industry, and (2) the significant emigration of skilled labor (brain drain).

4.4 The dissatisfaction of Guyanese interviewed firms with the availability of skilled labor is one of the strongest of all the countries where ICS data are available. Of the industrial firms responding to the World Bank IC survey, 40 percent indicated that they viewed the lack of skilled labor as a “major” or a “severe” obstacle to the growth and competitiveness of their firm. For hotels, this number was even higher – 50 percent. As Figure 4.3 indicates, the degree of dissatisfaction is higher than elsewhere in the LAC region and, outside the region, comparable to that in Uganda.

Figure 4.3 - Degree of Dissatisfaction with the Availability of Labor Skills, by Country

![Bar chart showing degree of dissatisfaction with availability of labor skills by country.]

Source: World Bank, IC surveys, various years

4.5 Most employees in industrial firms have not completed secondary education. As Figure 4.4 indicates, on average, 75 percent of employees of a non-exporting industrial establishment do not have complete secondary education. This figure goes down to 64 percent for exporters. Regardless of a company’s export orientation, only 4 percent of its employees have some university education. Surprisingly, in the hotel sector, 11 percent of the employees have studied at a university – and the average percentage of those with incomplete secondary education or below is only 48 percent – in sharp contrast to the industrial sector. The two factors that likely explain the phenomenon are (i) greater resources in the hotel sector (better pay), and (ii) the fact that the education system does not emphasize the development of problem-solving skills and critical thinking.

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77 This number falls to 39%, if only manufacturing firms are considered.
4.6 The educational level of managers in Guyana is also relatively low, with only 44 percent of interviewed companies having a top manager with at least some university-level education (Figure 4.5). This is among the lowest percentages of industrial enterprises, whose managers have at least some university education, across a set of comparator countries (Figure 4.7). Guyana lags its Latin America comparators. The econometric analysis based on the data from the IC surveys for various countries shows that, in almost all cases, manager’s education is a significant determinant of the total factor productivity, a key ingredient into firm’s competitiveness.
4.7 The supply-demand skills mismatch in Guyana’s industry seems to originate from two sources. First, the education system seems does not deliver enough technical specialists. Second, relative to other professions (perhaps, with the exception of teachers and nurses), technical specialists are in high demand abroad. While employer-financed training programs could potentially correct the mismatch, the emigration threat significantly diminishes the incentives of employers to provide training to their employees. Firms complain that it often takes to train three or more workers to retain one.

4.8 The unwillingness of students to engage in technical professions likely stems from the substantial underdevelopment of the industrial sector in the country – and reinforces it, creating a vicious circle. Indeed, industrial enterprises in Guyana are generally very small – with only seven percent of the surveyed establishments reporting permanent employment of more than 100 employees. Food processing and forestry and wood products are the dominating industries. High-tech industries are practically absent.

4.9 Employer-financed formal training of firm employees in Guyana is very limited. Interviewed firms complain that they often need to train three or more employees to retain one. The rest are very likely to emigrate. As a result, the provision of training financed by employers is very low. Of the surveyed industrial establishments, 65 percent do not provide any formal training (internal or external) to their workers, and 74 percent do not provide external training at all. The latter number is the highest in the region, and is also close to the bottom of the worldwide distribution (Figure 4.6).

Figure 4.6 - Provision of External Training by Manufacturing Firms, by Country

![Figure 4.6 - Provision of External Training by Manufacturing Firms, by Country](image)

Source: World Bank, IC surveys, various years

4.10 Out-migration, especially of skilled labor, has been a significant problem in Guyana for decades. Various estimates suggest that, size-wise, the Guyanese diaspora worldwide is likely to be double the population living in the country (the latter was around 751,000 in 2002)

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78 Guyana has the worst rank among 117 countries worldwide covered by the WEF on the Brain Drain index.
and to consist, in a large part, of well-educated professionals. Currently, more than 85 percent of Guyanese university graduates live in OECD countries, and Guyana is among the countries with the highest brain drain worldwide (Figure 4.7). That number is (marginally) higher only for Suriname. The short period of inflow of skilled labor attracted by the reforms at the beginning of the 1990s has quickly been reversed.

![Figure 4.7 - Twenty Countries with the Highest Accumulated Brain Drain](image)

Source: Docquier and Marfouk (2004)

4.11 There are practically no labor market rigidities (minimum wage, layoff benefits, social obligations, etc.) that would, to a notable extent, negatively affect the flexibility of employers in making hiring and firing decisions. A Guyana-specific problem, however, is the significant polarization of the labor force across ethnic and (highly correlated with it) political dimensions. This segmentation restricts labor choices available to firms and puts barriers on the way of interactions between businesses as well as between businesses and the government.

4.12 Following the globalization of financial systems and the acceleration of emigration, flows of workers’ remittances to Guyana have been increasing at a fast rate. Figure 4.8 illustrates that the remittances sent by Guyanese nationals working abroad grew from approximately US$15 million (2 percent of GDP) in 1996 to around US$100 million (13 percent of GDP) in 2004. In general, remittances have become an important source of financing in developing countries, accounting today for more than 30 percent of total financial flows to developing countries (Global Economic Prospects 2006).

4.13 A crucial question is whether remittances are being used in a productive manner by recipient countries and whether they enhance their investment and growth. A recent regional report prepared by the World Bank (2006) examines the development impact of

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79 The minimum wage is not regulated in the private sector and is around US$110 per month in the public sector.

80 World Bank (2006), “The Development Impact of Workers’ Remittances in Latin America and the Caribbean”, a
remittances in LAC. It finds that remittances have an overall positive impact on recipient economies, increasing growth and reducing poverty levels. This is mainly achieved through remittances leading to higher savings, investment and financial development. Remittances are also found to be associated with lower output volatility, better educational attainment and better health indicators in the recipient economy.

**Figure 4.8 - Guyana: Worker Remittances, 1996-2004**

![Graph showing remittances from 1996 to 2004 for Guyana.](image)

Source: Bank of Guyana

4.14 While remittances have potential benefits for the recipient economy, these positive impacts can be higher when remittances are accompanied by better recipient-country institutions and policy environment with respect to remittances (World Bank, 2006). According to the study, remittances come at a cost – they affect negatively the supply of labor in the recipient economy (number of hours worked per week, and labor force participation in some countries). They are also associated with real exchange rate appreciation pressures, lowering exports. When these costs are taken into account, the positive counterbalancing effect on investment and growth is found to be relatively low. In this sense, countries with high remittances flows, such as Guyana, need to minimize the negative impacts of remittances by focusing on improving the regulatory environment and ensuring a regime of secure and low-cost transmission of remittances.

4.15 The population and the labor force consist of a few distinct ethnic groups. According to the Guyana Bureau of Statistics, about half of those employed in the formal sectors are of an Indian (Indo-Guyanese) origin: 119 of the 245 thousand as of the end of the 1990s. The second-largest group is comprised by the population of an African origin (Afro-Guyanese), around 35 percent. The rest are dominated by the indigenous people and the Chinese.\(^8\)

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\(^8\) Afro-Guyanese are, in a large part, the descendants of the slaves brought to Guyana in the 18\(^{th}\) and the beginning of the 19\(^{th}\) centuries. Many slaves left the country following the abolition of slavery by the British in the first half of the 19\(^{th}\) century. The labor shortage was filled by a moderate number of workers from China, but much more so by the indentured workers who came in large numbers from India and now constitute the ethnic majority in the country.
example, the ICS data show that Indo-Guyanese represent 56 percent of the employees in industry and mining; Afro-Guyanese are 25 percent and indigenous and other groups represent 10 percent.

4.16 **Investment in new technologies by Guyanese firms is far from being intensive and is fairly unsophisticated.** Only about a third of the surveyed industrial companies invested in new technology in 2002-2003. This is considerably lower than in many other comparator countries in the region (Figure 4.9). In the overwhelming majority of cases - more than 75 percent - the investment came in the form of simply purchasing equipment – which is the highest proportion among surveyed countries in the LAC region (Figure 4.10). Licensing or purchases of turnkey operations as well as hiring of key personnel were used by a negligible minority of the producers, except for few foreign-owned firms covered in the survey. As noted in paragraph 3.17, technological underdevelopment is easily evidenced by the low usage of the Internet: two thirds of the firms surveyed in the ICS did not use e-mail on a regular basis and 83 percent did not use web pages for communicating with clients or suppliers.

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82 Note that the Guyana ICS asks a direct question whether investment in new technologies has been made or not in the two years prior to that of the interview. The ICS surveys for other countries used in Figure 38 ask about introducing a substantially new technology in the three years prior to the interview. While the time span in the latter case is larger, the question is narrower. For example, much higher percentages are obtained for the countries other than Guyana if one uses the question whether or not a new product line was introduced.
Figure 4.9 - Manufacturing Firms with Investment in New Technology, by Country

![Bar chart showing percentage of manufacturing firms with investment in new technology by country.]

Source: World Bank, Investment Climate Surveys, various years

Figure 4.10 - Percentage of Manufacturing Firms with Investment in New Technologies that Used Purchase of Machinery and Equipment as the Primary Method of Undertaking Such an Investment, by Country

![Bar chart showing percentage of manufacturing firms using purchase of machinery and equipment as the primary method by country.]

Source: World Bank, Investment Climate Surveys, various years

4.17 The number of firms that possess at least some quality certification is relatively small. Of the 151 manufacturing establishments that responded to the question, only 26, or 17 percent, had an internationally recognized quality certification. Export-oriented foreign-owned companies had a substantially higher proportion of quality certifications than the rest (Figure 4.11). While the ICS question does not allow us to distinguish between ISO and other types of certification, additional interviews with the GNBS and the experience of other countries in the region suggest that the vast majority of these certifications are not ISO. Internationally, Guyana fares relatively poorly on certifications – yet is ahead of Guatemala and Peru (Figure 4.12).

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83 In all the comparator countries in Figure 41 the share of firms with an ISO certification did not exceed 6 percent, and was less than three percent for Peru. Unfortunately, this figure is not available from the Guyana ICS.

84 The 17 percent obtained from the survey may be a slight overestimation, as some firms could wrongly take the National Quality Mark to be an internationally accepted certification.
4.18 Limited progress can be seen in the area of government support to introducing quality-control measures in industry. The infrastructure for quality assurance essentially consists only of the Guyana National Bureau of Standards (GNBS). However, its departmental structure and activities include all the important elements of a typical national quality system. While the all-encompassing nature of the GNBS may allow for conflicts of interest, the institutional integration can partly be justified by the very small size of the market as well as the budgetary difficulties that may require cross-subsidization of the activities. Recent progress can be noted in that the GNBS, a semi-autonomous body, has recently been able to finance more than 20 percent of its budget from selling its advisory services.
RECOMMENDATIONS ON SKILLS, MIGRATION, QUALITY AND TECHNOLOGY

4.19 Reforms in the labor and education as well as the technology and quality areas must be an integral part of a global reform program. The existing problems in these areas are likely to be more a consequence rather than the cause of the weak business activity in the country. Therefore, the reforms in these areas should only be undertaken in parallel with the removal of the other obstacles, most of which are identified and discussed in this document – including crime and insecurity (also related to drug trade activities and money laundering) and, importantly, the serious lack and/or inadequacy of key infrastructure (e.g., electricity, transportation, telecommunications). Otherwise, reforms in education would likely only reinforce the already intensive brain drain and the incentives of employers to provide training would remain low - as would their willingness to engage in sophisticated technologies. Productivity and, hence, international competitiveness would then stay relatively low, reducing the demand for quality control that is especially important for international transactions.

4.20 While significant progress is observed in the formal level of educational attainment, the quality of school education over the last 20 years has deteriorated and is a matter which the Government is working to address. The loss of qualified teachers – largely caused by emigration – is a critical issue. Thus, the Ministry of Education’s Strategic Plan 2003-2007 (SPME) identifies this as a problem -- “the present attrition rate for teachers from Guyana is high and appears to be rising with aggressive recruitment by other countries.” Similarly, the National Development Strategy (NDS, 2000) states that “Guyana’s success in attaining universal access to primary schools... has been eroded and has been replaced by rising repetition and dropout rates.” The lack of qualified teachers, in large part caused by their continued emigration, is a major issue. Problems in the remote areas are greater due to low incentives for teacher to relocate there and worse school infrastructure. It is important to put greater accent on improving the quality of school education, with an emphasis on developing skills such as problem solving and critical thinking, and indeed the SPME regards quality of education as one of the key areas to work on. Government efforts in improving the education system are supported by a number of projects by international developmental organizations, including the World Bank.

4.21 Work towards the creation of a greater number of vocational training centers for technical professions is necessary as is also a greater emphasis in the school curricula on problem-solving skills and developing critical thinking (through math and sciences). Recognizing this, the Government is working towards the provision of the necessary infrastructure and legislation for private training centers. It is important to note that provision of training centers by itself is unlikely to have a significant effect if the general pessimism of the youth about the future of the country, as well as the high emigration of technical specialists, remain intact.

4.22 The recently accelerated brain drain is difficult to stop without creating a favorable business environment. Guyana has a great potential for rapidly increasing the investment into its economy due to the huge diaspora abroad that substantially exceeds the population remaining in the country. The return to the country of numerous investors in the beginning of the 1990s stands testimony to this. Unfortunately, the expectations of these investors were not met.
Reliance on remittances as a primary source of resources in the economy is hardly the way to go. Specific policies to attract select categories of Guyanese living abroad back to the country will hardly work unless the general security level is substantially heightened, and the access to and the quality of infrastructure are improved.

4.23 Except for improving intellectual property rights protection, technological advancement at this stage hardly requires specific policies, being more a function of the general stance of the business environment. The low technological sophistication of the Guyanese firms is likely a result of the high-risk environment in which the businesses operate and the consequent under-investment. In other words, again, alleviation of major constraints, such as the lack of security, poor infrastructure, is a prerequisite for technological advancement. Improvement of the intellectual property rights protection is also a necessity. While specific SME policies are normally considered important for technology adoption, practically all the firms in Guyana are small, on an international scale.

4.24 The development of the quality assurance infrastructure has recently shown notable progress that must be supported. Conflicts of interest in the GNBS may be a matter of concern and could be addressed through greater internal independence within the GNBS. The existence of good quality assurance infrastructure is an important prerequisite for successful growth, especially in a very small and sufficiently open economy like Guyana. The GNBS, the institution in charge of performing all the functions of a typical national quality system, appears to have been doing a good job recently. At the same time, conflicts of interest may arise from the GNBS being simultaneously the developer of standards, the provider of services for their adoption, the certification and accreditation institution, as well as the supervisory and oversight authority. Technically, these functions should be institutionally separated. However, the extremely small size of the market and the budgetary difficulties requiring cross-subsidization of the activities may partly justify the institutional unification, provided due diligence is exercised by the respective departments. Therefore, the GNBS Board of Directors should ensure sufficient inter-departmental independence.
5. FINANCE

ACCESS TO CREDIT

5.1 The Guyanese financial sector is relatively sizeable, although statistics are overestimated due to the high level of the underground economy. The total asset base of the financial sector amounts to US$1.19 billion, which represented more than 1.5 times the Gross Domestic Product (GDP) in 2004. Given the significant level of informality of the Guyanese economy, estimated to be more than 30 percent of the GDP, the size of the financial sector appears to be overestimated. The sector comprises six commercial banks and a number of non-bank financial institutions (NBFIs), including a building society, three trust and investment banks, five non-life insurance companies, five trust companies and 25 foreign exchange dealers. Like other Caribbean economies, the Guyanese financial system is largely dominated by commercial banks whose combined assets of US$734 million represented 62 percent of the overall financial sector in 2004. Unlike the majority of the Caribbean countries, pension schemes are also quite large, accounting for almost 7 percent of total assets (Figure 5.1).

Figure 5.1 - Financial Sector in Guyana, total assets 2004

5.2 Private credit to GDP by commercial banks has plummeted by a third during 2001-2004, while private credit by the non-bank financial sector has registered a moderate increase. Private credit of commercial banks represented 31 percent of Guyanese GDP in 2004,

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85 The size of the financial sector appears to be overestimated, given the high level of informality of Guyanese economy.
86 The six commercial banks are: the National Bank of Industry and Commerce Ltd; Guyana Bank for Trade and Industry Ltd; Bank of Nova Scotia; Bank of Baroda (Guyana) Inc.; Demerara Bank Ltd, and Citizen’s Bank Guyana Inc.
87 Among the Caribbean countries, the same degree of expansion in public pension schemes can only be found in Trinidad and Tobago, (see Worrell et al.).
down from 45.2 percent in 2001. Private credit by commercial banks expanded steadily during
the 1990s (from 17 percent in 1991 to 48 percent in 1998), but exhibits a downward trend since
then. Private credit doubled between 1997 and 1999 (from 6 to 12 percent), but has been stable
(around 14-15 percent of GDP) since 2001. Instead of offering credit, commercial banks turned
to securities (primarily treasury bills), which jumped from 15 percent of total assets in 1999 to 40
percent by 2004. Also, banks have become more risk-averse after suffering large losses during
the rice crisis of the late 1990s, due to a very slow resolution of claims. Figure 5.2 illustrates the
dynamics of private credit by banks and NBFIs in Guyana over the period 1991-2004.

Figure 5.2 - Private Credit in Guyana as Percent of GDP: 1991-2004

Source: IMF International Financial Statistics, and World Bank World Development Indicators (WDI), and authors’ calculations

5.3 By international standards, the level of financial intermediation in Guyana is low,
and below that of other comparator countries. Indicators of financial depth in Guyana - as
measured by the domestic credit to the private sector - are consistently lower than those of other
Caribbean countries, but above the levels in Central America and some South American
countries (Table 5.1). Private credit as percent of GDP is higher in Panama, Grenada, and
several other OECS states, for example. In addition, there are very limited investments in branch
networks (only 30 branches in the country) and automated teller machines (ATMs, only about
50). While Guyana has a relatively high number of savings accounts (around 100,000), the
number of individual bank borrowers is very low (about 20,000, based on interviews with
commercial banks and other sources). This situation points to a conservative stance on the part
of the Guyanese financial institutions or a perceived lack of lending opportunities, both of which
are likely to be caused by weaknesses in the operating environment such as political and
economic uncertainties, among other things. The legal framework contributes to a lack of
lending, since creditor rights are not well protected, with the only insolvency options being
liquidation and receivership (often freezing creditor rights until final resolution).
Table 5.1 - Private Sector Credit as Percent of GDP: An International Comparison (2004)

<table>
<thead>
<tr>
<th></th>
<th>Domestic credit to Private Sector (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>44.8</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>27.8</td>
</tr>
<tr>
<td>Barbados (*)</td>
<td>57.1</td>
</tr>
<tr>
<td>Grenada</td>
<td>84.6</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>58.6</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>83.9</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>69.8</td>
</tr>
<tr>
<td>Guatemala</td>
<td>19.8</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>28.1</td>
</tr>
<tr>
<td>Ecuador</td>
<td>22.5</td>
</tr>
<tr>
<td>Peru</td>
<td>18.7</td>
</tr>
<tr>
<td>Panama</td>
<td>90.8</td>
</tr>
</tbody>
</table>

(*) As of 2003.

Source: World Bank World Development Indicators (WDI)

5.4 Much like in other Caribbean economies such as the six OECS states, long-term lending makes up half of commercial banks total loans to the private sector. In 2004, long-term loans to households and firms amounted to more than 50 percent of the total financial resources lent to the private sector. This represents a marked increase over the past three years, as in 2001 long-term loans represented 42 percent of the total. In reality, the economic stagnation and the lack of bankable projects determined a rapid decline in commercial banks’ exposure to the private sector overall, and short-term loans declined more rapidly than long-term ones (Figure 5.3).

Figure 5.3 - Long vs. Short Term Lending to Private Sector in Guyana: 1999-2004


88 Long-term credits represent about 60 percent of commercial bank loans and advances in the OECS, but this figure includes a large proportion of real estate mortgage loans.

89 This figure does not include real estate mortgage loans.

90 Original data are adjusted for inflation and exchange rate. Base year: 2001.
5.5 **The amount of long-term deposits, the main source of funds for commercial banks, is significantly lower than long-term loans to the private sector.** As of December 2004, the amount of time deposits exceeding twelve months represented only 4.6 percent of long-term loans to the private sector. This percentage is extremely low and the maturity mismatch could pose a significant threat in case of a rapid bank run. The risk is underscored by the fact that, at the same date, 75 percent of banks deposits were constituted by demand and savings deposits, which could be liquidated under a very short notice. The preference of deposit-holders for short-term saving instruments also emerges by looking at the time deposits structure, where time deposits with at least a year of maturity only represent three percent of the total amount (Figure 5.4).

**Figure 5.4 - Maturity Structure of Time Deposits with Guyanese Commercial Banks, December 2004**


5.6 **The percentage of funds lent to the top twenty borrowers continues to increase, confirming the conservative attitude of Guyanese banks and the concentrated nature of the real sector.** As of December 2003, the amount of credit disbursed to the top three borrowers was almost 20 percent of the total. This reflects the large fraction of economic activity concentrated in the hands of the government (e.g., Guysuco, Guyana Power & Light), foreign groups and a few domestic economic groups. The trend is also coupled with an increasing tendency toward loaning out funds following others than purely opportunity-cost criteria based on the business to be financed. Credit disbursed to related parties doubled since 1997, and represented six percent of the total in 2005.

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91 The ratio has halved since 2001, meaning that long-term deposits have shrunk at a faster pace than long-term credit disbursed by commercial banks.
92 Savings withdrawals require a minimum of one-day notice, whereas demand deposits are not subject to notice.
93 Source: Bank of Guyana.
94 Related parties comprise director, senior officers and shareholders with 20 percent or more of shares.
5.7 **Interest rate spreads are high, above the regional average, and fees and commissions increase the effective interest rate**\(^{95}\). As of December 2004 the Guyanese commercial bank prime lending rate amounted to about 14.5 percent, while the small deposits interest rate averaged 3.4 percent over the same period. Though substantially high by developed economies standards, interest rate spreads in Guyana are comparable to those in other small economies in the region. Interest rate spreads in Guyana over the period 1999-2004 are second only to Suriname, and well above those of leading Caribbean economies such as Barbados and the Bahamas (Table 5.2).

<table>
<thead>
<tr>
<th>Countries</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>1999-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>9.9</td>
<td>10.4</td>
<td>10.9</td>
<td>12.5</td>
<td>12.1</td>
<td>12.3</td>
<td>11.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>6.5</td>
<td>7.1</td>
<td>7.6</td>
<td>7.9</td>
<td>7.7</td>
<td>7.7</td>
<td>7.4</td>
</tr>
<tr>
<td>ECCU</td>
<td>7.4</td>
<td>7.3</td>
<td>7.7</td>
<td>7.3</td>
<td>7.4</td>
<td>7.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Bahamas</td>
<td>7.4</td>
<td>7.8</td>
<td>7.2</td>
<td>7.2</td>
<td>8.1</td>
<td>8.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>9.5</td>
<td>8.8</td>
<td>8.4</td>
<td>8.8</td>
<td>8.6</td>
<td>7.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>10.4</td>
<td>8.4</td>
<td>8.4</td>
<td>8.7</td>
<td>10</td>
<td>9.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Belize</td>
<td>10.5</td>
<td>10.8</td>
<td>11.1</td>
<td>10</td>
<td>9.3</td>
<td>9.6</td>
<td>10.2</td>
</tr>
<tr>
<td>Suriname</td>
<td>12.6</td>
<td>13.6</td>
<td>12.4</td>
<td>12.9</td>
<td>12.5</td>
<td>13.1</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Sources: Caribbean Centre for Monetary Studies, Staff Estimates, Central Bank of Trinidad and Tobago, and Bank of Guyana

5.8 **The significant spreads between lending and deposit rates are determined by the lack of alternatives for investing local savings and, mainly, a credit supply which is not sufficiently elastic.** The real savings rate rapidly declined in Guyana over the past decade and the deposit interest is currently negative, which has not discouraged savers from depositing an increasing fraction of their resources in bank accounts. Despite seasonal variations, over the same period the cost of borrowing as measured by the Prime Rate did not significantly drop below 10 percent per annum, which would point to a credit supply insufficiently responsive to changes in market conditions (Figure 5.5). Among the reasons for such rigidities is the fact that banks are allowed by law to freely modify the interest rate charged on their ongoing loans.

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\(^{95}\) Bank intermediation spreads refer to the difference between the weighted average lending rate and the average three-month deposit rate. Information on fees and commissions was provided in interviews with commercial banks (ICA mission, May 2005).
Surprisingly, the additional risk premium for small and medium enterprises (SMEs) that want to borrow from commercial banks is quite low. According to a survey realized with Guyanese banks, lending conditions for SMEs are similar to the ones for the corporate sector in general. The average nominal lending interest rate charged to SMEs is 16 percent per annum. This rate is only 1.5 percent higher than the average rate applied to larger corporate firms (i.e., 14.5\%\footnote{Data are elaborated on information provided by the Questionnaire on Supply-Side Issues of the Guyana Investment Climate Assessment (ICA).}). The result might be explained by existing difficulties in assessing the creditworthiness of potential borrowers, as demonstrated by the lack of credit scoring mechanisms in almost all commercial banks and the rejection rate of credit applications from SMEs, as high as 27 percent per year; hence, only the least-risky SMEs receive credit.

COSTS AND ACCESS TO FINANCIAL SERVICES: THE PERSPECTIVE OF THE FIRMS\footnote{This section reflects the results of a firm-level survey, i.e. the Guyana ICS, of 164 manufacturing firms and 32 hotels. The survey included a large cross-section of existing firms across regions, sectors, and firm size. The opinions discussed in this section may vary from actual practices of banks, although the general trends and conclusions are consistent with statistical information and interviews with financial institutions.}

Guyanese firms are more credit constrained than firms in other comparator countries. Thus, only 30 percent of interviewed firms report having a loan from a financial institution (Figure 5.6). This is comparable to Mozambique (29 percent) and Zambia (33 percent), but substantially lower than comparator countries from Latin America such as Guatemala (44 percent), Ecuador (50 percent), Honduras (52 percent) or El Salvador (63 percent). Firms in other regions also appear to enjoy a better access to credit: for instance, half of Indonesian firms report having a loan, as do 48 percent of firms interviewed in Sri Lanka and 38 percent of those surveyed in South Africa.
Figure 5.6 - Firms with Loans: an International Comparison, percent of interviewed firms

Source: World Bank Investment Climate Surveys, 2002-2004

5.11 A low share of surveyed firms in Guyana report having access to credit. Only 21 percent of micro and small firms have access to credit as do 38 percent of medium-sized businesses and half the large firms. The percentage of small firms that have a loan is low by international standards – for instance, 59 percent of micro and small Salvadoran firms, 39 percent of micro and small Guatemalan firms and 51 percent of micro and small Honduran firms have an outstanding loan (Figure 5.7). Guyanese exporting firms are significantly more likely to have access to credit than non-exporting ones – 54 percent of exporters have a loan versus only 20 percent of non-exporters. Finally, 27 percent of firms in Georgetown have a loan compared to 31 percent of firms located outside of Georgetown. More than one half of firms in the wood industry have a loan, and only a quarter of those in the food-processing industry.

Figure 5.7: Firms with Loans by Firm Size and Country, percentage of interviewed firms

Source: World Bank Investment Climate Surveys, 2002-2004
5.12 **A high proportion of Guyanese firms are credit-constrained, especially among micro and small ones.** For analytical purposes, the sample of interviewed firms can be divided into three categories: firms with loans, firms which report that they did not apply for loans as they do not need them, and firms which need a loan but do not have one (i.e. the credit-constrained firms). The credit-constrained firms include those that applied for a loan but were rejected; firms which applied for a loan and were still awaiting the bank’s decision at the time of the survey interview; and firms which did not apply for a loan due to perceived constraints such as cumbersome application procedures, high collateral requirements or high interest rates, among others. As shown in Figure 5.8, more than one-third (34.6 percent) of all surveyed Guyanese firms are credit constrained. There are substantial differences in the proportion of credit constrained firms depending on firm size. Thus, 42 percent of micro and small firms are credit constrained compared to 29 percent for medium and 21 percent for large ones. An interesting observation, however, is the fairly large proportion of firms which also report not having any demand for a loan. Thus, more than one-third of micro and small (37 percent) and medium firms (34 percent) as well as one-quarter of large ones indicate that they do not need a bank loan. These are high numbers by international standards, and the reasons for this situation are discussed later and in Volume 2.

![Figure 5.8 - Proportion of Firms with Loans, Firms without a Need for Loans, and of Credit Constrained Firms, By Size, Percentage of Interviewed Firms](source: World Bank Guyana Investment Climate Survey, 2005)

5.13 **The cost of finance is rated as the highest ranking obstacle to business operation and growth identified by firms in Guyana.** This concern is shared by all firms, regardless of firm size and whether they export products or only sell in the domestic market. It is a slightly more important concern for medium-sized firms than others, and for non-exporting companies, as Table 5.3 below reveals. (In contrast to costs, access to financing is the fifth most important constraint, cited by approximately half as many firms.) While these figures only reflect the subjective opinions of the interviewed firms, we next show that, objectively, interest rates and collateral requirements are among the main deterrents to firms’ applying for loans.
### Table 5.3 - Cost of Finance and Access to Finance: the Perceptions of Guyanese Firms

<table>
<thead>
<tr>
<th>Percentage of firms which rated as a &quot;major&quot; or &quot;severe&quot; obstacle to their operation and growth:</th>
<th>All</th>
<th>Large</th>
<th>Medium</th>
<th>Small-Micro</th>
<th>Non-Exporters</th>
<th>Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost of financing (e.g., interest rates)</td>
<td>56%</td>
<td>58%</td>
<td>61%</td>
<td>51%</td>
<td>58%</td>
<td>50%</td>
</tr>
<tr>
<td>5. Access to financing (e.g., collateral)</td>
<td>31%</td>
<td>31%</td>
<td>29%</td>
<td>32%</td>
<td>30%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: World Bank Guyana ICS, 2005

### Access to Financial Services: A Key Problem for Firms with Growth Potent

5.14 **Access to financial services is an important issue, with less than one third of the interviewed firms in Guyana having loans from a bank or other financial institution.**98 This is lower than in comparable countries such as Guatemala, Peru, Honduras and Ecuador. This is true despite the high degree of liquidity in the banking system. In fact, Guyana is among the lowest ranked countries in the world, rated 145 out of 155 on the Getting Credit aggregate index in the World Bank Doing Business 2006 database, which measures the legal rights of lenders and the extent of credit information sharing.

5.15 **Access to loans varies significantly with the currency denomination of the loan (Table 5.4).** More than 93 percent of the loans extended to small firms were local currency loans, while one third of the loans extended to large firms were denominated in foreign currency. One in four loans extended to exporting firms were in foreign currency, while only 5 percent of the loans extended to non-exporting companies were foreign-currency denominated. This is an indication that the commercial banks may not be willing or prepared to manage currency risk. The majority of exporting firms take on the currency risk, which can make doing business internationally more expensive and limit their competitiveness.

### Table 5.4 - Even Exporters and Large Firms in Have Trouble Getting US Dollar Loans

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Loans in USD or other foreign currency (% of firms with access)</th>
<th>Loans in GYD (% of firms with access)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>6.7</td>
<td>93.3</td>
</tr>
<tr>
<td>Medium</td>
<td>9.5</td>
<td>90.5</td>
</tr>
<tr>
<td>Large</td>
<td>36.4</td>
<td>63.6</td>
</tr>
<tr>
<td>Non-exporting</td>
<td>4.5</td>
<td>95.5</td>
</tr>
<tr>
<td>Exporting</td>
<td>24.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Whole sample</td>
<td>14.9</td>
<td>85.1</td>
</tr>
</tbody>
</table>

Source: World Bank Guyana ICS 2005

---

98 The lack of financing for private firms is frequently reported in Guyana’s news media. One recent review in the Ram and McRae Annual Business Outlook Survey found that firms cited interest rates as the most important constraint to investment (Stabroek News, October 5, 2005).
When credit is provided, banks impose a very high collateral requirement for most loans. This reflects a lack of reliable, timely information on borrower behavior and indebtedness, caused by the lack of a credit information system, audited financial statements, and bankable business plans. All loans obtained by the firms interviewed through the ICS in Guyana are backed by collateral, higher than any other country with such a survey in the LAC region. For instance, this requirement was less important in Nicaragua (where 93 percent of firms reported needing collateral) and Honduras (89 percent), and Grenada (60 percent in 2004, a drop from 90 percent in 2001) (Figure 5.9). Based on the survey results, the average collateral requirement in Guyana was a very high 218 percent, making Guyana the most costly in terms of collateral in the region (along with Nicaragua), and reflecting a very conservative banking sector (Figure 5.10). The required level of collateral ranged from 195 percent for large firms to 250 percent for small firms.

Figure 5.9 - Percentage of Loans which Require Collateral, by Country

![Figure 5.9](image_url)

Source: World Bank Investment Climate Surveys, 2002-2004

Figure 5.10 - Collateral-to-Loan-Value Ratio, percent: By Country

![Figure 5.10](image_url)

Source: World Bank Investment Climate Surveys, 2002-2005
5.17 The main source of collateral for Guyanese firms is real estate (land and buildings), followed by personal assets of firm owners, and immovable plant and machinery. The use of different assets as collateral varies across different types of firms. For medium and large firms, the most common forms of collateral included land and buildings (about 94 percent), followed by plant and machinery (62 percent for large, 71 percent for medium), and personal assets (67 percent). For small firms, personal assets and land and buildings were the leading forms of collateral (71 percent each), with movable machinery and equipment (36 percent) and plant and installed machinery (29 percent) also playing a role.

5.18 The main use of bank loans in Guyana was to buy machinery and equipment (60 percent of outstanding loans), followed by purchase of inputs and supplies (23 percent) and purchase of land and other fixed assets (10 percent). The use of new loans to pay off old loans was negligible (2 percent - Figure 5.11). However, there are significant differences among micro and small firms on the one hand, and medium and large firms on the other in terms of the main use of their bank loans. Thus, micro and small firms use bank credit principally to finance the purchase of inputs and supplies, with 50 percent of their outstanding loans in 2004 utilized for this purpose. In contrast, medium and large Guyanese companies used bank credit mainly to invest in new machinery and equipment, with 71 percent of medium companies’ loans and 69 percent of large firms’ loans used to this end. The corresponding figure for micro and small firms was about half that of medium and large ones: i.e. only 36 percent of small firms’ loans financed the purchase of new machines and plant equipment.

5.19 Beyond credit, there are few financing alternatives to firms in Guyana. Overdrafts and credit lines are available to about three quarters of large firms (73 percent) and about half of the medium-sized companies (48 percent). In contrast, only 13 percent of micro and small firms have an overdraft facility. Similarly, exporting and foreign firms are more likely to have an overdraft: 54 percent of exporters and 67 percent of foreign companies have one as opposed to 28 percent of non-exporters and 35 percent of domestic companies. Overdrafts are reported to be used to their full extent – the average non-used amount is only 14 percent of the total available across all firms, ranging from 8 percent for micro and small firms, and 16 percent for medium-sized ones. Therefore, short-term overdrafts are replacing more long-term bank financing,
especially among the more constrained micro and small borrowers. The monthly overdraft interest rate ranged from 3.7 percent per month for medium firms to 7.3 percent per month for micro and small firms.

5.20 Other financing arrangements such as leasing, factoring and trade credit are almost non-existent in Guyana, and the country’s equity market is small and underdeveloped. Trade credit use is low in Guyana, compared to the Central American economies, for example. While trade credit provided only a negligible 1.3 percent of working capital needs for firms in Guyana, regardless of size, this source of funds provides 18 percent of working capital needs in Guatemala, 19 percent in El Salvador, 13 percent in Honduras, 16 percent in Ecuador and Nicaragua, and 15 percent in Peru.\(^99\) Similarly to Guyana, Grenadian firms financed only 4.5 percent of their working capital needs through trade credit (Figure 5.12).

Figure 5.12 - Use of Trade Credit in Working Capital, percentage by country

![Trade Credit Chart]

Source: World Bank Investment Climate Surveys, 2002-2005

5.21 Guyanese firms rely primarily on retained earnings and own funds to finance their working capital needs: retained earnings financed 72 percent of working capital needs on average versus 18 percent coming from commercial banks (domestic and international) and 5 percent from equity sales. Thus, retained earnings represent a significant source of funds for large firms (57 percent of capital) and exporting firms (60 percent). For foreign-owned firms, access to domestic and international banks alleviated the reliance on retained earnings (which amounted to only 30 percent of total working capital financing). However, for small firms, 81 percent of financing comes from internally generated funds. For the textiles sector, firms relied heavily on retained earnings -- almost 90 percent of working capital financing needs came from retained earnings, while mining firms covered only 60 percent of their working capital financing needs from this source.

5.22 The heavy reliance on retained earnings to cover the investment needs of firms limits their ability to purchase new machinery and equipment, and invest in innovative production and certification processes. Firms are able to meet a slightly higher percentage of investment needs with bank credit (25 percent), compared to only 18 percent of working capital requirements. Retained earnings cover 80 percent of the long-term investment financing needs of small firms, 59 percent of those of medium-sized companies, and 48 percent of investment requirements of large businesses (Figure 5.13). Leasing, trade credit, equity sales, credit cards, and investment funds are all negligible sources of financing for long-term investment needs, regardless of firm size. Oddly, small firms report that 6.6 percent of working capital and 2.5 percent of long-term financing come from equity sales; for large firms, the comparable levels are only 2.7 percent and 1.2 percent.

![Figure 5.13 - Main Sources of Investment Capital in Guyana, percent, by Type of Firm](chart)

Source: World Bank Guyana Investment Climate Survey 2005

5.23 Access to credit is also limited by the lack of a private credit bureau. In other countries, the credit bureau plays a key role in providing timely, confidential, accurate credit histories of firms and individuals. In some cases, credit bureaus incorporate financial transaction information from a wide range of sources, such as utilities (electricity, telephone) and large department stores. According to Doing Business (2006), Guyana has a “0” ranking for credit information, given the lack of both a public registry and a private credit bureau. This would require a legal and regulatory framework that insures banking information confidentiality.

5.24 Firms’ access to credit is also constrained by firms’ relatively low use of audited financial statements, particularly by micro and small firms. On average, 39 percent of Guyanese firms have their accounts certified by an external auditor, which compares favorably to countries such as Guatemala (35 percent) and Nicaragua (26 percent), but is much lower than El Salvador (79 percent) or Ecuador (47 percent) (Figure 5.14). There are significant differences in the use of audited financial statements across different types of firms, with only 17 percent of micro and small firms using them as opposed to 44 percent of medium-sized and 88 percent of large companies. The use of external auditors is also twice as high among exporting companies
(62 percent) and foreign firms (75 percent) compared to non-exporting ones (30 percent) and domestic ones (39 percent). Two out of three firms located in Georgetown have audited accounts (67 percent) compared to half that number in the countryside (32 percent). Finally, mining, chemical and wood companies are more likely to have audited financial statements than firms in the food, textiles and garment industries. Having an external auditor confirm the financial statements (balance sheets and income statements) of borrowers is another way to resolve informational problems in the credit market about borrower project quality and past borrower behavior.

**Figure 5.14 - Percentage of Firms with Externally Audited Annual Financial Statements, by Country**

![Bar chart showing the percentage of firms with audited financial statements by country.](chart)

Source: World Bank Investment Climate Surveys, 2002-2005

**Policy Recommendations on Finance**

5.25 **The lack of basic financial infrastructure (such as credit bureaus) and the related legal and regulatory framework present a disincentive to banks to lend to the private sector.** Developing such systems and encouraging firms to present audited financial statements would help reduce transaction costs, improve information about potential clients, and mitigate the risks perceived by the banks. Credit bureaus are commonly used mechanisms to enhance access to credit by reducing the degree of asymmetric information between borrowers and lenders. Cross-country studies show that private credit registries are associated with lower perceived financial constraints and higher shares of bank financing, while public registries do not seem to significantly affect the financing constraints faced by firms. Private credit registries compile information on the credit history of individuals in collaboration with banks and other organizations, such as utility companies, department stores, car dealerships and leasing companies..

5.26 **Guaranteeing the confidentiality of financial information will be critical to private sector participation.** In many countries, the reluctance to develop a credit bureau market is linked to possible breaches of confidentiality or access to internal systems by unauthorized parties. There are also fears that this information may fall into the hands of competitors. The
government should therefore provide an incentive to the use of private credit registries by defining the scope of information available and helping to establish norms to govern the use and confidentiality of the information. Many of the current problems in lack of information might be solved if private credit registries fill the information gap by collecting positive and negative information on borrowers that will allow people and firms to build a credit history. This is particularly important for micro and small firms that can establish a positive credit history through payment records with utility companies for example. Increased information on potential borrowers should encourage banks or other lenders to increase lending to the private sector, especially to smaller firms.

5.27 The banks and finance companies need to improve internal systems, which could lower processing costs and delays. While the Guyanese banking sector’s administrative costs are not high by regional standards, the use of parametric models which can classify good and bad clients efficiently could lower these costs and reduce loan application processing times significantly. Given the poor quality of the existing loan portfolios, banks should improve client selection techniques to move beyond reliance on physical guarantees, thereby opening up financial markets to more small and medium firms. Once the confidentiality of financial information is guaranteed, banks should participate in the broad private sector credit bureau initiative to enhance their information base on actual and potential clients. They could also improve the menu of payments and transfer products, lowering profit margins to broaden coverage.

5.28 Given the enormous disadvantage to firms caused by existing extremely high collateral requirements, the government and the banks should discuss legal and regulatory issues that may contribute to such collateral levels. Judicial reform would contribute to a greater likelihood of speedier and more effective contract enforcement. The improvements in credit information would also address the perceived credit risk. There may also be other causes of high collateral requirements that could be addressed through regulatory adjustments. Also, a legal and regulatory framework for the creation of a movable asset registry would be an important step in broadening the collateral available for borrowers, thereby increasing the outreach of the financial system significantly.

5.29 The existing National Bankers’ Association could play a larger role in developing systems and practices that increase private sector access to credit. In the 1990s, the National Bankers’ Association of Guyana was an active partner in consultations on changes in the Banking Act. It could play an important role in the future in terms of improved payment systems, the credit bureau, and the development of new financial products.
6. POTENTIAL FOR ECO-TOURISM GROWTH

“A largely forested country with spectacular waterfalls, distinctively large plants and trees and a thick tropical rainforest teeming with brilliantly-colored birds, insects and a wide variety of mammals, Guyana is potentially a lucrative eco-tourist destination” BBC online

6.1 Recent dialogue on the National Competitiveness Strategy is very much centered on the idea that Guyana needs to diversify its economy and improve the competitiveness of its current economic activities in order to achieve higher economic growth. A search on the Stabroek News website for published material with the word “competitiveness” produces 218 hits – articles published between August 2004 and March 31, 2006. Among the most common views are that the country should seek to develop eco-tourism, ICT services (back office outsourcing and others), and high-value agro-processing. We focus on Guyana’s potential for eco-tourism growth.

6.2 In 2005, President Bharrat Jagdeo announced that his government was convinced that tourism was a viable development option for Guyana and invited the private sector to enlist the Government’s help in moving ahead. The Guyana Tourism Development Charrette Report (2003) was prepared by the Government, in collaboration with The U.S. Agency for International Development (USAID) and the U.N. Development Program (UNDP). The document provides a blueprint for investing in the tourism sector. The Charrette participants set out to identify Guyana’s most important natural, cultural and historic attractions and create a complete and truly compelling world-class tourism itinerary suitable for a seven- to 21-day vacation. Although targeted primarily at international tourists, this package was also designed to be attractive for visiting Guyanese residing abroad and domestic tourists.

6.3 A major milestone was reached in 2005 when Kuoni, a highly regarded tour operator catering largely to the European market, offered a package tour that combined a 7-night resort holiday by the sea in Barbados with three days in a resort on the Essequibo River (the Baganara) in Guyana. This was Guyana’s first entry into the international tour package market and is indicative of new strategies of combining the tourism resources of two or more countries in one package. The relative ease of establishing these associations is one advantage to Guyana’s membership in CARICOM. Guyana’s has also begun to be included in the travel itineraries of several web-based tour operators. Most of these cater to individual tourists or small groups of people, rather than packaging tours for a mass market.

6.4 Well managed hotels in Georgetown catering to foreign visitors operate at about 60 to 65 percent average annual occupancy; but these are probably no more than half a dozen of the 30 hotels in Georgetown and its vicinity. Conclusions about profitability cannot be drawn from average occupancy rates. Profitability will vary with category and location, and between new and fully amortized hotels and with the efficiency of management and marketing. Nevertheless, hotels in Georgetown with 60 to 65 percent occupancy rates should be profitable. Like with resort hotels, the weak market has led to lower maintenance and refurbishing of hotels and has affected the quality of and number of services provided by several establishments. Resort hotels and lodges in the interior are reputed to have annual average occupancy rates between 40 to below 20 percent.
6.5 The cost and unreliability of Guyana’s electricity supply have been identified as a major obstacle as electricity accounts for about 30 percent of most hotels’ operating costs (Figure 6.1). The rate charged to hotels is G$55.70 per KWH (US cents 0.28 per KWH). This rate is higher than in any of the other comparator countries, except Barbados. A relatively small hotel in Georgetown operates a generator which cost US$8,000 when new. In addition to this capital cost, the hotel must pay for the fuel consumed by the generator and for its maintenance.100 Discussions with hotel managers and/or owners in Georgetown led to complaints about the cost and unreliability of electricity. The wild fluctuations in voltage cause incalculable damage to equipment, with surge protectors having been known to melt when in use. All big companies and most hotels and resorts have their own generators. Recently, however, there have been fewer blackouts, more load shedding and more power generated.

Figure 6.1 - Percent of Firms with Own Generator and Number of Power Outages, by Type of Hotel

![Graph](image)


6.6 The high level of import duties on imported foodstuffs reduces the mark-up that hotels and restaurants can charge customers. Hotels also face periodic shortages of food and beverage items due to customs issues. Imported foodstuffs are subject to varying levels of import duties. Interviewed hotel managers had particular concerns regarding imported wines, alcohol and foodstuffs. Most hotels and restaurants buy from a local importer or distributor rather than import directly from an overseas source. Business people expressed concern with the high rate of duties on imported goods. Import duties on wines, for example, run at 100 percent of cost, plus a 50 percent consumption tax. As a result the high price for a relatively common bottle of wine reduces the level of the mark-up they can charge customers (beer and rum are produced locally). Hotels also pay the consumption tax charged on these items. Hoteliers also pointed to periodic shortages of specific menu and alcohol items that can occur when imports of goods are delayed in customs.

100 Tourism & Industrial Development Company of Trinidad & Tobago (TIDCO)
6.7 Just like with manufacturing firm, hotel managers are concerned about taxes -- 62 percent of interviewed managers in the ICS considered concessions on taxes and import duties as very important (Figure 6.2). Hotel taxes are normally charged at a fixed percentage of the bill. The tax rates range from 5 percent to 10 percent; Guyana charges the higher rate on tourist accommodation of more than 15 rooms and also charges a corporate tax rate of 30 percent on profits. Sales of food and beverages are also taxed at 10 percent. As pointed out in earlier chapters, in 2005 Guyana adopted legislation for the introduction of VAT, and its regulations for implementations are at present being further discussed. It is not known if the VAT for hotels will absorb the hotel tax or whether it will be additional, over and above what hotels are already subject to.

Figure 6.2 - Tourism Firms: Perceptions of Important Obstacles, percent of firms sharing view that a given area is very important or not important


6.8 Training - as discussed in Chapter 4 of Volume 2 - is insufficient and is regarded as a weakness in the sector’s performance. A lack of skills among entry-level staff in all segments of the tourism sector is reported by managers. Instilling high standards amongst staff members is also regarded as an obstacle. In the surveys undertaken by USAID, and other comments on the web, many travel industry people and visitors complained about receiving poor service while in Guyana. Most accommodations and restaurant and tour managers expect to train staff in-house. The Carnegie School of Home Economics (CSHE) located in Georgetown, has had a limited impact on the sector. Managers of larger hotels relied principally on their in-house training programs to produce the quality of staff they required.

RECOMMENDATIONS ON POTENTIAL FOR ECO-TOURISM GROWTH

6.9 Given Guyana’s potential for expansion into the adventure and eco-tourism markets and the requirement to raise the value of the product to induce and retain such an expansion, the Minister of Tourism should take a central role in strategy formulation. The
Charrette Report provided a first step in the process of defining a strategy for tourism development in Guyana. There should be a project unit in Ministry of Tourism, Industry and Commerce to act as advisers to the Minister and to do the actual work related to the process. The many stakeholders, including other Ministries and the private sector, who should participate in the process, will have to be kept informed and their views sought.

6.10 **To maximize the efficiency of the use of its promotion funds and improve its market targeting, Guyana needs to learn more about its current tourists by gathering statistical information about tourist arrivals.** Guyana also needs to know, how much the different groups spend, how long they stay and which are the internal destinations that they visit, ranked in priority order. This information establishes what type of supply is needed and where and what occupancy rates are attainable. Visitor surveys that are undertaken frequently in the Caribbean islands should also be done by Guyana. A donor organization could fund such surveys and the CTO could lend its technical assistance.

6.11 **The costs of a visit to Guyana are already high enough, so other sources of income for promotion, other than visitors taxes, should be sought, if possible.** Some francophone countries in Africa include a small charge or tax for promotion on the room rates of visitors. According to the USAID Cluster Market Assessments report, Venezuela’s tourism promotion agency, the Instituto Nacional de Turismo (INATUR), receives one per cent of all tourism revenues to fund international marketing activities to promote the country.

6.12 **Tourism, if carefully managed, can become a tool for environmental protection and for financing conservation.** Visits to or (preferably) in the vicinity of National Parks are helping reduce a serious financial gap in park funding by accommodating visitors in the parks and by environmental taxes on those visitors worldwide. If an increase in park fees were presented to the visitor to Kaieteur as a means of supporting local communities and conserving the park, it should be possible to raise the fees from US$12.00.

6.13 **In order to credibly market itself as an eco-tourism destination, Guyana must obtain the environmental ‘green’ accreditations for its tourist accommodation and services.** Green accreditations receive wide publicity and become an effective marketing tool for the accommodation, and, in the process, for the country. Many lodges and hotels worldwide are already doing so and Dominica is even working towards attaining Green Globe destination status for the entire island. The fact that Guyana, whose main attraction is as an ecotourism destination, does not have any accredited “green” tourist accommodation appears to be an anomaly. Worse, if accommodation and service managers are not using environmentally benign practices, tourists could be repelled. “Green” tour operators in developed countries increasingly only establish business relationships with hotel and lodge managers that have adopted “green” practices—as is demanded by a growing number of tourists, particularly European ones. A major benefit from adopting benign environmental processes is that a large number of awards or “eco labels” are now offered for good environmental management of hotels and other accommodation. A good source of information on these eco-labels is the Caribbean Hotel Association (CHA), which itself offers annually the CHA/American Express Green Hotel of the Year award in large and small hotel categories.
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### APPENDIX

Table A.1 - Main Findings and Recommendations

<table>
<thead>
<tr>
<th>Issues by Aspect of the Investment Climate</th>
<th>Ongoing/short-term measures</th>
<th>Medium- and long-term measures or considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance and Insecurity:</td>
<td></td>
<td></td>
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<tr>
<td>Business Regulations and Taxes</td>
<td></td>
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<tr>
<td>• Delays in government procedures (e.g.</td>
<td>• Reduce the frequency and</td>
<td>• Implement a comprehensive fiscal reform</td>
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<tr>
<td>operating licenses), and lengthy</td>
<td>length of inspections by the</td>
<td>that aims at increasing the tax base, reducing</td>
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<tr>
<td>inspections, especially those by the</td>
<td>Municipal Police, and</td>
<td>tax and import duty exemptions, reducing</td>
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<tr>
<td>Municipal Police, and Sanitation and</td>
<td>Sanitation and Epidemiology</td>
<td>incentives for evasion and strengthening</td>
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<td>Epidemiology officials</td>
<td>officials</td>
<td>enforcement</td>
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<tr>
<td>• Business registration is costly, with</td>
<td>• Reduce the number of</td>
<td>• Consider lowering maximum corporate</td>
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<tr>
<td>over 80 percent of the cost due to delays</td>
<td>procedures for obtaining</td>
<td>income tax rates (at present 45 percent)</td>
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<tr>
<td>in registration with the Company Registrar</td>
<td>operating licenses, health</td>
<td>• Consider lowering import duties, some of</td>
</tr>
<tr>
<td>(18 days)</td>
<td>permits and police licenses</td>
<td>which are too high</td>
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<tr>
<td>• Corporate tax rates are high (45 percent</td>
<td>• Eliminate the reservation</td>
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<tr>
<td>maximum) and complex, and, combined</td>
<td>of a company name as a</td>
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<td>with several tax and import duty</td>
<td>mandatory step in business</td>
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<tr>
<td>exemptions, distort incentives</td>
<td>registration; lower the</td>
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<td></td>
<td>registration time with the</td>
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<td></td>
<td>Company Registrar</td>
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<tr>
<td>Crime and Violence</td>
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<tr>
<td>• Guyana has very high levels of crime</td>
<td>• Broaden education and</td>
<td>• Strengthen justice sector institutions</td>
</tr>
<tr>
<td>and violence, even by Latin American and</td>
<td>employment opportunities</td>
<td>through better education, training, and pay</td>
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<tr>
<td>Caribbean standards</td>
<td>for at-risk groups (already</td>
<td>for police officers; improve police staffing</td>
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<tr>
<td></td>
<td>an ongoing initiative)</td>
<td>• Improve official data collection and the</td>
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<td></td>
<td>• Establish crime prevention</td>
<td>information systems of the courts, police and</td>
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<td></td>
<td>initiatives which involve</td>
<td>prisons</td>
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<tr>
<td></td>
<td>the community and the</td>
<td>• Conduct victimization surveys at regular</td>
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<td></td>
<td>private sector (community</td>
<td>intervals, and include in the Company</td>
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<td></td>
<td>policing, better lighting</td>
<td>Census questions on the impact of crime on</td>
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<td></td>
<td>in public places)</td>
<td>private firms</td>
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<tr>
<td></td>
<td>• Continue ongoing efforts</td>
<td>• Incorporate into the National Security</td>
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<td></td>
<td>in community policing, at-</td>
<td>Policy measures aimed at reducing the</td>
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<td></td>
<td>risk groups; firearms control</td>
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<tr>
<td></td>
<td>and fighting transnational crime</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Involve business associations in crime prevention programs</td>
<td></td>
</tr>
</tbody>
</table>
**Contract Enforcement and the Judiciary**

- Resolution of business disputes in court is time-consuming, especially for interviewed hotels and other firms in the tourism industry.
- Court case backlogs occur according to information from the Registrar of the High Court.
- Judicial corruption is seen as problematic, especially by larger firms, with informal payments to judges and court officials averaging around 2 percent of annual sales.
- Official court fees, while not high in an international perspective, are over $1,000 for filing a court case over a payment dispute, which is prohibitively high for micro and small firms.

**Corruption**

- While corruption is not perceived as a major problem, bribes paid out by firms to secure public contracts are very high, at 15 percent of the contract value.
- Bribes “to get things done” are 3.5 percent of sales for manufacturing firms, and 6.2 percent of sales for hotels; bribes affect mainly large firms.

**Infrastructure:**

*Electricity*

- Electricity

**Corruption**

- Deepen ongoing government efforts to increase transparency in public procurement through investment in training and capacity building.
- Establish a functional procurement monitoring and evaluation system to monitor the application of the new procurement laws and regulations.
- Develop a strategy for e-procurement.
- Use business associations, and business community to collect and disseminate in press data on corrupt practices in government agencies.

**Contract Enforcement and the Judiciary**

- Reform judicial procedure legislation, such as appeals and other tactics used by debtors to delay payment.
- Improve court case management.
- Separate administrative and judicatory court functions.
- Gather judicial statistics on a regular basis and make available publicly.
- Work in coordination with the Caribbean Court of Justice in applying common commercial laws within CARICOM and CSME.

**Corruption**

- Carry out annual audits of procurement operations.
- Implement e-procurement strategy.
- Introduce a scorecard system, whereby users of government services (licenses, permits) rate the services provided; publish regular updates on the performance of government agencies.
Firms lose 3.8% of annual sales due to power outages, which is very high compared to other countries.

The reliability of electricity supply in Guyana is low, characterized by frequent and long outages (the highest incidence of outages (41 per year) is reported by firms in Guyana compared to several other LAC countries).

Self-supply of electricity by Guyanese firms is widespread, especially among medium and large firms (82% and 100% of which own generators).

Electricity prices in Guyana are the third highest in the LAC region largely due to losses in generation and distribution, and to reliance on imported oil for generation.

Current generation capacity is short of meeting demand; new investment in power generation has been limited.

The regulation of the energy market is ineffective and prone to arbitrary interventions; there is no transparent tariff scheme.

Telecommunications

Guyanese firms waited 84 days on average to obtain a fixed telephone line, longer than the average time to do so across LAC countries (67 days).

Internet and email use by surveyed firms to interact with customers and suppliers is the lowest in the region.

Guyana has among the lowest local and national calling charges in the LAC region, which are subsidized by one of the highest.

Ensure the stability of power supply and enhance the reliability of provision of services through improving distribution operations and reducing technical and non-technical losses.

Reduce service cost and raise quality through improvements in the distribution end of the business.

Enhance the regulatory framework, including the transparency and certainty in the definition of tariffs; avoid arbitrary interventions, and empower market participants to cut commercial losses.

Define an adequate, transparent and enforceable tariff structure, taking into account that the implementation of price caps poses significant contingent liabilities on the government.

Telecommunications

Adopt the recently drafted National ICT Strategy, and begin its implementation.

Present before the World Trade Organization (WTO) a Basic Telecommunications Commitment, which could pave the way for opening the country’s telecommunications market.

Renegotiate the GT&T concession; draw lessons from similar and successful efforts.

Telecommunications

Improve collection of service payments.

Continue strengthening the regulatory framework.

Invest in new generation capacity (where feasible), and use of new, renewable energy resources (e.g. ongoing Bank Bagasse Co-generation Project) as well as hydropower generation.

Promote efficiency in the sector through an increase in competition.

Telecommunications

Restructure the Public Utilities Commission (PUC) within a two- to three-year period to allow it to regulate the whole industry.

The Regulator should negotiate a tariff rebalancing plan allowing GT&T to align its tariffs to costs (and improve efficiency); introduce lower long-distance rates over a two- to five-year period.
international call prices in LAC

- The Public Utilities Commission (PUC) of Guyana is not an effective regulator of the telecom market because of conflicts and inconsistencies in legislation as well as legal proceedings initiated by GT&T that have undermined the PUC’s regulatory authority

**Transport and Logistics**

- Surveyed Guyanese companies reported a 4.6 percent of shipment value lost due to transportation failures (theft, breakage and spoilage of goods in transit), which is very high
- Guyana lacks a deep-sea port; the port of Georgetown’s current depth and equipment levels, while regarded as adequate, may need to adapt to trends in the global shipping industry toward higher volume containers
- Guyana lacks adequate air transport infrastructure; air travel is expensive and not a commonly utilized mode of transportation for trade by Guyanese firms
- Customs processing times are long – on average 14 days for exporters, with a maximum time of 23 days to clear customs; reported bribery by customs officials is high (60 percent of exporters were asked for a bribe)

**Water**

- A large proportion of large, exporting and water-dependent Guyanese firms rely on in other Caribbean countries, including Jamaica and the OECS
- Introduce public tenders for all universal service/access projects

**Transport and Logistics**

- Carry out ongoing plans rehabilitation of existing roads
- Construct planned concrete bridges in Mahaica and Mahaicony (regions 4 and 5) (part of existing IADB bridge project)
- Improve the efficiency of the Port of Georgetown, the Cheddi Jagan Airport, and the country’s roads through appropriate concessions
- Establish an integrated National Transportation Strategy in conjunction with the National Competitiveness Strategy
- Adopt an action plan for customs reforms through modernization of customs procedures (e.g. through electronic processing of customs declarations and documents) to reduce customs clearance times

**Transport and Logistics**

- Amend the Telecommunications Law to delegate to the regulatory authority the concessions of radio frequencies in order to allow for competition in wireless services
- Amend the Telecommunications Law to explicitly enable the regulatory agency to collect and verify information from all the operators and conduct audits on all players in the industry, including GT&T

**Transport and Logistics**

- Invest in critical trade infrastructure (e.g., plans for a new road between the Brazilian border and Georgetown), if investment financing is secured
- If road to Brazil is built, and made suitable for freight traffic, invest in expansion of capacity of the Port of Georgetown (through dredging or construction of a deep-sea port)
- Develop regulations to improve the services provided by the Guyanese trucking industry
- Introduce more transparent customs procedures; set up a customs website with guidelines on procedures and documents required to export/import

**Water**

- Invest in rehabilitation of networks to

**Water**

- Strengthen the regulatory environment
own or private water sources for production purposes
- Approximately 18 percent of interviewed firms experienced on average 4.7 water interruptions or periods of insufficient water supply in the year prior to the ICS
- Micro and small firms experience on average more water interruptions, and wait longer to get connected to the public water supply network

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<th>own or private water sources for production purposes</th>
<th>reduce leakages, and expand more water treatment to reduce interruptions of service and improve water quality</th>
<th>with respect to the licensing of extraction rights</th>
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<td>• Approximately 18 percent of interviewed firms experienced on average 4.7 water interruptions or periods of insufficient water supply in the year prior to the ICS</td>
<td>• Continue with recently undertaken reforms of the regulatory framework</td>
<td>• Implement planned increases in new capital investments in the water sector over the next five years to improve service quality and coverage, and reduce costs to end users</td>
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Skills, Migration, Quality, and Technology: Skills and Migration
- The scarcity of skilled labor in Guyana was perceived as a major problem by firms
- While the average schooling level rose in the 1990s, the education level of both firms’ workers and managers is still relatively low
- The education system does not provide private firms with the technical and business skills that they require
- A small proportion of firms provided formal training to their employees (26 and 35 percent of firms offered internal and external training respectively)
- Emigration of skilled workers as well as teachers and nurses is among the highest in LAC
- 86 percent of university graduates in Guyana end up living and working in other countries

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<td>• The scarcity of skilled labor in Guyana was perceived as a major problem by firms</td>
<td>• Develop executive and business education programs, especially for hotel workers and managers, the eco-tourism and Information Communication Technology (ICT) sectors</td>
<td>• Improve the quality of school education (curricula and teacher training programs)</td>
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<tr>
<td>• While the average schooling level rose in the 1990s, the education level of both firms’ workers and managers is still relatively low</td>
<td>• Develop a national training program that would correspond to the demand for skills sought by investors (foreign and domestic)</td>
<td>• Reform the labor training and education areas as an integral part of a global reform program to retain workers and skills of use for the economy</td>
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<td>• The education system does not provide private firms with the technical and business skills that they require</td>
<td>• Encourage companies to train their workers through matching grants and other incentives</td>
<td>• Develop a comprehensive strategy and action plan aimed at curbing out-migration and attracting investments into the country by Guyanese living abroad</td>
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<td>• A small proportion of firms provided formal training to their employees (26 and 35 percent of firms offered internal and external training respectively)</td>
<td>• Strengthen programs at school construction and rehabilitation with a special emphasis on remote, hinterland areas</td>
<td>• Promote training programs based on specific needs identified by new/potential foreign investors, with Go-Invest playing a crucial role</td>
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Quality
- Only 17 percent of surveyed Guyanese firms have quality certifications which are

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<td>• Only 17 percent of surveyed Guyanese firms have quality certifications which are</td>
<td>• Enhance the institutional infrastructure for metrology, standards, testing and quality</td>
<td>• Implement awareness programs, aimed at increasing the knowledge about using</td>
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<td>Technology</td>
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| • Firms’ investment in new technologies is very limited and fairly unsophisticated  
• Only 38 percent of surveyed firms invested in new technologies, and the majority of these (77 percent) did so by purchasing new machines or equipment | • Encourage technology licensing and capital goods investment through fiscal or other incentives  
• Establish appropriate financing mechanisms for the purchase of new equipment and machinery by Guyanese firms | • Define a national technology and innovation strategy, given priority areas for economic development and FDI and export promotion  
• Encourage R&D investment by firms through appropriate incentives |
| Finance: | Finance: | Finance: |
| • The level of financial intermediation in Guyana is relatively low, and private credit to GDP has been declining over past 4 years  
• The percentage of funds loaned out to the top twenty borrowers continues to increase as does lending to related parties  
• Only 30 percent of interviewed firms have a bank loan, which is very low  
• Micro and small firms are more credit-constrained than medium and large ones  
• Banks impose a very high collateral requirement for most loans (all firms need collateral to get a loan; collateral-to-loan ratios are over 200 percent)  
• Lack of assets accepted as collateral is a serious barrier for micro and small firms when they apply for bank loans | • Initiate a feasibility study to create a credit bureau  
• Enhance the system of firms’ financial reporting to make it more reliable and easy to verify borrowers’ financial statements by lender  
• Improve internal bank and financial firms’ systems, which could lower loan application processing costs and delays  
• Continue ongoing efforts to train Commercial Court judges for and make the Court fully operational  
• Undertake further judicial reform (procedural, case management, etc.) to make contract enforcement and payment of debts faster | • Adopt the legal and regulatory norms for credit information sharing with a view to establish a public credit registry or a private credit bureau  
• Improve corporate reporting requirements further  
• Enhance creditor rights through amendments to the Companies Act (1995) to institute reorganization procedures for financially viable companies, and facilitate their rehabilitation as well as the liquidation of non-viable ones  
• Complete the ongoing land titling program and establish a single Land Registry |

Source: Prepared by authors using the Investment Climate Survey data and additional sources of information