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Guyana Investment Climate Assessment

(In Two Volumes) Volume II: Detailed Findings and Recommendations

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MAIN ABBREVIATIONS AND ACRONYMS

BBC	British Broadcasting Corporation
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CEM	Country Economic Memorandum
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Report
CPI	Corruption Perception Index
CTO	Caribbean Tourism Organization
CTL	Caribbean Telecommunications Ltd.
DDL	Demerara Distillers Ltd.
DFID	UK Department for International Development
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
FTA	Free Trade Agreement
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
GTA	Guyana Tourism Authority
GT&T	Guyana Telephone and Telegraph
GUYSUCO	Guyana Sugar Corporation
GWI	Guyana Water Inc.
IAAC	Inter-American Accreditation Cooperation
IDB	Inter-American Development Bank
ICRG	International Country Risk Guide
ICS	Investment Climate Survey
ICT	Information and Communication Technologies
IEC	International Electro-technical Commission
IFS	International Financial Statistics
ILAC	International Laboratory Accreditation Cooperation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ISO	International Organization for Standardization
ISPs	Internet Service Providers
IPPs	Independent Power Producers
ITU	International Telecommunications Union
MSTQ	Metrology, Standards, Technology and Quality
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
PAHO	Pan-American Health Organization
PUC	Public Utilities Commission
R&D	Research and Development

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
WTTC	World Travel and Tourism Council

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Guyana Investment Climate Assessment

Volume II: Detailed Findings and Recommendations

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CHAPTER 1. IMPROVING THE INVESTMENT CLIMATE IN GUYANA: AN INTRODUCTION

Objective and rationale of the report

Background

1.1 Work to improve the investment climate is recognized as a key pillar of World Bank Group work to promote economic growth and poverty reduction in developing countries.¹ The main focus of Investment Climate Assessments (ICAs) is on *microeconomic* and *structural dimensions* of a nation's business environment, viewed in an international perspective. To this end, ICAs look in detail at factors constraining the effective functioning of product markets, financial and non-financial factor markets, and infrastructure services, including in particular weaknesses in an economy's legal, regulatory and institutional framework. ICAs also provide the tools and analytical framework to identify reform priorities in a country's investment climate, by linking constraints to firm-level costs and productivity. The main objective of this report is to develop a better understanding of the investment climate constraints that limit the growth and competitiveness of Guyanese firms. In particular, the report seeks to measure in a standardized way the investment climate conditions in Guyana, to provide comparisons of those conditions with those prevailing in other countries, and to identify the features of the investment climate that matter most for competitiveness and growth.

Structure of the report

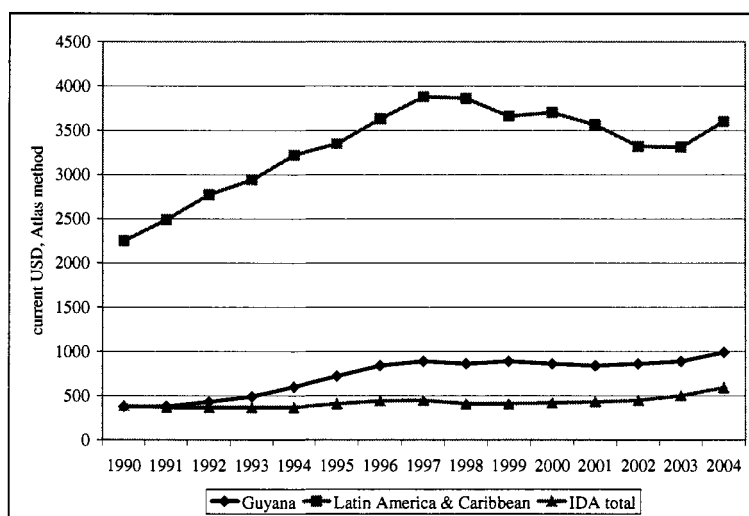
1.2 The present chapter provides the conceptual background on what is understood by the investment climate and how it affects economic growth and firm performance. It then reviews Guyana's general economic trends, summarizes the findings of previous assessments of the Guyanese investment climate, and provides a brief description of the characteristics and more general findings of the firm-level Investment Climate Survey (ICS) which was implemented for this report. The second through sixth chapters focus on the main microeconomic components of the investment climate: governance and insecurity, physical infrastructure, labor skills and technology, and finance. Each chapter benchmarks the corresponding component of Guyana's investment climate using standardized quantitative indicators, and performs sub-national comparisons across firms of different sizes, and across the sectors and regions covered in the survey. Each chapter summarizes the main findings of the survey and formulates the policy recommendations that can be derived from those findings.

¹ "The central challenge in reaping greater benefits from globalization lies in improving the investment climate—that is, in providing sound regulation of industry, including the promotion of competition; in overcoming bureaucratic delay and inefficiency; in fighting corruption; and in improving the quality of infrastructure. While the investment climate is clearly important for large, formal sector firms, it is just as important -- if not more so -- for small and medium enterprises (SMEs), the informal sector, agricultural productivity, and the generation of off-farm employment. For these reasons, the investment climate itself is a key issue for poverty reduction." Nicholas Stern, Chief Economist, March 22, 2001.

AN OVERVIEW OF GUYANA'S ECONOMIC TRENDS

1.3 **Guyana is the second poorest country in the Caribbean after Haiti, with a Gross National Income per capita of around US\$990 in 2004, and the third-poorest in the Latin American and Caribbean region (LAC) after Haiti and Nicaragua.** Its income per capita was more than three times less than the average of \$3,600 for Latin American and Caribbean countries in 2004 (Figure 1-1). However, Guyana's GNI per capita in 2004 was almost 70 percent higher than the average for all International Development Association (IDA) member countries (US\$990 vs. US\$590). In fact, starting at approximately the same GNI per capita level in 1990, Guyana's GNI per capita grew at a faster pace than GNI per capita across IDA countries. The growth in Guyana's GNI per capita occurred between 1991 and 1997, when the economy benefited from the economic reforms of the early 1990s, but then stagnated between 1997 and 2003, as the country went through declining terms of trade for some of its key exports, and the internal political and security situation became at times less stable, e.g. in the aftermath of the 1997 General Election and heightened crime situation in 2002. Unfavorable weather conditions were also a contributing factor to the slow growth of the late 1990s. A modest recovery of GDP growth was registered in 2004, when real GDP growth was 1.6 percent, and real GDP per capita rose by 1.2 percent.

Figure 1-1: Gross National Income per Capita in Guyana and comparator countries: 1990-2004

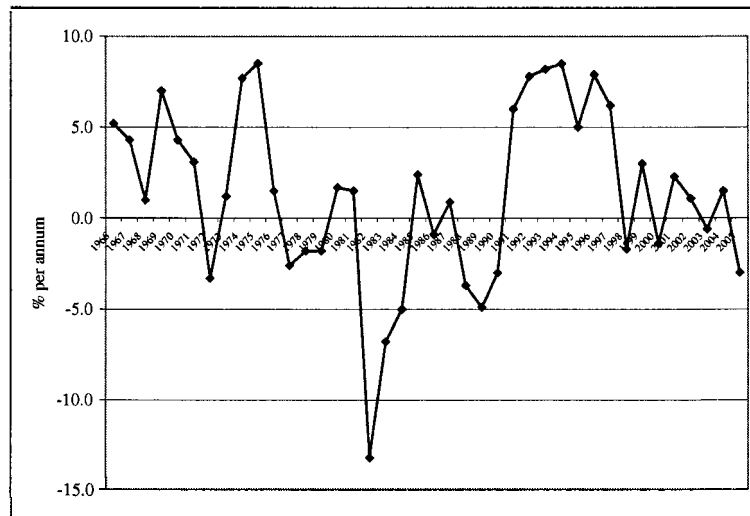


Source: World Development Indicators 2005

1.4 **Guyana's growth performance since its independence in 1966 has been mixed – with periods of high but very volatile growth rates, and a marked decline in growth during the mid-1980s.** The real GDP growth rate averaged less than half percent per year from 1966 to 1988 – less than the population growth rate at that time (Figure 1-2). Although initially, in the 1960s and 1970s, growth and development advanced, GDP growth began a process of decline from 1974 onward. Throughout the 1980s Guyana's economic performance worsened (Figure 1-2). An overvalued exchange rate led to a decline in exports from US\$410 million in 1980 to US\$262 million in 1985. In the 1980s, economic output declined by 3.5 percent per annum, standards of

living worsened along with the country's infrastructure and social services.² In the late 1980s income per capita had fallen to US\$350 (from US\$786 in 1966) and the Government controlled over 80 percent of trade and investment. By 1988, Guyana was no longer capable of servicing its external debt. In response, an Economic Recovery Program (ERP) was implemented in 1989, marking the beginning of a move toward a market economy and a democratic political system.

Figure 1-2: Guyana: Real GDP Growth, 1966-2005



Source: World Development Indicators 2005
 Note: Growth in 2005 is an estimate by the IMF

1.5 The Guyanese economy recovered substantially in the 1990s after stabilization and structural adjustment programs in the areas of trade liberalization, exchange rate reforms and privatization of state enterprises. Economic growth averaged 6.5 percent per annum during 1991-1997, and poverty measures improved (the poverty headcount fell from 43 percent in 1992 to 35 percent in 1999). Furthermore, Guyana's GDP growth rate between 1991 and 1997 surpassed the average growth rate in Latin America and the Caribbean, as well as among IDA countries (Figure 1-3). Inflation was contained and brought down to 4.2 percent in 1997 (end-period) compared to the 80 percent rate at the end of 1991. Importantly, key sectors of the real economy recovered in the early 1990s. The sugar sector increased production from 132,000 tons in 1990 to 321,438 tons in 1999. Rice production increased from 150,000 tons in 1991 to 365,469 tons in 2002.³

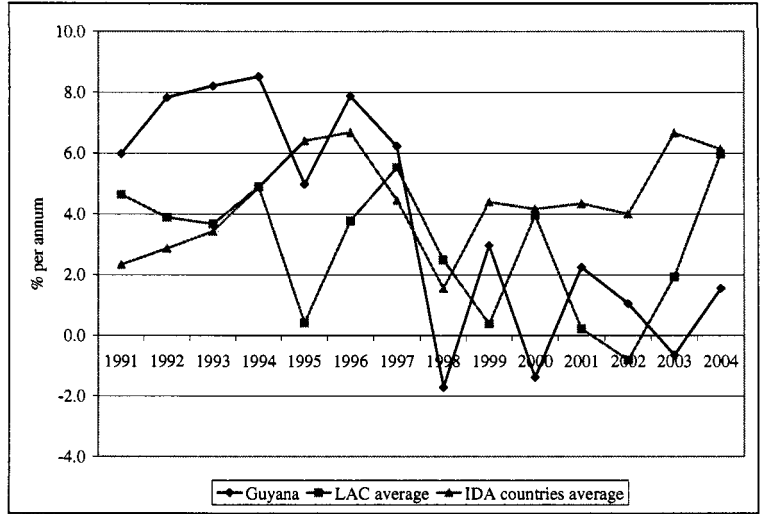
1.6 During the last four decades, the Caribbean as a region grew at a faster rate than Latin America but not as fast as East Asia. Between 1961 and 2002, the median growth rate of GDP per capita for a Caribbean country averaged 2.8 percent per year. In all four decades, per capita GDP growth in the Caribbean was approximately half a percentage point higher than in Latin America. The long-run growth of the Caribbean compares favorably with other comparators

² World Bank (2003), *Guyana Development Policy Review*

³ World Bank (2002), *Guyana Country Assistance Strategy and Bank of Guyana Statistical Bulletin*, March 2006.

such as the Pacific Islands and other small states, however, Guyana, along with Jamaica and Haiti, was one of the slowest growing countries in the region over the same four decades.

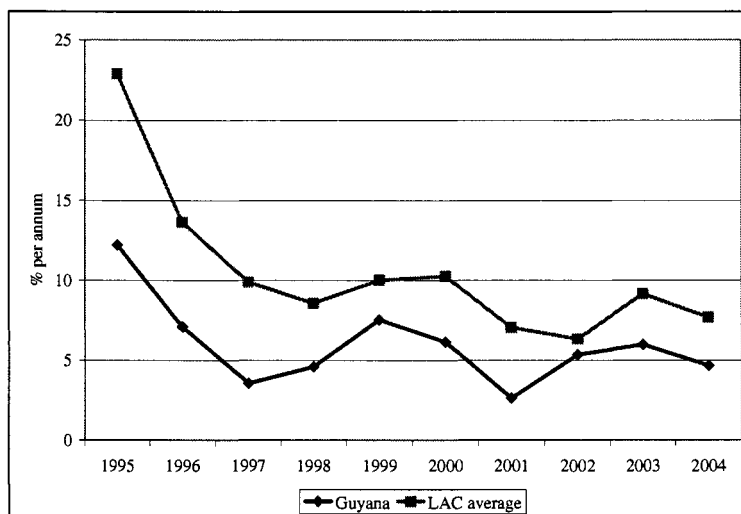
Figure 1-3: Real GDP Growth: 1991-2004, Guyana vs. LAC and IDA Countries



Source: World Development Indicators 2005

1.7 Following the period of high growth in the early 1990s, growth slowed down in the late 1990s. Unfavorable trade terms, the El Niño drought, civil disturbances in the aftermath of the 1997 elections, and crime affected the Government’s efforts to promote further reforms, and led to a decline in growth. The average real GDP growth rate between 1998 and 2004 was only 0.5 percent per annum. Importantly, Guyana’s growth rate in this period was lower than the average across IDA countries, and, for certain years, below the average for LAC countries as well (Figure 1-3). Slow growth, weak tax collection and poor performance in several state-owned companies contributed to a higher public sector deficit in 2001 (6.1 percent of GDP). At the same time, inflation rates declined from 8.7 percent in 1998 to 5.5 percent in 2004, and have been lower than the average across LAC countries over the past 10 years (Figure 1-4). This was mainly because a large share of the financing of public sector deficits came from external aid, thereby limiting the amount of monetary expansion. In addition, credit to the private sector declined over this period.

Figure 1-4: Consumer Price Inflation, %, annual average

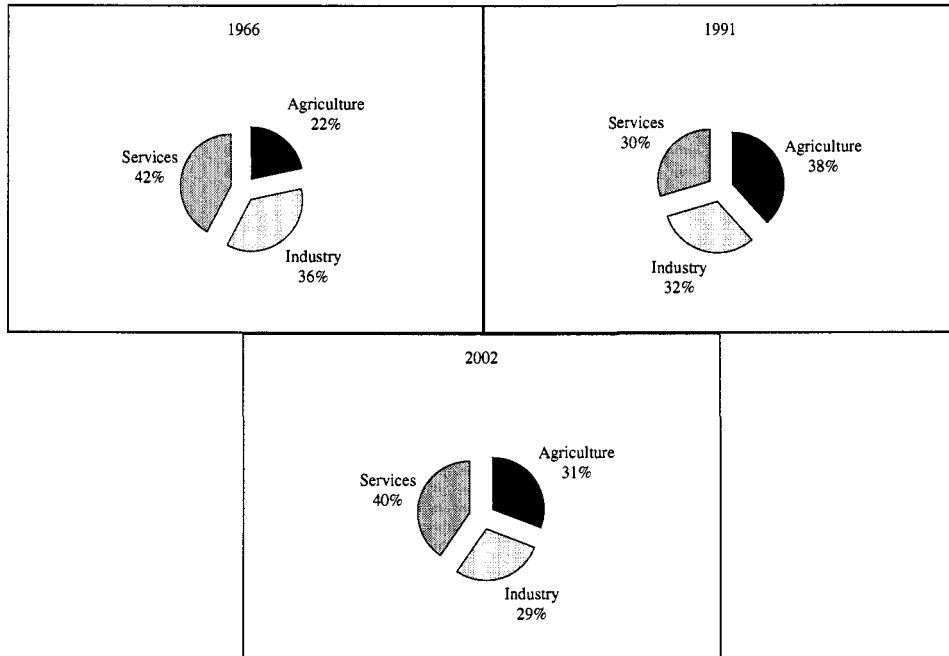


Source: IMF International Financial Statistics 2005

1.8 While the engine of growth in the Caribbean region has shifted from agriculture to services, in Guyana the agricultural sector has maintained its relative importance. The share of agriculture value-added in GDP which was 22 percent in 1966, rose to 38 percent in 1991, and then declined to 31 percent of GDP in 2002 (Figure 1-5), mainly due to the access to preferential markets for rice and sugar. The contribution of the service sector was 42 percent in 1966, and it declined to 30 percent in 1991, and then was back to its 1966 level by 2002. However, in the Caribbean, the service sector experienced an average median growth rate of nearly 5 percent per year for the entire period (1961-2002) according to World Bank (2005d)⁴. The share of industry declined from 36 to 29 percent of GDP over the period 1966-2002. Among industrial sub-sectors, manufacturing value-added has also stayed roughly the same over time – 12 percent of GDP in 1966, 13 percent in 1991, and 9 percent in 2002. In 2004, manufacturing contributed 9.6 percent of GDP (Figure 1-6). The other two industrial activities include mining and quarrying (12 percent of GDP in 2004), and construction (5.2 percent of GDP in 2004).

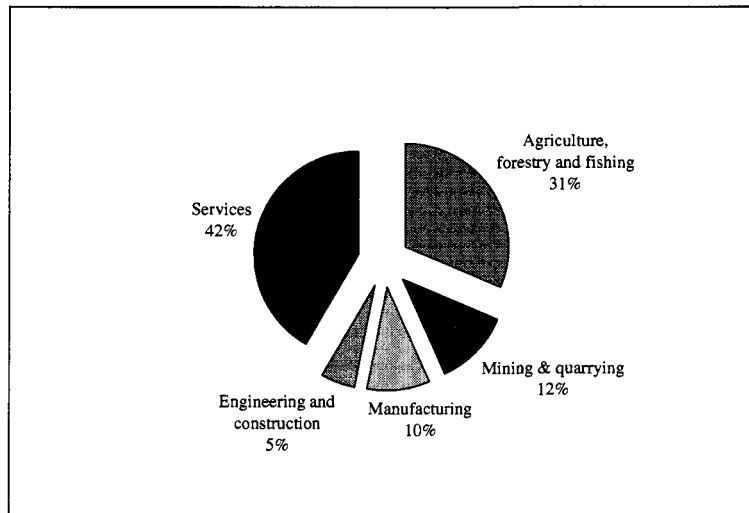
⁴ See Chapter 1, Growth Performance in the Caribbean in “A Time to Choose – Caribbean Development in the 21st Century”, World Bank (2005).

Figure 1-5: Guyana: Structure of the Economy, 1966, 1991, and 2002



Source: World Development Indicators 2005

Figure 1-6: Guyana: Structure of the Economy in 2004

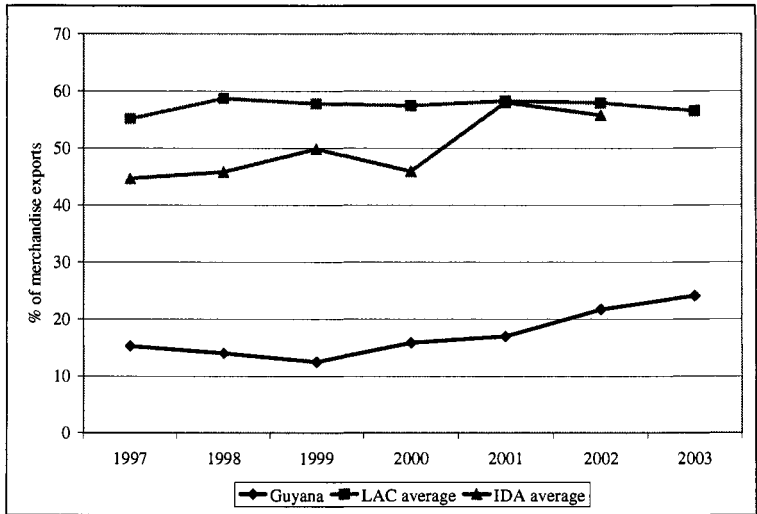


Source: Guyana Bureau of Statistics, 2005

1.9 **Guyana's manufacturing exports are still low compared to LAC and IDA countries.** While manufacturing exports grew from 14 to 24 percent of total merchandise exports between 1999 and 2003, this share is still low compared to that of IDA and Latin American and Caribbean countries (Figure 1-7). For instance, manufacturing exports accounted for over half of total merchandise exports across LAC and IDA countries in 2003-2004; 57 percent across LAC countries in 2004, and 56 percent among IDA countries in 2003. This is important since

manufacturing exports allow for more gains from trade as value-added of the exporting product is higher than when exporting raw materials and basic commodities. Sugar, rice, gold, bauxite and timber are the country's primary export commodities, accounting for 74 percent of total exports of goods and services in 2004.

Figure 1-7: Manufacturing Exports as Percent of Total Merchandise Exports: Guyana vs. LAC and IDA Countries, 1997-2003



Source: World Development Indicators 2005

Table 1-1: Structure of Merchandise Exports in Guyana, 2004

	Exports, US\$ million	Percent of total exports
Gold	145	25
Sugar	137	23
Rice	55	9
Timber/plywood	45	8
Bauxite	45	8
Shrimp/prawns	34	6
Rum	5	1
Molasses	3	0
Subtotal	470	80
Total exports	589	100

Source: Statistical Bulletins, Guyana Bureau of Statistics, Bank of Guyana, 2005, and IMF data, 2005

1.10 Gold and sugar constituted close to 50 percent of Guyana's exports in 2004. Thus, gold exports accounted for 25 percent of total exports, with sugar contributing 23 percent of exports. The value of gold exports was high due mainly to high international prices as the physical volume of gold production has started declining due to the closure of the largest gold mine in the country. Sugar exports also face challenges – such as the announced reduction of preferential prices and quotas to the E.U. market. Other agricultural, mining, forestry and fishing products such as rice, timber, bauxite and shrimp constituted 30 percent of merchandise exports in 2004 (Table 1-1). In these principal export commodities Guyana faces strong market competition

abroad, and it is expected that in order to maintain current market shares its industries such as sugar and rice need to reduce production costs.

1.11 Guyanese firms are increasingly facing a difficult trading environment, with imminent losses of preferential prices and quotas of its sugar exports to the European Union market. Since its domestic market is very small, Guyana must orient its economic output toward international markets. At the same time, Guyanese companies are facing a trading environment in which trade preferences are gradually being removed. Studies have suggested that the trade preferences enjoyed by the Caribbean have not been very beneficial because they have diverted investment and limited resources and entrepreneurship into sectors that are not necessarily competitive and have reduced the pace of trade liberalization. For example, according to the World Bank (2005d) the estimated costs of sugar production in Guyana and Belize are 50 to 60 percent higher than in other leading sugar exporting countries. Nevertheless, the two are the lowest-cost and most competitive sugar producing countries in the Caribbean.

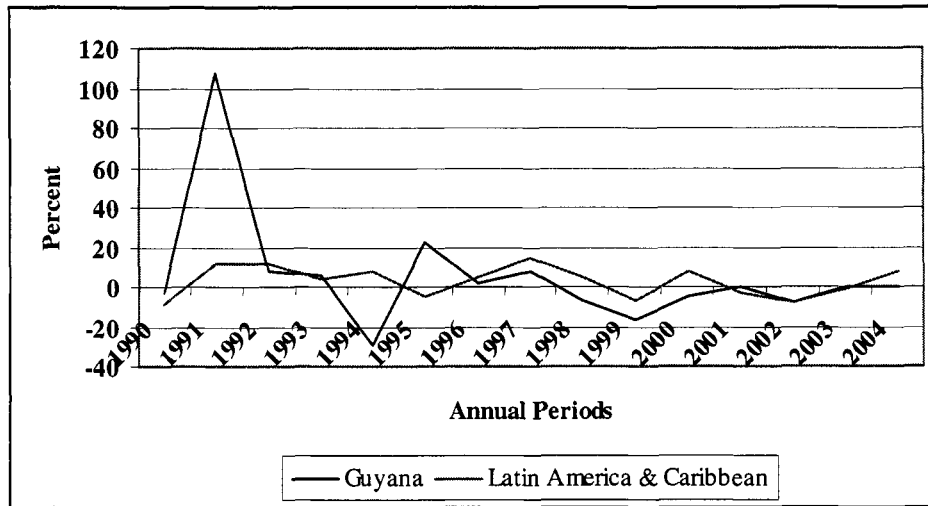
1.12 Both gold mining and sugar industries suffered in 2005 due to the shutting down of the Omai gold mine and the flooding in January 2005. The sugar sector is likely to face a large setback as a result of EU proposals to cut its internal sugar subsidies by 36 percent in two phases over the next 4 years. The feared impact of these reforms on Guyana is large in a country where the sugar industry generates 30 percent of the country's foreign exchange and provides a livelihood for at least 125,000 people.⁵ The Guyana Sugar Corporation (GUYSUCO) calculates that the sugar subsidy cuts will reduce the sugar industry's revenues by \$US22 million in each of the crop years 2005-2006 and 2006-2007, and then by another US\$37 million in the following crop year. Due to high aluminum and gold prices more private investment in bauxite mining and smaller gold mines has recently been attracted.

1.13 In the early 1990s Guyana enjoyed a healthy rate of fixed capital formation compared to the average rate across Latin American and Caribbean countries. Figure 1-8 demonstrates the high growth rates of capital formation that occurred as a result of the economic recovery at the start of the 1990s. However, while gross fixed capital formation rose sharply in 1991 and averaged 45 percent of GDP in 1991-1993, subsequently it declined and was down to 21 percent of GDP in 2002 (Figure 1-9), improving slightly to 24 percent in 2004.

1.14 While public domestic investment was relatively stable over the 1990s, private sector investment was more variable – rising to 35.3 percent of GDP in 1992, but subsequently dropping to only 7.3 percent of GDP in 2004. After 1992-1994 the level of private investment rose sharply to more than 30 percent of GDP, driven by the privatization of state enterprises. However, private investment started declining after the domestic political instability following the 1997 general election, and went down from 13.4 percent to 7.4 percent of GDP between 1998 and 2002. Large foreign assistance inflows translated into public investment ranging between 12 and 19 percent of GDP for much of the 1990s. Major aid flows from the Inter-American Development Bank (IADB) and other donor organizations, in addition to the effects of the HIPC Initiatives, allowed the Government to increase its investment in infrastructure.

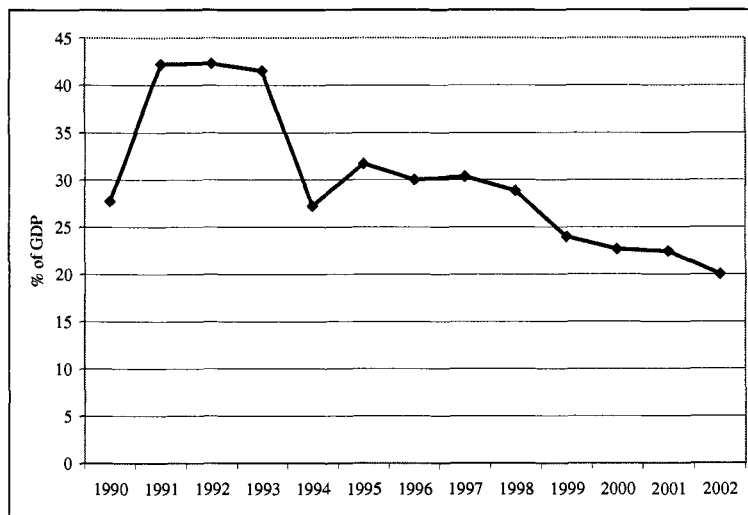
⁵ "Caribbean fears EU Sugar Reforms, but Brussels stands firm", Guyana Chronicle, January 6, 2005

Figure 1-8: Growth in Gross Fixed Capital Formation (percent per annum)



Source: World Development Indicators 2005

Figure 1-9: Gross Fixed Capital Formation in Guyana (percent of GDP)

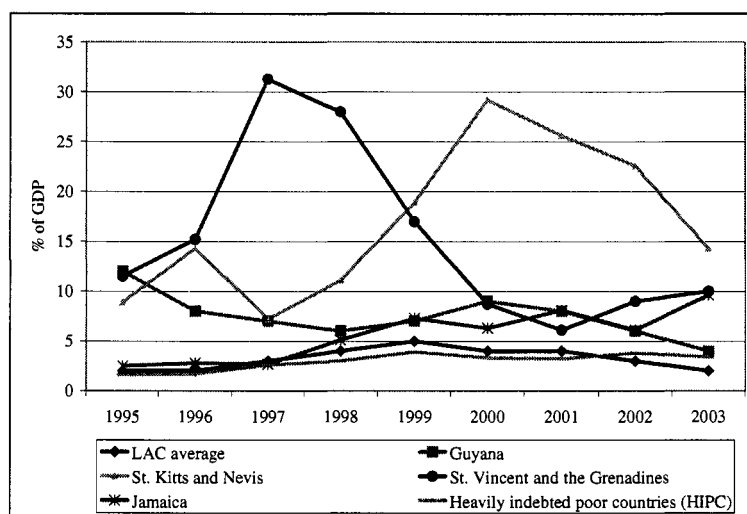


Source: World Development Indicators 2005

1.15 Although the Caribbean still attracts a disproportionate share of world FDI, this share has been falling since the 1990s. FDI in the Caribbean may be subjected to even greater pressure given the global decline in FDI and increased global competition for investment. In the Caribbean region, overall investment rates have been quite high, at about 30 percent of GDP since 1990, with private investment at about 20 percent of GDP. In relation to the size of their economies, OECS countries have attracted substantial FDI inflows, especially St. Kitts and Nevis, St. Vincent and the Grenadines, and Grenada. In terms of distribution, FDI has been concentrated in a few natural-resource related sectors, especially tourism, mineral extraction and segments within agriculture.

1.16 After some initial increases in FDI inflows in the early to mid-1990s, Guyana's FDI flows as percent of GDP have declined and are now at levels similar to those of other IDA and HIPC countries. For example, net flows of FDI declined from 12 percent of GDP in 1995 to 4 percent in 2003 (Figure 1-10). Compared to OECS countries, such as St. Kitts and Nevis and St. Vincent and the Grenadines, Guyana attracted considerably less FDI relative to GDP throughout the late 1990s. Furthermore, net inflows of FDI as percent of GDP have been falling every year since 2000 (Figure 1-10) and while higher than average net FDI inflows for LAC countries, are at levels similar to those of IDA and HIPC countries (both recording net FDI inflows of 3 percent of GDP in 2003).

Figure 1-10: Foreign Direct Investment, Net Inflows as percent of GDP, 1995-2003



Source: World Development Indicators 2005

1.17 Guyana has attempted to encourage foreign direct investment (FDI) through a variety of measures. Among these are different incentives (e.g., income and corporation tax relief) for new investments in specific sectors (ICT, non-traditional agro-processing) or specific geographic regions. In addition, the Government has established a dedicated investment promotion agency – the Guyana Office for Investment (GO-INVEST). However, there are critiques that Go-Invest has been unable to become the catalyst for FDI generation into Guyana.⁶ Obtaining permits and concessions is still considered burdensome. The US State Department's 2005 Investment Climate Statement on Guyana as well as other sources emphasize that the high degree of governmental control and regulation and the high risks of crime and insecurity deter FDI flows. According to World Bank estimates, FDI declined from US\$43.5m in 2002 to US\$35m in 2004. Investment in the telecommunications sector in 2004 accounts for \$25 million of FDI of the amount invested in the country that year. Recent legal disputes related to private investment in the mobile telecommunications market highlights the uncertainties underlying the investment process.

1.18 Attracting large flows of FDI is not easy given a small internal market and limited labor resources. Guyana has a small population of 765,000 inhabitants, and very high rates of emigration of skilled workers (PRS Progress Report, 2005). This means that many educated

⁶ US State Department (2005), *Guyana Investment Climate Statement*, April 2005

people lack access to significant economic opportunity. Emigration poses a large threat to employers, with some reporting training fifteen employees for every five that they need.⁷ Although little data exist about the number of Guyanese living abroad, estimates suggest that the number lies between 500,000 and 1 million, Orozco (2002). Remittances sent back to Guyana are estimated at over US\$90 million (Orozco (2002)). This amount is more than all FDI inflows into Guyana, and almost as much as the official development assistance which the country receives.

1.19 Generally, public debt in the Caribbean region has been cited as having a dampening effect on private-sector-led growth. The average Caribbean debt in 2003 was 96 percent of GDP compared to 65 percent of GDP in the 6 Central American countries. Guyana reached the Enhanced HIPC (E-HIPC) Completion Point in December 2003, qualifying for US\$329 million of debt relief in net present value (NPV) terms, additional to the debt relief of US\$256 million in NPV terms obtained under the original HIPC in May 1999. Total public debt as a percentage of GDP decreased from 194 percent of GDP in 2003 to 164 percent of GDP in 2004. Looking ahead, improved growth prospects and revenue effort, as well as the Multilateral Debt Relief Initiative (MDRI), are expected to significantly improve Guyana's debt outlook⁸.

1.20 The period of economic growth experienced by Guyana in the early 1990s contributed to reductions in poverty and improvements in its basic socio-economic indicators. The proportion of the population classified as poor in 1980 was estimated at 26 percent according to World Bank studies, increasing to 43 percent by the early 1990s. The economic reforms of the early 1990s had a large effect on the poverty rate which declined to 35 percent by 1999. The extreme poverty rates fell from 28.7 percent to 21.3 percent whilst income distribution remained moderately unequal with a Gini coefficient estimated at 0.4 for 1999 (World Bank 2004). Similar declines in poverty have been witnessed in the Dominican Republic (33.9 to 28.6 percent) and Jamaica (44.6 to 19.7 percent). In each case, the decline in poverty is associated with a higher rate of GDP growth. Guyana's Gini coefficient is also lower than many of its regional peers, such as Haiti (0.65), St Vincent and the Grenadines (0.60), Antigua and Barbuda (0.50) and the Dominican Republic (0.47).⁹

1.21 The informal economy plays an important role in Guyana, with some estimates indicating that informal output is as high as 40 to 50 percent of recorded GDP. The growth of the underground economy can be traced to the reaction of businesses and consumers to the socialist system and its extensive system of controls. However, businesses choose to stay informal when the costs of formality in terms of taxation, business regulation are high. Faal (2003) estimates that the underground economy accounted for about 40 percent of GDP in the 1970s, and increased further in the 1980s.¹⁰ He also contends that as much as 7 percent of GDP in annual tax

⁷ US State Department (2005), *Guyana Investment Climate Statement*, April 2005

⁸ On March 28, 2006 the Board of IDA confirmed Guyana's eligibility for debt relief under the MDRI, which will cancel the IDA debt of some of the world's poorest countries starting on July 1, 2006, at the start of the Bank's new fiscal year. The Board of the IMF confirmed Guyana's eligibility for the MDRI in December 2005, to be effective from January 2006.

⁹ World Bank (2005), *A Time to Choose – Caribbean Development in the 21st Century*

¹⁰ Faal (2003), "Currency Demand, the Underground Economy, and Tax Evasion: The Case of Guyana", IMF Working Paper, WP/03/7. His estimates show increases in the size of the informal economy as a share of official GDP was 40 percent on average during the 1970s, but increased to an average of 76 percent of official GDP during 1980-1989.

revenues was lost between 1970 and 2000 due to the large underground economy. The burdensome regulatory environment and the high and complex corporate taxes are among the reasons for the size of the underground economy.¹¹ Guyana, the Dominican Republic and Jamaica have high rates of informal employment, compared to the relatively modest shares in the Bahamas, Barbados, Suriname, and Trinidad and Tobago.

1.22 Crime in Guyana has worsened over the past few years leading people to lose confidence in the security forces and judicial system.¹² Since the late 1990s, Guyana's crime and violence have worsened, and it is estimated that at its peak in 2002 the homicide rate reached 60 per 100,000 inhabitants. Guyana ranks near the top in terms of its rates of intentional homicide together with Jamaica, Honduras, and El Salvador, among others. It is also confronted by increasingly complicated crime problems with the emergence of relatively new crimes such as extortion and kidnapping. Accompanying these developments are also new forms of criminal organizations such as transnational networks whose primary goal is drug trafficking, which affect the Caribbean region in general (EIU (2006)).¹³ Alongside these forms of criminality is also the emerging problem of juvenile or youth crime and violence. Overall in the LAC region, the proportion of violent crimes committed by juveniles has been increasing.

1.23 Mutual suspicion between the two main political parties has hampered efforts to reform state institutions. The main opposition party, the PNC, is dominated by the Afro-Guyanese population, who also dominate the police and defense forces. As a consequence of controlling the capital city Georgetown, the Opposition frequently organizes protests within the city¹⁴. The ethnic polarization index by Montalvo and Reynal-Querol (2005) ranks Guyana in the top quartile of most polarized countries in the world—the index is measured on a 0 to 1 scale, with higher values signifying greater polarization. Polarization coupled, with a high crime rate and low security, raises investment risks and discourages investment. These constraints have not only discouraged domestic and foreign investment but also led to a rapid out-migration of skilled workers.

¹¹ In addition to a 2 percent minimum turnover tax, companies pay 35-45 percent of profits in taxes and for certain consumer items import taxes and duties are close to 100 percent of the value (Faal (2003)).

¹² According to the Economist Intelligence Unit, public confidence in the Police remains low and the public prosecution appears weak. The police are often cited as forming part of the problem through their use of unlawful violent tactics to pursue suspects. In June 2005, President Jagdeo announced the formation of a national commission on law and order with wide civil society representation.

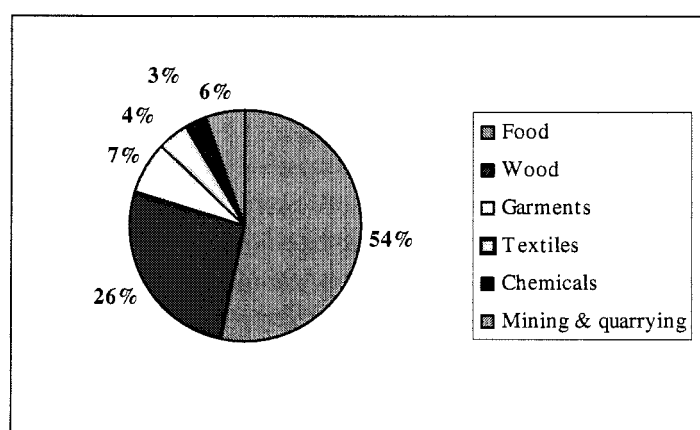
¹³ In June 2005 the Government published a US\$3.4 million 5-year counter-narcotics strategy.

¹⁴ World Bank (2003), *Guyana Development Policy Review*.

INVESTMENT CLIMATE ASSESSMENT

1.24 The present Guyana Investment Climate Assessment is based on a survey of 163 manufacturing firms and 32 hotels conducted between November 2004 and March 2005. The survey is known as the Investment Climate Survey (ICS) and follows a standard World Bank methodology. It is difficult to measure and understand the issues related to a country's investment climate only on the basis of macroeconomic indicators. The ICAs in various countries have led to the collection of *microeconomic data* on the investment climate, by means of surveys of private enterprises in each country.

Figure 1- 11: Sample Composition by Sector



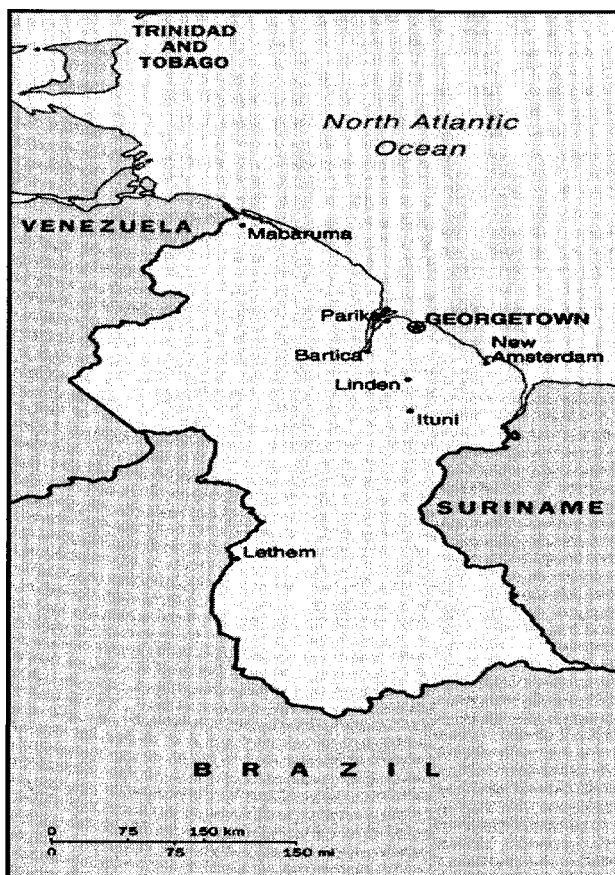
Source: Guyana Investment Climate Survey, 2005

1.25 The Guyana ICS sample was drawn from 6 sectors -- food, wood, garments, textiles, chemicals, and mining and quarrying (Figure 1-11). Of the firms covered in the survey, 69 percent are non-exporters and 91 percent are domestically owned. About 20 percent were located in the capital city, Georgetown, with the remaining 80 percent located outside of the capital (see Figure 1-12). 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 (44 percent of the sample), medium (34 percent), and large firms (16 percent). The survey responses were collected by means of face-to-face interviews of company managers, performed by trained enumerators. The survey was conducted by the private Guyanese firm CEMCO Inc. and the World Bank.

1.26 The questionnaire used in the survey was based on the Standard Core Investment Climate Survey questionnaire that the World Bank is applying in other developing countries, such as Brazil, Guatemala, Honduras, Nicaragua, Peru and China. The general purpose of the survey is to understand the investment climate in Guyana and how it affects business performance, with the objective of helping to improve it. The survey begins with questions about the origin and shareholding status of a business, including questions about the background of the owner or manager in order to determine if and how the interaction between investment climate and business performance varies by business type. It also addresses issues related to finance, technology,

relations with other firms, government regulation, contract enforcement, labor skills and training in order to provide a comprehensive picture of the environment in which businesses are operating in Guyana.

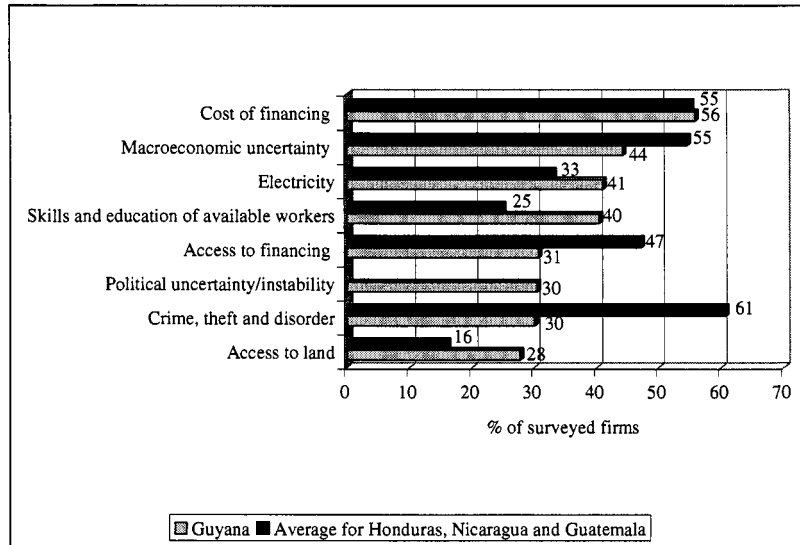
Figure 1- 12: Map of Guyana



MAIN CONSTRAINTS TO DOING BUSINESS IN GUYANA ACCORDING TO THE ICS

1.27 To construct subjective indicators of the main investment climate constraints in Guyana, the surveyed firms were asked to judge the severity of twenty potential investment climate problems on a five-point scale. Figures 1.13 to 1.15 report the percentage of manufacturing firms that evaluated the corresponding constraints as “major” or “very severe”. Figure 1.13 shows the top constraints, defined as those that were mentioned as important by more than 25 percent of the surveyed firms, while Figures 1.14 and 1.15 include the constraints that were mentioned respectively by between 10 percent and 25 percent of the firms, and by less than 10 percent of the respondents. For comparative purposes, each figure also displays the average percentage of firms in Honduras, Nicaragua and Guatemala that rated the corresponding constraints as “major” or “very severe”.

Figure 1- 13: The Perspective of Guyanese Firms – Investment Climate Constraints Rated as “Major” or “Very Severe” by More than 25 Percent of Surveyed Firms in Guyana



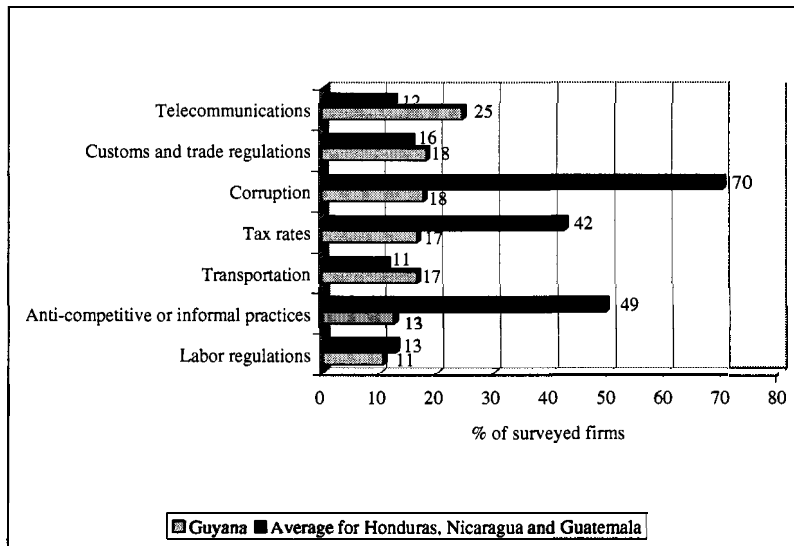
Source: World Bank Investment Climate Surveys, various years

1.28 A lower share of Guyanese firms report investment-climate-related constraints to their operation compared to surveyed firms in Honduras, Nicaragua and Guatemala. For example, the share of Guyanese surveyed firms which rank crime, theft and disorder as a major or severe obstacle to doing business is half of that in Honduras, Nicaragua and Guatemala (30 percent vs. 61 percent, see Figure 1-13). A lower share of Guyanese firms complain about macroeconomic uncertainty and access to finance as obstacles to doing business compared to surveyed firms in the three Central American countries. This is puzzling since, according to different other studies such the Doing Business in 2006 Report and the 2005-2006 WEF Global Competitiveness Report, Guyana ranks among the worst performers on many indicators of the investment climate. A possible explanation is that Guyanese firms are used to heavy regulations and have found ways around them. Among the worst perceived investment climate constraints, a higher fraction of interviewed Guyanese firms complain about electricity, skills and education of workers, and access to land than interviewed firms in Honduras, Nicaragua and Guatemala taken together.

1.29 Four aspects of the investment climate were mentioned in the group of top constraints: cost of financing, macroeconomic uncertainty, worker skills and education, and electricity. Cost of financing (56 percent) is perceived as the top microeconomic constraint to business in Guyana with macroeconomic uncertainty (44 percent) cited as the second main constraint. The fraction of firms in Guyana which rate cost of financing as a major or severe constraint is about the same as the average of the three comparator countries, Honduras, Nicaragua and Guatemala (55 percent). The perception of macroeconomic uncertainty is also probably determined by past experiences and the country’s vulnerability to external shocks. However, by comparison, the percentage of firms in Guatemala reporting macroeconomic uncertainty as a major or severe constraint (60 percent of surveyed firms) is 36 percent higher than in Guyana (44 percent of surveyed firms).

1.30 **Labor skills and technology as well as infrastructure are also viewed as major or severe constraints to business.** The fraction of firms that regard skills and education of available workers as constraints in Guyana is 40 percent, which is 60 percent higher than the average fraction for Honduras, Nicaragua and Guatemala, while labor regulations in Guyana are only viewed by 11 percent of firms as a constraint. The concern over the skill and education level of labor is interesting, given the education standards and enrollment levels in secondary and tertiary education. It reflects, in a large measure, the high level of out-migration, which reduces the pool of available skills. In the area of infrastructure, telecommunications and electricity constraints are rated as important by respectively 25 percent and 41 percent of Guyanese firms, which is over 100 percent higher than what firms report in Honduras, Nicaragua and Guatemala with regards to telecommunications constraints, and 24 percent higher for electricity constraints. In other infrastructure areas, transportation was reported as a constraint by only 17 percent of interviewed Guyanese firms, although access to land was reported by 28 percent of firms, which is 75 percent higher than the average for the three comparator Central American countries (Figure 1-13).

Figure 1-14: The Perspective of Guyanese Firms – Investment Climate Constraints Rated as “Major” or “Very Severe” by between 10 percent and 25 percent of Surveyed Firms in Guyana

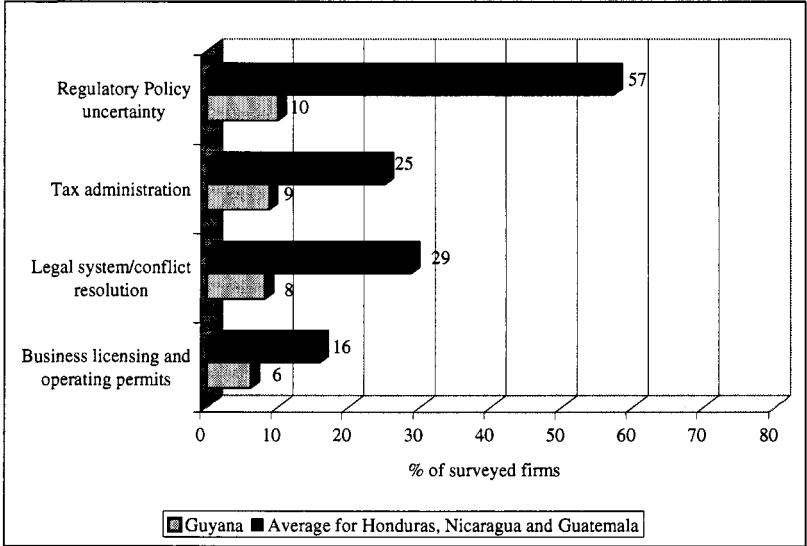


Source: Investment Climate Surveys

1.31 **Within governance-related constraints, crime was mentioned by 30 percent of Guyanese firms whilst corruption was regarded as a constraint by 18 percent of interviewed firms.** These results suggest that governance constraints are perceived as less of a problem in Guyana compared to Honduras, Nicaragua and Guatemala, where the percentage of firms reporting crime and corruption as a constraint is 61 percent and 70 percent respectively. Nevertheless, even though corruption was not perceived as a major obstacle, interviewed firms indicated that they spent 3.5 percent of annual sales on average in 2004 in “getting things done” (Figure 1-16). Interestingly, tax rates and tax administration appear less important in Guyana, with only 17 percent of firms reporting the tax rates as a constraint and 9 percent regarding the tax administration as a hindrance. As mentioned in Chapter 2, taxation is problematic; the low level of

dissatisfaction of firms is most likely due to presence of tax breaks and exemptions and ways to evade taxes. Finally, firms in the three Central American countries are much more likely to rate anti-competitive or informal practices as important constraints (49 percent versus 13 percent in Guyana). Only 8 percent of interviewed firms reported the legal system as a severe obstacle (Figure 1-15).

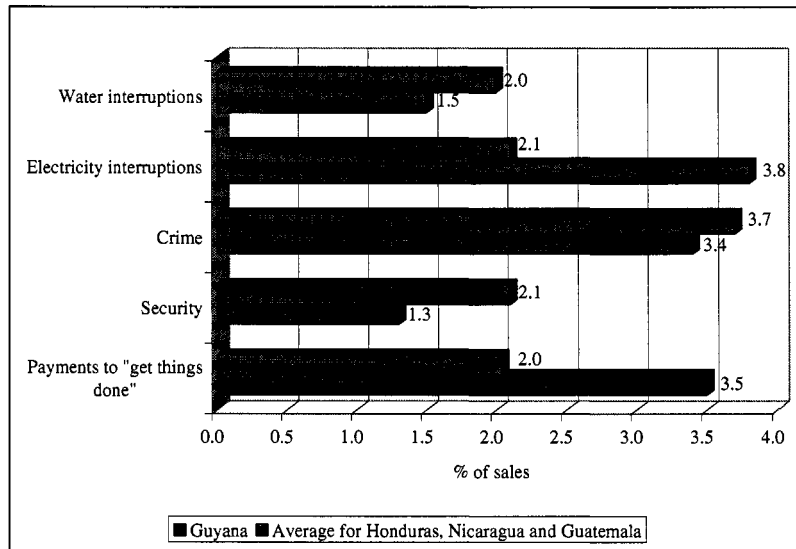
Figure 1-15: The Perspective of Guyanese Firms – Investment Climate Constraints Rated as “Major” or “Very Severe” by less than 10 percent of Surveyed Firms in Guyana



Source: Investment Climate Surveys

1.32 The characteristics of the firms play an important role in their perceptions of the investment climate. Foreign firms are generally inclined to view infrastructure, finance and government regulations on a more demanding level when ranking the severity of constraints in comparison to domestic firms. For example, the percentage of foreign-owned firms reporting customs and trade regulations as a constraint is far greater than that of domestic firms, and a similar pattern is observed in labor regulations, business licensing and operating permits. Interestingly, both foreign and domestic firms have similar perceptions of the constraints of Guyana’s infrastructure and the skills and education of workers, suggesting that, regardless of ownership structures, there are certain elements within the investment climate that afflict all actors in the economy. Analyzing the survey results from the perspective of firm size shows subtle differences and similarities between small, medium and large firms. All the interviewed firms expressed similar concerns with the cost of and access to financing, skills and education of workers as well as infrastructure issues. Comparing firms located in and outside the capital city produces the observation that 27 percent of firms located in the capital city view corruption as a major or severe problem compared to 16 percent outside the capital city. Similarly, crime and violence are viewed as more serious concerns by firms located in the capital city than those located in other towns and rural areas.

Figure 1-16: Percentage of Sales Lost Due to Quantifiable Constraints in the Areas of Infrastructure and Governance



Source: Investment Climate Surveys

1.33 Failures in basic infrastructure services, such as electricity and water, add up to 5.3 percent of total sales for the average Guyanese firm interviewed in the survey, while governance costs take an additional 8.2 percent of annual sales. Figure 1.16 illustrates the actual losses that lie behind the perception that crime and corruption are important constraints in Guyana: expenditures in bribes to ‘get things done’ consume 3.5 percent of sales for the average firm and expenditure on security as well as the cost of incidents of crime amount to 4.7 percent of sales on average for Guyanese firms. In total, the above mentioned costs related to infrastructure and governance amount to an increase in the costs of doing business in Guyana that is equivalent to 13.5 percent of the sales of the average firm – an amount which is not trivial. In comparison, the same costs in Honduras, Nicaragua and Guatemala average 11.9 percent of sales. The gap is more pronounced in terms of infrastructure-related costs – 5.3 percent of sales in Guyana versus 4.1 percent of sales across the three Central American countries.

ANNEX 1.1: SUMMARY TABLES

Table A1.1: Investment Climate Indicators for Guyana, by Firm Size

<i>Size Range</i>	<i>Under 15 workers</i>	<i>15 to 50 workers</i>	<i>50 plus workers</i>
<i>Governance & Insecurity</i>			
Crime Losses (% of Sales)	6.1%	2.0%	1.9%
Judicial System Distrust (% of Firms)	13.2%	16.4%	20.0%
Undeclared Revenues (% of Sales)	29.3%	22.5%	30.0%
Bribes (% of Sales)	6.0%	2.5%	2.4%
Inspections (No. per year)	11.4	9.8	15.4
<i>Infrastructure</i>			
Water Interruptions (No. per year)	8.9	0.6	1.9
Power Outages Losses (% of Sales)	4.5%	2.9%	3.3%
Internet Use (% of Firms)	9.9%	16.4%	42.3%
Email Use (% of Firms)	16.9%	32.7%	63.0%
Transport Losses (% of Shipment Value)	3.9%	5.2%	5.4%
Own Generator (% of Firms)	35.7%	81.8%	100.0%
Water Supply from Own or Shared Well (% of total water supply)	2.0%	6.8%	33.7%
<i>Access To Finance</i>			
Access To Overdraft (% of Firms)	12.7%	48.2%	70.4%
Access to Credit (% of Firms)	21.1%	37.5%	48.2%
Banks for Working Cap. (% of Firms)	18.8%	39.3%	63.0%
Bank Use for Invest. (% of Firms)	14.1%	39.3%	37.0%
Use of Supplier Credit (% of Firms)	1.9%	2.0%	11.1%
<i>Technology</i>			
Firms Using Foreign Licensed Technology (% of Firms)	6.3%	5.5%	30.8%
Internal Worker Training (% of Firms)	24.3%	40.0%	51.9%
External Worker Training (% of Firms)	16.9%	32.7%	37.0%
Quality Certification (% of Firms)	10.1%	16.1%	42.3%
R&D Activities (% of Firms)	17.7%	23.6%	48.2%

Source: World Bank Guyana ICS, 2005

Table A1.2: Investment Climate Indicators for Guyana, by Sector

<i>Sector</i>	Food	Wood	Garments	Textiles	Chemicals	Mining & quarrying
<i>Governance & Insecurity</i>						
Crime Losses (% of Sales)	2.6%	1.8%
Judiciary Distrust (% of Firms)	18.3%	11.9%	0.0%	0.0%	40.0%	11.1%
Undeclared Rev. (% of Sales)	26%	31%	23.5%	7.1%	50%	8.1%
Bribes (% of Sales)	2.5%	2.4%
Inspections (No./year)	14.4%	9.1%	4.8%	1.8%	8.8%	9.0%
<i>Infrastructure</i>						
Water Interruptions (No. /year)	6.3	3.5	2.0	0.0	2.0	1.7
Power Out. Losses (% of Sales)	4.6%	4.0%	2.2%	0.0%	0.0%	0.0%
Internet Use (% of Firms)	14.1%	25.6%	16.7%	14.3%	0.0%	11.1%
Email Use (% of Firms)	30.2%	37.2%	16.7%	14.3%	20.0%	44.4%
Transport Losses (% of Shipment Value)	4.5%	6.3%	0.3%	2.4%	4.4%	4.8%
<i>Access to Finance</i>						
Access to Overdraft (% of Firms)	39.1%	39.5%	8.3%	14.3%	20.0%	44.4%
Banks –Work. Cap. (% of Firms)	19.2%	23.0%	8.3%	3.6%	8.0%	16.7%
Bank -Invest. (% of Firms)	33.1%	25.9%	9.0%	8.3%	0.0%	0.0%
Supplier Credit (% of Firms)	1.1%	0.2%	0.0%	0.0%	7.0%	7.8%
<i>Technology</i>						
Firms Using Foreign Licensed Technology (% of Firms)	7.4%	19.0%	0.0%	0.0%	0.0%	12.5%
Skilled Worker Training (% of Firms)	58.2%	84.8%	100.0%	100.0%	54.3%	100.0%
Unskilled Worker Training (% of Firms)	47.2%	91.8%	47.5%	100.0%	75.0%	100.0%
ISO Certification (% of Firms)	21.2%	14.0%	18.2%	0.0%	0.0%	11.1%
R&D Activities (% of Firms)	26.7%	22.0%	16.7%	33.3%	40.0%	11.1%

Source: World Bank Guyana ICS, 2005

Table A1.3: Investment Climate (IC) Indicators for Guyana, by Location (Inside or Outside Capital City)

<i>Region</i>	Located Inside Capital	Located Inside Capital
<i>Governance & Insecurity</i>		
Crime Losses (% of Sales)	0.8%	4.4%
Judiciary Distrust (% of Firms)	12.1%	15.4%
Undeclared Rev. (% of Sales)	24.9%	26.6%
Bribes (% of Sales)	2.0%	3.7%
Inspections (No. /year)	8.6%	11.7%
<i>Infrastructure</i>		
Water Interruptions (No. / year)	8.8	3.9
Power Out. Losses (% of Sales)	4.7	3.4
Internet Use (% of Firms)	24.2%	15.0%
Email Use (% of Firms)	42.4%	27.3%
Transport Losses (% of Shipment Value)	2.4%	5.2%
<i>Access to Finance</i>		
Access to Overdraft (% of Firms)	33.3%	36.4%
Banks –Work. Cap. (% of Firms)	16.7%	18.7%
Bank -Invest. (% of Firms)	20.0%	26.6%
Supplier Credit (% of Firms)	3.2%	0.8%
<i>Technology</i>		
Firms Using Foreign Licensed Technology (% of Firms)	12.5%	9.2%
Skilled Worker Training (% of Firms)	44.7%	73.1%
Unskilled Worker Training (% of Firms)	25.0%	68.7%
ISO Certification (% of Firms)	21.2%	15.9%
R&D Activities (% of Firms)	27.3%	24.0%

Source: World Bank Guyana ICS, 2005

Table A1.4: Investment Climate Indicators in Guyana, Guatemala and Nicaragua

<i>Country</i>	Guyana	Guatemala	Nicaragua
<i>Governance & Insecurity</i>			
Crime Losses (% of Sales)	3.4%	3.9%	3.3%
Judicial System Distrust (% of Firms)	14.6%	48.4%	42.3%
Undeclared Revenues (% of Sales)	26.2%	23.0%	35.1%
Bribes (% of Sales)	3.5%	4.4%	4.0%
Inspections (per 10 Workers)	N/A	3.3	12.3
<i>Infrastructure</i>			
Water Interruptions (No./ year)	4.7	19.6	55.3
Power Outages Losses (% of Sales)	3.8%	2.3%	3.9%
Internet Use (% of Firms)	16.8%	27.8%	14.8%
Email Use (% of Firms)	30.9%	64.7%	33.9%
Transport Losses (% Sales)	N/A	1.9%	1.9%
<i>Access To Finance</i>			
Access To Overdraft (% of Firms)	35.6%	51.6%	27.0%
Banks for Working Cap. (% of Firms)	18.2%	24.8%	16.3%
Bank Use for Invest. (% of Firms)	25.4%	34.1%	27.9%
Use of Supplier Credit (% of Firms)	1.3%	19.6%	5.4%
<i>Technology</i>			
Firms Using Foreign Licensed Technology (% of Firms) (% of Firms)	9.8%	19.56%	8.63%
Worker Training (% of Firms) ¹⁵	69.7%	54.2%	36.4%
ISO Certification (% of Firms)	16.9%	3.5%	5.0%
R&D Activities (% of Firms)	24.5%	35.7%	13.0%

Source: World Bank Investment Climate Surveys. Averages for sector-province- size ranges were substituted for missing values.

¹⁵ Percentage of permanent skilled workers trained

CHAPTER 2. GOVERNANCE AND INSECURITY

BUSINESS-GOVERNMENT RELATIONS

2.1 According to the **Doing Business in 2006** data, Guyana has a faster, but costlier business registration system than other comparator countries in and out of the Latin America and Caribbean region. For example, it takes only 8 procedures and 46 business days to register a firm (see Table 2.1), which compares favorably with other Latin American countries such as Guatemala, Ecuador, Bolivia, Peru and Honduras, but not so well with Jamaica it takes only six procedures and 9 business days to establish a business. Countries like Mauritius, Sri Lanka and South Africa are comparable to Guyana in terms of number of days and procedures to set up a firm. However, in terms of costs – including all the different fees in the process of opening a business – Guyana ranks better than only Bolivia and Haiti, with a total official cost of registration of 101 percent of per capita income (or equivalent to US\$1000). For comparison, in Jamaica, South Africa and Mauritius the same costs amount to less than 10 percent of per capita income.

Table 2-1: Starting a Business in 2005: A Cross-Country Comparison

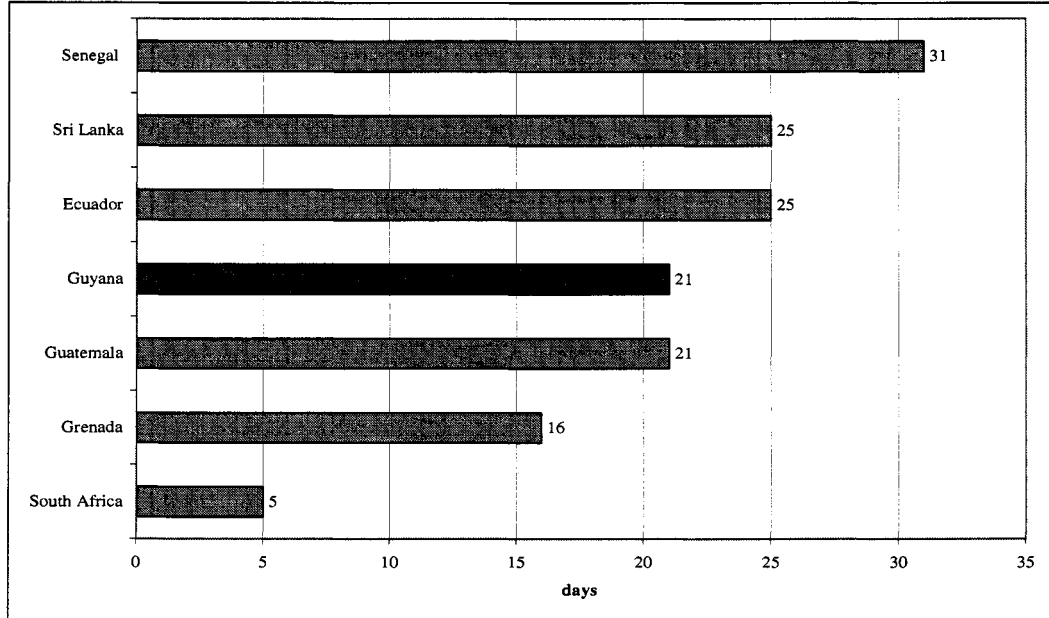
Country	Procedures (number)	Time (days)	Cost (percent of income per capita)
Bolivia	15	50	154.8
Haiti	12	203	153.1
Guyana	8	46	101.4
Ethiopia	7	32	65.1
Honduras	13	62	64.1
Guatemala	15	39	58.4
Ecuador	14	69	38.1
Peru	10	102	38.0
Sri Lanka	8	50	10.4
Mauritius	6	46	8.8
South Africa	9	38	8.6
Jamaica	6	9	8.3

Source: World Bank Doing Business in 2006 database

2.2 The time to obtain a main operating license to start business activity in Guyana is comparable to that of other Latin American countries and shorter than in Sri Lanka and Senegal, but considerably longer than South Africa, for example. Guyanese firms wait, on average, 21 days to get an operating license (see Figure 2.1). While this wait is considerably shorter than the same for firms in Senegal, it is longer than the average wait for such a license in Grenada (16 days) or South Africa (where it is only 5 days). There are substantial differences in waiting times to get a license across Guyanese firms with different characteristics. For example, medium and large firms wait significantly longer than small firms do to get their operating license (29 and 36 days respectively versus 10 days for small firms). Exporting firms wait also longer than non-exporting ones (25 and 19 days respectively). Firms located in the capital of

Georgetown wait significantly less than those outside of the capital city (9 and 25 days respectively).

Figure 2-1: Number of Days Needed to Obtain an Operating License: A Comparison



Source: World Bank Investment Climate Assessments, various countries

2.3 Guyanese managers of manufacturing firms spend on average 3.4 percent of their time during a typical week to deal with requirements imposed by government regulations (the so-called “time tax”). This is substantially lower than in the Central American countries (11 percent in Guatemala, 8.6 percent in Honduras, and 8.0 percent in Nicaragua), Ecuador (16 percent), South Africa (10 percent), as well as Grenada (6.8 percent on average). It is, however, comparable to the same measure for Sri Lanka (3.8 percent). Furthermore, large Guyanese firms as well as exporting firms spend considerably more time dealing with regulations than medium and small firms do (see Table 2.2). Firms located in Georgetown also spend longer on regulations than their counterparts in the rest of the country do (7 percent vs. 2.5 percent).

Table 2-2: Percentage of Senior Management Time Spent Dealing with Regulations

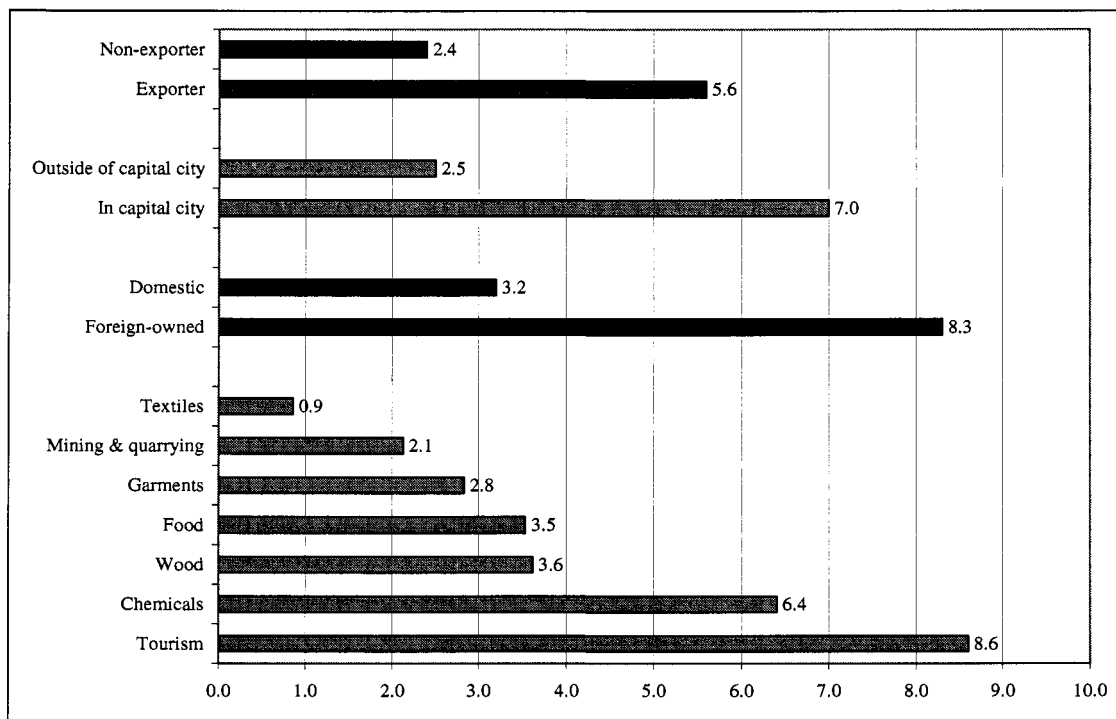
Type of Firm	Mean	Median	No. of observations
Micro and Small	2.9%	0.0%	67
Medium	2.5%	1.0%	55
Large	7.0%	2.0%	26

Source: Guyana ICS

2.4 Guyanese hotel managers spend significantly more time – at an average of 8.6 percent -- on dealing with regulations, which is comparable to what managers of large manufacturing firms spend (7.0 percent). In a similar fashion, the Grenada ICS also found that

companies in tourism-related sectors encountered more administrative hurdles than other companies. Among manufacturing firms, those in the chemical and pharmaceutical industry also devote a higher proportion of their time to regulatory matters – 6.4 percent on average. In contrast, firms in the textile industry spend on average less than 1 percent 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 time).

Figure 2-2: Percentage of Senior Management Time Spent on Regulations in Guyana, By Type of Firm



Source: Guyana ICS

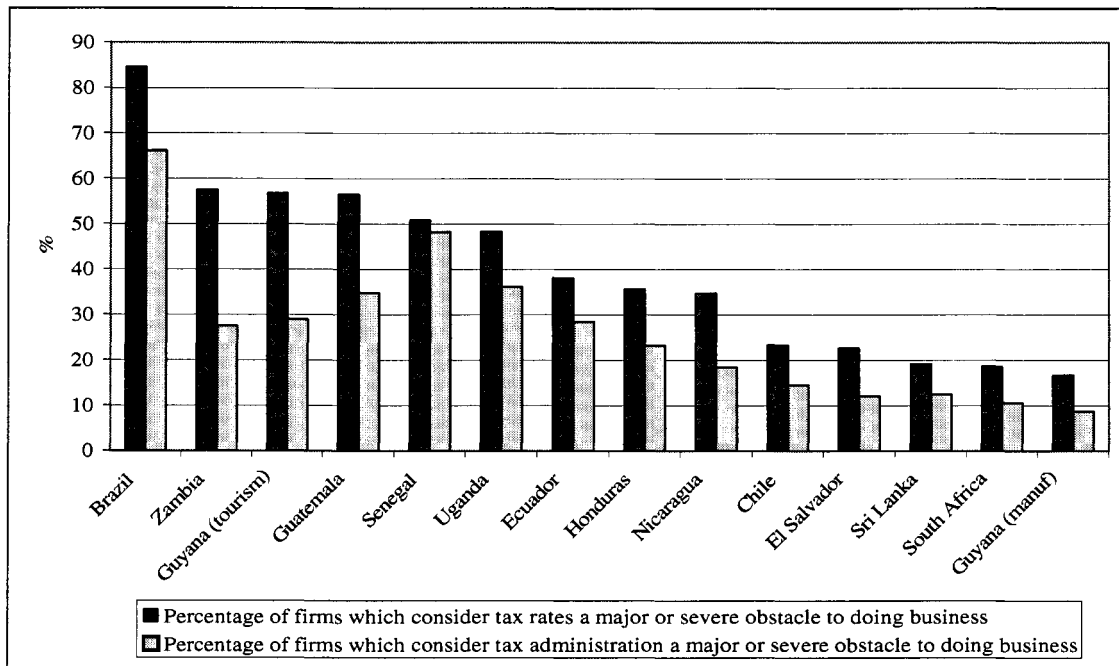
Taxation

2.5 Taxes did not emerge as a major problem in the survey of Guyanese manufacturing firms, and neither does tax administration; however among 32 surveyed tourism firms more than half find tax rates a serious obstacle, and close to one-third do the same for tax administration (Figure 2.3). Thus, 71 percent of manufacturing respondents said that tax rates were either no problem, or a minor problem; another 12 percent indicated that tax rates were a moderate problem. Only 17 percent of Guyanese manufacturing respondents found tax rates a serious problem. Among tourism companies, however, 57 percent found tax rates a serious problem, and 29 percent found tax administration a serious obstacle. Compared to the same measure in other countries, Guyana ranks among the best in terms of managers' perceptions about tax rates and administration for the sample of manufacturing firms (with similar

perceptions reported in Chile, El Salvador, Sri Lanka and South Africa), but among the worst for the subset of tourism firms¹⁶.

2.6 Guyana’s business taxes are high and complex, and there are many exemptions, remissions, holidays, etc. to compensate for the high rates. Despite the favorable perceptions among manufacturing companies regarding corporate taxation, there are many problems with Guyana’s tax system, and reforms are needed. Reforms of the tax system, which are underway at present, will have to be deepened in order to reduce the taxation burden. For instance, tax rates are high: the corporate income tax (CIT) rates are 35 percent for manufacturing and 45 percent for trade and services. 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 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.

Figure 2-3: Perceptions about Tax Rates and Tax Administration



Source: Guyana ICS

2.7 Incentives or exemptions, which are the antidote to high CIT rates and no doubt the main reason why Guyanese manufacturing companies do not identify high tax rates as a serious problem, are still available under the current tax law, even though efforts have been recently made to reduce such exemptions and minimize discretion in the granting of exemptions. Eligibility for these incentives has been codified to some extent by the Fiscal

¹⁶ Of course, the sample in all countries shown in Figure 2.3 covers manufacturing firms only.

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. Furthermore, a limit of 5 years 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.

2.8 The Fiscal Enactment (Amendment) Act of 2003 represents some improvement, at least potentially, 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.¹⁷ If political influence is to be removed, “incentives” must be automatic and made part of the Tax Code.¹⁸

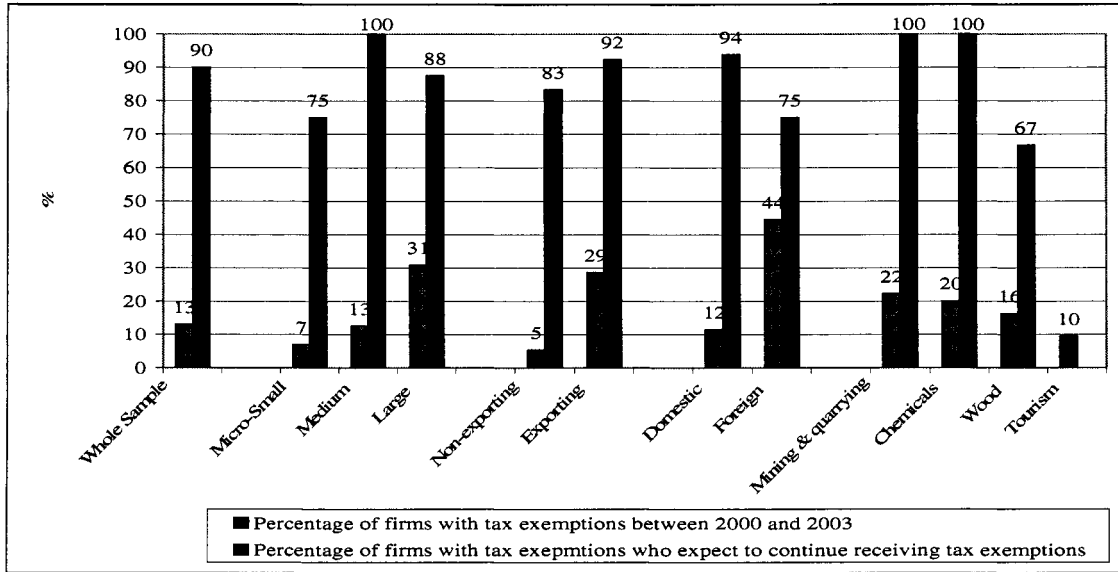
2.9 In line with the above, almost one third of large Guyanese manufacturing firms reported having had tax exemptions between 2000 and 2003, as do also 44 percent of foreign companies and 28 percent of exporting companies interviewed in the ICS. Among the interviewed tourism firms, 12 percent were eligible 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.

2.10 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 2.4).

¹⁷ 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.

¹⁸ We must stress that the ICS was conducted around the time when new tax regulations and changes in tax legislation were approved. In that sense, it might have been impossible for survey respondents’ answers to reflect the ongoing reforms of the tax system.

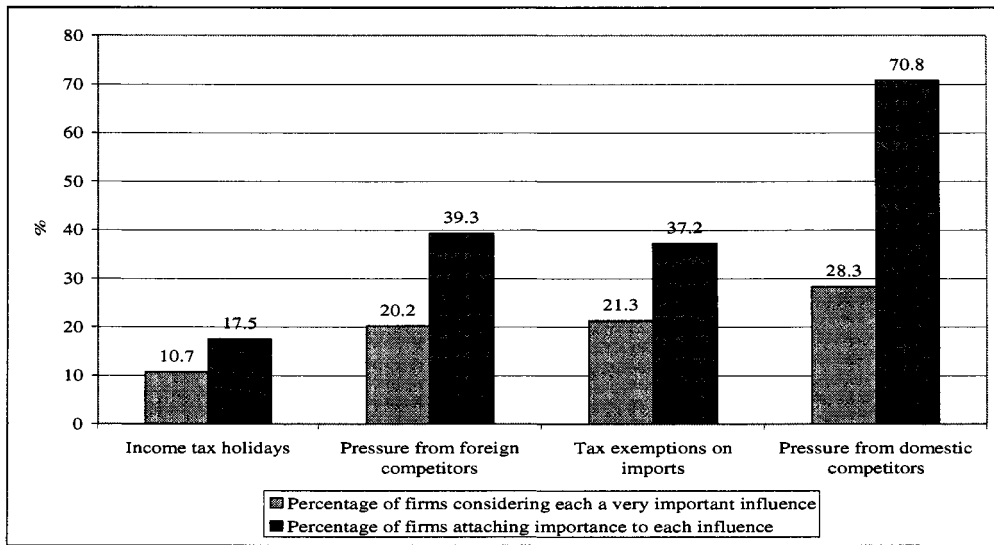
Figure 2-4: Corporate Tax Exemptions in Guyana



Source: Guyana ICS

2.11 Exemptions from import taxes and charges are rated by Guyanese business executives as more important than corporate income tax holidays (21 percent of manufacturing respondents rated import tax exemptions as very important for reducing costs compared to 11 percent for income tax holidays; see Figure 2.5). This is intuitive as import taxes and charges are high, can be avoided only by smuggling or bribery, and come “up front,” while taxable income is subject to more subtle adjustments (many of which are legal) and in any event comes due only in the future, if and as profits begin to be earned.

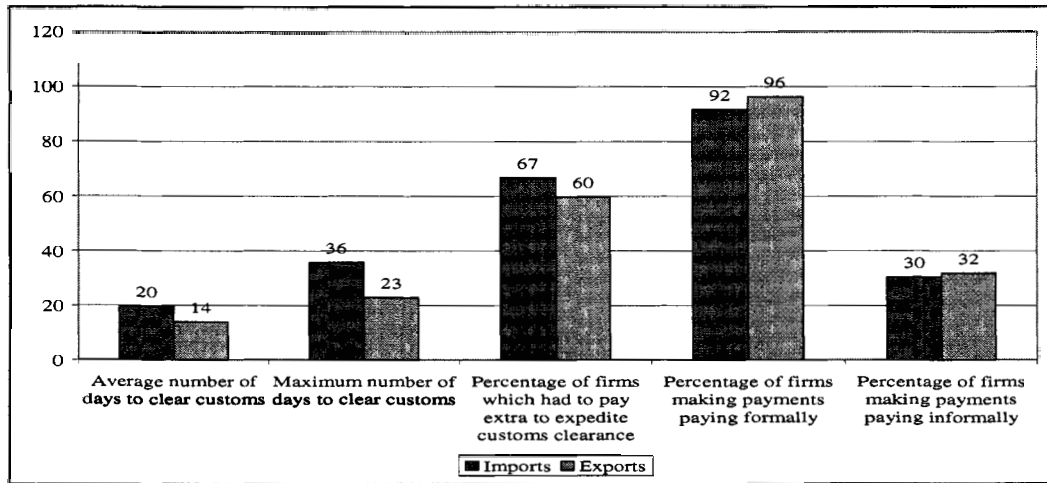
Figure 2-5: Importance of Competition, Import Tax Exemptions and Income Tax Holidays for Reduction of Firms' Costs and Development of New Products



Source: Guyana ICS

2.12 The ICS found that the average time for imported goods to remain in customs is 20 days, and that two-thirds of the responding importers made extra payments to expedite customs clearance. Of these, close to one-third (30 percent) made informal payments (i.e., bribes) to customs officials. For exporters, the situation is almost as bad, with an average of two weeks to clear customs and 60 percent reporting extra payments (see Figure 2.6). Of these, one-third (32 percent) made bribes to customs officials. The survey did not report on whether the bribe was to move the goods, and/or to reduce the taxes paid, and/or for other purposes, only that it served to expedite clearance. However, it seems likely that the very high taxes and port charges may be among the factors that lead to corruption in customs. Customs clearance costs are further increased by formal payments, made by practically all firms that report additional payments (96 and 92 percent for exports and imports respectively). These include payments to private agents who facilitate the process, without necessarily involving gifts or bribes.

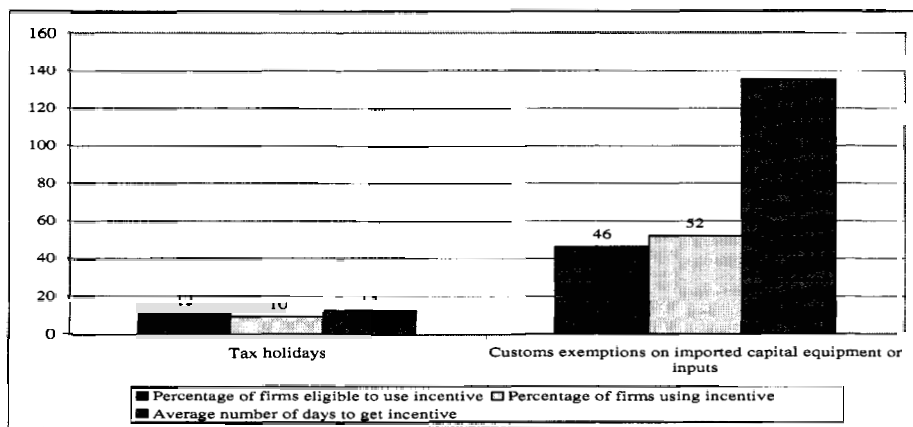
Figure 2-6: Customs Clearance Times and Extra Payments



Source: Guyana ICS

2.13 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, with more than half of them (52 percent) using such import tax/duty exemptions, which is all the firms that were eligible for such import exemptions. In contrast, 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 a tax holiday. The latter finding probably reflects the higher importance attached to import tax exemptions.

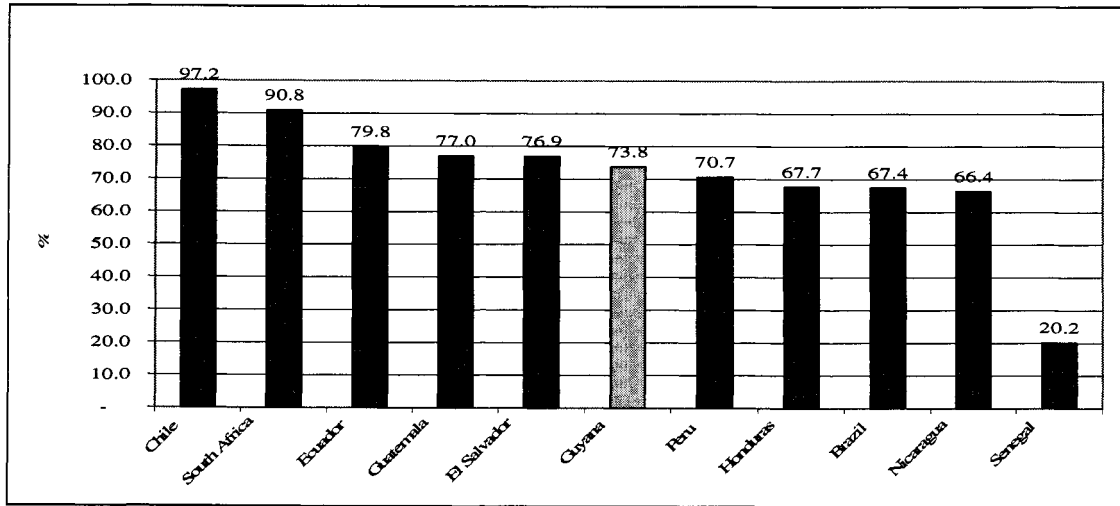
Figure 2-7: Eligibility and Use of Input Tax Exemptions and Tax Holidays by Guyanese Tourism Companies



Source: Guyana ICS, Tourism module

2.14 The share of reported sales for tax purposes in Guyana is comparable to other LAC countries at 73.8 percent of total sales among surveyed manufacturing firms, and 79 percent among tourism firms. Chile leads the way in the LAC region with self-reported 97 percent of annual sales reported for corporate taxation purposes (see Figure 2.8). Guyanese firms report, on average, 23 percentage points less than their Chilean counterparts, and in the vicinity of what is reported for tax purposes in Central America, Peru and Brazil. The share of sales that firms report to the government for tax purposes is a useful indicator of the efficacy of tax administration, and reflects the general investment climate in the country.

Figure 2-8: Percentage of Total Annual Sales Declared to the Tax Authorities



Source: World Bank Investment Climate Surveys, 2002-2005

Bribes

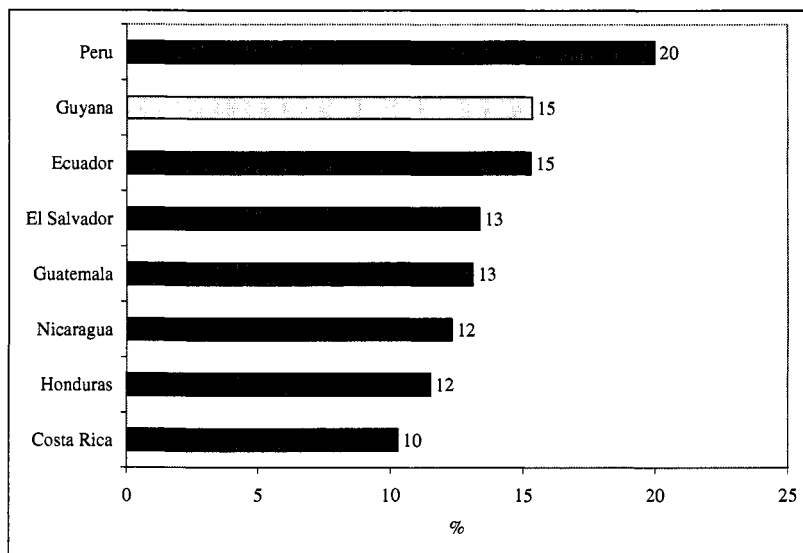
2.15 While corruption does not feature high on the list of obstacles to doing business, with only 18 percent of manufacturing respondents indicating that it is a major or severe obstacle¹⁹, bribes paid out by firms to secure public contracts are reported to be quite substantial²⁰. As shown in Figure 2.9, 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, 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

¹⁹ Note, however, that surveyed hotels complained more about corruption, with 41 percent rating it a major or severe obstacle.

²⁰ 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 117th among 159 countries, on par with Afghanistan, Bolivia, Ecuador, Guatemala, Libya, Nepal, the Philippines and Uganda.

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.

Figure 2-9: Reported Bribes for Government Contracts, percent of contract value

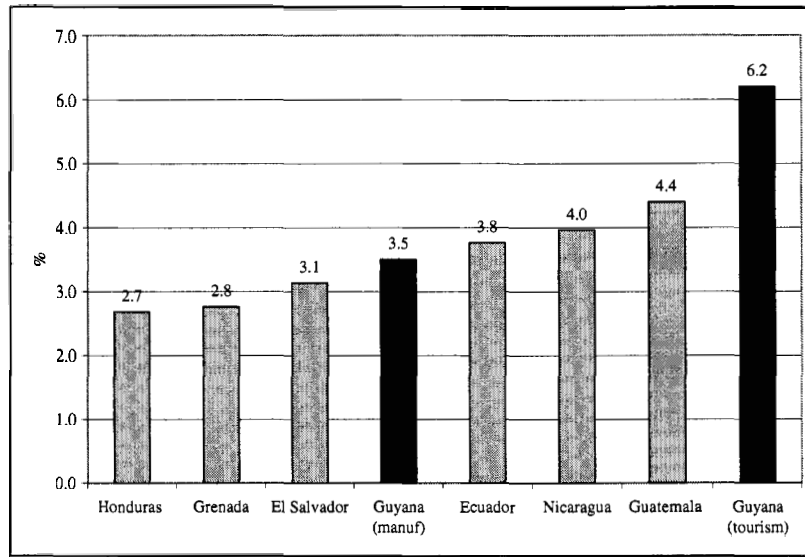


Source: World Bank Investment Climate Surveys, 2002-2005

2.16 Almost one quarter of interviewed Guyanese manufacturing firms (24 percent) report that they are required to make gifts or informal payments to public officials in order to facilitate the issue of licenses, permits, and with regard to customs, taxes, regulations, etc., and the average amount of such payments made by Guyanese manufacturing firms is similar to that in other comparator countries, at 3.5 percent of total annual sales. Bribes to “grease the wheels” of regulations in Guatemala, Nicaragua and Ecuador are higher than those in Guyana, but not substantially so (see Figure 2.10). Yet, bribes “to get things done” – the so-called bribe tax – are reportedly lower in Honduras, Grenada and El Salvador. Interviewed Guyanese tourism firms also report higher average bribes – at 6.2 percent of total annual sales.

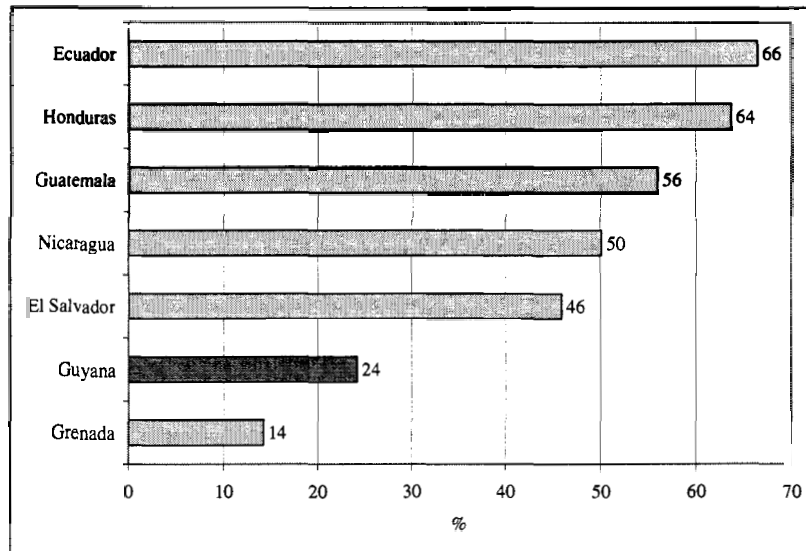
2.17 The share of Guyanese firms reporting that informal payments are common to ensure that “things get done” is much lower than the corresponding figure for the other Central American comparator countries (24 percent in Guyana versus 50 percent in Nicaragua and 64 percent in Honduras). Only in Grenada is the share of firms indicating informal payments less than in Guyana (14 percent, see Figure 2.11). This finding perhaps explains why corruption in Guyana is perceived as less of a business constraint (18 percent of firms consider it a major or severe obstacle to doing business) than in Honduras, Nicaragua and Guatemala, where more than 60 percent of interviewed firms consider corruption a major business constraint.

Figure 2-10: Bribes to “Get Things Done”, percent of annual sales



Source: World Bank Investment Climate Surveys, 2002-2005

Figure 2-11: Percent of Firms which Say that Bribes to “Get Things Done” are Common, percent of interviewed firms



Source: World Bank Investment Climate Surveys, 2002-2005

Inspections

2.18 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 (and a median 30 hours or 1.3 days). The lengthiest inspections were registered by officials from the Municipal Police – on average across 10 firms reporting such inspections – at 162 hours (seven days) each. The latter, however, display wide variation: from 1 hour to 900 hours (38 days), with a median of 1.9 days. As shown in Table 2.3, both the frequency with which firms were inspected, and the average length of a single inspection were higher in Guyana compared to Grenada.

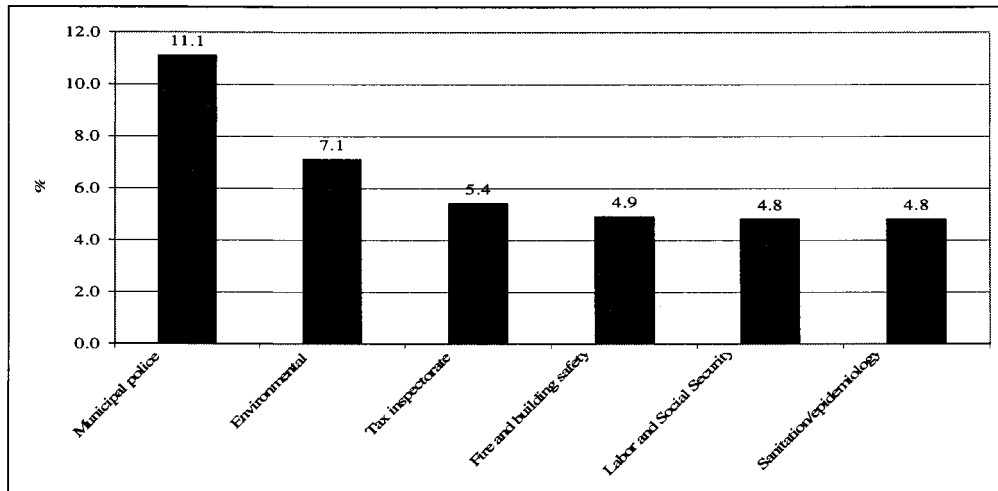
Table 2-3: Inspected Firms and Frequency and Duration of Inspections

	Share of Firms Inspected in 2004	Maximum Frequency (visits per year)		Median Duration (days/visits)	
		Grenada	Guyana	Grenada	Guyana
Tax Inspectorate	59%	12	12	1.0	0.04
Labor and Social Security	63%	6	30	0.6	1.3
Fire and Building Safety	62%	3	12	0.8	1.3
Sanitation/Epidemiology	47%	12	52	0.3	1.9
Municipal Police	8%	N/A	52	N/A	1.9
Environmental	80%	7	52	0.5	1.3
Total Inspections (including by other agencies)	95%	N/A	121	N/A	1.3

Source: Guyana ICS, and “Grenada – A Diagnostic Review of the Investment Climate”, FIAS report, 2004

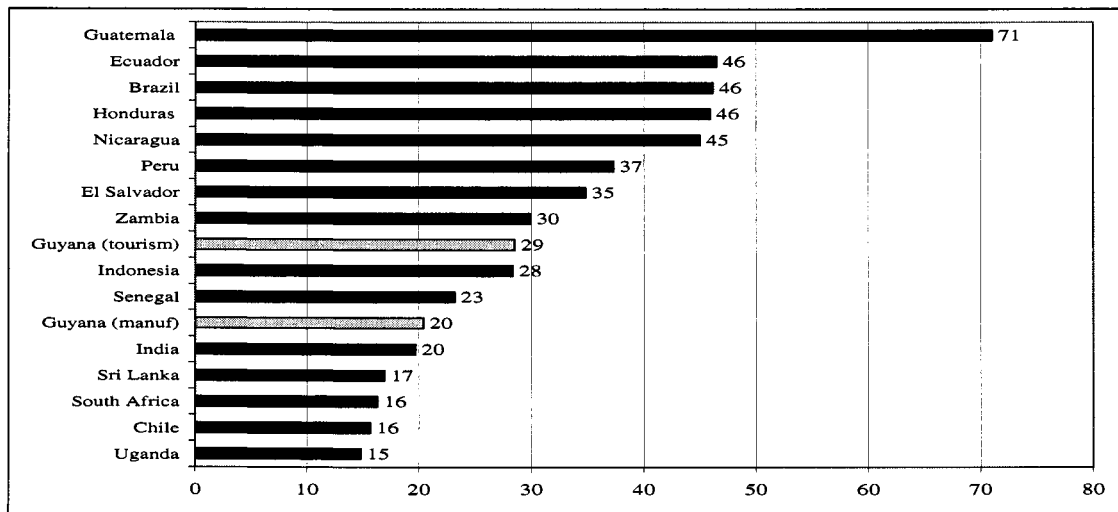
2.19 In line with the frequency and duration of inspections by different agencies, bribes were reported as most frequently asked during inspections by the Police, followed by the Environmental Department. Thus, 11 percent of respondents inspected by the police were offered to pay a bribe, followed by 7 percent of those firms inspected by the Environmental Department (see Figure 2.12). Inspections, however, were most frequently realized by the Environmental Department (80 percent of firms were inspected), the Labor and Social Security Ministry (with 63 percent of respondents inspected), Fire and Building Safety (62 percent inspected), and the Tax Inspectorate (59 percent of respondents inspected). In contrast, only 8 percent of interviewed manufacturing firms were inspected by the Municipal Police Department. However, those firms inspected by the police bore the lengthiest average duration of a single visit by inspectors and were more likely to be asked to pay a bribe. Despite frequent and lengthy inspections, Guyanese firms were less likely to complain about officials interpretations of regulations and rules (Figure 2.13).

Figure 2-12: Percentage of Responding Firms Which Were Asked a Bribe during Inspections, Guyana



Source: Guyana ICS

Figure 2-13: Share of Firms Which Consider Government Officials' Interpretations of Regulations Unpredictable, by Country



Source: World Bank Investment Climate Surveys, 2002-2005

RECOMMENDATIONS ON BUSINESS-GOVERNMENT RELATIONS

2.20 With respect to corporate taxation, Guyana needs deepening its ongoing tax reforms which aim at increasing the tax base. The recently launched National Competitiveness Strategy outlines VAT implementation and conducting a study of the possibilities for reducing the corporate income tax rate as two efforts to continue the tax reforms. Efforts are also being directed at reducing the incentives for evasion while strengthening enforcement so as to increase

the actual costs of evasion. Indeed, reform in exemptions, remissions and tax holidays has already been underway as part of the IMF's Poverty Reduction and Growth Facilitation (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 exemptions²¹.

2.21 Tax exemptions need to be made automatic, upon fulfillment of specific conditions. This would ensure more transparency and increase investors' confidence.

2.1 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 VAT²². 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.

2.22 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.

2.23 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. An e-procurement strategy is currently being prepared – and when implemented will further enhance the transparency of government-firm interactions.

²¹ A Remissions Unit entrusted with making decisions on exemptions has been formed within the GRA, but reportedly capacity still remains an issue.

²² It is expected that VAT will be implemented by January 1, 2007 after the 2006 General Election in Guyana. The legal and regulatory frameworks for VAT implementation have been approved and now preparatory work is ongoing.

CONTRACT ENFORCEMENT AND THE JUDICIARY

2.24 **Business disputes are inherent in commercial transactions.** In a complex economy, involving many buyers and sellers, and complex goods and transactions, firms necessarily undertake risks in dealing with new clients and suppliers, and face potential disputes with them. Without efficient courts and the expectation that courts will uphold their contractual rights and obligations, firms will be less willing to deal with new clients and suppliers, and fewer transactions will take place.

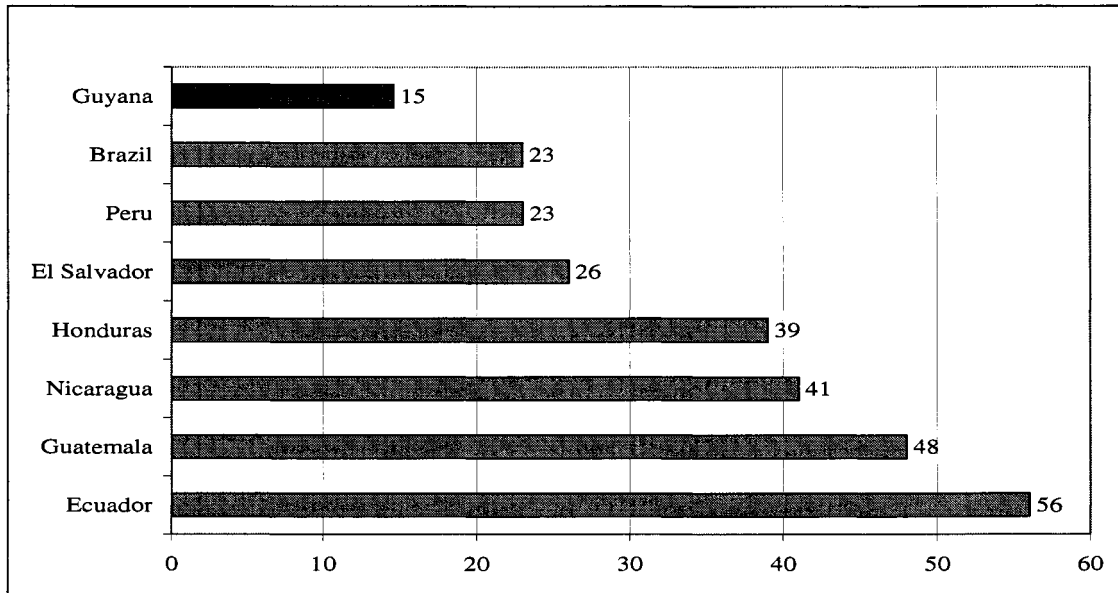
2.25 **The functions of enforcing contracts and reducing the uncertainty faced by firms when engaging in commercial transactions is not restricted to the courts.** These include both formal and informal mechanisms of enforcement, such as social networks, business associations, or public information channels to decide on whom to do business with and under what conditions. At a general level, contract enforcement mechanisms could be divided into personal relationships based on trust; self-enforcement through repeated transactions; third-party enforcement based on reputation; private enforcement; administrative government intervention, and court enforcement (litigation)²³. While each could potentially serve the same purpose, some of these mechanisms are inefficient since they exclude new clients (for instance conducting commercial transactions only with known, repeated customers), or structuring transactions with a view to avoid business disputes, such as requiring pre-payment. Others, such as business associations, may sometimes not work well and be rarely used.

Trust in the Judiciary

2.26 **Despite notable weakness in the performance of Guyana's judicial system, firms' confidence in the courts is relatively high, at least compared to other Latin American countries.** For example, only 15 percent of ICS respondents in Guyana distrust the judiciary in upholding their rights. This is lower than in other comparator countries (Figure 2.14). However, users of the courts have generally worse perceptions of the judiciary than non-users.

²³ See Hendley and Murrell (2002) for a classification and analysis of the use of these mechanisms in supporting contractual agreements among Romanian firms.

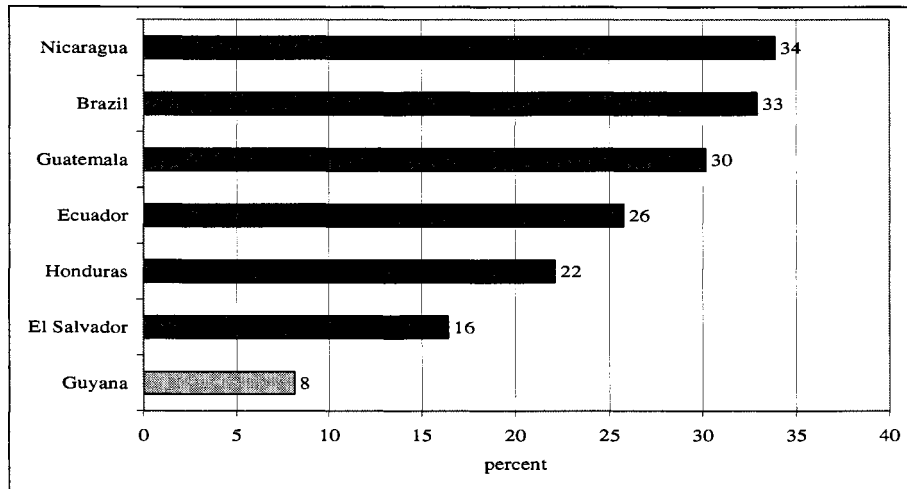
Figure 2-14: Trust in the Judiciary: Percentage of Firms Which Do Not Believe that the Courts Will Uphold Their Contractual and Property Rights in Business Disputes, by Country



Source: World Bank Investment Climate Surveys, 2002-2005

○
2.27 While there is room for improvement, in accordance with the above, Guyana performs satisfactorily compared to other countries in terms of firms' perceptions about how problematic the legal system and the resolution of conflicts are (see Figure 2.15). Ranking the legal system among 20 other constraints to business operation (ranging from macroeconomic uncertainty and political stability to costs and access of financing to the quality of transport and energy), only 8 percent of Guyanese respondents describe the legal system and the judiciary as a major or very severe obstacles to doing business. The same proportion is four times higher in countries such as Guatemala, Brazil and Nicaragua. In contrast to the legal system, problems with cost of financing, electricity quality and cost, labor skills and education, and crime appear of greater concern to private Guyanese businesses, with 56, 41, 40 and 30 percent of survey respondents respectively qualifying each area as a major or very severe constraint.

Figure 2-15: Trust in the Judiciary: Percentage of Firms Which Perceive the Legal System and Conflict Resolution as Major or Very Severe Obstacles to Doing Business, by Country



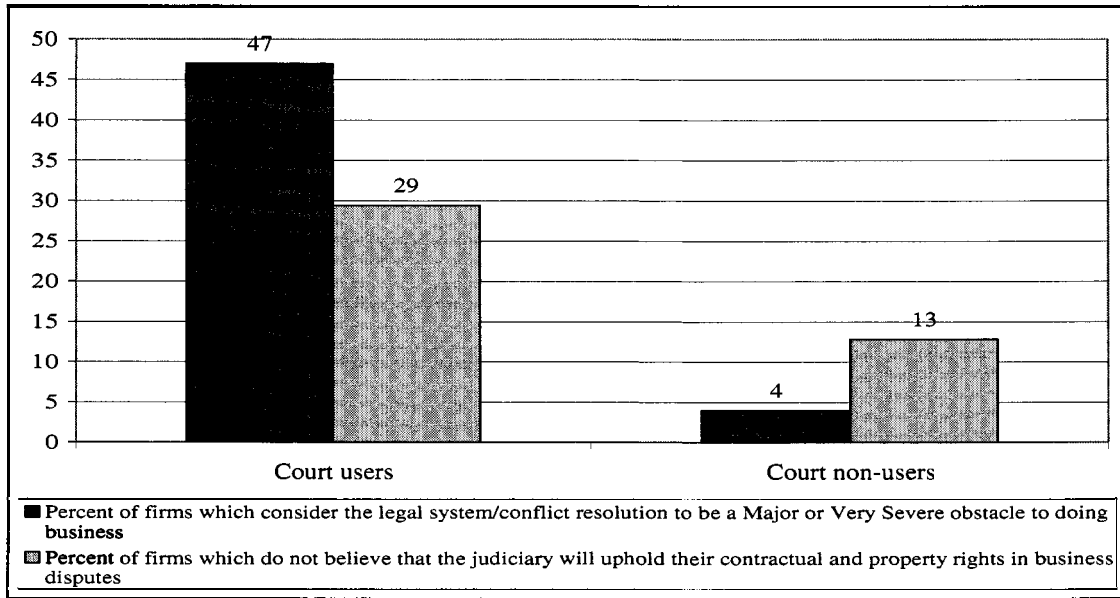
Source: World Bank Investment Climate Surveys, 2002-2005

2.28 While overall perceptions of the judicial system are positive, the perceptions of court users point to significant problems in the courts. Thus, the percentage of 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 ICS²⁴. In the same fashion, 8 out of the 17 court users (or 43 percent) saw the legal system and conflict resolution as a major or severe obstacle to their business operation, in contrast to the 8 percent across the whole sample of firms. Among the 123 firms who have not used the courts in the three years prior to the survey, only 5 companies (4 percent) 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 (see Figure 2.16). While similar discrepancies in the perception of the judicial system by court users and non-users, i.e. users complaining more, are observed in other countries (e.g. Guatemala, Nicaragua, Honduras), the discrepancy between court users and non-users' perceptions of the judiciary in Guyana is higher than elsewhere.

2.29 As in other countries, the fraction of Guyanese firms which regard the judiciary as a major or severe problem increases with firm size. Thus, 19 percent of large firms view the court system as problematic compared to 11 percent of medium firms and only 1 percent of small and micro ones (Figure 2.17). This is driven by the fact that court users are more likely to find the courts problematic and the fact that court use increases with firm size. Furthermore, foreign firms are much more likely to view the court system as a major or severe constraint than their domestic counterparts (33 percent vs. 7 percent), as are firms located in Georgetown compared to those in smaller cities and rural areas (12 percent vs. 7 percent) and exporting firms compared to non-exporting ones (14 percent vs. 5 percent).

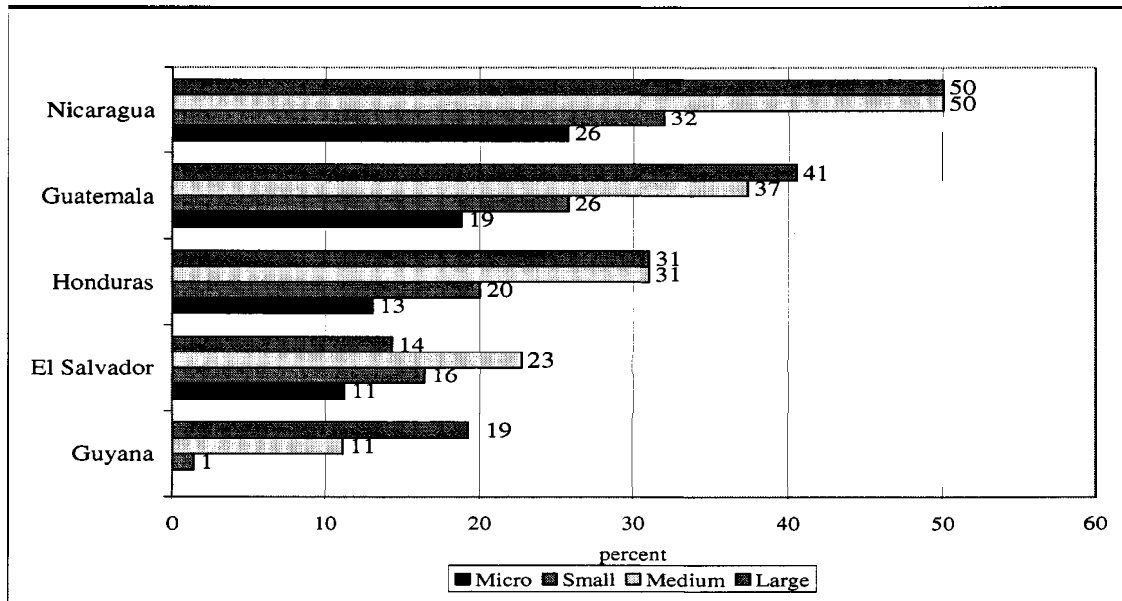
²⁴ Only 17 firms indicated having been involved in a court case in the three years prior to the survey; 123 firms responded that they have not been in a court case during the same period.

Figure 2-16: Court Users Distrust the Judiciary Much More than Non-Users



Source: World Bank Guyana Investment Climate Survey 2005

Figure 2-17: Firms Which the Legal System and Conflict Resolution as Major or Very Severe Obstacles, by Size



Source: Source: World Bank Investment Climate Surveys, 2003-2005

Note: Guyana's category of Small Firms includes both micro and small firms (with 1 to 15 full-time employees).

How Do Guyanese Firms Avoid Disputes?

2.30 **More than a third (35 percent) of the interviewed Guyanese firms report that they require pre-payment from their customers.** This fraction is the same as in Brazil, and less than in Nicaragua, but above other regional comparators such as Guatemala (19 percent), El Salvador (23 percent) and Ecuador (28 percent) (Panel A of Table 2.4). However, the average size of these pre-paid sales – for those firms which report some pre-paid sales – is among the lowest in the region at 23 percent of annual sales (only Brazil has a lower share of pre-paid sales). Pre-payment is an indicator of problems with contract enforcement – presumably, if the contract enforcement mechanisms are ineffective, costly or time-consuming, firms will look for ways to avoid disputes. One way to avoid disputes is to require that customers pay in advance. In this sense, the data indicate that firms are looking for ways to avoid disputes since a fairly large proportion demand pre-payment from their clients – even though the size of the pre-paid sales is not as high as in other comparator countries.

2.31 **A very large share of interviewed Guyanese firms – 95 percent – report that they demand payment at the time of sale, and this share is the highest in the region.** These sales represent, on average, two-thirds (66 percent) of total annual sales, which is also the highest in the region (see Panel B of Table 2.4). Requiring clients to pay at the time of delivery of the goods again ensures that disputes related to payment do not arise, i.e. the high share of firms demanding such payment and its high share in total sales indicate that firms in Guyana do, in fact, exercise caution and structure their transaction in a way that precludes disputes from arising. Such strategies are indirectly suggesting that business dispute resolution is not efficient.

2.32 **The fraction of Guyanese respondents which report selling goods on credit to their customers is, on average, 70 percent – slightly higher than in Nicaragua, Honduras and Peru, but lower than elsewhere in the region.** Such sales on credit constituted about 41 percent of annual sales for these firms – by far the lowest among the set of Latin American comparators (see Panel C of Table 2.4). For example, sales on credit averaged 84 percent of annual sales in Brazil, 76 percent in Ecuador, 67 percent in Guatemala, and 66 percent in El Salvador and Peru. The willingness of firms to sell their product on credit is usually associated with more confidence in the judiciary; in contrast, when firms do not trust the courts they choose to transact with known customers, and build their transactions so as to avoid disputes²⁵. Judging from the low proportion of firm sales made with deferred payment – even though a fairly large fraction of interviewed firms do allow some part of their sales to be paid at a later date – indicates again Guyanese firms' unwillingness to undertake risk (deferring payment necessarily raises the risk of buyer default for the seller), and thereby a preference to avoid disputes.

2.33 **Given the high shares of Guyanese firms which demand payment at delivery or in advance, it is not surprising that a relatively high fraction of interviewed firms (31 percent) report not having experienced any delays in payment from private customers in the year prior to the ICS.** For comparison, only 8 and 11 percent of the firms that deal with private clients in Guatemala and El Salvador respectively indicate no payment delays, as do 19 percent of firms in Honduras and 20 percent in Nicaragua. Therefore, the prevalence of payment delays

²⁵ There is substantial literature on this topic. See, for example, Bigsten et al. (2000), Greif (2002), Hendley and Murrell (2003), Johnson, McMillan and Woodruff (2002), among others.

in Guyana – compared to the four Central American countries -- is consistent with the patterns of prepayment, payment at the time of delivery and sale on credit, reported in Table 2.4 (with Guyanese firms offering less credit, and demanding more frequently and a higher proportion of sales to be paid on the spot). The size of such delayed payments is also lower in Guyana – at 22 percent of sales, compared to 34 percent in Guatemala and 33 percent in El Salvador.

Table 2-4: Pre-Payment, Payment at Delivery and Trade Credit: A Comparison

Panel A			
<i>...paid in advance by clients</i>	<i>Share of firms which require pre-payment</i>	<i>Pre-paid sales (% of all sales) across firms which require pre-payment</i>	<i>Pre-paid sales (% of all sales) across all firms</i>
Guyana	35%	23%	8%
Nicaragua	39%	40%	16%
Honduras	31%	42%	13%
Peru	34%	30%	10%
Brazil	35%	17%	6%
Ecuador	28%	28%	8%
El Salvador	23%	30%	7%
Guatemala	19%	34%	6%
Panel B			
<i>...sold on credit to clients</i>	<i>Share of firms which sell on credit</i>	<i>Percentage sold on credit across firms which sell on credit</i>	<i>Percentage sold on credit across all firms</i>
Guyana	70%	41%	29%
Nicaragua	65%	50%	32%
Honduras	65%	64%	42%
Peru	69%	66%	46%
Brazil	94%	84%	79%
Ecuador	90%	76%	68%
El Salvador	81%	66%	53%
Guatemala	77%	67%	51%
Panel C			
<i>...paid at the time of sale by clients</i>	<i>Share of firms which require payment at the time of sale</i>	<i>Percentage paid at the time of sale across firms which require payment at time of sale</i>	<i>Percentage paid at time of sale across all firms</i>
Guyana	95%	66%	63%
Nicaragua	88%	59%	52%
Honduras	76%	60%	45%
Peru	82%	50%	41%
Brazil	58%	24%	14%
Ecuador	69%	35%	24%
El Salvador	81%	49%	40%
Guatemala	79%	53%	42%

Source: World Bank Investment Climate Surveys, 2002-2005

2.34 Guyanese firms, which allow credit and experience payment delays, spend, on average, 43 days to resolve an overdue payment (from the moment it becomes overdue to the day payment is received). This is below what Salvadoran firms need (49 days), but longer than in Guatemala (38 days), Honduras (33 days) and Nicaragua (26 days). To resolve the same overdue payment by means other than court action (i.e. through direct negotiation or through third party such as mediators, business associations, private enforcement agents, etc.) takes 13 days on average in Guyana. Therefore, out-of-court dispute resolution appears to be three times shorter, on average, than that in court.

The Role of Business Associations in Dispute Resolution

2.35 Less than one third of Guyanese firms belong to a business association – the lowest proportion of interviewed firms in any Latin American country – and of these 30 percent receive assistance from the association in the resolution of disputes with government officials, workers or other firms. 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 (see Table 2.5). About 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 (see column 2 of Table 2.5).

2.36 Very few (8 percent) of the firms that do get dispute resolution services from the business association to which they belong rank these services as the most important among those being provided by the association to them. 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 importance²⁶. Lobbying the government, provision of information and/or contacts on product and input markets, and accreditation of products are deemed as the most important services provided by the business association to which Guyanese firms belong. Therefore, as a third-party contract enforcement mechanism, business associations play a very modest role in resolving business disputes in Guyana.

²⁶ We must stress, however, that this comparison should be taken with caution as the structure of the question differed in the survey used in Guyana. Instead of allowing respondents to choose the degree of importance of each type of service provided by their association, Guyanese respondents had to answer which type of service was most important to them. The Chile ICS had the same question as Guyana, and the percentage of Chilean respondents attaching the highest importance to the dispute resolution services provided by their business association is similar to that in Guyana (6 percent in Chile), even though Chile has a much higher degree of business association membership (57 percent) and more firms report receiving dispute resolution services from the associations of which they are members (46 percent).

Table 2-5: Business Association Membership and Dispute Resolution

	<i>Firms belonging to a business association, (share of all firms)</i>	<i>Firms, which report that the association helps in resolving disputes with Government, workers, and/or other firms</i>	<i>Firms which report that the association's assistance in dispute resolution is of zero or low importance</i>	<i>Firms which report that the association's assistance in dispute resolution is of high or crucial importance</i>
Guyana	31%	30%	NA	8%
El Salvador	59%	59%	27%	37%
Guatemala	53%	75%	26%	35%
Nicaragua	43%	54%	13%	48%
Honduras	71%	52%	27%	42%
Peru	47%	14%	NA	NA
Brazil	74%	58%	16%	56%
Ecuador	97%	32%	22%	32%

Source: World Bank Investment Climate Surveys, 2002-2004

Dispute Resolution in Court

2.37 Guyanese firms filed, on average, 8.7 percent of their payment disputes in the two years preceding the survey with the courts, but there are substantial differences in this measure across different types of firms. Thus, large firms filed a significantly higher share of their payment disputes with the courts (23 percent) compared to small firms (0.2 percent) and medium firms (2 percent). Similarly, exporting firms file with the courts a significantly higher share of their payment disputes than non-exporting firms do (14 percent vs. 5 percent), and foreign firms significantly more than domestic ones (73 vs. 3 percent). Firms located outside of Georgetown are also heavier users of the courts than those in the capital city – resolving 10 percent through court as opposed to only 1 percent for firms in Georgetown.

2.38 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 2.6). Out of 24 firms that indicated having had payment disputes in the last two years, ten (42 percent) said 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 2-6: Proportion of Firms with Overdue Payments That Have Filed Court Cases, by Size

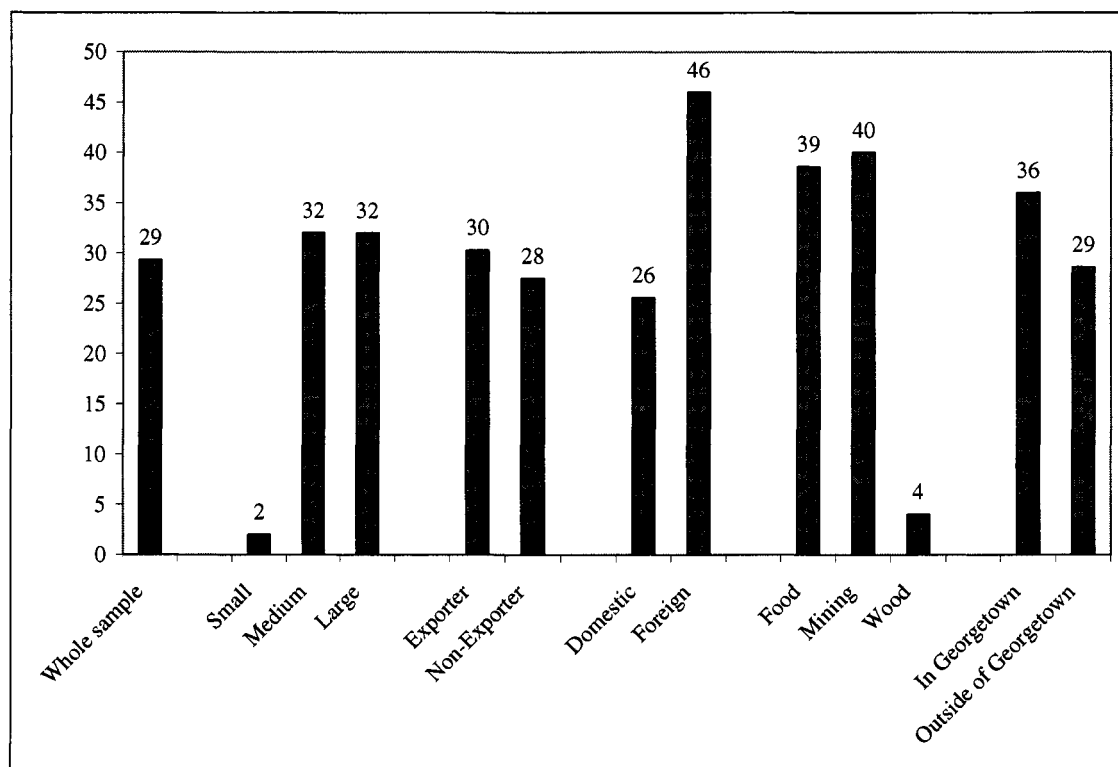
	<i>Micro Firms</i>	<i>Small firms</i>	<i>Medium Firms</i>	<i>Large Firms</i>
Guyana		16.7%	70.0%	75.0%
El Salvador	7.5%	16.4%	30.6%	24.2%
Guatemala	9.8%	10.4%	16.2%	28.9%
Nicaragua	4.9%	18.3%	35.4%	40.0%
Honduras	4.4%	16.9%	36.2%	25.3%

Source: World Bank Investment Climate Surveys, 2002-2004

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

2.39 Of 14 interviewed Guyanese firms that had payment disputes resolved in court, 11 reported the time it took to get a court decision (from the time of filing to the time of court decision). The average duration across all these Guyanese firms is 29 weeks (205 days). There are considerable differences in the duration of trial reported by different types of firms – foreign firms and large firms spend longer waiting for a court decision than domestic and small firms (Figure 2.18). However, due to the small subset of firms that report court use (11 for the whole sample), any of these results are merely indicative.

Figure 2-18: Average Number of Weeks Necessary to Resolve a Disputed Payment in Guyanese Courts

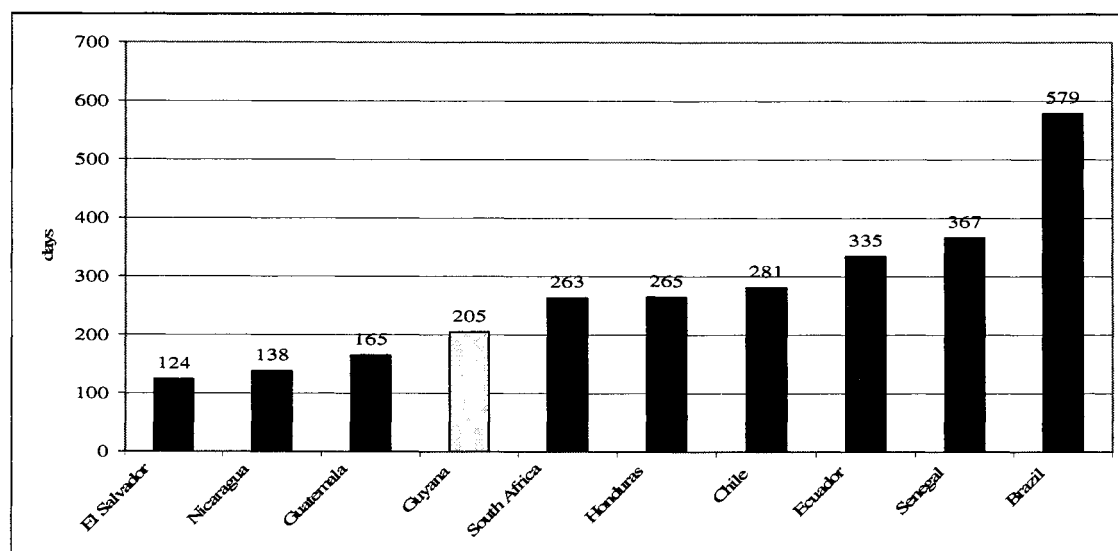


Source: World Bank Guyana Investment Climate Survey 2005

2.40 We conduct a comparison of the time to disposition of a payment-related court case – as reported by survey respondents – with the other available ICS data for Central America and South America, and find that Guyana ranks in the middle. Figure 2.19 shows the average duration of identical overdue payment cases from filing in court until the judge delivers a decision for Guyana and other Latin American countries. Guyana’s courts are found to be slower in issuing judgments on payment cases than are the courts in El Salvador, Nicaragua and Guatemala, but faster than those in Brazil, Honduras, Senegal, Chile, Ecuador and South Africa. Therefore, at least compared to other countries in the region, Guyana’s judicial system is not found among the most time-consuming. However, Latin America in general is found to have some of the lengthiest and most procedurally burdensome judicial processes in the world (see Enforcing Contracts chapter of the World Bank Doing Business Reports 2004 and 2005).

Another explanation is the legal origin of Guyana – it has a mixed legal heritage from its Dutch and English colonial experience. Nevertheless, the legal and judicial systems belong to the common-law family, which traditionally has a shorter and less burdensome judicial process than in civil-law countries²⁷.

Figure 2-19: Average Duration of a Payment Dispute in Court: an International Comparison



Source: World Bank Investment Climate Surveys, 2002-2004

2.41 According to the survey respondents court decisions are generally enforced – with 82 percent of court decisions over payment disputes reported to have been successfully enforced. Execution of the judgment takes, on average, 7.5 weeks according to the 8 respondents whose court judgments were enforced. Therefore, the total amount of time from bringing the case to court until payment is obtained is approximately 37 weeks (about 260 days). This measure is lower than the time to resolve a payment dispute reported by Doing Business in 2006 (the Doing Business information was gathered during the ICA preparation from a leading law firm in Georgetown). According to the Doing Business data, contract enforcement in a Guyanese court over a commercial case where the claim is 500 percent of GNI per capita (US\$4000) will take 525 days (about 1 year and 5 months). This is twice as long as the time reported by the Investment Climate Survey (260 days) for a similar type of case²⁸.

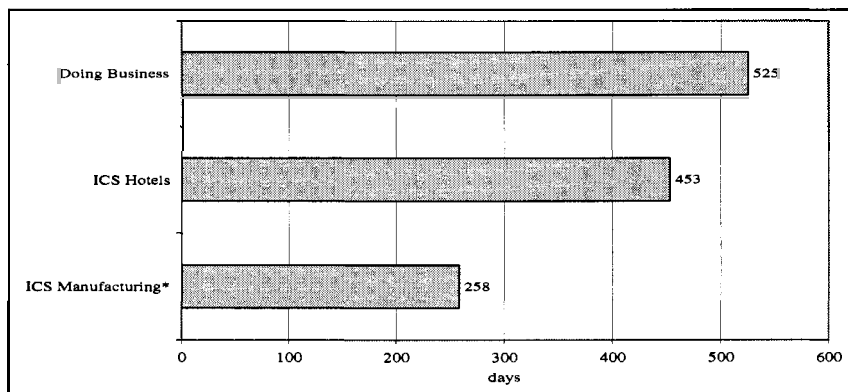
2.42 Interviewed hotels spend longer in getting a court case resolved than manufacturing firms: on average 453 days for the 6 hotels which were involved in a court case over the

²⁷ For example, a study of court performance across 109 countries worldwide (Djankov et. al (2003)) found that common-law countries have generally faster judicial processes, with a lower degree of formalism in the courts. Several Caribbean islands of English legal origin were included in the sample, such as Jamaica, Grenada, St. Vincent and the Grenadines, and the Turks and Caicos Islands, and were found to perform well on various measures of time, costs and complexity of the judicial process.

²⁸ Differences between the ICS and the Doing Business duration data are to be expected since the Doing Business case rests on specific assumptions such as the location (capital city), the transaction, the parties, the amount of the debt, etc. The ICS does not restrict itself to such assumptions, and covers firms across the country.

three years before the ICS²⁹. The time varies from 2 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. 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 2-20: A Comparison of Court Duration Data



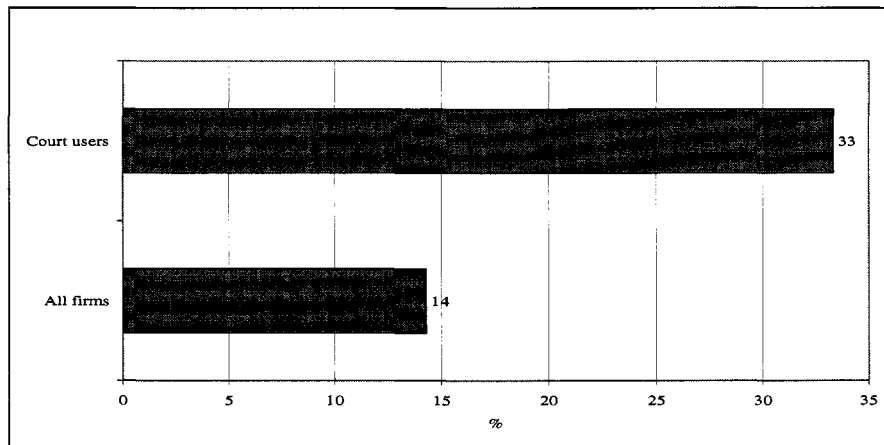
Source: World Bank Guyana Investment Climate Survey 2005

* ICS Manufacturing refers to duration of court's resolution of payment disputes

2.43 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 (Figure 2.21). 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 courts 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.

²⁹ 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 assessing court disposition times on the basis of payment cases only may be misleading.

Figure 2-21: Percentage of Firms which Think that Bribes to Judicial Officials Are Common

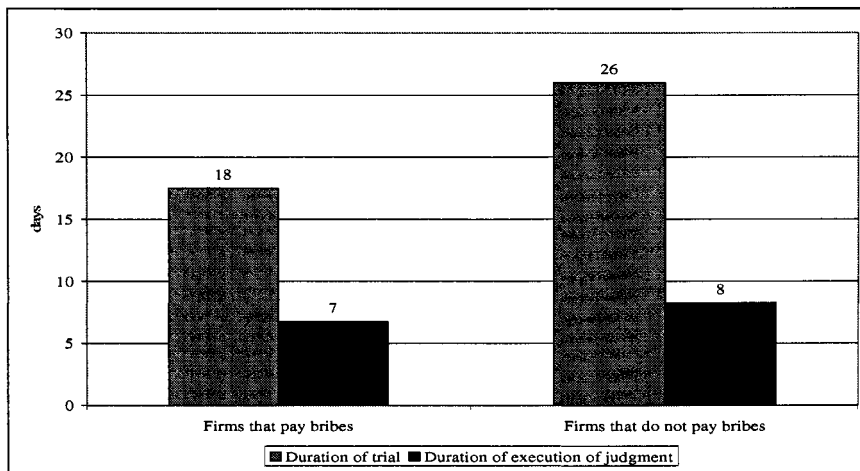


Source: World Bank Guyana Investment Climate Survey 2005

2.44 The amount of bribes paid is not trivial: 2.2 percent of total annual sales for those firms which indicate that bribing of court officials is common. Small and medium firms spend a higher proportion of sales on such bribes (2.4 and 2.3 percent respectively), whereas large firms spend slightly less (1.8 percent). Paying bribes is associated with lower duration of court cases – the average time to disposition falls from 29 weeks to 18 weeks, when we only consider respondents that have indicated a positive amount of bribes being paid³⁰. Similarly, firms which indicate that bribes are paid, have their judgments enforced (100 percent), and wait less for judgment execution than other firms (6.75 weeks versus 8.25 weeks). Therefore, despite the small number of observations available, the data suggest that bribes to court officials result in shorter disposition and execution times, and in a higher likelihood of the judgment being enforced (Figures 2.22 and 2.23).

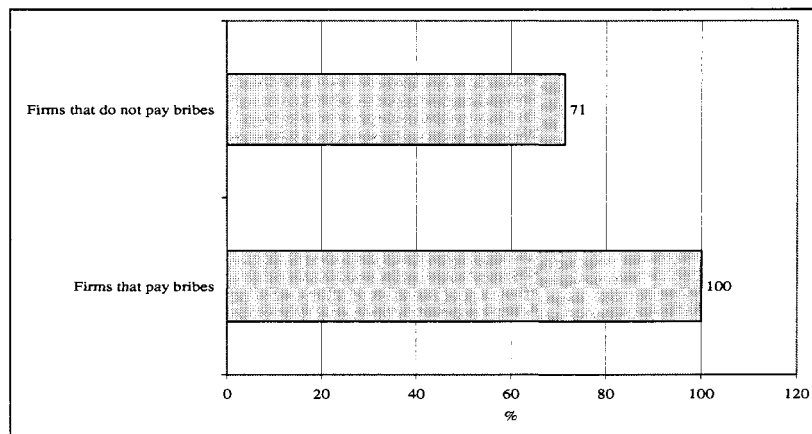
³⁰ Again, this finding must be interpreted with caution as the number of firms which have had court cases and indicate the typical bribe amount is only four.

Figure 2-22: Bribes to Court Officials and Duration of Court Trials



Source: World Bank Guyana Investment Climate Survey 2005

Figure 2-23: Percentage of Firms Whose Court Judgments Are Executed



Source: World Bank Guyana Investment Climate Survey 2005

2.45 Data on contract enforcement in court from the World Bank Doing Business in 2006 database reveal that resolving a payment dispute in a court when the value of the claim is 500 percent of Guyana’s GNI per capita (about US\$4,500) is going to take 525 days on average, which is higher than the Latin American average of 461 days. These data assume that the case is heard in the country’s largest commercial city (i.e. Georgetown) as well as other specific procedural assumptions. As already mentioned, the difference between the duration of the Doing Business data and the ICS data can be attributed to a number of reasons such as differences in respondents – the Doing Business data are collected through a detailed questionnaire answered by lawyers rather than companies; one law firm only fills out the Doing Business questionnaire as opposed to close to 200 firms interviewed for the ICS; the Doing Business questionnaire covers a standard commercial dispute, but also builds many assumptions into the case, which may not necessarily be true for the average payment dispute as envisaged by

respondents to the ICS; and finally, the ICS data cover the whole country, whereas the Doing Business data is representative of the largest commercial center only.

2.46 The time to enforce a commercial contract in Guyana according to the Doing Business database -- as shown in Table 2.7 -- 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 Argentina (520 days), Honduras (545 days) and Brazil (546 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 English common-law origin.

Table 2-7: Time, Costs and Number of Procedures to Enforce a Debt Contract in Court

Country	Number of procedures	Time (days)	Cost (% of debt)
Nicaragua	20	155	16.3
Jamaica	18	202	27.8
El Salvador	41	275	12.5
Colombia	37	363	18.6
Mauritius	17	367	8.6
Haiti	35	368	25.0
Peru	35	381	34.7
Ecuador	41	388	15.3
Fiji	26	420	53.8
Mexico	37	421	20.0
Venezuela	41	445	28.7
Senegal	33	485	23.8
Argentina	33	520	15.0
Guyana	NA	525	24.4
Honduras	36	545	33.1
Brazil	25	546	15.5
Costa Rica	34	550	41.2
Dominican Republic	29	580	35.0
Bolivia	47	591	10.6
Uruguay	39	620	25.8
Guatemala	37	1,459	14.5

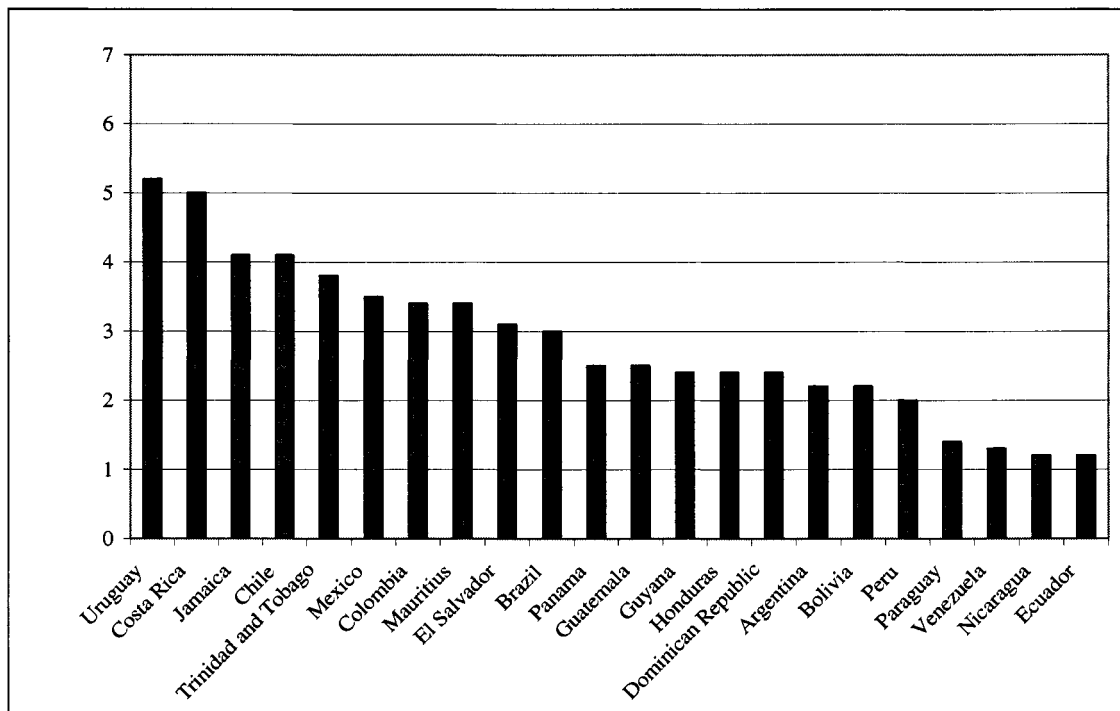
Source: World Bank Doing Business in 2006 Database

Note: Data are as of January 1, 2005.

2.47 **Guyana ranks marginally above the Latin American average in terms of the costs of commercial litigation according to the Doing Business database (Table 2.7).** The whole hypothetical judicial process would cost the plaintiff (creditor) 24.4 percent of the debt amount in official fees, such as attorney fees, court fees, and enforcement (bailiff) fees. Given the assumed claim amount, total costs in fees would be approximately US\$1,098 – by no means a trivial amount in a country with an average income per capita of US\$900 in 2004.

2.48 **Guyana does not rank well among 116 other countries worldwide on its Public Institutions Index (109th out of 117 countries) and its component – the Contracts and Law Sub-index – where it ranks 109th out of 117 countries according to the Global Competitiveness Report 2005-2006 rankings.** The Contracts and Law sub-index is a composite of four further sub-indices, among which are the ones on Judicial Independence and Property Rights. On the sub-index of Judicial Independence, Guyana scores 2.4 on a scale from 1 to 7, where higher values stand for higher degree of judicial independence. This score places it 96th out of 116 countries, i.e. in the bottom quartile of the distribution. Figure 2.24 indicates that while Guyana’s judiciary is perceived as far less independent than the judicial systems of Costa Rica, Jamaica, Trinidad and Tobago, and Chile, it is on a par with those of Guatemala and Honduras, and as more independent than the judiciaries of Venezuela, Nicaragua and Ecuador.

Figure 2-24: Index of Judicial Independence, (Scale: 1 – No Independence, 7 – Complete Independence)

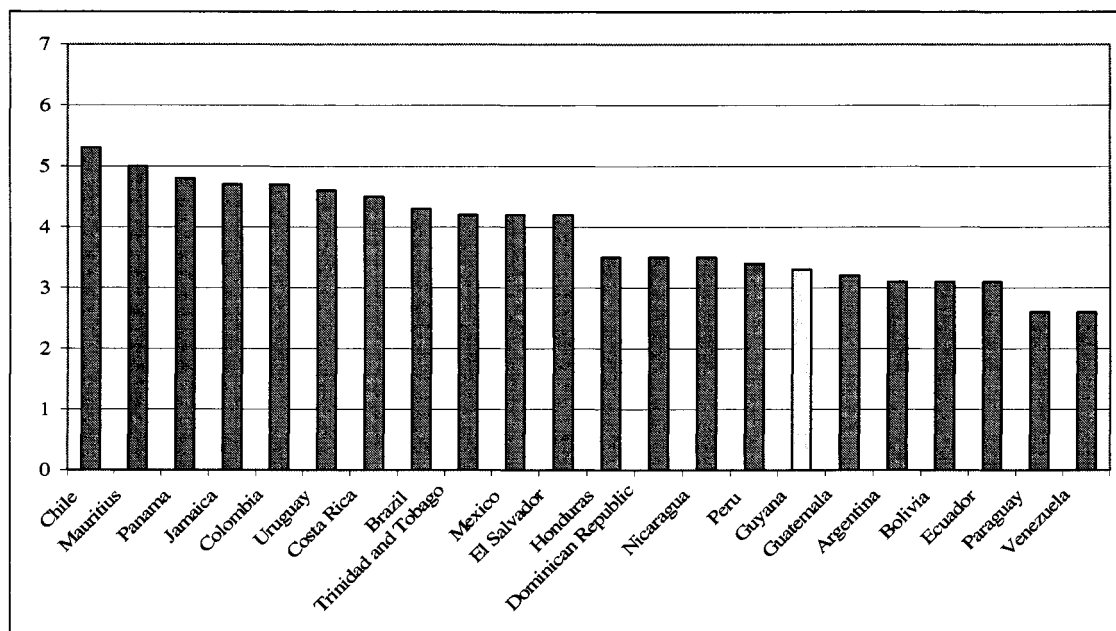


Source: WEF Global Competitiveness Report 2005-2006

2.49 **In a similar fashion, Guyana scores 3.3 (on the same 1 to 7 scale) on Property Rights, placing it 99th out of 117 countries, and among the bottom-scoring LAC countries**

(see **Figure 2.25**). This sub-index reflects answers to a survey question on whether or not financial assets and wealth are clearly defined and protected by law. Guyana scores well below the worldwide mean of 4.5 on this measure, and worse than countries such as Jamaica, Trinidad and Tobago, and Brazil.

Figure 2-25: Index of Property Rights, (Scale: 1 – poorly defined and protected by law, 7 – clearly defined and protected by law)

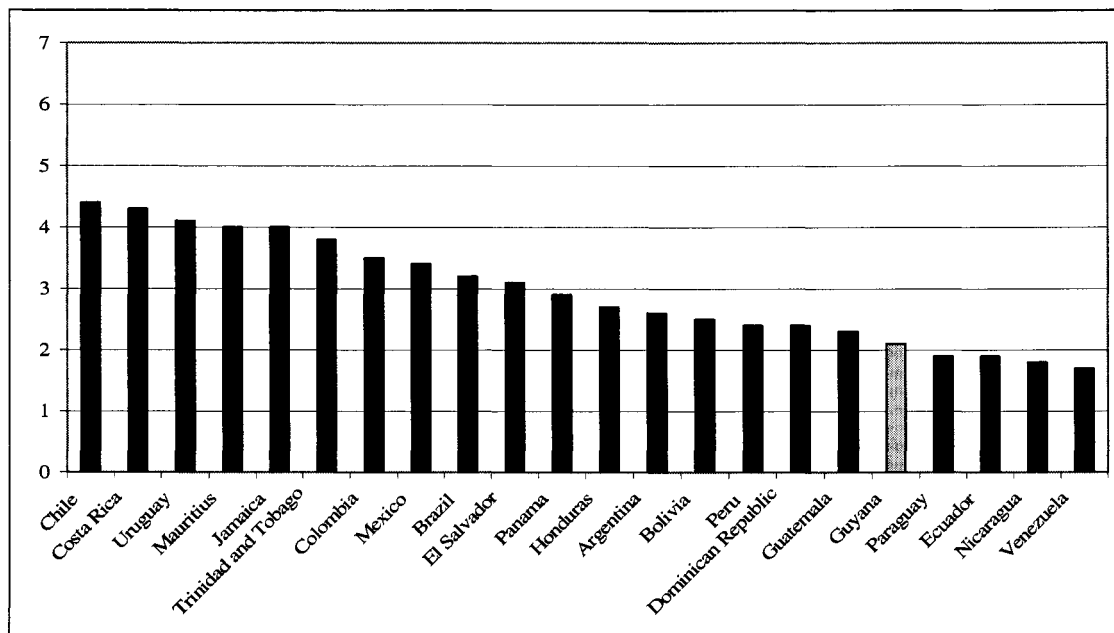


Source: WEF Global Competitiveness Report 2005-2006

2.50 Finally, the **Global Competitiveness Report** ranks Guyana extremely low on its **index of Efficiency of the Legal Framework**³¹. Thus, Guyana scores 2.1 (on a 1 to 7 scale), placing it in 113th place among 117 countries. Again, it is well below the sample average of 3.8, and close to the scores of four other LAC countries which occupy the last 4 places in LAC (Figure 2.26). This measure reflects again subjective survey answers to a question on whether the legal framework for private businesses to settle disputes and challenge the legality of government actions and/or regulations is efficient and follows a clear, neutral process, or not. Therefore, this measure is as closest as possible to the measures of dispute resolution we have been considering in this section. It is very much in line with the information on bottlenecks in dispute resolution in court as reported by the respondents to the ICS and to the Doing Business Project.

³¹ This sub-index is a component of the larger composite index of Global Competitiveness.

Figure 2-26: Index of Efficiency of Legal Framework, (Scale: 1 – efficient and follows a clear, neutral process, 7 – inefficient and subject to manipulation)



Source: WEF Global Competitiveness Report 2005-2006

2.51 Alternative Dispute Resolution (ADR) mechanisms are often prescribed to deal with long times to disposition in court and case backlogs, and Guyana has recently taken steps in making such ADR methods available to the parties to a dispute. For instance, a Carter Center-sponsored project established a Mediation Center in October 2003, and as of March 2004 78 court cases had been sent for settlement through the same Center. Court proceedings eligible for mediation cover debt cases and landlord-tenant relations. Mediation through trained mediators who guide the parties to an agreement has proven successful in other LAC countries, reducing court delays. For example, mandatory mediation of certain commercial disputes was found to work well in Argentina. Furthermore, mediation is cheaper than going through a court procedure or through other ADR methods such as arbitration, making it an attractive option for relatively simple commercial cases. In many countries business associations provide mediation services to their members.

RECOMMENDATIONS OF CONTRACT ENFORCEMENT AND THE JUDICIARY

2.52 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. 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 can 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 mechanism to reduce case backlogs and improve access to justice.

2.53 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 Slovakia³²). According to World Bank (2003), 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 – using donors’ support.

2.54 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 otherwise³³. 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.

2.55 It is also recommended that the Government of Guyana address the perceived lack of independence and impartiality among judges, and interference by political power in court decisions. Both the World Economic Forum and the Heritage Foundation’s 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.”

2.56 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 security of warehousing facilities of the execution agents (at present seized assets are kept in a location which is often burglarized) should be made a priority.

³² World Bank (2001), “Administration of Justice and the Legal Profession in Slovakia”, Poverty Reduction and Economic Management Unit, Europe and Central Asia Region

³³ See Djankov et al. (2003).

2.57 Moving commercial disputes to commercial courts could also reduce court delays. The IADB is at present helping implement a Commercial Court Project in Guyana, with a focus on training commercial judges and streamlining procedures for commercial cases.

CRIME AND VIOLENCE

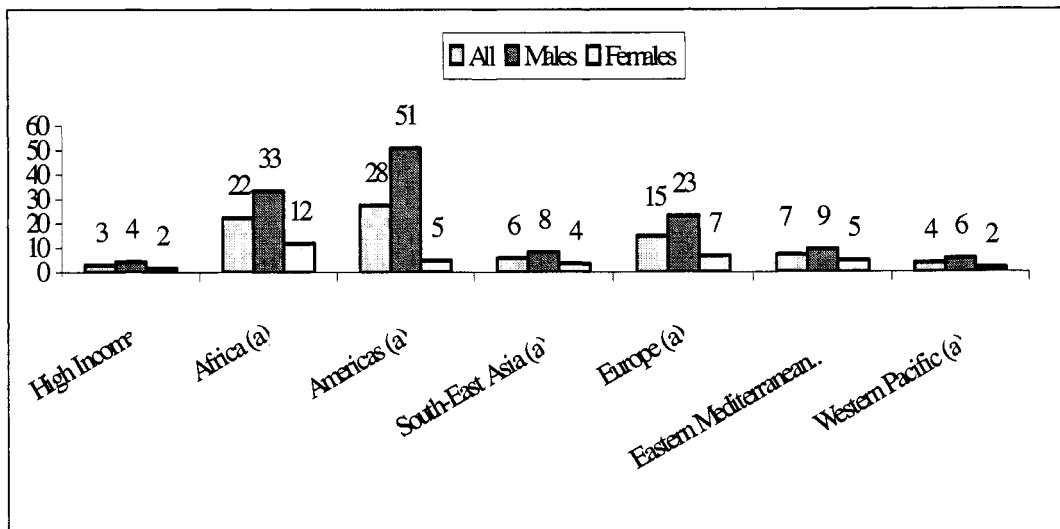
Background

2.58 Guyana has very high crime and violence rates, even by Latin American and Caribbean standards. While the region is now mostly free of the political violence and ethnic conflicts that pervade Sub-Saharan Africa, according to the World Health Organization (WHO) the low and middle-income countries of the Americas still exhibit the highest rates of intentional homicide of the world: 27.5 homicides per 100,000 population in 2000, compared to 22.2 for the African region, 14.8 for low- and middle-income European countries, and less than 10 for high-income countries and other regions of the developing world (see Figure 2.25).³⁴

2.59 Crime and violence problems deteriorated considerably in 2002, but have improved somewhat since then. In Guyana, the available statistics make it difficult to quantify the exact extent of different forms of crime and violence, and the way they have changed over time. However, it is clear that since the late 1990s in particular, Guyana's crime and violence problems have alarmingly deteriorated, and it is estimated that at its peak in 2002 the homicide rate quadrupled to 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, Honduras, and El Salvador, among others.

³⁴ See Krug et al. (2002), Ayres (1998) and Buvinic et al. (2002).

Figure 2-27: Homicide Rates per 100,000 of Population, by Gender and WHO Region



Source: World Health Organization (Krug et al. 2002)

Note: (a) Low and middle income countries

2.60 **Although no victimization data exist for Guyana, a recent national representative survey of children carried out by UNICEF and the Ministry of Labor, Human Services, and Social Security confirms the high levels of crime and violence.** Thus, between 16 and 35 percent of the interviewed children had observed criminals, police, or other people shooting, and almost half of the children said a friend or someone they knew had been violently killed. Official reported crime rates are difficult to obtain and are often complemented by victimization survey data as the proportion of crimes reported in different countries and for different crimes can vary significantly. In Jamaica, for example, only 20 percent of all crime is reported to the police (Harriott, 2002).

2.61 **Violence and crime are not new phenomena in Guyana, but neither could their current levels be attributed entirely to the ethnic polarization and political conflict that the country has endured for decades.** Ethnic tensions and political violence continue today, but are exacerbated by poverty, social marginalization, unemployment and economic instability, the rise in the illegal drug trade, the trafficking of firearms, the corruption, the deportation of criminals, and the ineffectiveness of the existing criminal justice system.

2.62 **Guyana has become an important regional trans-shipment point for large quantities of illicit drugs – particularly from Colombia – and is an important player in the Caribbean illegal drug market, which was estimated to have generated an income of US\$3.3 billion in 2000 (UNODC).** Cocaine now accounts for about 85 percent of this. Drug trafficking and use tend to stimulate various other types of crimes. There is a strong association between the drug problem and gun use in criminal activity. According to Harriott (2002, page 7), “The need to protect drug production, trafficking, and local distribution operations, has given impetus to illegal gun acquisition and violent crimes. Drug trafficking provides established channels and systems for moving all types of contraband, including guns, and the funds to buy them.”

2.63 More generally, Guyana is confronted by increasingly complicated crime problems with the emergence of relatively new crimes such as extortion, kidnapping, and sophisticated forms of white-collar crimes, such as money laundering. Accompanying these developments are also new forms of criminal organizations such as transnational networks whose primary goal is drug trafficking. Alongside these forms of criminality is also the emerging problem of juvenile or youth criminality and violence. Overall in the region, the proportion of violent crimes committed by juveniles has been increasing.

2.64 It is widely recognized that the crime and violence problem in Guyana is extremely critical and is at the top of the agenda of the government, the media, the private sector, and society at large. Crime and violence have contributed to destabilizing Guyanese society and the country's political system, and particularly the economy. Crime and violence generate fear and anxiety, fuel migration, discourage long term investment, and severely compromise good governance. (*Guyana Development Policy Review*, World Bank, 2003).

Crime and Violence and Economic Development

2.65 Crime and violence are no longer considered just a 'social' or 'law and order' problem, but also as an obstacle to development which erodes poor people's human, physical, and social capital, and has high associated economic costs. While estimating the costs of crime and violence in Guyana is beyond the scope of this study, these include judicial costs; health care costs; foregone earnings; firms' costs on private security; loss of jobs, production, and competitiveness (see Box 2.2). Estimates of direct costs of crime in Jamaica for example amount to at least 3.7 percent of GDP (World Bank, 2003).

Box 2.1: The Costs of Crime and Violence

The costs of crime and violence are often divided into four categories: direct /indirect costs, non-monetary costs, economic multiplier effects, social multiplier effects.

Direct and indirect costs

Direct costs of crime and violence measure the value of goods and services spent dealing with the effects of, and/or preventing crime and violence through the use of scarce public and private resources on the criminal justice system, incarceration, medical services, housing and social services. The indirect costs include lost investment opportunities, foregone earnings of criminals and victims of crime and violence.

Non-monetary costs

Non-monetary costs measure the non-economic effects on the victims of crime and violence. It is evaluated by taking into consideration: increased morbidity (diseases resulting from violence like disability, mental injuries), increased mortality through homicide and suicide, abuse of alcohol and drugs, depressive disorders.

Economic multiplier effects

The economic multiplier effects measure the overall impact that crime and violence have on the macroeconomic situation of a country, the labor market, as well as inter-generational productivity impacts. For example, victims of domestic violence have higher rates of absenteeism, are more likely to be fired from their jobs, and the domestic violence affects their earning power.

Social multiplier effects

The social multiplier effects measure the impact of crime and violence in such areas as: the erosion of social capital; the inter-generational transmission of violence; the reduction in the quality of life; effects on citizenship, and effects on the confidence in and functioning of the democratic process, government and its institutions.

Sources: Buvinic and Morrison, 1999, World Bank, 2003

Effects of Crime and Violence on the Investment Climate³⁵

2.66 High crime and violence can have a negative impact on the investment climate and can deter or delay both domestic and foreign investment:

- They lead to higher costs of doing business, because of the need to employ different forms of security, and divert investments away from business expansion and productivity improvement, and may lead to a less-than-optimal operating strategy;
- They lead to business losses, arising from looting, arson, theft, extortion and fraud;
- They lead to a loss of output because of reduced hours of operation (including avoiding night shifts), or losses of workdays arising from outbreaks of violence, and avoidance of certain types of economic activity;
- They also reduce output because of temporary (injury) or permanent (homicide) exit of individuals from the labor force;
- They can cause permanent shut-down of firms or relocation to less crime-prone countries.

³⁵ This section is based on the Jamaica Report on?, World Bank, 2003.

2.67 In addition, crime and violence erode the development of human and social capital, and thus constrain potential growth. The crime situation in Guyana seems to be an important factor for migration. The migration of skills leaves the country unable to compete in many areas of production and in the provision of certain skilled services.³⁶

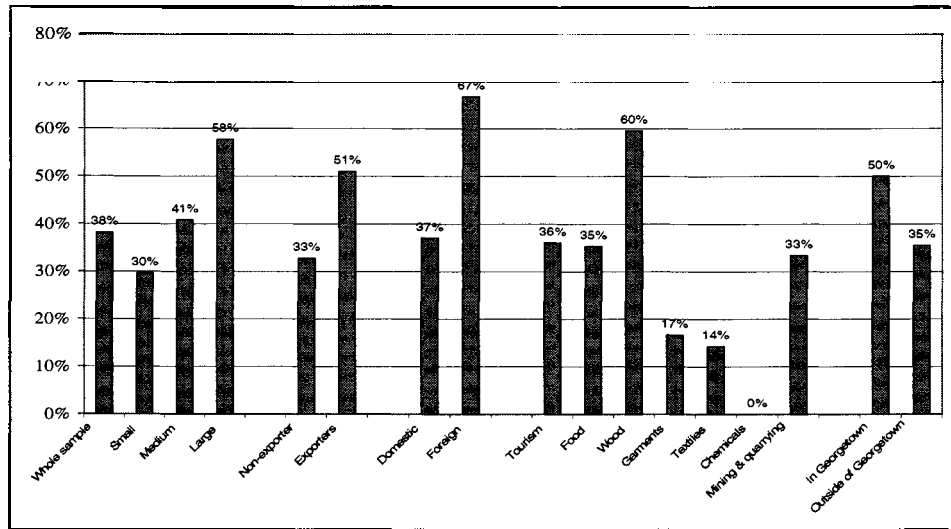
2.68 **Results from the Investment Climate Survey (ICS) indicate that the crime and violence situation is one of the most serious obstacles that firms in Guyana face.** Thus, 30 percent of Guyanese firms consider crime, theft and disorder as a major or very severe obstacle to their doing business. This is among the top five perceived constraints for doing business.

2.69 **Other sources of information also confirm that crime and disorder affect businesses negatively, and are perceived as a problem by Guyanese firms.** For instance, another recent survey of businesses in Guyana finds that the one issue that firms would most like to see the Government deal with is the implementation of a plan to tackle crime, followed by the reduction of the price of fuel, and the rates of exchange and interest (*Guyana Business Outlook Survey, 2005*). Below are some of the main results of the Guyana ICS, and the impact of crime and violence on business activity in Guyana.

2.70 **The Investment Climate Survey data indicate that a total of 38 percent of all firms have been a victim of theft or vandalism in the past year in Guyana (see Figure 2).** This affects firms in the capital city more than outside (50 percent vs. 35 percent respectively); affects 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). Furthermore, prevalence of criminal activity was much higher for large firms (58 percent were subjected to it) compared to micro and small (with 30 percent affected) and medium firms (41 percent affected), something which is observed in other countries as well (e.g. El Salvador ICA, Guatemala ICA, World Bank 2004).

³⁶ Interview with Cathy Hughes, President of the Tourism and Hospitality Association of Guyana (THAG), published in *Stabroek News*, May 3rd, 2005.

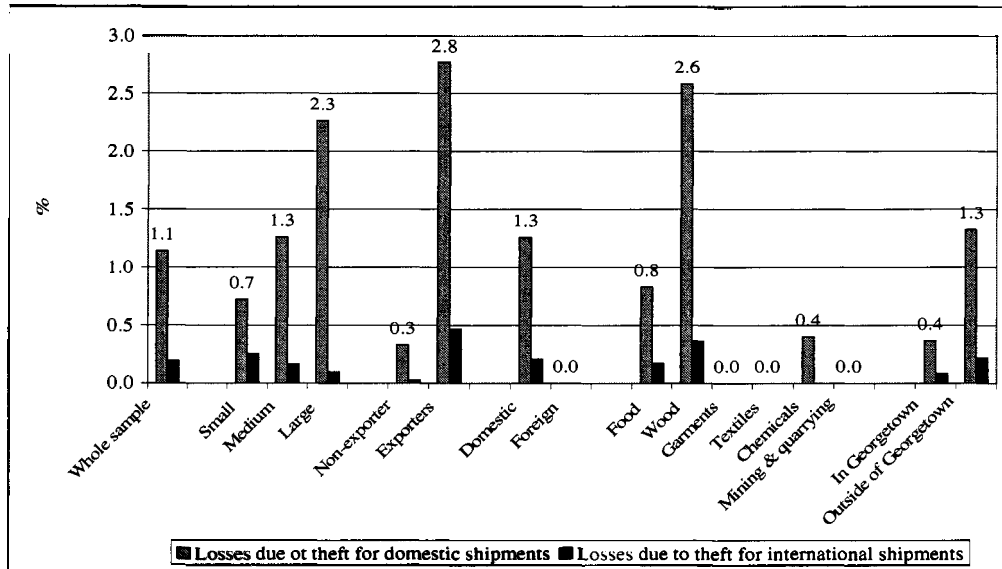
Figure 2-28: Prevalence of Theft, Robbery, Vandalism or Arson, percent of ICS respondents



Source: Guyana ICS

2.71 **Theft in transit represents a total of 1.1 percent of sales for all interviewed firms in Guyana.** Exporters lose 3.3 percent of sales due to theft of domestic and international shipments. The wood sector is most severely affected, and loses 2.6 percent of sales due to domestic theft of shipments (see Figure 2-29).

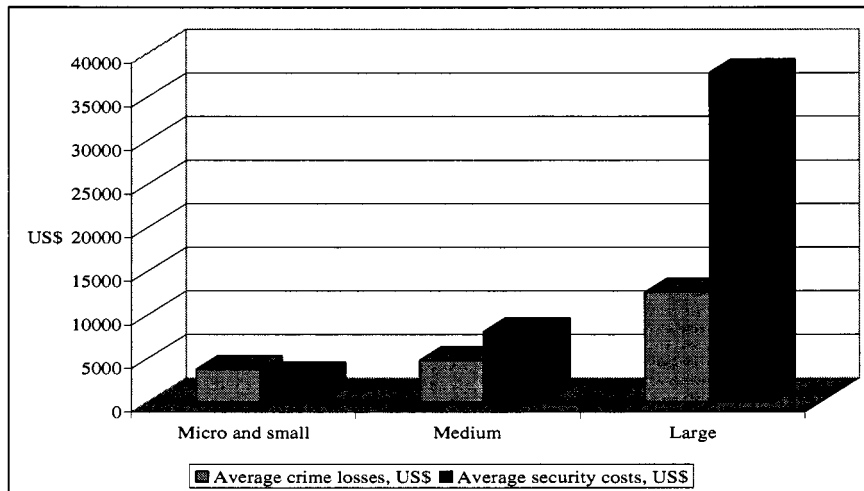
Figure 2-29: Losses in Transit, Percentage of Consignment Value by Type of Firm



Source: Guyana ICS

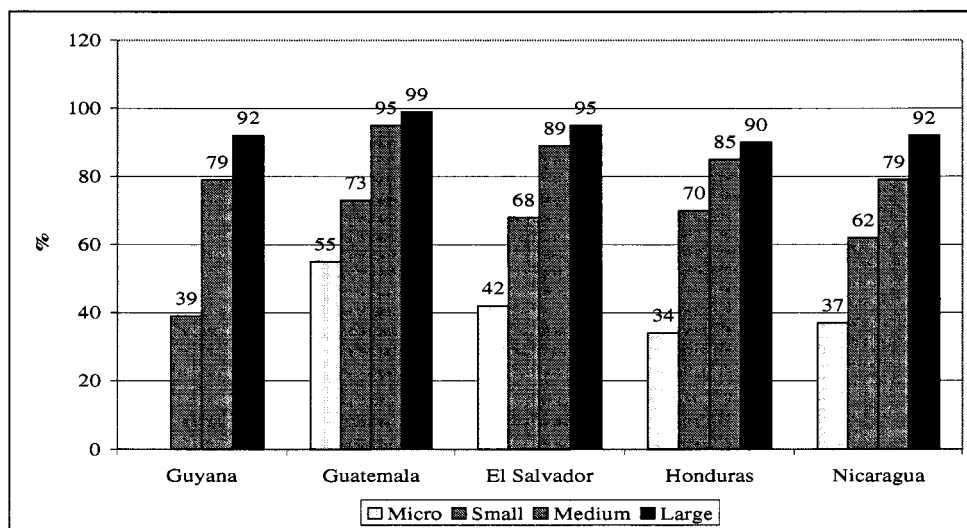
2.72 Guyanese firms often suffer crime losses, and invest in security measures, such as guards, equipment and professional security services (Figure 2-30). As shown above, medium and large firms are more frequently victims of criminal activities, and suffer higher losses as a result of such activities. The amounts are high – in US dollar terms they exceeded several thousand in 2004. Thus, large firms lost on average US\$12,578 as a result of such events, with medium companies losing on average three times less. 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 in security in Guyana are similar to the share of firms in Central America, which invest in security measures (Figure 2-31).

Figure 2-30: Losses due to Crime and Firms' Costs to Prevent Crime, by Firm Size



Source: Guyana ICS

Figure 2-31: Share of Firms Which Spend Some Amount on Security, percent of ICS respondents

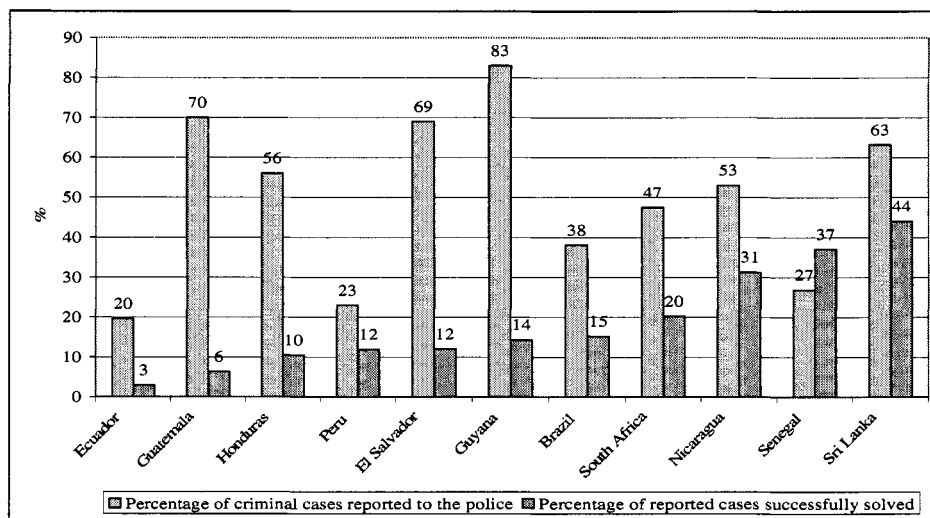


Source: World Bank Investment Climate Surveys, 2002-2005

2.73 Security costs in Guyana are about 1.3 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 3 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.

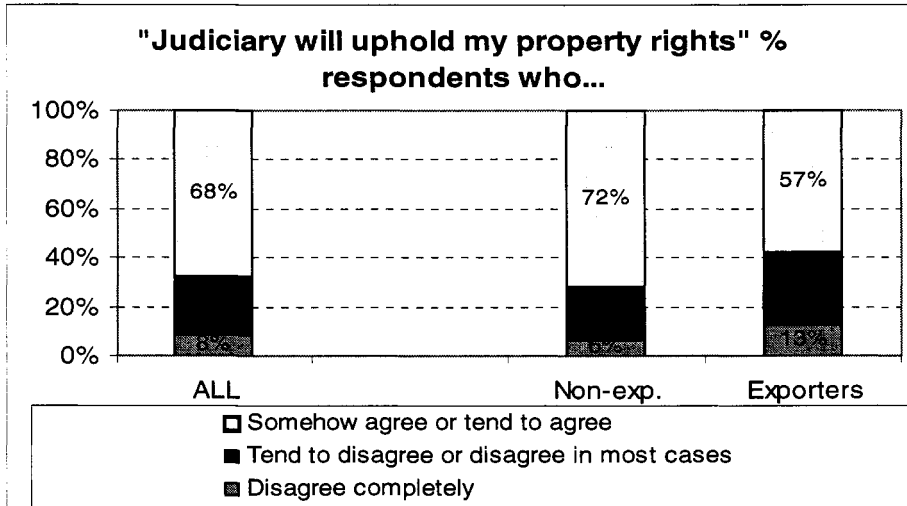
2.74 More than 80 percent of Guyanese firms that have been a victim of vandalism, theft, robbery or arson report the crime to the police, which is very high by international standards (Figure 2-32). Other countries with high prevalence of business-related crime also register a high share of criminal cases reported, e.g. Guatemala (70 percent) and El Salvador (69 percent). Exporters report relatively more (87 percent) than non-exporters (78 percent) as do foreign firms compared to domestic ones (91 vs. 84 percent). Of the cases reported, only 14 percent get solved by the police on average, which is higher than in Guatemala and Ecuador, but lower than Nicaragua, Senegal and Sri Lanka.

Figure 2-32: Reported Cases and Solved Cases by Police: An International Comparison



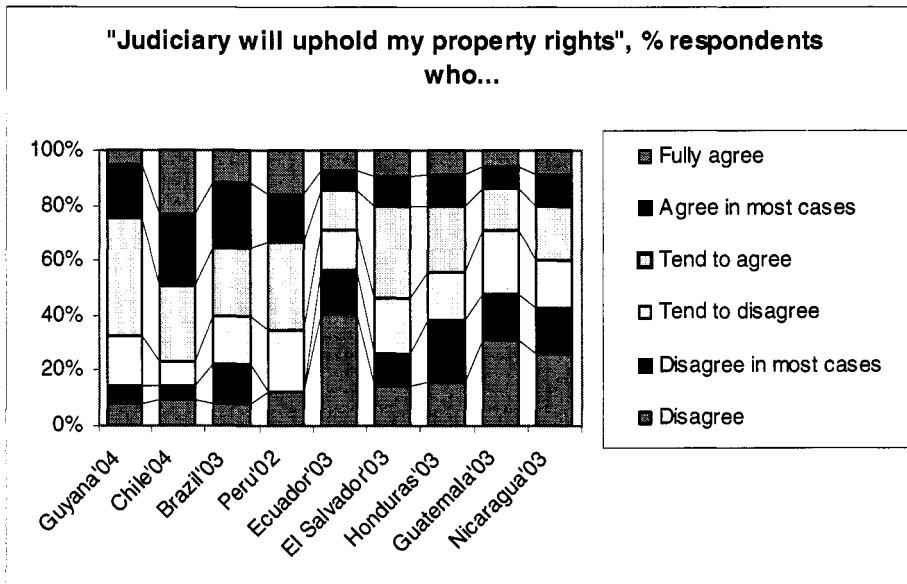
2.75 Confidence in the judiciary as measured by the question of whether the judiciary will uphold property rights is relatively high. Of all firms, 68 percent somehow agreed or tended to agree, and 32 percent tended to disagree, disagree in most cases or disagreed completely (Figure 2-33). This compares relatively well in the region with, for example, Honduras, Guatemala, Ecuador and Nicaragua showing much less trust in the judiciary (Figure 2-34).

Figure 2-33: Trust in the Judiciary in Guyana



Source: Guyana ICS

Figure 2-34: Trust in the Judiciary: an International Comparison



Source: Guyana ICS

Public Policy to Prevent and Reduce Crime and Violence

2.76 The Guyanese Government's response to the rapid increases in crime and violence over the last few years has been inadequate, at times implicated with the crime and violence, and unable to reverse the tide. The Guyana Police Force lacks sufficiently trained officers, and "as a general rule, is quite underpaid, demoralized..."³⁷ In response, the Government of Guyana has launched the National Drug Strategy Master Plan, 2005-2009, to eradicate drug-trafficking and drug-related crime through a demand and supply-reduction strategy. In conjunction, a number of measures to prevent and reduce crime were also announced. These include³⁸:

- Introduction of the Neighborhood Police – a full-time 600-strong community-based arm of the Guyana Police Force;
- Penal reform with emphasis on correction and reintegration of prisoners into society;
- Heightened attention to vulnerable, at-risk groups. Provision of more resources to increase opportunities for unemployed, unskilled and out-of-school youth;
- Waiver of duties and taxes on surveillance technology for the private sector;
- More focus and resources to combat white-collar crime through strengthening of the Fraud Squad in CID and more resources to enhance the work of financial investigations;
- Modernization of the Guyanese Immigration and Naturalization Services to respond to an increase in the transnational nature of crime, alien smuggling and trafficking of persons;
- Introduction of new measures and tougher penalties to counter increases in gun-related crimes caused by inflows of illegal weapons;
- Strengthening of law-enforcement agencies.

2.77 In addition, recently the following were announced:

- The establishment of a National Commission on Law and Order which will have participation from the government, the opposition, the private sector, and civil society;
- Creation of a Ministerial Unit on Community Policing to improve management of the Community Policing Initiative;
- Tougher action against racial incitement and violence by strengthening the legal framework and its implementation;
- Greater NGO involvement in crime prevention.

³⁷ *Stabroek News*, September 9th, 2005.

³⁸ Office of the President of Guyana, online at www.op.gov.gy

2.78 Some of these measures are already under implementation, and others are under consideration.

RECOMMENDATIONS ON CRIME AND VIOLENCE

2.79 If implemented and fully funded, the measures announced above may go a long way in addressing the crime and violence problems facing Guyana as a whole, and the private sector in particular. In these recommendations we will briefly highlight those measures that we see as priority interventions.

2.80 **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, in order 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. Little information has been collected on the impact of crime on the private sector. In this respect, 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.

2.81 **A comprehensive national security policy should also incorporate measures aimed at reducing the proliferation of firearms, strengthening justice-sector 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. As for the role of educational programs, a good part of the social violence associated with homicides is the product of a system of norms and values that emphasize the use of force to resolve conflicts. This culture of violence can be contained through conflict resolution and other life-skills programs. 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.

2.82 **At the level of the firm there is much that can be done to prevent and reduce crime and violence.** Measures to improve safety of the premises and the employees can be taken through actions such as: improved lighting on and nearby the premises; provision of safe transportation for employees – particularly after regular hours; provision of conflict resolution/mediation services and skills training for employees; provision of crime victim support services; and provision of domestic violence reduction programs – raising awareness and helping employees that are victims of domestic violence as well those who commit it. Larger

firms might also consider Early Childhood Education programs and vacation programs for children of employees – both proven to reduce crime and violence in the community. Supporting local Crime and Violence Prevention initiatives is also very important; some methods include: providing resources for local diagnostic studies; support for community-level recreational activities; staff-community mentoring programs, and participation in youth training, internships, and job-placement programs for local at-risk youth, young first-time offenders, etc.

2.83 The active participation of the private sector in formulating and supporting the country's policies against crime is fundamental. 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.

2.84 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.). It also shows that the primary responsibility is not just that of the police; but that *governments, communities and partnerships* at all levels also need to be actively engaged. This can be achieved through effective and multi-sectoral local partnerships with active private sector participation. An effective strategy must be based on comprehensive 'Safety Audits' or crime and violence diagnostics, and 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.

Box 2.2: Reducing Crime in Bogotá

The city of Bogotá, Colombia, adopted such a comprehensive local crime-and-violence-reduction approach and succeeded in reducing homicides by 50 percent over a period of seven years, changing its status from the most violent capital in the world to one of the least violent of the larger cities in the region today. The Bogotá Chamber of Commerce was an active and important partner in this city-level initiative.

2.85 International cooperation and active participation in regional initiatives is also needed to combat crime which spans several countries. Some of the crime and violence problems facing Guyana such as drug and arms trafficking, money laundering, and other white-collar types of crime are transnational in nature, and will require trans-national solutions, actions, and cooperation in order to be effectively addressed.

CHAPTER 3. INFRASTRUCTURE

ELECTRICITY

The energy sector in Guyana

3.1 Deficiencies in infrastructure in Guyana may pose an important constraint for the development of the country. The wide-spread provision of reliable energy at adequate prices to companies and consumers alike is a basic requirement for a country's economic growth³⁹. The lack of reliable infrastructure and services affect the development of the private sector by reducing its competitiveness and discouraging additional private investment. In Guyana there is considerable room for improvement in the reliability of supply, the level of access and the cost of electricity⁴⁰. However, substantial investments and institutional enhancements must be made in order to achieve this.

Reliability of Supply

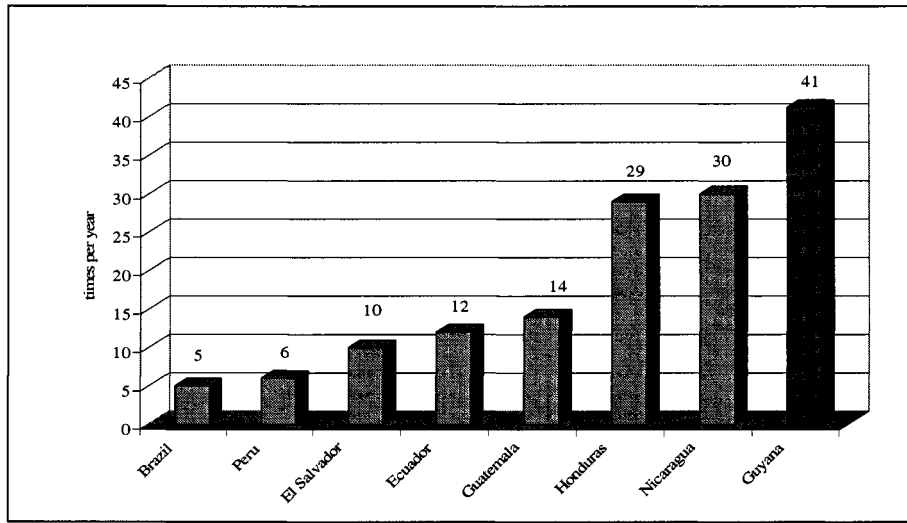
3.2 The reliability of electricity supply in Guyana is low, and it is characterized by frequent and long outages, load discharges and voltage variations. In turn, low reliability is linked to technical and institutional deficiencies on the sector. From a technical standpoint, electricity generation capacity 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.

3.3 The poor reliability of electricity supply has placed a significant burden on companies in Guyana, which reduces their competitiveness. According to data from the Investment Climate Survey (ICS), 60 percent of respondents consider the poor quality of electricity supply to be an obstacle to growth. Similarly, the survey data show that interruptions in electricity supply were much more frequent in Guyana (more than 40 times during the year preceding the survey) than in other comparator countries in the Latin America region (see Figure 3.1).

³⁹ World Bank (2005) presents an analysis of sources of growth related to availability of basic infrastructure.

⁴⁰ World Bank (2005b)

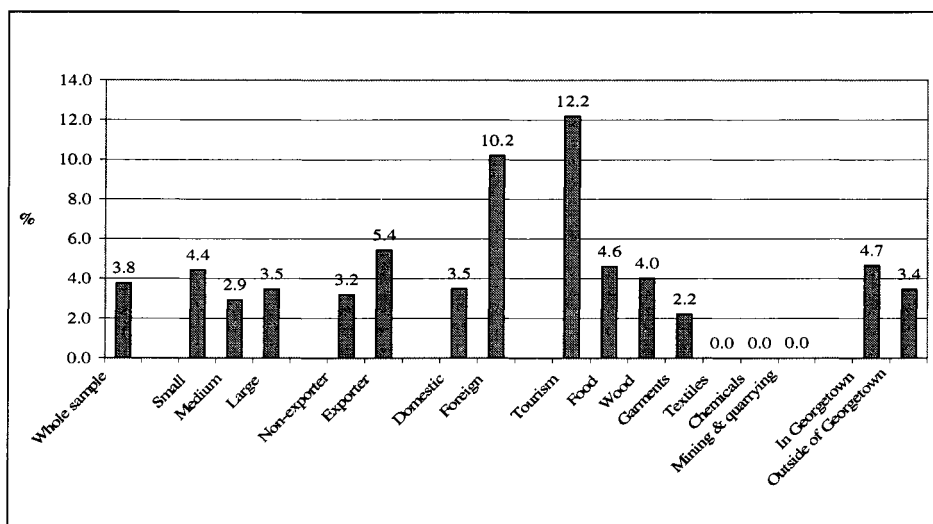
Figure 3-1: Average Number of Power Outages in Latin American Countries



Source: Investment Climate Surveys, 2002-2005

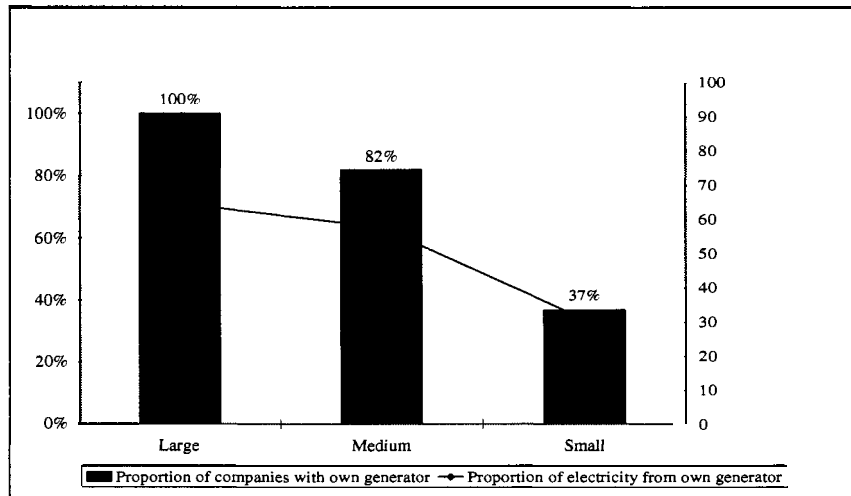
3.4 The poor reliability of supply generates important losses for companies through lost revenues. Companies' losses attributable to energy outages are estimated to reach up to 4 percent of their total sales on average. However, the extent of these losses is larger for small companies (see Figure 3.2), 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. The data from the ICS show that while 100 percent of large firms participating in the survey have their own power generation, the proportion of companies with such facilities along with the share of electricity generated internally decreases significantly with the size of the firms (see Figure 3.3).

Figure 3- 2: Losses from Power Interruptions in Guyana, percent of total annual sales



Source: Guyana Investment Climate Survey

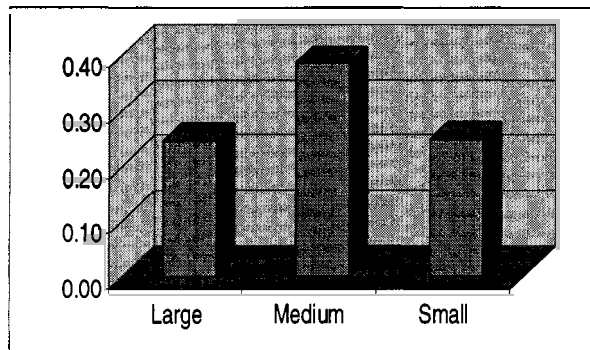
Figure 3-3: Self-Supply of Electricity in Guyana



Source: Guyana Investment Climate Survey

3.5 Self-supply of electricity by interviewed companies in Guyana is costly and generates economic inefficiencies. A side effect of the self-supply of energy is that the corporate demand for electricity in some regions of the country has decreased significantly⁴¹. 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, data from the ICS show that self-provision of energy appears more costly to companies (up to US\$0.38 per KWh, see Figure 3.4) than regional and even local tariffs (on average around US\$0.22 and US\$0.25 respectively)⁴².

Figure 3- 4: Cost of self-supply of electricity (US\$ per kwh)



Source: Guyana Investment Climate Survey

⁴¹ The demand for electricity in Georgetown has declined by 25 percent since 2000.

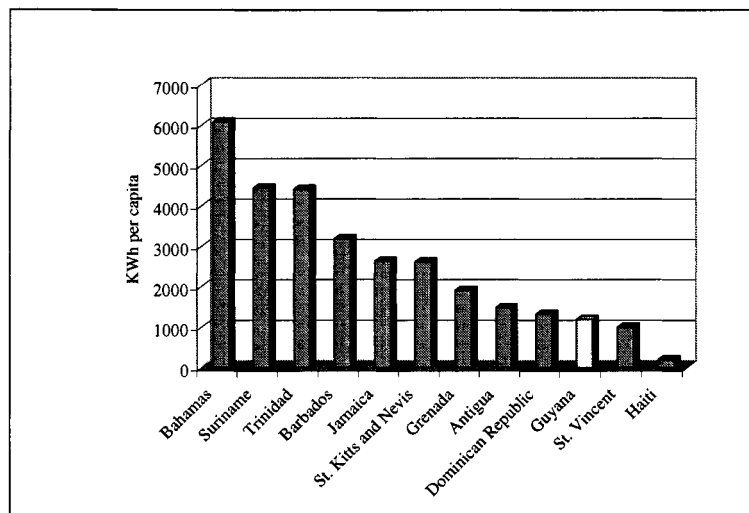
⁴² World Bank (2005c)

Access to electricity

3.6 **Electrification in Guyana is low both in terms access of outreach (measured by access to electricity⁴³) and depth (measured by the intensity of use).** The access to electricity is usually constrained by a country's level of income; however, in the case of Guyana, this indicator appears lower than what would seem justifiable on the basis of economic fundamentals. Indeed, studies by the World Bank⁴⁴ estimated that the electricity system in Guyana services only about 60 percent of the population, well below the level achieved by many regional peers (80 percent on average). Similarly, while electrification is higher in coastal towns with a high industry concentration, there are vast areas of the country that appear underserved⁴⁵. On this account, the ICS data show that even companies within regional access to the grid have to wait up to 99 days for connection.

3.7 **The electricity intensity⁴⁶ among consumers served in Guyana is also well below that of other Caribbean countries** (see Figure 3.5), which means a significant constraint to economic development in the country.

Figure 3-5: Electricity Intensity (kWh per capita)



Source: UNDP Human Development Report 2005

3.8 **It is important to note that both technical and institutional aspects affect access to electricity.** While the consumption of electricity has increased substantially in the past few years (119 percent between 1998 and 2002), the installed generation and distribution capacity has increased at a lower pace. Obviously, self-generation has played an important role to fill the gap between consumption and generation of electricity. Similarly, other institutional factors appear

⁴³ Access in this case is measured by the proportion of population served by the system.

⁴⁴ World Bank (2003)

⁴⁵ For example an estimated 10,000 customers not served in the Berbice region.

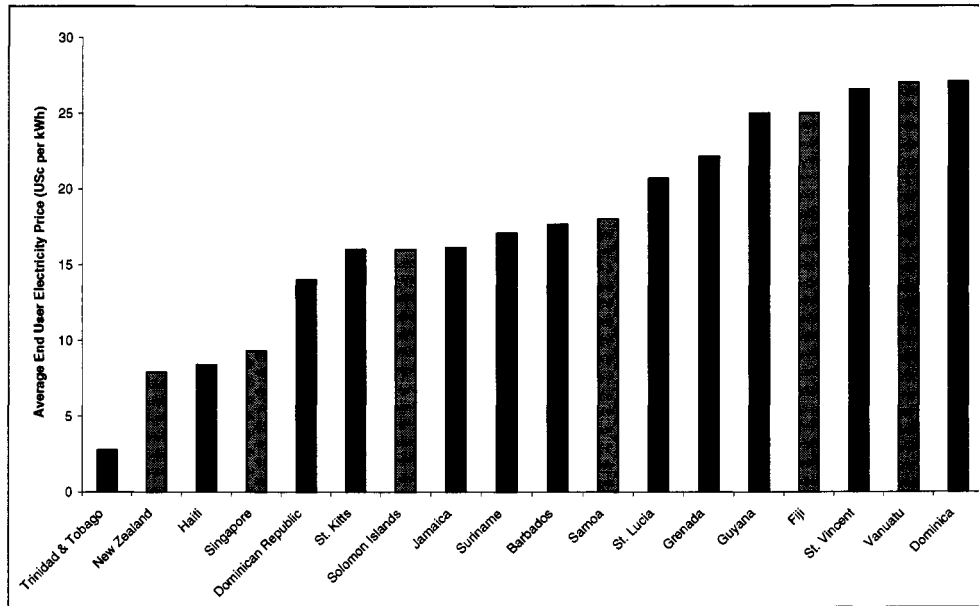
⁴⁶ Electricity intensity refers to the amount of power used per person on average.

linked to the limited access to electricity, including low incentives for efficiency at electricity generation and distribution, and limited private participation.

Electricity Tariffs

3.9 **Electricity prices in Guyana are the third highest in the Caribbean largely due to absence of incentives for efficiency improvement.** Figure 3.6 shows that electricity prices in Guyana are among the highest in the Caribbean, after Dominica and Saint Vincent. High tariffs are driven to a large extent by two main factors: the country’s reliance on imported oil for generation of electricity, and the sector’s high level of losses. In turn, both factors appear related to the lack of investments to upgrade the generation system. The latter problem is due to and/or compounded by the failure to attract loan funding and meet investment targets by the power company, high technical and commercial losses from the time of privatization, which continue to date, and continuous increases in oil prices. In the end, the outcome is the sector’s inability to generate electricity efficiently and to provide a wider coverage of service.

Figure 3-6: Average End-User Electricity Prices (US cents per kWh)



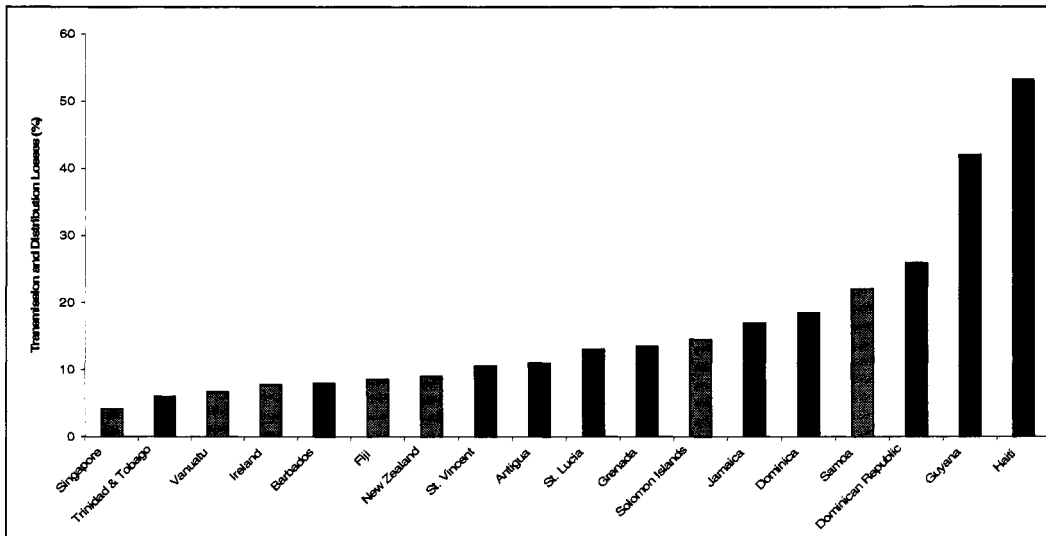
Source: Caribbean Infrastructure Assessment Report 2005, World Bank

3.10 **Electricity provision in Guyana is affected by its high reliance on expensive imported oil and tariff-setting mechanisms.** Most of the installed generation capacity in Guyana is based on diesel-engine-driven generators, exposing the sector to price shocks and the inherent volatility of the international oil markets. Consequently, at present the cost of fuel is considered to account for up to 60 percent of the total cost of electricity generation in Guyana. For generation purposes, GPL uses a diesel mixture of heavy fuel oil and light fuel oil, and medium-speed generators, which are considered quite efficient. The main problems lie in the transmission and distribution, with high technical losses due to failures to undertake capital

improvements. The revision of tariffs to reflect higher input costs happen with a delay, and can also cause losses for GPL.⁴⁷

3.11 The electricity sector in Guyana suffers major losses at both distribution and commercialization activities, which are a major contributing factor to high tariffs. Losses at the distribution level account for up to 40 percent of the energy generated (Figure 3.7). At the commercial level, the utility has failed to enforce collection of bills, and to eradicate theft⁴⁸ and corruption⁴⁹ in under-billing of the service.

Figure 3-7: Comparative Transition and Distribution Losses



Source: World Bank. Caribbean Infrastructure Assessment report

3.12 An expected 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 would be implemented within a timeframe of 4 to 5 years after its approval by the Prime Minister.

⁴⁷ Electricity tariffs are revised on a quarterly basis to account for increased cost of generation. However, this revision is made on a realized cost basis, which implies that in scenarios of rapidly increasing oil prices, the delay in the adjustment in tariffs can affect significantly the financial position of the electricity producer.

⁴⁸ By some accounts, theft by domestic consumers is estimated to have accounted for losses above 25% of the total production of energy in 2003.

⁴⁹ Up to 40 percent of large firms participating in the ICS reported that bribes are required to get connected to the grid.

The structure of the electricity sector

Participants

3.13 **The electricity sector in Guyana is dominated by Guyana Power and Light (GPL), a vertically integrated government-owned utility with a monopolistic position on transmission and distribution, and a major stake in generation.** The fragile financial position of GPL (due mainly to heavy system losses and high exposure to oil prices) constrains its investment capacity on essential maintenance and improvement of generation plants and transmission lines and grid. From a governance perspective, GPL's poor reliability of supply and high cost structure are linked to the lack of incentives for efficiency at the utility.

3.14 **The privatization of the company was expected to address many of its technical and governance problems.** The failure of GPL to significantly cut back its technical and commercial losses have been deemed to be largely due to the lack of incentives for efficiency due to its ownership structure. Accordingly, its privatization was expected to generate commercial incentives to improve efficiency, while also enhancing private funding to develop the system. However the privatized venture failed to deliver the results expected (see Box 3.1) and, after a few years returned to Government ownership. A future re-privatization of GPL is unlikely to occur before the regulatory and institutional framework of the sector is improved.

3.15 **Electricity in Guyana is also generated by a limited number of Independent Power Producers (IPPs).** IPPs are mainly large corporate firms that generate power for their own needs and sell excess capacity to the national grid. In the last few years, there have been formal efforts to enhance the relationships between IPPs and GPL; these include co-generation projects, plans for Power Purchase Agreements (PPAs), and explicit interest government interest in renewable energy projects. At the present time, five power generation tenders from IPPs are being evaluated, and the expectations for capacity growth are reliant on the participation of these independent producers (see Table 3.1).

Table 3-1: Independent Power Producers in Guyana

Company	Installed Capacity, MW
Guyana Power and Light	126
Omai Gold Mines Limited	47
Guyana Sugar Corporation	37
Linden Power Company	8
Berbice Mining Enterprise	4
Aroaima Mining Company	4
Total Installed Capacity	226

Source: The World Bank, Energy Efficiency Project in Guyana

3.16 **Some past measures taken by the industry regulator have affected the confidence of private investors.** The sector is regulated by the Public Utilities Commission (PUC), which is mandated to protect the interests of all participants in the sector. However, the PUC's actions have been considered partial in the past, which has sent negative signals to possible private

investors. At the same time in Guyana, the regulator seems to have considerable legal, personnel and financial constraints that limit its ability to fulfill its role. Accordingly, the institutional strengthening and enhanced independency of the regulator, along with a clear and enforceable contracting framework, are considered necessary conditions for achieving successful private investment in the sector.

3.17 There is still room for improvement in the regulation of the industry. Activities of IPPs are regulated through the Electricity Reform Act of 1998⁵⁰ and a policy document issued in June 2002⁵¹. The latter document specifies GPL's arrangements for load management with IPPs as sources of supply when GPL's two largest units of capacity become unavailable. With respect to pricing, the document specifies that GPL will pay a price equal to its marginal cost of production less 10 percent. The document also makes clear that GPL support IPPs which utilize renewable resources.

⁵⁰ The Act allows different entities to generate electricity under certain conditions, and sell energy to the national grid.

⁵¹ The document is called "Policy for Working with Independent Power Producers", and was issued in June 2002.

Box 3.1. The Failed Privatization of Guyana Power and Light

GPL was privatized in 1999 after the Government of Guyana (GoG) sold a 50 percent stake in the company to AC Power, a consortium of British Commonwealth Development Corporation (CDC) and Ireland's Electricity Supply Board International (ESBI). ESBI was designated to manage the operation of GPL through a private management contract that determined tariff-setting mechanisms, along with aggressive targets in terms of efficiency, reliability and new investment.

A recently passed Electricity Sector Reform Act was supposed to foster the redevelopment of the sector, while providing means for reasonable profitability of the managing contractor, along with future incentives for efficiency. The Act guaranteed GPL exclusive rights over distribution and a five-year exclusivity in generation (after which period independent producers would be allowed to bid to supply power to the company).

The new management brought about significant improvements at the beginning. Initial capital injections translated into enhanced reliability in the supply and increased collection rates. At the same time, a five-year System Development Plan was defined, with a US\$55 million investment program intended to improve power generation (with especial focus on renewable resources) and distribution. ESBI also identified the need to drastically reduce technical and commercial losses at GPL. In turn, reduction in losses was expected to generate a financial cushion to counterbalance the effects of possible increases in oil prices.

After the positive start, GPL faced important financial constraints. First, revenues were much lower than originally expected as tariffs lagged behind rising oil prices⁵², and the regulator was perceived as preventing GPL from fully implementing new tariffs. Second, as required investments were put on hold pending funding, the achieved reduction in technical losses was well below expectations.

As the financial position of the utility deteriorated, funding sources for planned investments dried out, bringing development activities to a halt. The initial improvements attained were unsustainable and systems losses actually increased from 24 to 40 percent of net generation.

In light of the performance of the utility, the regulator (PUC) imposed a heavy fine⁵³ on GPL for failure to meet agreed targets for loss reduction⁵⁴ and capital expenditure. Disputes over performance targets and tariff-setting procedures ensued, ultimately causing a complete fall out between regulator and investors.

In March 2003 the CDC pulled out of the consortium, and AC Power sold back its stake in GPL to the Government of Guyana for a nominal sum. ESBI ceased its mandate as a managing contractor, and the operation was handed back to the Government of Guyana.

The demise of the investment consortium in GPL created a price shock (electricity tariffs increased by 15 percent in 2003⁵⁵) along with additional instability in the system due to under-investment in essential maintenance during private ownership.

The Government of Guyana intends to reduce the problems of reliability, efficiency and system losses before attempting to privatize GPL again. This may prove challenging considering the large investment required and its possible effect on the fiscal stability of the country. At the same time, a prerequisite for successful privatization will be an improved contractual and regulatory framework for the sector.

⁵² The tariff setting formula allowed GPL to pass on the increase in cost of fuel to users on a quarterly basis. However, since the formula was based on realized costs, it caused GPL's income to lag behind expenditure.

⁵³ GPL was required to hand back US\$40 million to its customers as a penalty for failure to meet efficiency objectives.

⁵⁴ Although collection did increase, the aggressive target of 94% was not achieved.

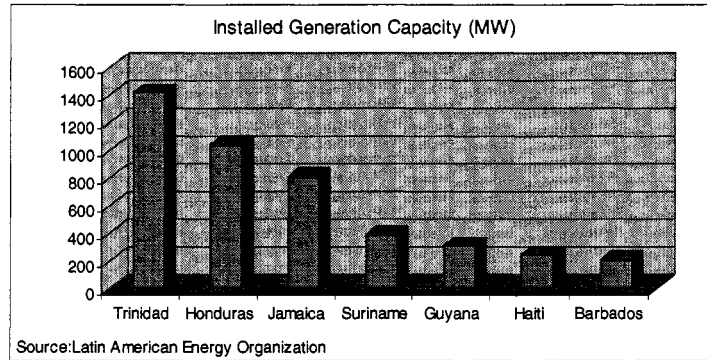
⁵⁵ World Bank (2003)

Current Installed Capacity and Development Plans

3.18 **A substantial increase in power generation capacity is desirable considering that higher generation capacity increases the reliability of the electricity supply, while it also lowers prices for consumers.** 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 the increase in the electricity intensity in Guyana to that of peer Caribbean countries⁵⁶ requires investments over the next 10 years between US\$805 and US\$1,497 million⁵⁷ (between 10 and 19 percent of Guyana’s GDP).

3.19 **The installed power generation capacity in Guyana is very limited considering the internal needs and the capacity of regional peers.** The installed power generation capacity in Guyana stands at 226 megawatts (MW)⁵⁸, which is low as compared to that of other comparator countries in the region (see Figure 3.8), and it is hardly sufficient to sufficient to cover the current demand for electricity in the country. Installed capacity is expected to increase by a further 62.5 MW within the next two years, as part of a US\$120 million plan for future development managed by GPL. This plan also aims to address issues of distribution (through the construction of transmission lines and enhancement of the network) and efficiency (through loss reduction activities at the users’ level).

Figure 3-8: Comparative Installed Generation Capacity, by Country



Source: Latin American Energy Organization

3.20 **The majority of the generation capacity in Guyana is owned by GPL, and a considerable share of it relies on cost-inefficient technologies.** GPL owns and manages 55 percent of the total installed generation capacity in the country (see Table 3.1), all of which is

⁵⁶ Guyana’s power intensity stands at 0.8MWh, compared to a target of 3 to 4 MWh.

⁵⁷ World Bank (2005c)

⁵⁸ Source: Guyana Energy Agency

based on thermoelectric plants with diesel-engine driven generators⁵⁹. A considerable proportion of GPL's current power generation facilities are inefficient as the utility has resorted to the use of both own and rented high-cost small independent generation units⁶⁰ in order to enhance generation capacity in some regions of the country. Similarly, financial constraints and missing incentives for cost efficiency may be preventing the company from switching from oil-based facilities (which are costly to operate) to renewable energy sources (which require higher upfront capital investment). In addition, a good share of Guyana's generation capacity is inefficient because of the prevalence of self-generation as GPL has insufficient capacity.

3.21 Independent Power Producers own and operate 45 percent of the installed generation capacity, which is also 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 (see paragraph 3.23), however this would still account for a relatively small share (10 percent) of the generation capacity in the country.

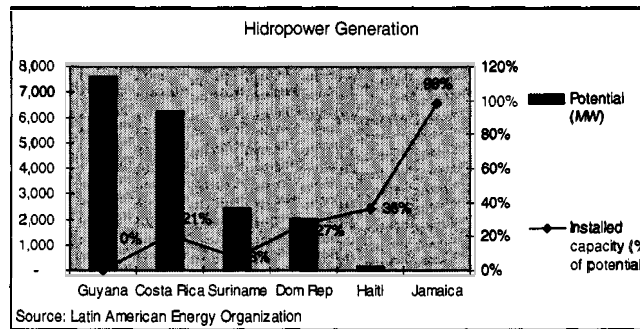
⁵⁹ Current power supply is generated mainly from diesel fuel using a mixture of distillate (LFO) and heavy fuel oil (HFO).

⁶⁰ Independent units are intended to operate as stand-by emergency or peak generation units. Accordingly, their operating costs are higher than those of permanent generation facilities.

Alternatives to Oil-Based Generation

3.22 **Guyana has a massive but yet unrealized potential for hydropower generation.** Hydropower generation capacity has been estimated at 7,600 MW, that is, more than 30 times the current installed capacity in the country. Feasibility studies have been carried out for specific projects⁶¹, but up to now, this potential remains untapped (Figure 3.9), mainly due to the considerable capital investments required to set up new power facilities. Indeed, beside the actual investment in generation plants, transmission lines would also be required, as most of the generation potential is inland, far from the zones of heaviest demand along the coast. Such investments would increase the fiscal risk for the government if it was to finance them, and private capital is unlikely to be committed under the current institutional framework.

Figure 3-9: Hydropower Generation, by Country



Source: Latin American Energy Organization

3.23 **Guyana has opportunities for electricity generation based on renewable resources linked to its large sugar industry.** Electricity can be generated using bagasse, a by-product of sugar production, as basic fuel for thermoelectric facilities. Bagasse generation benefits from lower and more stable cost of fuel⁶² than oil-based generation, as well as lower carbon emissions⁶³. A major bagasse co-generation project will be implemented by the Guyana Sugar Corporation (Guysuco). It will expand power generation capacity by a further 25 MW (15 MW bagasse-based and 10 MW diesel-based) through an investment of US\$27 million in a bagasse co-generation scheme⁶⁴ by the end of 2006. One third of the new capacity will be allocated to the

⁶¹ There are long-standing plans for three hydroelectric facilities, but they are subject to formalizing power purchase agreements with GPL.

⁶² Although bagasse is a by-product of sugar mills, it is not a cost-free fuel, as adequate handling and storage is required.

⁶³ According to the Project Design Document of the World Bank's Guyana Bagasse Cogeneration Project, which is for US\$3.707 million for the purchase of carbon emission reductions, Guysuco's bagasse-based co-generation project has been designed to meet international environmental standards, and it is expected to result in a net reduction in carbon emissions by 61,433 tons on average per year.

⁶⁴ 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.

local grid⁶⁵ through a Power Purchase Agreement. Because of its climate, Guyana has a large potential for sugarcane crops, as well as a large sugar industry that could benefit from additional revenue opportunities such as energy generation⁶⁶. Even though it may not be feasible to meet Guyana's power demand with bagasse-based facilities, they can help to reduce the reliance of the sector on imported oil, while having a positive environmental impact through reduced carbon emissions. However, an important constraint to Guyana's bagasse-based generation potential is the lack of year-round supply of bagasse, which means that a substantial investment in storage and hauling will be required.

3.24 The potential for wind-based generation is considered to be significant, although no comprehensive studies have been carried out. The Guyana Energy Agency reported a pilot project for a wind turbine in Guyana's east coast. This is a small project with expected energy savings of around US\$30,000, and a payback period of 40 months. However, no major projects are being put in place. Other Caribbean countries such as Barbados and St. Lucia have promoted the use of such renewable energy sources through initiatives that include the removal of taxes and import tariffs on wind-farm equipment.

Energy efficiency

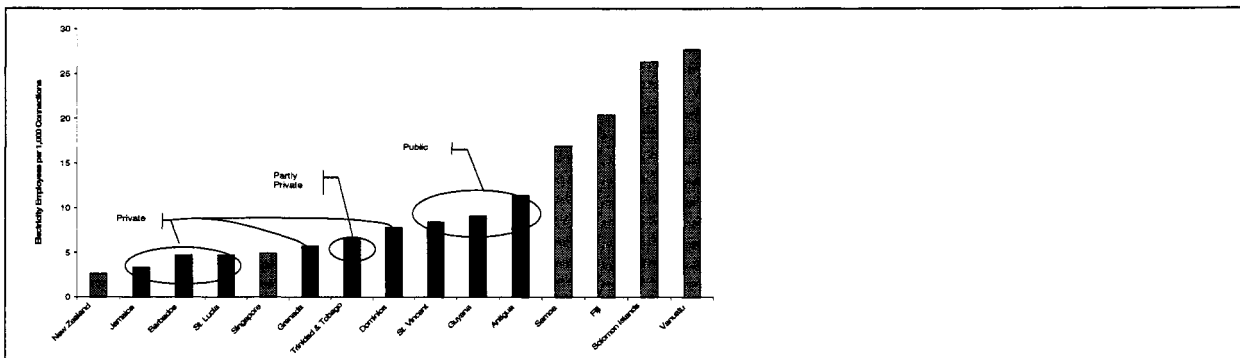
3.25 The government of Guyana has started the implementation of energy efficiency programs in other government-owned public utilities. The World Bank is currently supporting an Energy Efficiency Project for the Guyana Water Inc (GWI). Such programs aim to facilitate the attainment of sustainability of electricity tariffs through a more rationalized use of energy. Smaller programs of energy efficiency and awareness are being implemented for domestic users.

Box 3-2. Privatization and alternatives for efficiency incentives

The case for privatization of public utilities has been made frequently. First, privatization of electric utilities has had positive effects in many Caribbean countries (see graph below) mainly through increases in the efficiency of the system. Second, public ownership of the power supply can pose fiscal challenges for the government in scenarios of high investment needs or loss-making utilities, as in the case of Guyana.

⁶⁵ The local grid refers to the Berbice Interconnected System where there are 10,000 unserved customers according to Booker Tate (2004).

⁶⁶ The Caribbean sugar industry has benefited from a preferential trade agreement with the European Union that includes a protected price for sugar. As this price is expected to decrease significantly (from Euro 524 to Euro 327 per ton) by 2007, sugar producers face strong pressures to diversify revenue sources.



However, privatization *per se* will not restore troubled electricity systems in the absence of a consistent institutional framework, including an independent regulatory body and an adequate and enforceable contractual structure. The institutional framework should protect the interests of all participants in the sector. Adequate efficiency standards should be defined and enforced to protect users. Similarly, arbitrary government intervention in tariffs and enforceability of collection of utility bills are basic requirements to maintain the financial viability of electric utilities.

However, while privatization can be a way to improve utilities' performance, other institutional settings may be used to generate incentives for efficiency.

Private Management Contracts transfer the operation of the utility to a private entity while retaining the public ownership of the productive assets. The managing contractor would be responsible to achieve pre-defined levels of generation and efficiency, which are embedded in the contract. In return, the contractor would have to be provided with the means to cover operating costs and achieve an adequate level of profitability, including enforceability of collection, and certainty over the tariff-setting process. However, if special caps on tariffs are imposed, government subsidies could be required in order to meet operating costs under scenarios of rising fuel costs. This can pose a high contingent fiscal burden for the government, as well as risks for the contractor related to the creditworthiness of the Government⁶⁷.

Conclusions

3.26 Access to reliable electricity supply at international prices is an essential factor for a country's economic growth. There is considerable room for improvement in the level of access and reliability of supply of electricity in Guyana, but substantial investments must be made in order to achieve this.

3.27 Although Guyana may not be able to fully realize the economies of scale reached by larger countries, there is room for improvement in terms of the cost of electricity and the outreach of this service, as compared to other Caribbean countries (which display a higher level of access to electricity and lower tariffs).

3.28 Financial difficulties of Guyana's electricity generation utility are largely due to net operating losses (tariffs below marginal costs) and high commercial losses.

⁶⁷ A similar scheme in the Dominican Republic created the so-called 'financial blackouts', which were energy outages due to the utility's sustained operating losses since agreed government subsidies failed to materialize.

3.29 Key structural elements for success include:

- Private sector participation. Most commonly used is an IPP that signs a long-term Power Purchase Agreement (PPA) with the buyer.
- Effectiveness of regulation. Most Caribbean countries that have made progress in the regulation of their electricity sector have a regulatory agency empowered to set service standards and tariffs. In Guyana, the regulator seems to have considerable legal, personnel and financial constraints, all of which limit its ability to fulfill its role⁶⁸.

RECOMMENDATIONS ON ELECTRICITY POLICY

3.30 **A strong emphasis must be placed on reducing Guyana's reliance on imported 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 extent, it may be necessary to implement clear incentives for adoption of new technologies by GPL and independent producers.

3.31 **The Government should strive to facilitate the participation of private investors in the electricity sector.** Public ownership of electricity supply poses fiscal risks for the government and limits the possibilities for required investments. The participation of the private sector in energy is therefore desirable to strengthen the provision and quality of the service. The privatization of GPL has rightly been maintained as a target for the government, and efforts have been made to enable private participation at 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 more private investment. While private participation is desirable, it may not lead to significant improvements when regulatory capacity is weak and enforcement of contracts is insecure, as is the case in Guyana.

3.32 **The Government should place particular emphasis on the enhancement of the regulatory framework including transparency and certainty in the definition of tariffs, avoidance of arbitrary interventions, and empowerment of participants to cut commercial losses.** The financial difficulties of GPL are largely due to both net operating losses (i.e. tariffs that were 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 caps poses significant contingent liabilities on the government⁶⁹. Commercial losses are a major problem for GPL and hence must be addressed in order to ensure

⁶⁸ World Bank (2005b)

⁶⁹ Government subsidies may be required to maintain the operation of the company when price caps are implemented.

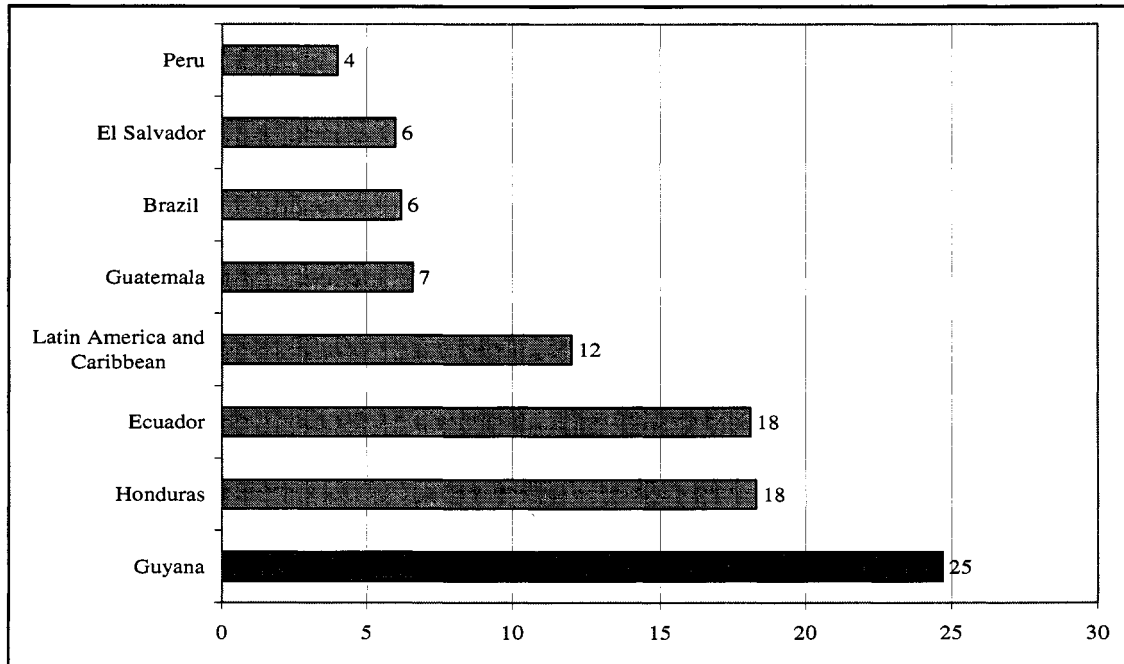
the financial viability of the company, regardless of its ownership. Reducing these losses requires significant support by the Regulator, as well as empowering the utility to collect due bills from consumers.

3.33 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.

TELECOMMUNICATIONS

3.34 **Telecommunications are a serious bottleneck to business operations in Guyana.** Nearly a quarter of all 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. As shown in Figure 3-10, almost 25 percent of interviewed firms in Guyana identified telecommunications as a major or severe obstacle to their business operation and growth, 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 (41 percent of interviewed firms considered electricity as a major or very severe problem compared to 25 percent which considered telecoms as a problem), and ranked among the top ten constraints (out of 20 different ones) as a perceived obstacle.

Figure 3-10: Percentage of Firms Identifying Telecommunications as a Major or Very Severe Obstacle to Business Operation and Growth: An International Comparison

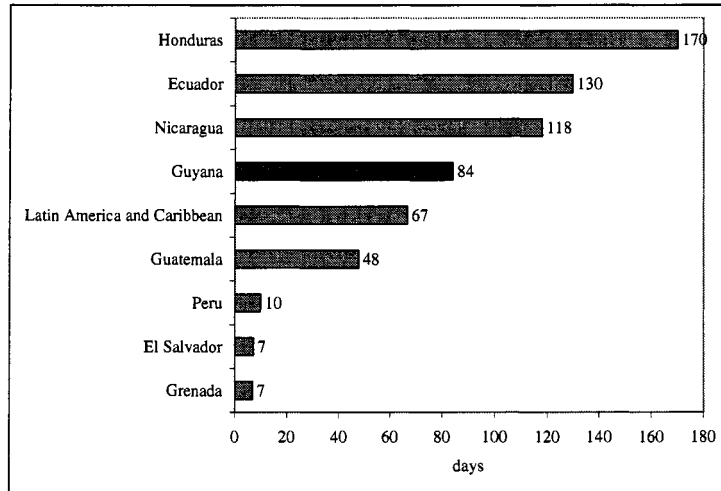


Source: World Bank Investment Climate Surveys, 2002-2004

3.35 **Foreign-owned firms as well as firms in the chemical sector and, to a lesser degree firms in the wood processing and mining sectors, see the telecommunications sector as a more acute problem than their domestic counterparts and firms in other industries.** Thus, one-third of foreign firms consider telecoms a major or very severe obstacle compared to 23 percent of domestic firms. Chemical companies complain the most about telecoms – 40 percent of them consider Guyanese telecoms as a very severe constraint to their operations. In terms of firm size, medium-sized and small firms are the most affected – with 27 and 24 percent of each group respectively considering telecoms a major or very severe constraint, compared to 19 percent of large companies.

3.36 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 average⁷⁰, compared to an average of 67 days in the Latin American and Caribbean region as a whole, and several times more than the seven-day wait in El Salvador, 18-day wait in Brazil and 48-day wait in Guatemala (see Figure 3-11). 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.

Figure 3-11: Average Waiting Time for Telephone Line Installation (Number of Days): An International Comparison

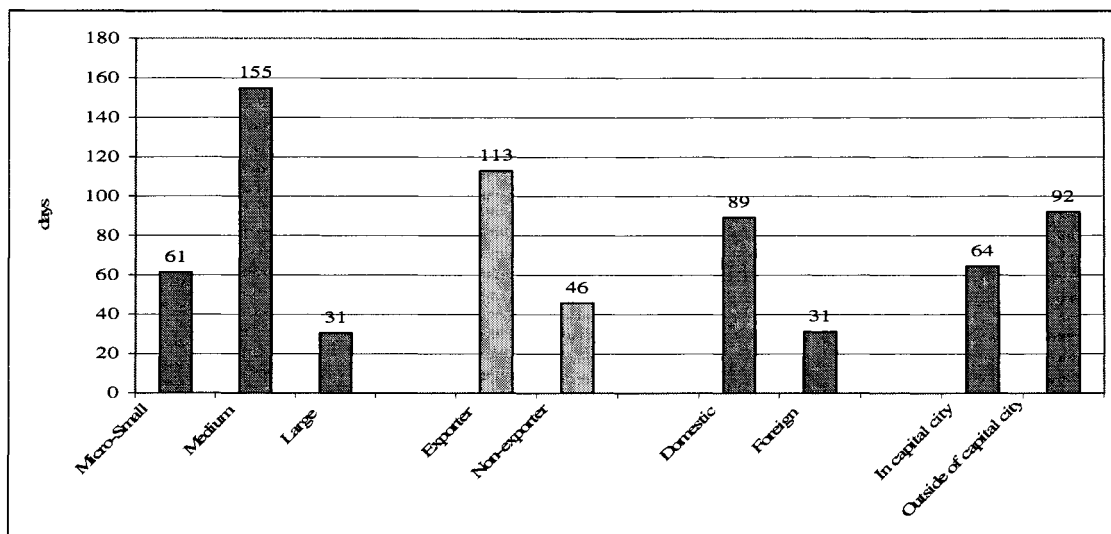


Source: World Bank Investment Climate Surveys, 2002-2004

Note: The number of days for Grenada is the median across 44 firms which applied for a fixed telephone; elsewhere means are used.

⁷⁰ 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 3-12: Average Waiting Time for Telephone Line Installation (Number of days), by Firm Characteristic

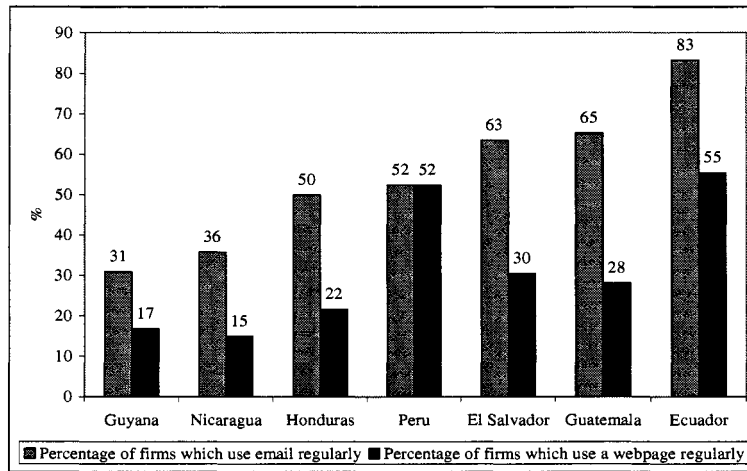


Source: World Bank Guyana Investment Climate Survey, 2004-2005

3.37 Domestic firms, exporters and firms outside of the capital city wait considerably longer to get a telephone line as do also medium-sized firms (Figure 3-12). Thus, medium-sized firms wait, on average, 155 days to get a fixed phone line, large ones wait on average 5 times less (31 days). Micro and small firms wait double the time of large firms. Non-exporting firms wait less time (46 days) compared to those that sell abroad. Foreign companies wait, on average, three times less than domestic ones (31 vs. 89 days on average). Finally, location matters – firms in Georgetown wait on average two months, while firms located in rural areas and smaller towns wait about three months to get a fixed phone line.

3.38 The Investment Climate Survey found Guyana to have the lowest percentage of companies 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 (see Figure 3-13). 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, and usage rates of 55, 31, 28 and 22 percent in Ecuador, El Salvador, Guatemala and Honduras respectively. 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.

Figure 3-13: Firm Email and Internet Use, by Country



Source: World Bank Investment Climate Surveys, 2002-2004

3.39 In accordance with the above findings, Guyana ranks poorly on the Information and Communication Technology (ICT) index published by the World Economic Forum (WEF) – 94th out of the 117 countries in 2005. Given the growing importance of telecommunications and information technology to economic growth and competitiveness, the low usage of email and Internet by interviewed businesses in Guyana is probably a significant factor that contributes to the fact that Guyana’s economy was ranked as the 115th least competitive out of 117 countries ranked in 2004.⁷¹

Guyana’s Telecommunications Market

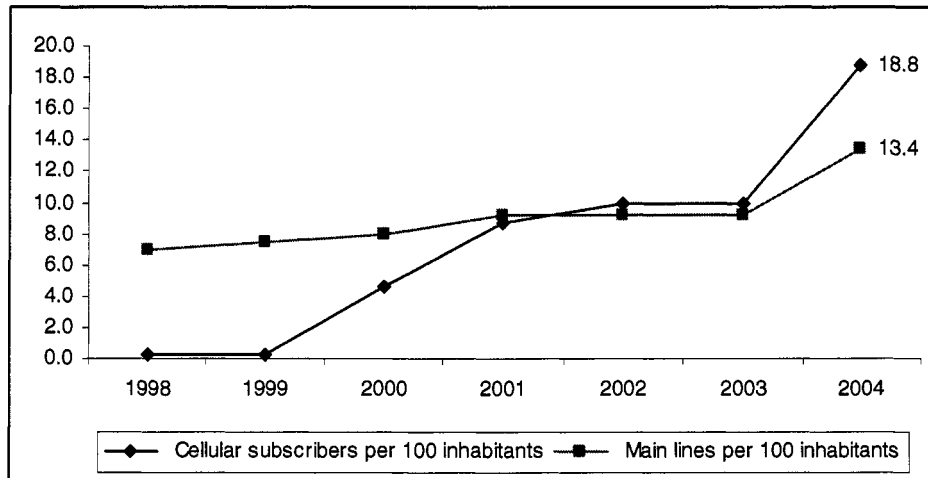
Fixed and Mobile Sectors

3.40 Guyana, with a population of approximately 770,000 people, had in 2004 around 102,700 fixed telephones for a penetration level of 13.4 percent, and 143,900 mobile subscribers for a penetration level of 18.8 percent.⁷² As can be seen in Figure 3-14, the fixed penetration levels have nearly doubled since 1998, while the mobile penetration level was practically non-existent in 1998.

⁷¹ World Economic Forum (2005), Global Competitiveness Report 2005-2006

⁷² International Telecommunications Union (ITU) Database 2005

Figure 3-14: Mobile and Fixed Penetration Rates in Guyana



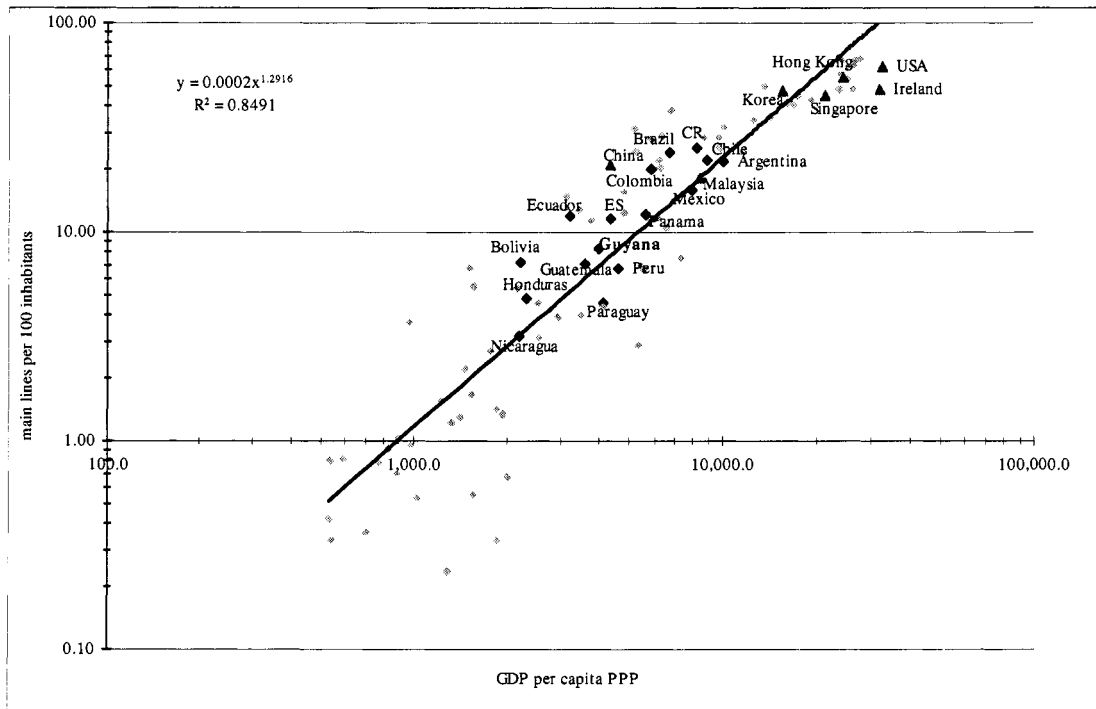
Source: ITU database, 2005

3.41 Guyana's fixed line network improved dramatically in the early to mid-1990s, both in terms of coverage and quality. This came about through new investments made during the early and mid-1990s by Guyana's fixed network operator, Guyana Telephone and Telegraph (GT&T), after it was privatized in 1990. As a result, Guyana went from having one of the lowest fixed teledensity levels in Latin America to being tied with El Salvador with 13.4 fixed telephones per 100 people, slightly above the 12.5 fixed telephone average for Central America, and marginally below the Latin American average of 15.7.⁷³ When comparing Guyana to 96 other countries in terms of fixed teledensity and GDP per capita, Guyana is slightly above the trend line (Figure 3-15).⁷⁴ Guyana's relatively high fixed telephone penetration levels can be attributed to build-out obligations imposed on the monopoly operator, a relatively high GDP per capita, and the fact that approximately 40 percent of the population lives in urban areas

⁷³ Guyana's fixed teledensity of 13.4 percent is higher than that of Guatemala (8.9), Honduras (5.3), Nicaragua (3.8), Panama (11.9), Paraguay (4.7), Dominican Republic (10.7), Ecuador (12.2), but below the levels of Grenada (21.8), Costa Rica (31.6), Trinidad and Tobago (24.6), and Suriname (18.5) among others.

⁷⁴ Guyana was plotted against 96 countries in terms of fixed teledensity and GDP per capita (PPP method) using data from the ITU database and the World Development Indicators.

Figure 3-15: Main Lines Teledensity and GDP per Capita in 2003

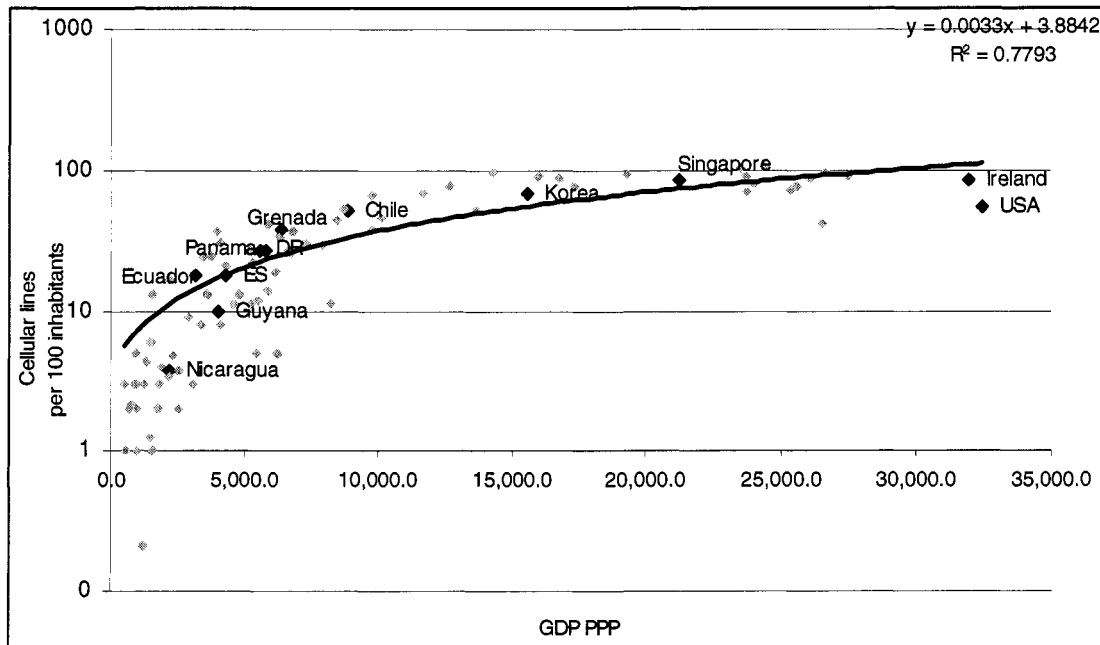


Source: World Bank Indicators database, World Bank, 2005, and ITU indicators, 2005

3.42 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 Figures 3-16 and 3-17. Even though the mobile telephony has grown at a faster pace than fixed telephony, Guyana has one of Latin America's lowest mobile teledensity levels. With a mobile teledensity level of 18.8 percent in 2004, Guyana 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) and Guatemala (25 percent). When comparing Guyana to 93 other countries in terms of mobile teledensity and GDP per capita, Guyana is slightly below the trend line.⁷⁵

⁷⁵ Guyana was plotted against countries in terms of fixed teledensity and GDP per capita PPP, using data from the ITU database and the World Bank World Development Indicators.

Figure 3-16: Cellular Teledensity and GDP per Capita in 2003

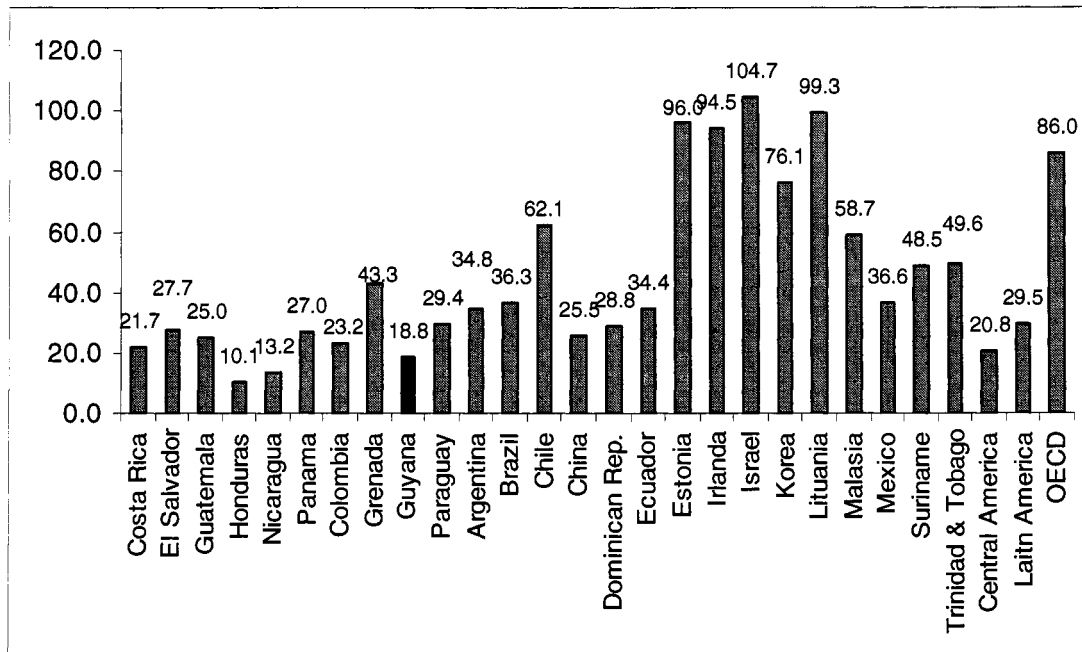


Source: World Bank Indicators database, World Bank, 2005, and ITU indicators, 2005

3.43 As is detailed below, Guyana’s relatively low mobile penetration levels can be attributed mainly to the *de facto* monopoly in the sector, the difficulty of new entrants to obtain interconnection to the GTN⁷⁶, and the “litigation gridlock” that is the result of Guyana’s weak legal and regulatory framework and institutions. The regulator has limited power and has been very reluctant to take regulatory actions against the incumbent operator. Furthermore, when the regulator does take action, the incumbent operator consistently and successfully goes to court to block all decisions by the sector regulator, most notably those related to interconnection.

⁷⁶ For example, there are currently three cellular mobile operators, the incumbent, Guyana Telephone and Telegraph Co. (GT&T), Cel*Star which operates a GSM 900 MHz network and has about 28,000 mostly pre-paid customers (November 2005), and Caribbean Telecommunications Ltd. (CTL), which provides a very limited service in just one region of the country (Berbice). It is believed that the latter has less than 200 customers mainly because of its inability to obtain adequate interconnection services from GT&T. A fourth company, Caribbean Wireless Telecom, licensed for a PCS system in the 1900 MHz band, never started operations. There is no spectrum auction system, and competitive licenses are granted on a “first-come, first-served” basis according to the availability of spectrum frequencies.

Figure 3-17: Guyana's Mobile Subscribers per 100 people, 2004



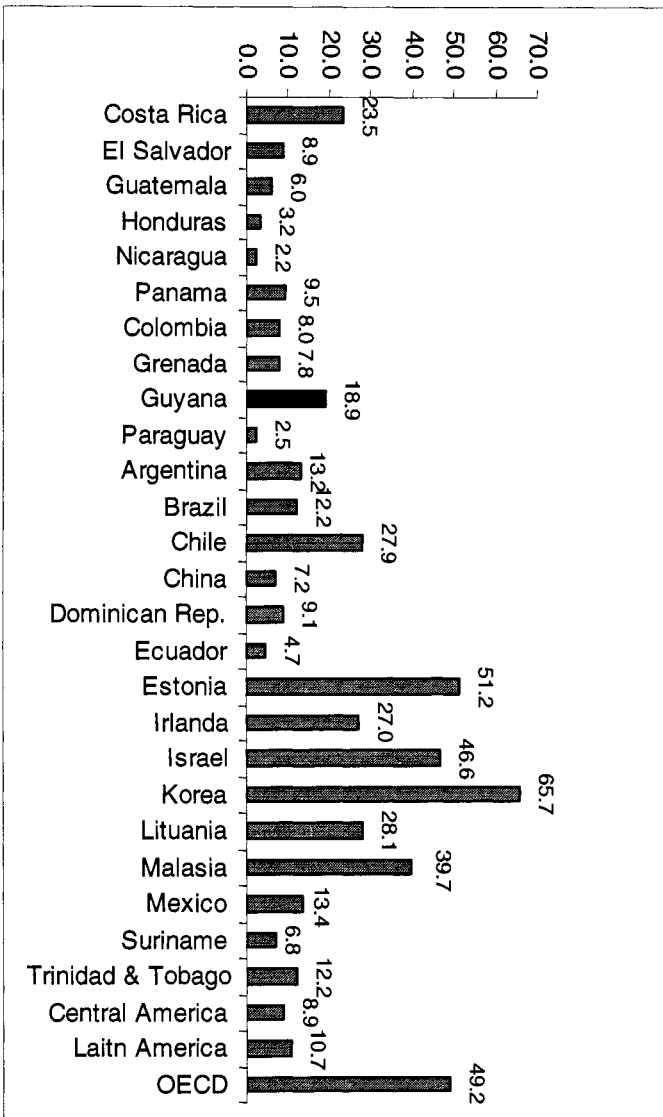
Source: ITU database, 2005

Backbone and Internet Sectors

3.44 **The Guyana Telephone and Telegraph (GT&T) company has a *de jure* monopoly over international data networks that link Guyana to the rest of the world.** GT&T has the ability to carry its international voice and data traffic on two international submarine cables, and controls access to satellites via a number of GT&T-controlled earth stations. Although some companies and Internet service providers (ISPs) use their own earth stations (i.e. VSATs) to connect to the Internet, most of these companies are required to connect to GT&T.

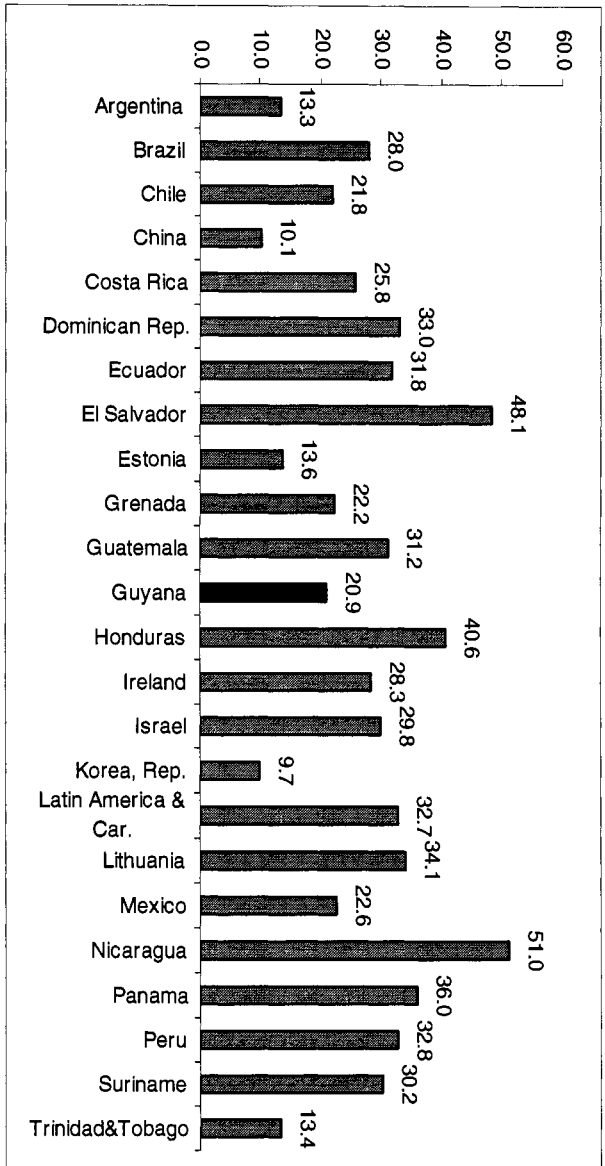
3.45 **Internet access in Guyana is a mixed story.** On the one hand, the number of Internet users – which includes users that access the Internet via slow-speed dial-up and higher-speed networks – in Guyana is relatively high, compared to similar countries, as is illustrated in Figure 3-18. In 2004 Guyana had 18.9 Internet users per 100 inhabitants, the third highest rate in Latin America, after Costa Rica and Chile with 27.9 and 23.5 users per 100 people respectively. The relatively high number of Internet users has been stimulated by the low cost of Internet dial-up connections, which is cross-subsidized from international traffic, and the low costs due to the concentration of clients in the capital city. Thus, internet prices are among the lowest in the Latin America (Figure 3-19).

Figure 3-18: Individual Internet Users per 100 Inhabitants, 2004



Source: ITU database, 2005

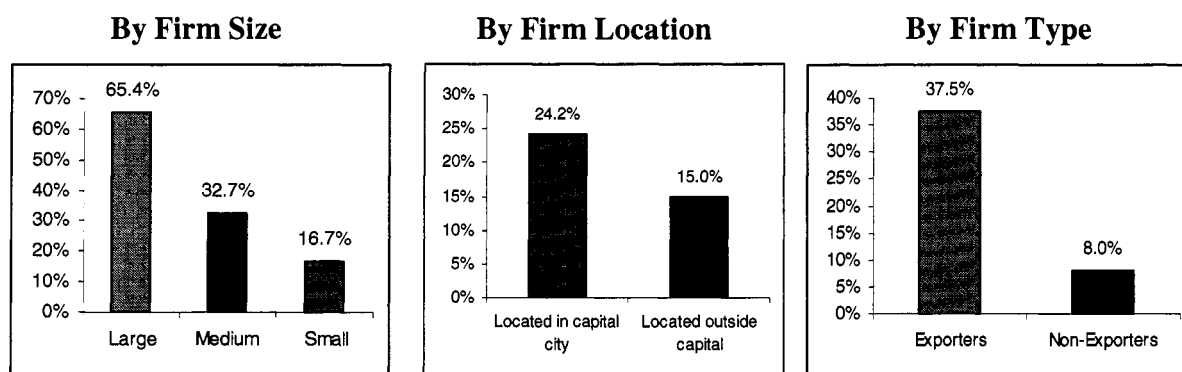
Figure 3-19: Internet Total Monthly Price (US\$ per 20 hours of use, 2003)



Source: World Development Indicators, World Bank 2005

3.46 While Guyana has a high number of individual users, only 17 percent of interviewed companies in Guyana use a website to interact with clients or suppliers. This is low compared to the Latin American average of 38 percent, and to usage rates of 55, 52, 31, 29 and 22 percent in Ecuador, Peru, El Salvador, Guatemala and Honduras respectively (see Figure 3-13). 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.⁷⁷ High-speed access to the Internet is increasingly seen as 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.⁷⁸ Although some companies are offering wireless broadband access in competition with GT&T, even these companies are arguably required to use GT&T in order to carry data traffic between Guyana and foreign countries.⁷⁹

Figure 3-20: Internet Use by Interviewed Firms in Guyana



Source: Guyana Investment Climate Survey 2005

3.47 The business use of the Internet in Guyana is mainly used by large firms, located in the capital. Specifically, 65 percent of the large firms are taking advantage of the use of Internet in their business. In contrast, only 17 percent of the small firms in the country are using the Internet to do business (Figure 3-20). Also, only 15 percent of firms located outside the capital are using the website as a regular instrument in their work, and just 8 percent of the non-exporting firms in the country use a website regularly in their business. This is much lower than the 38 percent of exporting companies reportedly using the Internet, and the 24 percent of companies in Georgetown doing the same.

⁷⁷ Business users typically require access speeds of at least 256 kbps.

⁷⁸ *Telecommunications and Information Highways*, page 12. Anecdotal information indicates that GT&T's ADSL rates are US\$65 for residential and US\$175 for businesses users. These rates are very high compared to ADSL rates in other countries which are in the US\$35 to US\$50 range.

⁷⁹ *Telecommunications and Information Highways*, page 12.

Market Shares and Competition

3.48 GT&T controls 100 percent of Guyana's fixed and international telecommunications. GT&T was privatized in 1991 when Atlantic Tele-Networks (ATN) of the U.S. Virgin Islands purchased an 80-percent share of the company, with 20 percent of the company remaining in government hands. In 1991 the Government of Guyana (GOG) granted GT&T a 20-year monopoly over all national and international fixed, voice, and data networks and services, all public telephones, radio telephone, and payphone services, sale of phone directory advertising and all private line services. The GT&T monopoly, set to expire in 2010, is renewable for another 20 years at the request of the company. As a result, GT&T has a 100 percent market share of Guyana's fixed and international voice market. All voice and data communications between Guyana and the rest of the world must also transit through GT&T facilities. The government-granted GT&T concession permits competition in Internet access, terminal equipment sales, inside wiring, call center and cellular mobile services.

3.49 Despite GT&T's monopoly, some companies have their own satellite earth stations (i.e. VSATs). Companies use these to carry their corporate communications between their Guyana-based and foreign-based operations, even though these VSAT facilities are not allowed to be interconnected to Guyana's publicly-switched telephone network (PSTN). There are approximately 50 Internet cafes in the country, half of which obtain Internet access directly from GT&T. Many of these cafes offer Voice-Over-IP (VoIP) services that enable consumers to place international calls, which in many cases bypass GT&T's network and offer calls at much lower rates than GT&T. This is because VoIP calls bypass the international settlement regime as VoIP traffic does not pay Guyana's high settlement rates to the incumbent operator for incoming international calls. GT&T has brought lawsuits against these cafes, arguing that it is a violation of its concession and of Guyanese law.⁸⁰ As can be seen in Table 3.2, Guyana has one of the highest tariffs for international calls in Latin America.

3.50 The Guyanese cellular telephony market is also dominated by GT&T's cellular operator. Of the three companies licensed to provide cellular services – GT&T's Caribbean Telecommunications Limited (CTL), Caribbean Wireless Telecom Ltd., and Cel*Star, only two are currently operating – CTL and Caribbean Telecom. Due to litigation and delays in obtaining interconnection with GT&T over several years, the new entrants have only recently begun to provide service. As a result, GT&T's CTL has nearly a 100-percent market share in the cellular sector even though its market share is expected to decline as the other operators begin to compete.⁸¹

3.51 There are only around 6 to 8 Internet Service Providers (ISPs) using fixed wireless access technologies. ISPs normally obtain a connection to the Internet through the facilities of GT&T. Reports indicate that many ISPs, however, bypass GT&T's network using VSAT technology.

⁸⁰ 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.

⁸¹ Informa Telecoms & Media, *World Cellular Networks Data-pack, December 2005 edition*, London, England.

Sector Prices and Revenues

3.52 **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 international call prices in the same region.** 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)⁸². On the other hand, residential line rental charges are US\$2.50 (US\$7.50 for business lines). Local calls are US\$0.004 per minute during peak hours (US\$0.002 per minute off peak), and domestic long-distance charges vary between US\$0.012 and US\$0.043 per minute, depending on the distance and time of day.

Table 3-2: Local and Long Distance Prices in 2003 (US\$)

	<i>Local</i>			<i>Long Distance</i>	
	<i>Local call per min.</i>	<i>Residential line charge</i>	<i>Business line charge</i>	<i>International (per min. to the US)</i>	<i>National (per min.)</i>
Guatemala	0.026	5.65	5.65	0.25	0.04
Guyana	0.004	2.50	7.50	0.50	0.012 – 0.043
El Salvador	0.023	8.27	14.07	0.22	0.04
Honduras	0.020	2.29	5.74	0.84	0.09
Nicaragua	0.024	5.94	15.85	0.35	0.08
Costa Rica	0.008	4.09	4.97	0.45	0.01

Source: Regulatory agencies

3.53 **The single most important source of revenues for GT&T has been revenues it receives from international telephone traffic between Guyana and other countries.** International telephone traffic in Guyana is paid as a result of a mechanism known as the international settlement arrangement, which is a legacy of the pre-1990s when nearly all telecommunications traffic was carried by monopoly companies. Countries that receive more incoming traffic than outgoing international traffic receive settlement payments based on the volume of the imbalance of incoming versus outgoing traffic and a per-minute charge known as the accounting rate. Guyana has the highest accounting rate in the Americas (US\$0.23 cents per minute) and a highly imbalanced traffic ratio – for every minute of outgoing traffic during the last ten years Guyana received approximately four minutes of incoming traffic.⁸³ As a result in 2003, U.S. telephone companies (around 50 percent of Guyana’s telecommunications traffic comes from the United States) paid GT&T US\$25.2 million in settlement payments.⁸⁴ These settlement payments constitute more than 35 percent of Atlantic Tele-Network’s (ATN is the

⁸² 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.

⁸³ Evidence indicates that as countries’ telecommunications markets become more competitive, traffic imbalances typically are reduced. For example, prior to its market liberalization, Chile had a 2-to-1 traffic ratio of incoming to outgoing traffic. After Chile liberalized its market, the traffic ratio became 1 to 1, and in some cases Chile began to generate more outgoing than incoming traffic. Guyana’s traffic ratio of approximately 5 to 1 is typical of countries that lack competition in their domestic telecommunications market.

⁸⁴ Statistics of Communications of Common Carriers, 2004, Section 43.61 reports, FCC.

owner of GT&T) revenues in 2003, and probably account for the vast majority of GT&T's and ATN's profits.

3.54 Nevertheless, the 2003 settlement payment is significantly lower than in the 1990s, when settlement payments to Guyana peaked at US\$50.3 million. The decline in the settlement payments and incoming traffic to Guyana is linked to three main factors – an FCC-mandated decline in Guyana's accounting rate from \$0.85 per minute to \$0.19 per minute, the migration of international audio-text (i.e. 1-900/adult call line traffic) from Guyana to other countries, and the proliferation of new technologies such as VoIP which bypass the accounting rate system.⁸⁵ It is expected that international settlement payments to GT&T and ATN will continue to decline, placing additional pressures on GT&T and ATN to re-balance tariffs as their finances become more precarious.

Policy, Legal and Regulatory Framework and Institutions⁸⁶

3.55 Guyana's legal framework for the sector is comprised of GT&T's 1990 concession, the 1990 Telecommunications Act, the 1999 Public Utilities Commission Law (PUC Act) and the PUC Amendment Act of 2003. In 2003 a draft e-Commerce Bill was published that provided for the legal recognition of electronic writing, contracts, signatures as well as other provisions required to enable and facilitate e-government and e-commerce.⁸⁷ The PUC, in principle, is a multi-sector independent regulatory agency with authority to set rates, develop regulations, resolve disputes between operators, ensure that GT&T complies with its concession and expansion plan obligations as well as review and amend any GT&T program for development and expansion of facilities or services.

3.56 A recent IADB-financed report⁸⁸ notes, however, that “the government has recognized the importance of telecommunications for the development of an information-based society in Guyana including for the promotion of e-government⁸⁹, e-learning and e-commerce and has stated its desire to modernize this sector.” In August 2001, the Office of the Prime Minister and the Minister of Public Works and Communications issued a Consultation

⁸⁵ In the 1990s GT&T and ATN successfully captured a large portion of the US audio-text traffic because the companies could earn large amounts of revenues due to the high settlement rates (among the highest in the Americas). However, due to competition from other countries, the emergence of voice-over-IP and other technologies, audio-text companies have shifted much of their traffic to other destinations. In 1996, Guyana received 162.9 million minutes of incoming traffic compared to only 88.46 million minutes in 2003. Source: Primetrica 2004 Traffic Data and FCC traffic data. See Annex for an additional table on Guyana's telecommunications traffic.

⁸⁶ 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.

⁸⁷ *Telecommunications and Information Highways*, page 4

⁸⁸ 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.

⁸⁹ The Government has constructed the initial section of a wireless network to connect all Ministries and to let them initially share a common payroll, human resources and an integrated Financial Management System (management of the Government's expenses and revenues). This is a first step in decentralizing government services and offering on-line government services such as license renewals, issuing of birth certificates, etc. This work, being done under the IADB's public sector modernization project, was interrupted by a lawsuit brought by GT&T against the IADB.

Paper⁹⁰ which outlined the issues and options for reform of the Guyanese telecommunications sector.

3.57 The Consultation Paper identified three areas of deficiency: the existing legislation governing the sector is old and, in many respects, inconsistent; the Government's failure to implement an effective regulatory policy; and the regulatory uncertainty brought about by court litigation between operators (e.g., in the cellular market segment).

- The Public Utilities Commission Act, 1999, and the Posts and Telegraph Act are outdated and do not take into account the substantial institutional and technical changes that have occurred in the telecommunications sector around the world since the early 1990s;
- There are inconsistencies and uncertainties among the basic legal instruments governing the sector. The Telecommunications Act, 1990 and GT&T's License were based respectively on the British Telecommunications Act of 1984 and the British Telecommunications PLC License also of 1984, whereas the Purchase Agreement (for GT&T) and the Public Utilities Commission Act are based on U.S. and North American jurisprudence. The provisions in the Telecommunications Act do not deal adequately with new types of services such as Internet;
- The Government has failed to implement the regulatory framework envisaged in the 1990 Telecommunications Act. Principally, it has failed to establish the Office of Director of Telecommunications, which would have, as its key functions, the regulation of access and interconnection. These functions overlap to a certain extent with those of the PUC. The demarcation of responsibilities between the PUC and the Director is not clear. Furthermore, the PUC is seriously under-resourced and under-funded. The National Frequency Management Unit (NFMU) does not have the necessary equipment to adequately monitor the spectrum and enforce its use;
- The sector is characterized by excessive litigation, which the Paper suggests has led to "litigation gridlock", and has increased regulatory uncertainty and delays. This, the Paper suggests, is one of the main reasons why competition has not developed in the cellular markets where legal entry restrictions never existed.

3.58 The Paper proposes reform based on the following:

- Adoption of a national telecommunications policy;
- Negotiating an early end to GT&T's monopoly and the implementation of a three-phased liberalization process. The monopoly has been under legal attack for years,

⁹⁰ *Reform of the Telecommunications Sector in Guyana, Consultation Paper on Issues and Options for Reform of the Telecommunications Sector*, Office of the Prime Minister and Minister of Public Works and Communications, Project Execution Unit for Modernization of the Telecommunications Sector, August 2001

with arguments being made that the original grant of a monopoly to GT&T was unconstitutional or otherwise violated applicable law;

- Rate balancing and replacement of GT&T's rate-of-return-based regulation with incentive (price-cap) regulation. Rate-of-return (ROR) regulation is a way of regulating the prices and conduct of a firm by setting a maximum or minimum amount of profits (i.e. return) on its operations. ROR regulation, which was prevalent in the telecom sector prior to the 1990s when telecommunications was provided through monopolies, imposed a heavy regulatory burden on operators and the regulator. Beginning in the mid-1980s a growing number of regulators replaced ROR with less burdensome price cap regulations where the regulator simply sets a cap on the prices companies can charge consumers.
- Reorganization of the regulatory institutions, with one option being the establishment of a single telecommunications regulator combining the functions of The Director of Telecommunications, the National Frequency Management Unit and the telecommunications activities of the PUC;
- Creation of a licensing regime with only two types of licenses: 1) individual licenses for the operation of networks which provide domestic and international public voice telephone services and which are interconnected with GT&T's network and/or which use the radio frequency spectrum; and 2) general authorizations for all other types of networks and services including ISPs, resellers, private networks, and value-added service providers. The latter would only need to register;
- Establishment of a transparent, non-discriminatory interconnection regime with cost-based interconnection charges;
- Establishment of an objective, timely, transparent and non-discriminatory regime for licensing and regulating scarce resources (spectrum, numbers, rights of way);
- Incorporating basic competition safeguards into the regulatory regime, including asymmetric regulation for dominant and non-dominant operators, safeguards against vertical price squeezing and cross ownership restrictions⁹¹.

3.59 The Public Utilities Commission (PUC) of Guyana has never been able to operate as an effective regulator because of conflicts and inconsistencies between the different pieces of legislation as well as legal proceedings initiated by GT&T that have consistently and effectively undermined and delayed the PUC regulatory authority. Exerting its monopoly position and through an apparent strategic use of legal proceedings, GT&T has effectively frustrated the sector reform efforts of the Government, PUC and intergovernmental organizations. In addition, the PUC has been hampered by a lack of stable leadership, insufficient staffing (it has only one financial analyst, and no technical or legal staff other than the Chairman), and lack of funding. The PUC is funded, in principle, by income equal to 0.1

⁹¹ The current regime does not distinguish between dominant and non-dominant operators and service providers. New entrants are regulated the same way as the incumbent is. For example, any public utility (which includes the competing mobile operators) which wants to change any of its rates must justify the change and give the PUC a 30-day notice. See Section 41 of the Public Utilities Commission Act.

percent of GT&T's gross revenues.⁹² GT&T has disputed the amount of this assessment since it is not capped like those of other sectors, and it has refused to pay more than an annual cap of approximately \$139,000. In most Latin American countries, all telecommunications operators pay approximately 1 percent of their revenues to finance the operations of the regulator, and another 1 percent – towards a universal access fund.

RECOMMENDATIONS ON TELECOMMUNICATIONS

3.60 The following identifies key issues and policy recommendations and notes whether the policy recommendations can be implemented in the short-term (i.e. within a year) or mid-term (more than one year).

3.61 **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.

3.62 **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 included in its WTO commitments (see next paragraph).** 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.

3.63 **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 Guyana's 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

⁹² GT&T has refused to provide the PUC with cost or financial data. ATN, which owns 80 percent of GT&T, reported annual operating revenues of US\$78.9 million for 2003. ATN's income from telephone operations amounted to US\$34 million in 2003. See *Telecommunications and Information Highways*, page 7.

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, possibly, provisions 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.

3.64 Guyana is among few countries in Latin America where telecommunications services continue to be provided by a monopoly with significant adverse effects on the competitiveness of their economies. Since 2000, the government, with the support of a US\$1.5 million technical assistance program from the IADB, has come close to, but failed, to renegotiate GT&T's concession. As a result, in September 2005, the IADB announced that it was terminating its technical assistance project to Guyana because of a lack of progress on key issues. With the termination of its technical assistance project, the IADB also cancelled a follow-up IADB-funded project for \$22.5 million that was aimed at building a national backbone, financing a universal-access project and implementing comprehensive e-government and e-commerce initiatives.⁹³

3.65 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.

3.66 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.

3.67 An amendment to the Telecommunications Law should be made by the legislature in the long run to delegate to the regulatory authority the concessioning of radio frequencies in order to allow for competition in wireless services. This is because most new

⁹³ The IADB project was extended by two years in 2002 and additional extensions were not allowed. Gitanjali Sing, September 26, 2005.

entrants will probably choose the provision of services via wireless technologies. In addition, a spectrum reallocation plan needs to be put in place to improve the efficiency of spectrum use.

3.68 In the area of information gathering and dissemination, a revised Telecommunications Law should explicitly enable the regulatory agency to collect and verify information from all the operators and conduct audits on all players in the industry, including the incumbent. A key to successful regulation is the ability of the regulator to gather information regarding the sector and the behavior of operators.

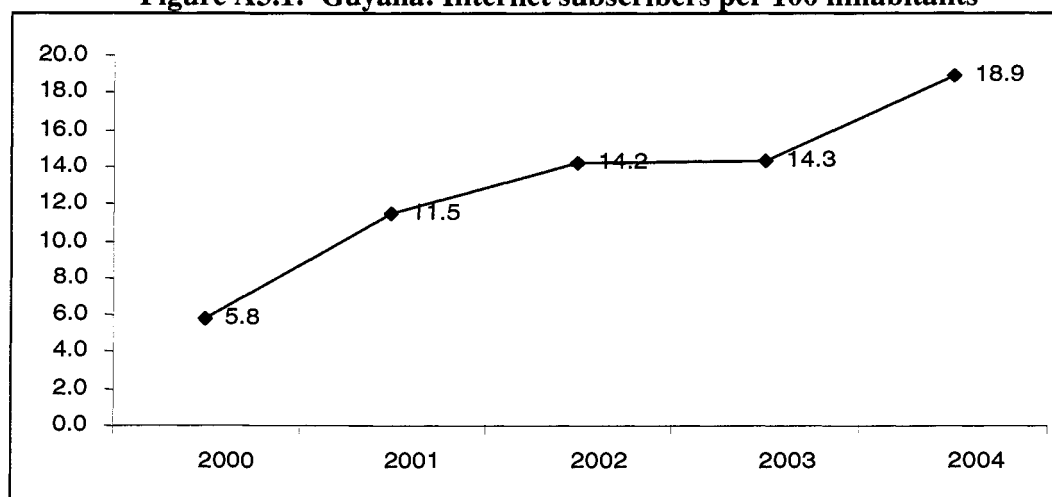
3.69 In order to ensure fair treatment of all operators, all universal service/access projects should be tendered. Tenders provide the right incentives for efficient behavior among all operators bidding, including state-owned incumbents.

3.70 Interconnection regulation must be set in place. Even though it usually involves a negotiation process among the parties, the regulatory entity must set the ground rules for these negotiations, and eventually intervene, if there is no agreement among operators. In particular, the incumbent, and any dominant operator that may emerge in the future, needs to publish a reference interconnection offer available to all on equal terms, including the dominant players' own subsidiaries.

ANNEX 3.1

ADDITIONAL TABLES AND CHARTS ON TELECOMMUNICATIONS

Figure A3.1: Guyana: Internet subscribers per 100 inhabitants



Source: ITU database, 2005

Table A3.1 International Traffic Balance: Guyana

Year	1996	1997	1998	1999	2000	2001	2002	2003
Incoming	162.9	142.4	93.8	101.01	52.26	69.62	n.a.	88.46
Outgoing	29.8	24.1	14.3	16.06	15.02	19.4	20.37	18.99
Balance	133.1	118.3	79.5	84.95	37.25	50.22	n.a.	69.46
Volume	192.7	166.5	108.1	117.07	67.28	89.02	n.a.	107.45

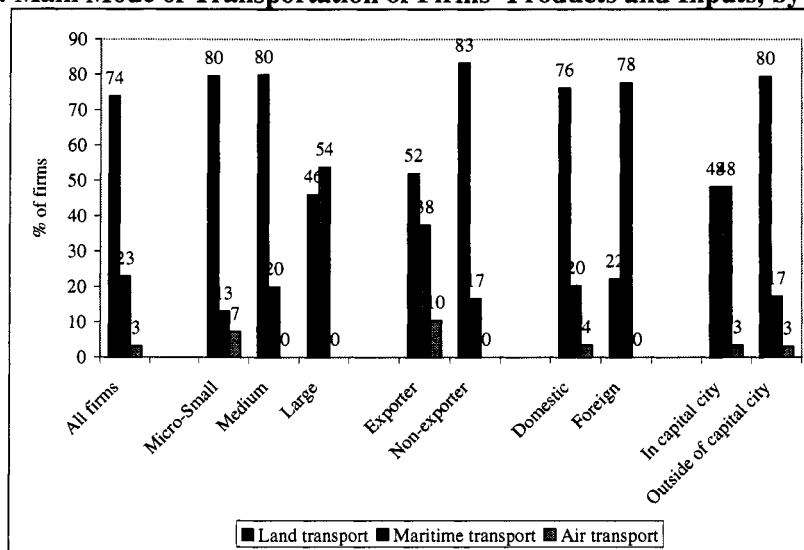
Source: Traffic data, 2004, PriMetrica, Inc.

Note: Data are in millions of minutes of public-switched telecommunications traffic.

TRANSPORT AND LOGISTICS

3.71 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 3-21). 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 3-21: Main Mode of Transportation of Firms' Products and Inputs, by Type of Firm



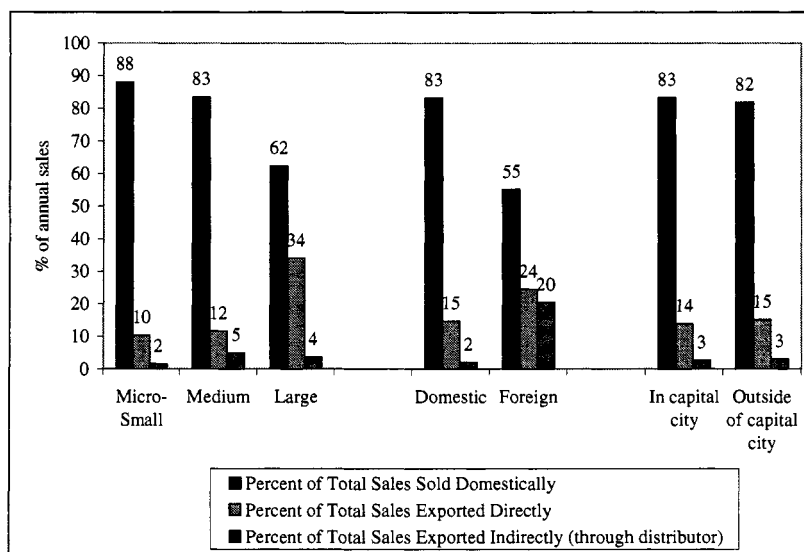
Source: Guyana ICS, 2005

3.72 Guyanese firms realize more than 80 percent of their sales domestically, with large and foreign-owned firms exporting, on average, a higher share of their sales than smaller and domestically-owned firms (Figure 3-22). According to the ICS data, Guyanese companies execute the majority of their sales in the domestic market, with the share of domestic sales by companies located in the capital city of Georgetown at 83 percent of total sales, and 82 percent for companies located in other parts of the country.⁹⁴ While surveyed micro and small firms

⁹⁴ Across all the firms interviewed in the Investment Climate Survey, 17.8 percent of sales in the preceding year were realized through exports, while 82.2 percent of sales were realized domestically. Direct exports constituted 14.8 percent of sales, and indirect exports – 3.0 percent of sales.

execute close to 90 percent of their annual sales within Guyana, large firms sold 38 percent of their sales abroad – the majority of which is done through direct exporting. Similarly, foreign companies operating in Guyana supplied only 55 percent of their sales in 2004 to the local market, with the remainder being exported. Interviewed Guyanese firms have, on average, 12 years of export experience, with companies located in Georgetown averaging approximately 4 additional years of export experience than those located in other areas of the country (16 vs. 12 years respectively).

Figure 3-22: Percent of Annual Sales Sold Domestically and Exported, by Type of Firm



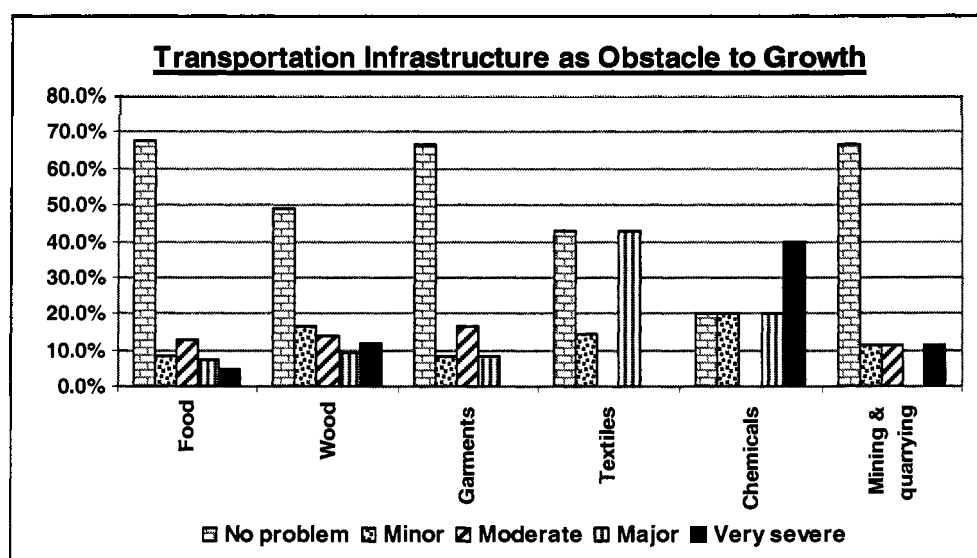
Source: Guyana ICS, 2005

3.73 Only a minority of interviewed Guyanese firms viewed the current transportation infrastructure as an obstacle to their operations and growth. Guyana has witnessed an important improvement to its inland transportation infrastructure over the last few years as a result of a Roads project supported by the Inter-American Development Bank. The main road from Timehri to the port of Georgetown has been paved enabling easier access to major factories in the Georgetown area and allowing goods to be transported to port more efficiently.⁹⁵ The companies interviewed in the ICS agreed that this effort has greatly improved trucking efficiency and reliability. In its current state, the road infrastructure in Guyana does not allow the trucking of goods between Guyana and neighboring Brazil. However, talks are currently underway to pave the existing road to make it suitable for freight traffic. While speeding and resulting accidents on major roads remain a hindrance to trucking efficiency, nearly 60 percent of companies included in the survey view the current transportation infrastructure as no obstacle to their operations. Conversely, 7.4 percent of surveyed companies think that transportation is a severe obstacle to their operations. Figure 3.23 shows that companies viewing transportation as a

⁹⁵ The Mahaica-Rosignol Roads Project was approved by the IADB in 1997. For more information, see <http://www.iadb.org/EXR/doc98/apr/gy1094e.pdf>

severe obstacle are primarily concentrated in the chemical industry, which has more sensitive transportation requirements. In addition, Table 3.3 indicates that large and exporting firms share a somewhat more negative perception of the transportation system (27 and 22 percent of interviewed large and exporting firms respectively consider transportation as a major or severe obstacle to doing business) than smaller and non-exporting firms. This is hardly surprising as large and exporting companies are the ones that export a higher fraction of their sales, and depend more on the transportation infrastructure of the country.

Figure 3-23: Percent of Firms Which View Transport as an Obstacle to Their Operation and Growth, by Industry



Source: World Bank Guyana ICS

Table 3-3: Percent of Firms Which View Transport as an Obstacle to Their Operation and Growth, by Size and Exporter Status

	Total	Company Size			Exporter Status	
		Large	Medium	Small and Micro	Non-Exporters	Exporters
No Problem	59.9%	50.0%	69.6%	56.3%	62.6%	54.0%
Minor	11.1%	11.5%	8.9%	12.7%	10.8%	12.0%
Moderate	12.3%	11.5%	7.1%	15.5%	12.6%	12.0%
Major	9.3%	19.2%	5.4%	9.9%	11.7%	4.0%
Very Severe	7.4%	7.7%	8.9%	5.6%	2.7%	18.0%

Source: World Bank Guyana ICS

3.74 With access to only a limited rail transportation system, Guyanese companies, across all sectors, rely upon land transportation for pick-up and delivery of goods. The ICS data demonstrate that, on average, 74 percent of companies in Guyana use land as their primary means of transportation as do 80 percent of small and medium companies, and 46 percent of large ones. Not surprisingly, nearly 80 percent of the companies located outside of Georgetown primarily rely on land as opposed to only 48 percent of companies inside of the capital city.

Land transportation refers strictly to roads and river crossings by bridge. The only means of rail transportation in Guyana is a small rail line that serves the transportation of bauxite ore.⁹⁶

3.75 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.

3.76 Total shipment losses reported by Guyanese firms, at 4.6 percent of shipment value on average⁹⁷, are higher than in Central American comparator countries. For instance, total 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 3-24 and 3-25 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. The graph 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.

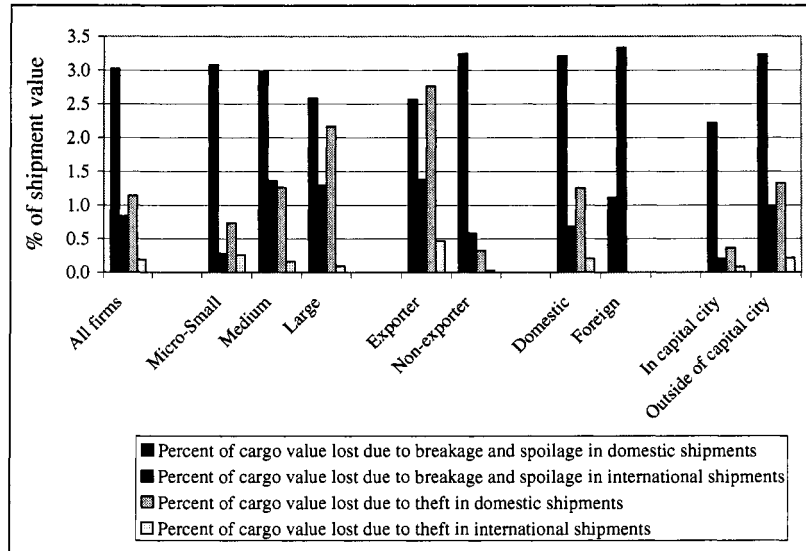
3.77 The bulk of the losses experienced by interviewed firms occurred during domestic shipments as a result of consignment cargo's breakage or spoilage (Figure 3-24). For instance, across the entire sample of interviewed companies, 3 percent of the shipment value was lost due to breaking and spoilage of the goods in transit domestically. This is equivalent to over 5 percent of the shipment value lost, if we average only across the firms that did experience such losses. In contrast, theft accounted for 1.1 percent of shipment value being lost when goods were moved domestically. International shipments were reportedly far more secure – only 0.8 percent of the shipment value was lost due to breakage and spoilage when moving goods abroad (exporting or importing). Losses due to theft in this case were negligible – at 0.2 percent of the shipment value. There are important differences in losses realized during shipment across different types of firms, as demonstrated in Figure 3-24. For example, while losses due to theft appeared rather low across the whole sample, they were high for large and exporting firms

⁹⁶ After the previous rail line was closed, the track was removed and sold for the raw materials.

⁹⁷ 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.

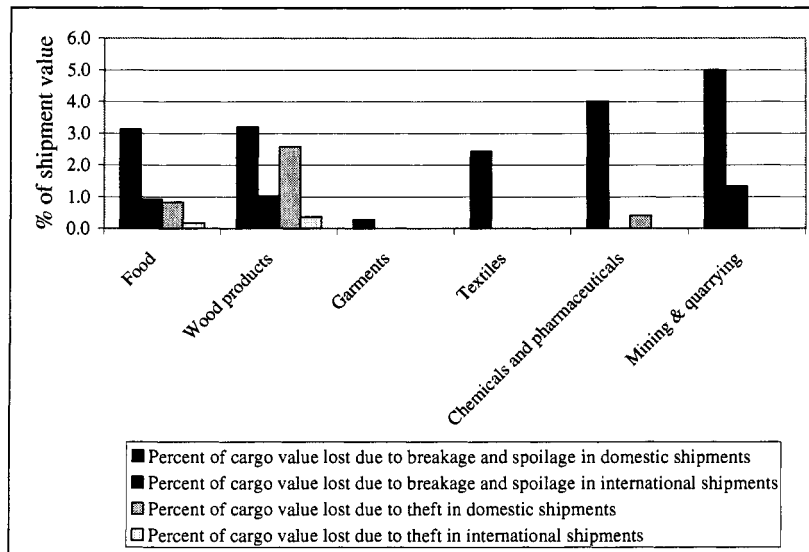
during their domestic shipments. While foreign firms seemed immune to theft on both domestic and international shipment, they incurred high losses due to breakage and spoilage in their international shipment. Finally, firms located in rural areas and other towns lost a higher fraction of cargo shipments, irrespective of the type of shipment and cause for the loss.

Figure 3-24: Average Losses Due to Damage and Theft during Shipment of Goods, by Type of Firm and Type of Shipment



Source: Guyana ICS

Figure 3-25: Average Losses Due to Damage and Theft during Shipment of Goods, by Industry and Type of Shipment



Source: Guyana ICS

3.78 Although Guyanese firms face high trucking costs compared to industrialized countries, the ICS data show that the companies interviewed do not regard these costs as prohibitive. Average trucking costs associated with moving cargo between a factory and the port of Georgetown range between US\$80 and US\$100 per TEU, inclusive of insurance costs.⁹⁸ The maximum trucking fee is US\$215 per TEU, and the minimum fee – US\$37 per TEU (depending on distance). These charges include the transfer of cargo between factory and port and the return trip of the truck, or the delivery of imports from port to factory and the return of the truck to the port. The Shipping Association of Guyana sets trucking rates on the basis of mileage and other costs, and is planning increases in its trucking rates by 31 percent, caused largely by the rising cost of fuel. 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.

3.79 Due to the relatively 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 1.1 percent of value lost due to theft during domestic shipments in the year prior to the ICS.⁹⁹ 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 on roadways is quite common.

3.80 While truck efficiency has improved with recent projects, there are still limitations to full efficiency. Trucking throughout the nation's interior remains difficult, but also unnecessary at this point. Roads leading to most factories¹⁰⁰ 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 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, no trucks carrying cargo can pass Guyana's bauxite mines on the road that leads to Brazil. Should this road be paved in its entirety to Lethem, Guyana (and assuming that the bridge connecting Lethem and Brazil is improved), the resulting trade increases will undoubtedly increase the demand placed on Guyana's paved roadways.

3.81 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

⁹⁸ Shipping Association (GUY) Inc., Proposed Transportation Rates

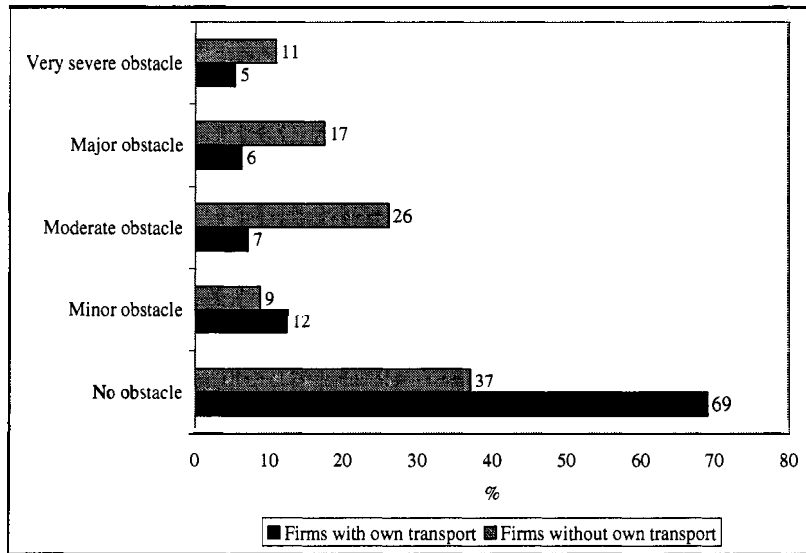
⁹⁹ Guyana Investment Climate Survey, World Bank, 2005

¹⁰⁰ Currently, only travel to rice factories remains difficult.

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.

3.82 Interviewed companies which rely upon their own transport are found to have better perceptions of the transportation system than firms which use public or private transportation services (Figure 3-26). As mentioned earlier, transportation does not feature high on the list of obstacles to doing business. This is indeed the case across the subset of firms which use their own company transport facilities. However, among those firms which do not have their own transport means, perceptions are different. For example, 28 percent of the latter perceive transport to be a major or severe obstacle to operations as opposed to 11.5 percent of firms which have their own transport. Furthermore, while 69 percent of firms with own transport perceive transportation as no obstacle at all, only 37 percent of those without their own transport do so. These differences are large to be ignored, and signal that shipping services are not perceived to be of adequate quality by firm users.

Figure 3-26: Perceptions of Transportation across Firms with and without Own Transport



Source: Guyana ICS

3.83 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 surveyed companies in Guyana utilize maritime transport as their primary mode of transportation. However, given the costs associated with bringing goods to port, this relatively low figure is to be expected (Table 3.4).

Table 3-4: Sea as Primary Means of Transport by Company Size and Location

	Total	Company Size			Location	
		Large	Medium	Small	In Georgetown	Outside Georgetown
Percent of Firms Using Sea Transportation as a Primary Method	22.9	54.0	20.0	12.9	48.3	17.3

Source: World Bank Guyana ICS, 2005

3.84 **Guyana’s primary export destinations include Barbados, Trinidad and Tobago, Grenada, Suriname, Jamaica, the United Kingdom, Europe, Canada and the United States.** Furthermore, due to its geographical location, trans-shipping plays a large role in the volume of goods handled by the port of Georgetown. Of the primary export destinations listed above, Barbados, the United States, and Trinidad and Tobago comprise the largest share, with 26 percent, 21 percent, and 16 percent of companies surveyed using these countries as their primary export destination in the year before the ICS.¹⁰¹ The majority of imports coming into Guyana originate in the United States, Canada, Western Europe, and the Caribbean, with a small portion of imports coming from the Far East. Due to the small volume of goods traded through Guyana, and Georgetown’s location south of Port of Spain and Jamaica, transshipping plays a role in the shipping of Guyana’s exports. All Guyanese goods headed for Mexico and Peru, for instance, are transshipped via Trinidad and Jamaica. However, goods headed for the United States and Europe do not have to be transshipped (with the exception of truck transportation to distribute goods on land). The port of Georgetown often imports via transshipment from Trinidad (Port of Spain) but is not used itself for transshipment.

3.85 **The port of Georgetown’s depth and equipment levels are regarded as adequate for the port’s current shipping volume by the interviewed companies.** 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.¹⁰² 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 Port of Spain in Trinidad has a depth of 12 meters at its deepest point.¹⁰³ 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. The large gantry cranes seen at larger ports are unnecessary in Guyana. With regards to Georgetown’s port equipment, those companies interviewed are of the opinion that the port equipment is adequate for current shipping volumes.

¹⁰¹ Source: Guyana Investment Climate Survey, World Bank, 2005

¹⁰² A portion of bauxite exports travel through the port of New Amsterdam.

¹⁰³ Source: Authors’ personal interview with Mr. Colin Edghill, June 23, 2005.

Table 3-5: A Sample of Average Freight Rates, in US\$

Freight Rates	20' Container	40' Container
Miami – Georgetown	\$2,650	\$3,950
Georgetown – Miami	\$1,435	\$2,210
Rotterdam – Georgetown	\$2,280	\$3,250
Georgetown – Rotterdam	\$1,400	\$1,750
Far East – Georgetown	\$3,305	\$4,675
Georgetown - Far East	\$1,650	\$2,300
Port of Spain – Georgetown	\$800	\$1,390
Georgetown - Port of Spain	\$750	\$1,300

Source: Background paper prepared for this report by Global Insight Inc. (2005); data from Guyanese sources

3.86 **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 are benchmarked against those of the port of Port of Spain for two reasons: first, Georgetown’s proximity to the Port of Spain makes them competitors; 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 would have to come down. As can be seen from Table 3-6, discharge and handling costs are significantly lower at the port of Port of Spain than at Georgetown.¹⁰⁴ This cost differential is largely due to the higher volume that the port of Port of Spain receives over Georgetown.

Table 3-6: Average Stevedoring Charges for Georgetown relative to Competitor Ports

Attribute	Category	Georgetown	Port of Spain
20' Container	Discharge	\$220	\$135 – 160
	Loading	\$150	\$90 – 104
40' Container	Discharge	\$440	\$135 – 160
	Loading	\$225	\$90 - 104

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

3.87 **The port of Georgetown is more efficient when it comes to certain port-specific operations – for example, it is able to move almost twice the dry metric tons per hour than the port of Port of Spain (Table 3-7).**¹⁰⁵ The key difference between the two ports, however, 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 it also handles transshipping 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, the port of Port of Spain is able to cater to the Panamax-size container ship vessel, which is beginning to dominate the global shipping industry.

¹⁰⁴ The actual charges incurred at the port of Port of Spain are determined by 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 a crane required.

¹⁰⁵ This comparison does not take into account the time spent in customs.

Table 3-7: Productivity Indicators for the Port of Georgetown relative to Competitor Ports

Attribute	Category	Georgetown	Port of Spain
Average TEU's per week	Import	500 – 600	1,351
	Export	350 – 400	1,403
	Transshipment	0	2,936
Average time in port (hours)	Container Ship	12- 36	18 – 36
	Dry-Bulk Vessel	12- 36	40 – 60
Cargo volume handled per hour	TEUs	14 – 20	15 – 20
	Dry Metric Tons	80 – 100	40 – 60
Equipment	Gantry Crane	0	11
	Draft (deepest point, meters)	7.5	12
	Rail	No	Yes

Source on Port of Spain data: Colin Edghill; June 2005, Port Authority of Trinidad & Tobago, 2002

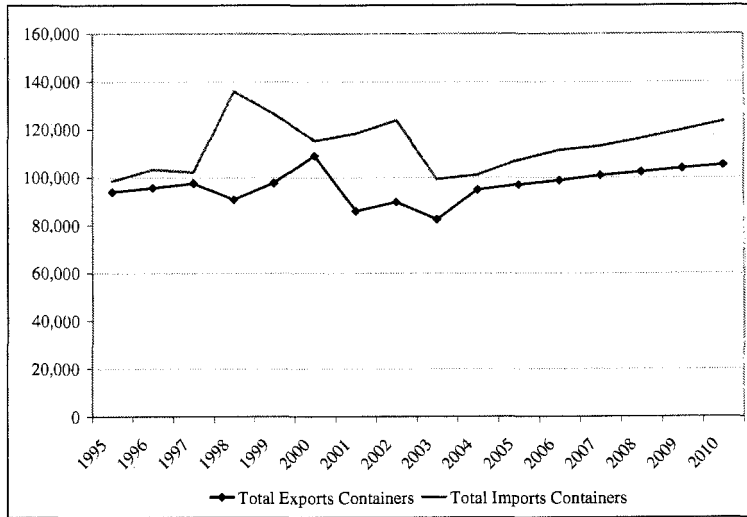
3.88 The cost of complying with U.S. shipping regulations has subsided according to all the firms interviewed. Following the September 11th attacks in the United States, shippers sending goods into the United States were required to implement certain security measures and external controls. While costly during the transition period, the costs of complying with US regulations have since declined. If shippers wish to insure their cargo, the cost for full coverage insurance is typically 0.5 percent of the value of the cargo. As security issues involved with sea transport are viewed as negligible, some companies choose to not obtain full coverage, and to only obtain liability insurance instead.

3.89 A lack of air infrastructure in Guyana means that air travel is expensive and not a significantly utilized mode of transportation for trade in Guyana. Of all the companies interviewed in the ICS, only 3.2 percent use air as their primary mode of transportation. There are technically 49 airports in Guyana, but only 8 of them have paved runways necessary for freight traffic.

3.90 Georgetown's port may need to adjust to trends in global trade, but it should not expect significant shifts in its commodity profile. Figure 3-27 displays forecasts for trade (export and import growth) in Guyana. These forecasts are based on Guyana's GDP outlook, expected population growth, price indices and deflators, and exchange rates. The trade forecast also incorporates global trade growth and the economic growth of Guyana's immediate neighbors.¹⁰⁶

¹⁰⁶ The trade forecast does not include an assumption on having a paved road between Guyana and Brazil. The forecast methodology, with a brief description of the underlying model and the assumptions about future population, GDP, GDP deflators, industrial output, exchange rates and export prices by country, are in the background paper prepared by Global Insight Inc. for this report. It utilizes past and forecast information about trade in 77 commodities (ISIC categories) among 55 countries and 16 geographic regions around the world.

Figure 3-27: Past and Forecast Trade Growth in Guyana, Containers

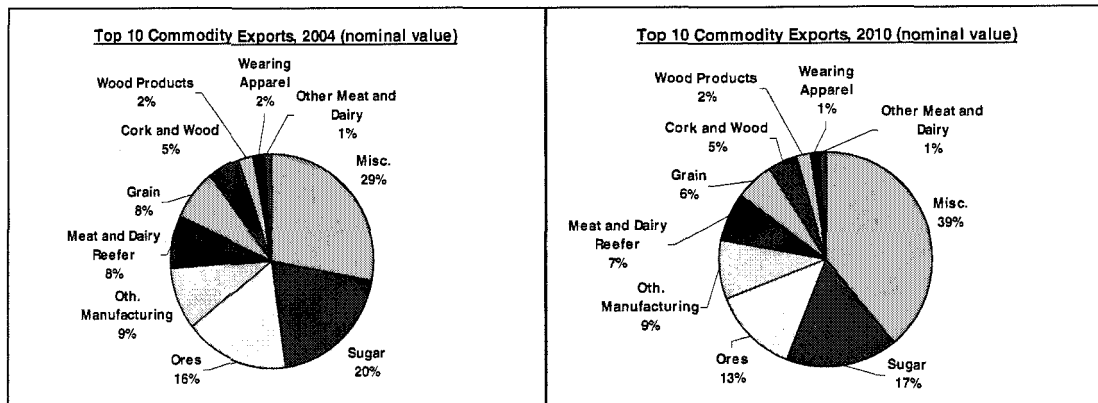


Source: Global Insight World Trade Service, 2005

Note: The methodology of the trade forecast by Global Insight Inc. is in the background paper for this report.

3.91 **Total Guyanese exports in containers are expected to experience a CAGR of 1.6 percent between 2005 and 2010.** In 2005 and 2006, container exports will witness growth of 2.2 percent and 1.9 percent respectively. Growth of total imports will be slightly higher, with a CAGR of 2.9 percent between 2005 and 2010. In 2005, that growth rate will be a relatively high 6.0 percent, before dropping to 3.9 percent growth in 2006 (Figure 3-27).

Figure 3-28: Top 10 Commodity Exports in 2004 and Forecast for 2010 in Guyana



Source: Global Insight World Trade Service, 2005

Note: The methodology of the trade forecast by Global Insight Inc. is in the background paper for this report.

3.92 The composition of Guyana's top 10 exports is not expected to experience substantial changes between 2004 and 2010.¹⁰⁷ As such, Guyana will not need to drastically restructure its ports and roads to handle the trade of its 10 most dominant exports although the growth of the share of "Miscellaneous" products warrants highlighting. However, there is not enough growth to compel specific changes in transportation. Table 3-8 shows the current and forecast CAGRs of each export.

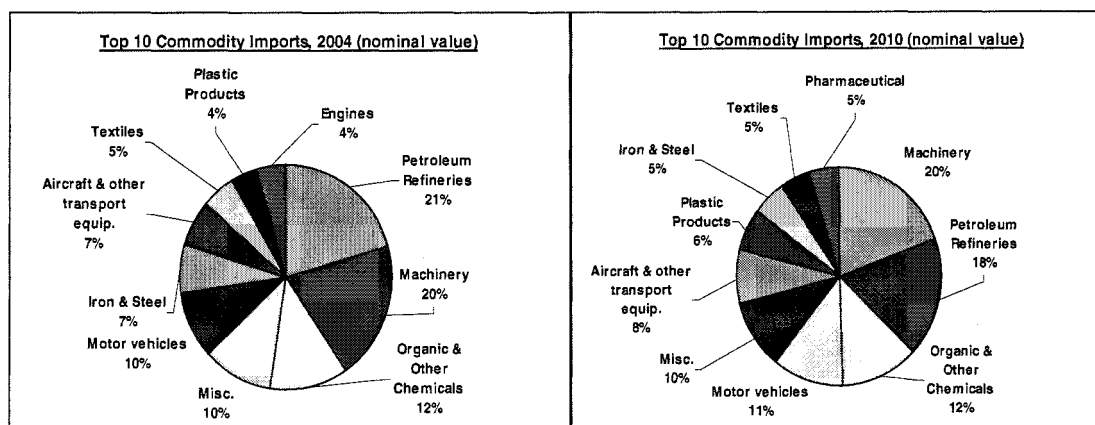
Table 3-8: Growth Rates of Guyana's Top 10 Exports, Nominal Values

Exports (Nominal Value)	CAGR
	2000 – 2010
Sugar	1.2%
Ores	6.5%
Other Manufacturing	12.7%
Meat and Dairy (Refrigeration)	2.2%
Grain	3.2%
Cork and Wood	8.7%
Wood Products	-2.7%
Apparel	-0.1%
Other Meat and Dairy	11.8%
Miscellaneous	9.8%

Source: Global Insight World Trade Service, 2005

Note: The methodology of the trade forecast by Global Insight Inc. is in the background paper for this report.

Figure 3-29: Top 10 Commodity Imports in 2004 and Forecast for 2010 in Guyana



Source: Global Insight World Trade Service, 2005

Note: The methodology of the trade forecast by Global Insight Inc. is in the background paper for this report.

3.93 The composition of Guyana's top 10 imports is not expected to experience substantial changes between 2004 and 2010, although certain small changes are likely to occur (Figure 3-29). Namely, imports of engines are expected to drop from 10th to 11th in the import list, and pharmaceuticals will rise from 20th to 10th position in 2010. Increased imports of pharmaceuticals are consistent with expectations of improvements in the standard of living.

¹⁰⁷ Since the top 10 export commodities represent approximately 96 percent of total export commodities, it is sufficient to look at the 10 rather than the entire commodity list.

Since Guyana is already suited to importing chemicals, the projected increases in imports of pharmaceuticals/chemicals should not necessarily warrant the restructuring of ports and roads.

Table 3-9: Growth Rates of Guyana’s Top 10 Imports, Nominal Values

Imports (Nominal Value)	CAGR
	2000 – 2010
Sugar	-0.3%
Ores	4.0%
Other Manufacturing	1.5%
Meat and Dairy (Refrigeration)	3.6%
Grain	3.9%
Cork and Wood	44.7%
Wood Products	9.0%
Wearing Apparel	8.3%
Other Meat and Dairy	5.8%
Miscellaneous	0.8%

Source: Global Insight World Trade Service, 2005

Note: The methodology of the trade forecast by Global Insight Inc. is in the background paper for this report.

3.94 **In the long-run, Georgetown primarily needs to consider restructuring its port to accommodate the global growth in container trade.** As seen in the commodity trade discussion above, no change in commodity trade will be significant enough to justify port restructuring. However, Figure 3-27 indicates the important global trend of container trade growth to which Guyana needs to eventually respond in order for it to increase its competitiveness in international trade. An example to follow might be that of El Salvador which passed a General Maritime and Ports Law, reforming the governance structure of the sector, and established the framework for private sector participation in the sector. The subsequent increased investment led to a 25-percent increase in cargo and traffic volumes, and a reduction in cargo unloading times. 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 be accomplished through 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.

3.95 **Customs clearance procedures in Guyana are associated with unacceptable delays and can be time-consuming.** Yet, more than half of the companies surveyed do not believe customs regulations are a hindrance to their operation and growth. Customs-related constraints in Guyana are mentioned less frequently in Guyana than in El Salvador, but more often than in Honduras. Exporters spend an average of 14 days in customs, with a maximum time of 23 days. This compares highly unfavorably 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.

3.96 Despite the time in customs and occasional instances of reported bribery at customs, 67 percent of interviewed companies feel that the customs process is not a hindrance to their operation and growth. Conversely, 18 percent perceived customs problems as either a “major” or “severe” obstacle, compared to 24 percent of firms surveyed in Guatemala and 8 percent in Honduras. Those companies with a negative perception of the customs process tended to be those shipping chemicals and wood products (not surprisingly, the companies that spend the most time in customs). On average, 40 percent of chemical companies and 24 percent of wood companies viewed customs as a severe obstacle to growth. For comparison, consider Honduras where the average customs clearance time is 2 days for exports and 3 days for imports.¹⁰⁸

3.97 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 interviewed medium and large companies compared to micro and small ones indicate that they had to make such extra payments during import clearance procedures (Table 3-10). 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).¹⁰⁹

3.98 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 (see Figure 3-32). 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.

Table 3-10: Reported Incidence of Extra Payments at Customs, percent of interviewed firms

	Total	Company Size		
		Large	Medium	Micro and Small
Exporters	59.6%	57.9%	61.5%	64.3%
Importers	66.7%	70.0%	70.0%	54.6%

Source: World Bank Guyana ICS, 2005

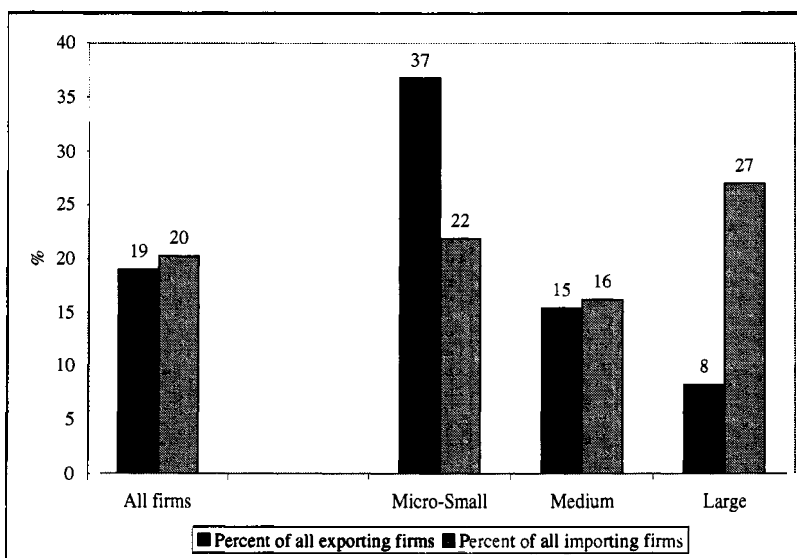
3.99 There are substantial differences in the reported incidence of informal payments (bribery) across firms of different size (Figure 3-30). Large exporting firms are far less likely to encounter bribes during customs clearance procedures of their shipments abroad than micro

¹⁰⁸ Honduras Investment Climate Assessment, World Bank, 2004

¹⁰⁹ 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.

and small, and medium companies are (8 percent versus 37 and 15 percent respectively). They are, however, more likely to be asked for informal payments at customs when importing, with 27 percent of large importers reporting requests to make such informal payments.

Figure 3-30: Reported Incidence of Informal Payments at Customs, by Firm Size



Source: World Bank Guyana ICS, 2005

RECOMMENDATIONS ON TRANSPORT AND LOGISTICS

3.100 The potential for trade with neighboring Brazil suggests that the country needs to pursue aggressively 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 Georgetown 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. Likewise, current estimates that the port in Georgetown has excess capacity imply that no drastic port restructuring is needed in the near future. Should the road to Brazil become suitable for freight traffic, incoming and outgoing goods between Brazil and Georgetown would increase the port of Georgetown's volumes and justify a dredging project, or the construction of a deep water port. Until the volumes of goods and port traffic in Guyana increase, large capital investments in the port in Georgetown would appear to be unwise.

3.101 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 and the World Bank's Caribbean Infrastructure Assessment Report (2005):

3.102 The construction of a national road transport network will provide the foundation for the economic development of the entire country, and includes the following:

- 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.¹¹⁰
- 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.¹¹¹

3.103 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 ICAO certification – essential if Guyana's tourism industry is to attract American tour operators.

3.104 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.

¹¹⁰ EU Transport Sector Study 2005

¹¹¹ *ibid*

WATER

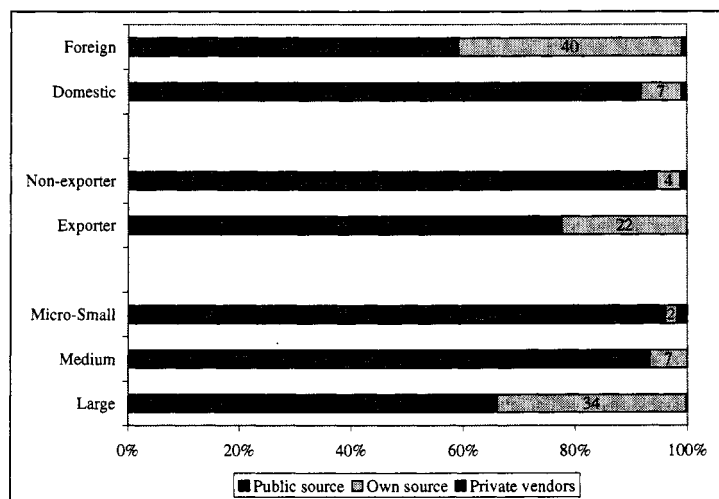
3.105 **Evidence from the Guyana Investment Climate Survey (ICS) suggests that access to reliable water supply is not a principal barrier to investment and firm growth.** Nonetheless, findings do indicate that the lack of reliability in water utility services increases firms' costs and reduces profitability. This is particularly the case for larger firms concentrated in the food and beverage, textiles, and chemical industries, where water is an important – if not essential – input into the production process. The ICS also provides evidence that small and medium enterprises receive less reliable water supply and experience significantly lengthier delays in connecting to the network compared to their larger competitors.

3.106 **Findings from the ICS also demonstrate that an important segment of firms that are disproportionately large, exporting and dependent on water in the production process rely on own-source water supply.** The long-term implications of self-provision are not well understood due to the absence of an effective regulatory environment and a comprehensive assessment of the status of groundwater resources. However, the Guyanese water utility is concerned that current indiscriminate and unregulated ground water extraction will over time prove unsustainable and drive up costs for both firms and the public utility - Guyana Water Inc. (GWI).

Usage and Sources of Water Supply

3.107 **Water is an important input for many Guyanese firms even though it does not account for a large proportion of firms' 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, textile, and chemical 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 own sources. A very small percentage of the interviewed Guyanese firms get access to water from private vendors. As demonstrated in Figure 3-31 below, large firms, foreign-owned enterprises and exporting firms disproportionately depend on own-sources for water supply, while small and medium 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 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 3-31: Use of Different Sources of Water for Production Firms, percent of Guyanese manufacturing firms

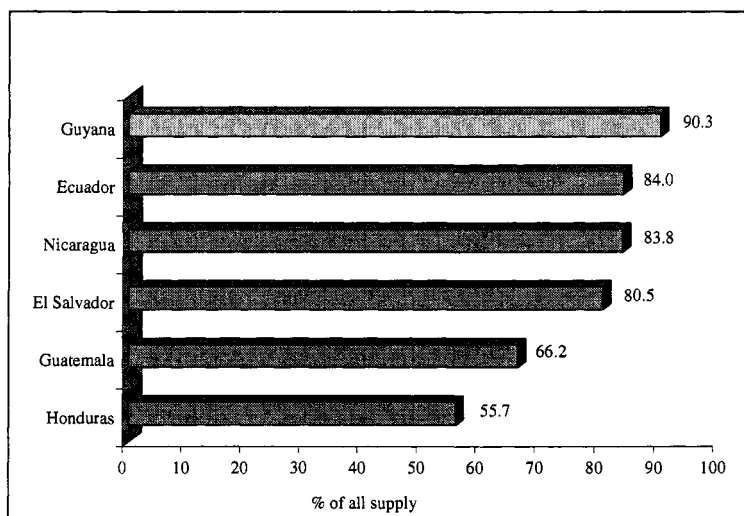


Source: World Bank Guyana ICS, 2005

3.108 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 that the GWI supply system cannot currently accommodate. Many of these firms also operate 24 hours a day and would 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.

3.109 Despite deficiencies in the water services provided by the public system, reliance on water supply from public sources is higher in Guyana than in other comparator Latin American countries. Over 90 percent of water supply to interviewed manufacturing firms comes from public sources, which is higher than in Honduras (56 percent), Guatemala (66 percent), El Salvador (81 percent), and Ecuador and Nicaragua (84 percent) (Figure 3.32). 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- 32: Provision of Water from Public Sources, by Country



Source: World Bank Investment Climate Surveys, various years

3.110 Additionally, a closer inspection of the ICS data shows that very few Guyanese firms rely on multiple sources of water supply as a means to mitigate the impact of water supply interruptions. Hence, firms are dependent almost entirely on either networked or own-source water supply. This trend may be changing as GWI reports that it has received an increasing number of applications for connections to the public water supply network from larger firms that depend primarily on water supplied through own-sources. This trend may also reflect improvements in the reliability of public water supply services as a result of the water sector reform program discussed at greater length below.

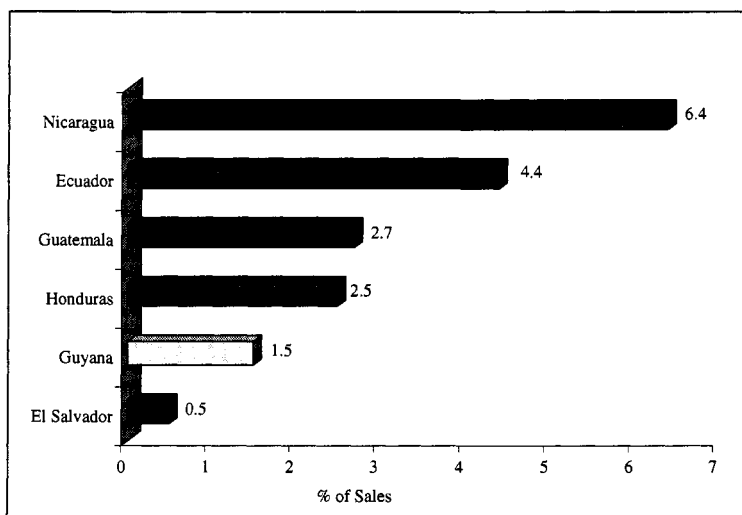
Service Reliability

3.111 Despite recent improvements in service, reliability remains a concern for surveyed Guyanese firms. Approximately 18.4 percent of all interviewed 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 Investment Climate Survey conducted by FIAS in 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) as 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 in other towns and rural areas. However, the average duration of interruptions for exporters was lower than that for non-exporting firms.

3.112 The ICS data indicate that the impact of water service interruptions on firm profitability is moderate - but less than that in regional comparator countries. Figure 3-33 depicts the percentage of sales lost as a result of water supply interruptions for interviewed firms in 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 3-33: Costs of Water Interruptions: percent of annual sales across firms that experienced water interruptions, by Country



Source: World Bank Investment Climate Surveys, various years

3.113 **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 ICS reported some form of interruptions or periods of insufficient supply which lasted for on average of 25 hours. Interruptions impact more adversely large hotels than their smaller competitors. The duration of water interruptions for larger hotels was over 68 hours as compared to 3.9 hours for small hotels, and the resulting overall economic cost to firms was 1.2 percent of sales for all surveyed hotels, and 2.2 percent of sales for large hotels only.

Connecting to the Network

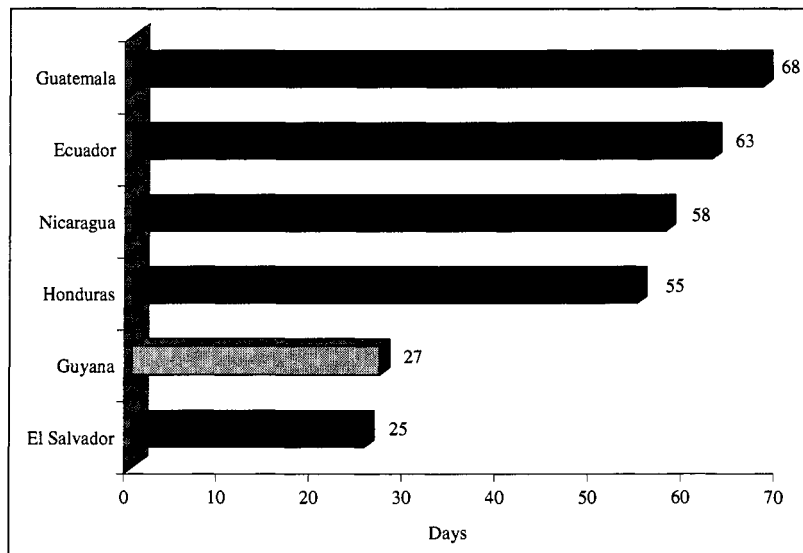
3.114 **Guyana also compares favorably in the region in terms of the length of time it takes to gain access to water supply.** Figure 3-34 compares the time firms spend on obtaining a water connection in Guyana, Ecuador, El Salvador, Nicaragua, Guatemala and Honduras. In Guyana firms report that it takes on average 27 days¹¹² to get connected to the water network compared to 63 days in Ecuador, 25 days in El Salvador, 68 days in Guatemala, 55 days in Honduras and 58 days in Nicaragua. Therefore, Guyana’s average reported waiting time to get connected to the water supply network is lower than in the other comparator countries, and close to that of El Salvador.

3.115 **It takes micro and small Guyanese firms much longer (33 days) to get connected to the water network than it takes medium-sized and large firms to do so (15 and 17 days**

¹¹² It must be noted that this average number of days to get access to water supply is based on answers by 23 Guyanese firms, which applied for water supply services in the two years preceding the ICS. The values range from 1 to 30 days, with a median of 17 days. Given the small sample size, the results reported here are only indicative.

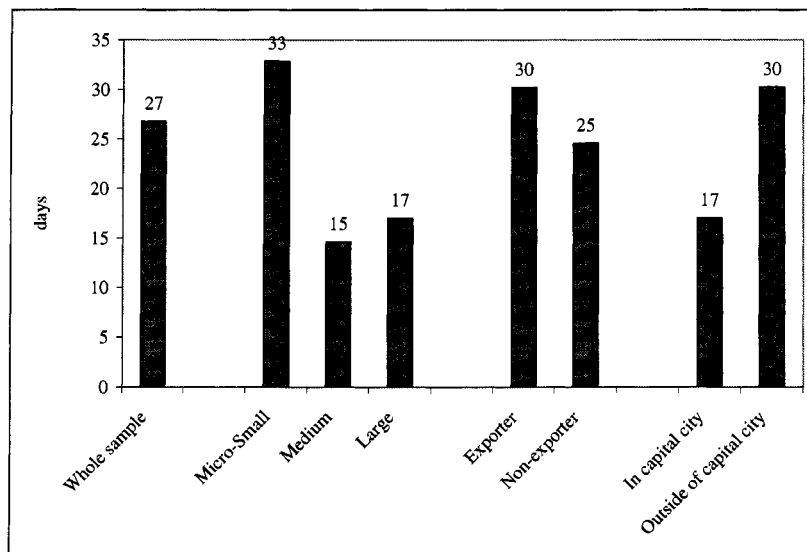
respectively). Additionally, it takes almost twice as long for firms outside of the capital city to obtain water supply than firms located in Georgetown (explained in part by the relatively underdeveloped infrastructure network in rural areas). The waiting times for different types of firms are illustrated in Figure 3-35. Finally, the ICS data reveal that large and foreign-owned firms are more likely to be required to pay bribes to access water supply services. Out of 6 large firms that applied for water connection, 2 were asked for an informal payment, as opposed to none of the micro, small and medium companies. Out of two foreign applicants, 1 was asked for such an informal payment as well. Again, these results are subject to the caveat that there are very few observations for some types of firms which applied for the water connection.

Figure 3-34: Average Number of Days to Obtain a Water Connection, by Country



Source: World Bank Investment Climate Surveys, various years

Figure 3-35: Average Number of Days to Obtain Water Connection, by Type of Firm



Source: World Bank Guyana ICS, 2005

Water Sector Reform and Sustainability Concerns

3.116 Reforms of the water sector are ongoing. In 2000, the Government of Guyana embarked on a comprehensive reform of the water sector, which has involved an improved regulatory framework, coherence in the institutional framework through the merger of the two existing water utilities into GWI, the award of a performance-based management contract to an international operator, and the 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. A substantial increase in new capital investments in the sector scheduled over the next five years is likely to continue this trend.

3.117 Despite recent improvements, a series of specific measures could be undertaken 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 Guyanese firms, contribute to the reduction of firm costs, and increase incentives for firms to access public water supply. In addition, the Government of Guyana should consider strengthening the regulatory environment surrounding the licensing of extraction rights and conducting new analysis on the sustainability of groundwater resources.

CHAPTER 4. SKILLS, MIGRATION, TECHNOLOGY AND QUALITY

INTRODUCTION

4.1 **Since its domestic market is extremely small, Guyana has to be especially concerned about creating an attractive business environment.** Given the limited potential in the domestic market and the growing globalization, the businesses in Guyana have to be oriented mostly towards international markets. Domestically-oriented firms have to be able to survive the competition from the imports that can otherwise take the small market quickly. Creation of internationally competitive firms is only possible if the investment climate is such that adequate returns to investors are achievable, given international pricing and various country-specific risks (macroeconomic, political, security, infrastructure, etc.).

4.2 **Otherwise, the country's resources, including skilled labor, would likely find their use elsewhere in the world.** The national income resulting after such resource reallocation (with heavy reliance on exports of natural resources and worker remittances) may not be sufficient to adequately support the population remaining in the country. The reforms should not tackle one specific area, but rather address all the major issues. For example, improvements in education without significant changes in infrastructure, security and other areas may only reinforce the already intensive emigration.

4.3 **Since the beginning of the 1990s, considerable progress has been achieved in Guyana in increasing the coverage of secondary and tertiary education** (see 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.¹¹³ In large part, this is a result of the significant increase in the government's expenditure on education which rose from 4.9 percent of GDP in 1997 to 6.7 percent of GDP in 2004. At present, the Government is working toward introducing universal secondary education. Even though public expenditure on education in Guyana is now higher than the average for Latin American countries (4.1 percent of GDP), it is in line, or even lower than that recorded by the OECS and other Caribbean countries (7.1 percent of GDP across the OECS in 2003)¹¹⁴. The challenge for Guyana – as well as for most of the Caribbean – is how to translate this high public expenditure on education into better educational outcomes, such as students' test score performance, and years of schooling.

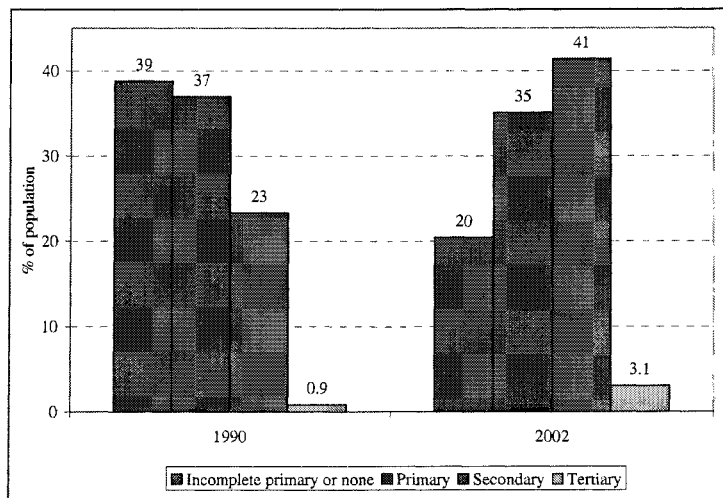
¹¹³ The improvements in the secondary and tertiary education coverage are, in fact, likely to be underestimated, given the high and, lately, growing emigration that is biased towards skilled labor – as discussed later in this chapter. A factor that works in the opposite direction is the re-immigration of a notable number of well-educated Guyanese in the first half of the 1990s, but this effect is relatively small.

¹¹⁴ For more information on public expenditure on education in the Caribbean, see chapter 7 of "A Time to Choose: Caribbean Development in the 21st Century", World Bank, 2005.

4.4 **The lack of readily available skilled labor in Guyana is a major problem for private businesses.** Around 40 percent of industrial firms responding to the ICS rated the lack of availability of skilled labor as a “major” or a “severe” obstacle to their growth and competitiveness. That number was even higher – 50 percent – for hotels. In addition to the general decline in the quality of school education (despite the increased coverage), the two interlinked 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 adverse selection resulting from the significant emigration of skilled labor (brain drain). Related to the former issue is the fact that the Guyanese education system is overloaded with different test, which is a legacy of the old requirements of the British education system. Work has been underway to revise the lower secondary curriculum with the objective of making the education system more relevant to the needs of the country’s economy.

4.5 **Shortages of skilled labor affect other Caribbean countries as well.** For example, the unavailability of skilled labor was rated the top obstacle to doing business by surveyed firms in Grenada – with 40 percent of them identifying this as a major or severe constraint – exactly the same percentage as in Guyana. Therefore, Guyana’s problems in the area of education and skills formation are not unique. According to the World Bank (2005d), several Caribbean countries fell behind in skills formation during the period of 1980-2000. Only Barbados recorded a faster increase in the average years of schooling of its adult population compared to the Latin American and world average increases. Guyana’s average years of schooling rose only by 0.6 years between 1990 and 2000, which is lower than the LAC average increase of 0.9 years, and the world increase of 0.7 years over the same decade. Similar trends – albeit to a different degree – were observed in Trinidad and Tobago, Jamaica, Haiti and the Dominican Republic.

Figure 4-1: Guyana: Distribution of the Population by Educational Attainment, 1990 and 2002



Source: Guyana National Bureau of Statistics and the World Bank

4.6 **The supply-demand skills mismatch in the industry seems to originate from two sources.** First, the education system seems to be biased away from technical professions. Second, relative to other professions (perhaps, except for 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 employees. Interviewed firms indicate that they have to train three or more workers to retain one. This chapter describes the recent achievements in the educational system and addresses the reasons for the relatively low quality of labor in the country. It then proceeds to analyze the emigration issues.

4.7 Emigration, especially of skilled labor, has been a significant problem for decades. Various estimates suggest that, size-wise, the Guyanese Diaspora worldwide is likely to exceed the population living in the country (the latter was around 751,000 in 2002) and consists, in a large part, of well-educated professionals. Currently, more than 85 percent of Guyanese university graduates live in OECD countries. 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 been quickly reversed. The chapter assesses the reasons for the high emigration rates, analyzes the impact of the growing remittances, currently estimated at close to ten percent of GDP, and provides policy recommendations.

4.8 There are practically no labor market rigidities, in the usual sense (minimum wage¹¹⁵, layoff benefits, social obligations, etc.), that would affect negatively the flexibility of employers in making hiring and firing decisions. A Guyana-specific problem, however, is the significant polarization of the labor force across the ethnic and the (highly correlated with it) political lines. This segmentation restricts labor choices available to firms as well as puts barriers on the way of interactions between businesses as well as between businesses and the government. The chapter provides more detail on these findings. Given the endowment-type nature of the problem, the scope for recommendations in this area is, however, very limited.

4.9 Investment in new technologies is far from being intensive, and is fairly unsophisticated. Only about a third of the surveyed industrial enterprises invested in new technologies in 2002-2004. In the overwhelming majority of cases – more than 75 percent - the investment came in the form of equipment purchases. Guyana fares very poorly in comparison with other countries in the LAC region with respect to the intensity and the sophistication of technological innovation. The number of firms with an internationally recognized quality certification is relatively small (17 percent).¹¹⁶ This chapter discusses the reasons for the lack of innovation activity. They range from security uncertainty to lack of qualified labor and inadequate, but developing, infrastructure for quality assurance.

4.10 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

¹¹⁵ The minimum wage is not regulated in the private sector, and is around US\$110/month in the public sector.

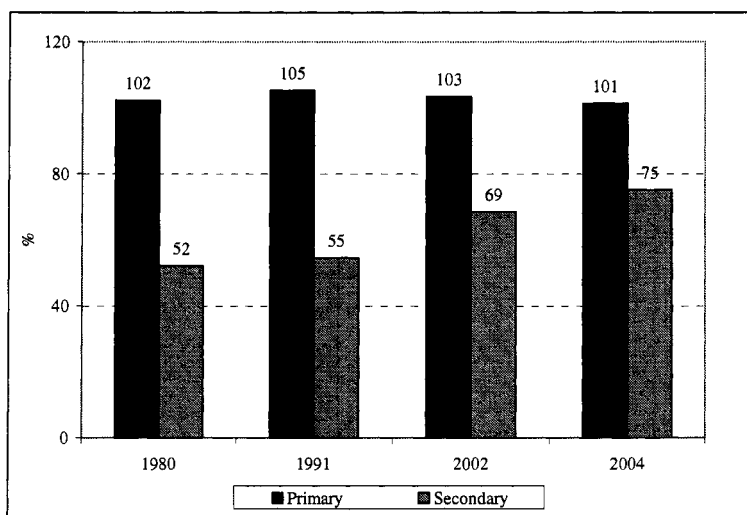
¹¹⁶ Most of these are non-ISO certifications.

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. The chapter discusses the structure of the quality assurance system, details the recent progress and provides recommendations.

EDUCATION AND TRAINING: RECENT DEVELOPMENTS AND CHALLENGES

4.11 Over the last decade, the secondary and higher education coverage in Guyana has improved considerably. This was fueled by the sharply increased government expenditure on education that grew from 4.9 percent of GDP in 1997 to 6.7 percent of GDP in 2004. The already high population literacy of 96 percent in 1990 has now reached almost 100 percent. As Figure 4.2 indicates, the gross enrollment rate in secondary schools has grown significantly, especially in the new millennium, reaching 75 percent in 2004. Considerable efforts have also been undertaken in the area of tertiary education. As a result, while for the whole period of 1990 to 2002 the population grew by only about 3.6 percent¹¹⁷, 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.¹¹⁸

Figure 4-2: Guyana: Net Primary and Secondary School Enrollment Rates, 1980-2004, % of relevant age group



Source: Guyana National Bureau of Statistics and Ministry of Education

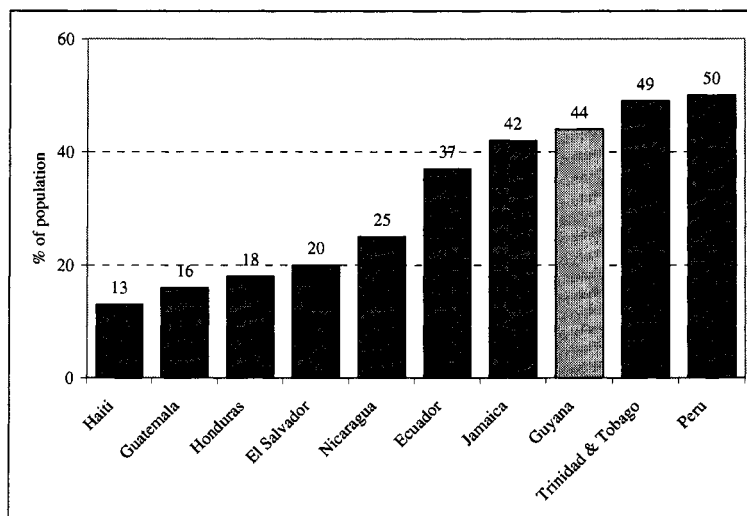
4.12 As a result, Guyana ranks well in comparisons of levels of educational attainment in the LAC region measured by the share of population with secondary or tertiary education, and compares well on this measure to the rest of the world. Figure 4.3 indicates that, with 44

¹¹⁷ For reference, the 2002 population was still 1.2 percent below the 1980 level due to the more intense emigration in the 1980s than in the 1990s.

¹¹⁸ The improvements in the coverage of the secondary and the tertiary education are, in fact, likely to be underestimated, given the high and, lately, growing emigration that is biased towards skilled labor – as discussed later in the Chapter. A factor that works in the opposite direction is the re-immigration of a notable number of well-educated Guyanese in the first half of the 1990s, but this effect is relatively small.

percent of the population with secondary and tertiary education, Guyana is positioned relatively well in the LAC region and among comparator countries. That number represents a significant increase from only 24 percent in 1990.

Figure 4-3: Proportion of Population with Secondary or Tertiary Education, selected countries



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

Note: The data are for 2000 for all countries, except Guyana – for which the year is 2002.

4.13 The Government is targeting universal secondary education, the achievement of which, however, may take considerable time. The objective of introducing universal secondary education is stated as a general goal in the Strategic Plan of the Ministry of Education for 2003-2007 (SPME), yet with the timing not exactly bounded by the plan’s horizon. The National Development Strategy for 2000-2010 (NDS) does not have this objective explicitly included. Indeed, with a secondary education enrollment rate of around 75 percent and significant shortage of qualified teachers, a lot of work is required to achieve universal coverage. Recent efforts have concentrated more on upgrading the education in the first three grades of secondary schools, both – program- and infrastructure-wise (including through World Bank and DFID projects).

4.14 While secondary education coverage has increased, the quality of school education is encountering serious difficulties – as reflected in the part of the NDS prepared by civil society representatives in 2000 (this text is also cited in the 2002 SPME):

“A number of economic and social factors... have led to a most unsatisfactory and unacceptable state of affairs: learning rates in the schools are extremely low; a large proportion of the teaching force is unqualified and untrained; absenteeism on the part of both teachers and students is rife; and textbooks and other instructional materials are often unavailable. Guyana’s success in attaining universal access to primary schools... has been eroded and has been replaced by

rising repetition and dropout rates. Moreover [there are] alarmingly high levels of functional illiteracy.”¹¹⁹

4.15 Underlying recent problems with the quality of education are the weakening motivation of students and the insufficient resources to support the necessary infrastructure and incentives for teachers. According to the Government, there is “a widespread lack of motivation, and perhaps even the growth of a certain culture of acceptance of prevailing conditions” (SPME). Insufficiency of the resources allocated to education is also a major concern of the Ministry of Education, despite the recent almost exponential growth of the available budgetary resources. While significant progress has been achieved in the new millennium in increasing secondary school enrollment, drop-out and repetition rates have stayed practically unchanged, the ratio of trained teachers to all teachers has declined, and the student-trained-teacher ratio has gone up (Table 4.1). Prepared in 2002, the SPME notes:

“In the 1960s, Guyana’s educational system was considered one of the best in the Caribbean. Today, it is considered one of the weakest, although some recovery has been achieved in the last few years”.

Table 4-1: Guyana: Selected Education Indicators, 2000-2004

	2001	2002	2003	2004
Percent of primary school entrants reaching grade 6	83.5	88.3	88.3	89.1
Repetition rate (secondary)	12.9	12.6	12.5	NA
Drop-out rate (primary)	8%	8%	8%	NA
Drop-out rate (general secondary)	10%	10%	10%	NA
Student/trained teacher ratio (primary)	50.1	50.1	48.1	54.1
Student/trained teacher ratio (general secondary)	39.1	38.1	38.1	42.1
Gross nursery school enrolment	87	88	89	77.1
Gross primary school enrolment	107	105	104	101.7
Gross secondary school enrolment	65	65	64	75.2
Percent of trained teachers in primary schools	53	54	59	51.8
Percent of trained teachers in secondary schools	58.5	58.5	58.5	49.4
Percent of CSEC passes	74.5	77.1	76.8	76.3

Source: Guyana Ministry of Education

4.16 Generally, student-to-teacher ratios (STR) in Guyana are relatively low but student-to-trained-teacher ratios (STTR) are much higher at both the primary and secondary levels. For example, the STR at the primary school level in Guyana was 27-1 in 2004, while the STTR was 54-1 in the same year. While the STR at the general secondary school level was 25-1 in 2004, the STTR was much higher – at 42-1. Finally, STRs at the primary tops and community

¹¹⁹ Civil Society of Guyana on: *National Development Strategy*, May 2000, Mimeo, p.197.

high schools (which are types of secondary schools) was 17-1, even lower than in the general secondary schools in Guyana. In other words, the scarcity of trained teachers is the problem. Therefore, upgrading teachers' skills would help enormously to lower the student-to-trained-teacher ratios. The Government is already working toward this goal.

4.17 The lack of availability of trained teachers remains a major problem. Half of the school instructors and 40 percent of school heads are not trained as teachers. The relatively low school teacher salaries combined with the private sector and emigration opportunities are the factors behind the lack of teacher availability. The increased enrollment rates in secondary schools have created additional demand for teachers - which, in part, accounts for the lack of improvements in the student-to-trained-teacher ratio. The government lacks the capacity to train as well as to retain the teachers. Problems in the remote areas are greater due to the lack of incentives for teachers to work there as well as the less adequate school infrastructure.

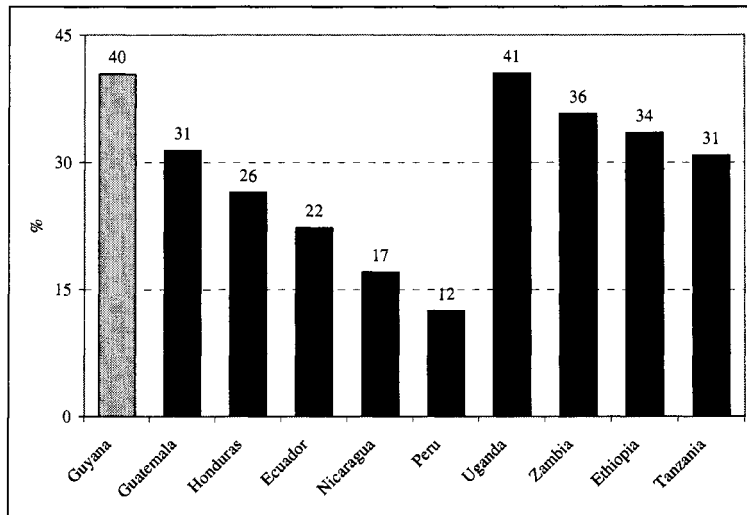
4.18 While the quality of the knowledge possessed by the Guyanese is so far perceived as relatively high, especially internationally, this perception may change if the quality of school education is not restored. The overall perception about the quality of education is to a large extent driven by those aged 25-40, i.e., whose school education took place relatively long ago. In addition, the international perception is likely to be biased due to the self-selection of emigrants based on the skills they possess. The problems with the quality of school education are likely to lead to a situation in which the differences in the intrinsic abilities and the motivation to study play an increasingly important role – widening the distribution of the skills across school graduates, mostly towards the lower end. As the emigration (observed at very high levels in the country) takes away the upper part of this distribution, the average quality of skills and knowledge of those remaining in the country is likely to diminish.

4.19 The dissatisfaction of the firms located in Guyana with the availability of skilled labor is among the strongest in the world. Of the industrial firms interviewed in the World Bank ICS, 40 percent viewed the lack of the availability of skilled labor as a “major “or “severe” obstacle to the growth and competitiveness of their firm.¹²⁰ For surveyed hotels and other tourism establishments, this number was even higher – 50 percent. As Figure 4.4 indicates, the degree of dissatisfaction is higher than elsewhere in the region, and, outside of the LAC region, close to a number of countries in Africa.¹²¹

¹²⁰ This number drops to 39 percent, if only manufacturing firms are considered.

¹²¹ Comparisons of perceptions like in Figure 4.4 should be treated with caution. Much depends on the general economic situation in the country. In countries that experience low economic growth, dissatisfaction tends to be higher in general (Guyana falls into this category). Another possibility for an upward negative perception bias is a rapidly growing economy – in which constraints are felt stronger, especially if the Government persistently highlights them in its programs. These biases are difficult, if not impossible, to eliminate (for example, the “average” degree of dissatisfaction may or may not represent the aggregate bias well; besides, the bias may be unequally distributed among different obstacles). The ICS asks a number of quantitative questions to complement the perception-based ones – such as the number of days to fill a vacancy for a skilled technician, among others.

Figure 4-4: Degree of Dissatisfaction with the Availability of Labor Skills, by Country



Source: World Bank, IC surveys, various years

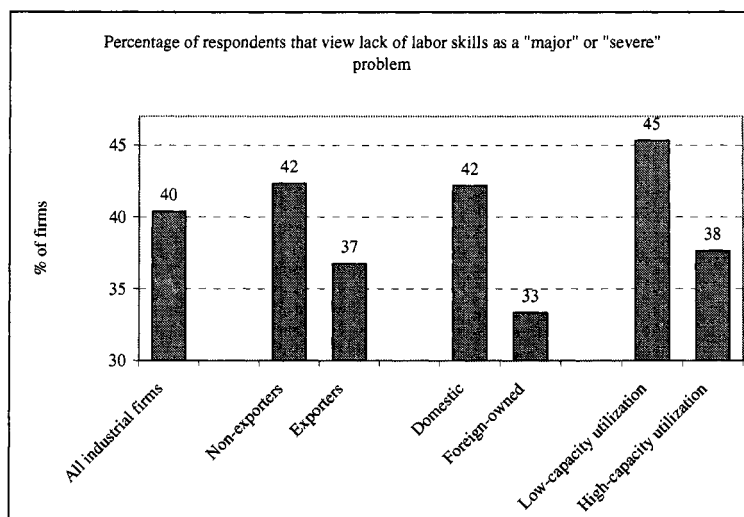
4.20 **At the same time, on average, only around four weeks are needed to fill a vacancy for a skilled technician in an industrial firm in Guyana** – while in many countries of the region this time is much longer (more than eight weeks in Brazil, around six weeks in Guatemala, etc.). Therefore, the “lack of availability of skilled labor” means, in practice, a low average quality of a worker that the firms, nevertheless, seem to be willing to accept. On the supply side, the relatively small size of the domestic labor market, aggravated by racial segmentation, explains this phenomenon: the employers know the supply well (as the market is small) and simply accept the best available option – although it is often far from being ideal.

4.21 **The frustration of the firms is fueled not only by the inadequacy of the labor supply, but also by the scarcity of their own resources.** Interviews with companies in Guyana indicate that, given the risks present in the economy, combined with the international mobility of skilled labor, the price of a high-quality employee is often prohibitively high. If the high price is paid, though, the required skills can either be found or created through training. This finding is supported by the ICS data.

4.22 **Specifically, the average search time for a skilled employee and the degree of dissatisfaction with the quality of labor are both lower in firms with greater resources.** For example, search time is greater than five days for non-exporters (that are confined to the small domestic market with weak demand), while it is close to three days for exporters, and is less than two days in the firms with high capacity utilization.¹²² Dissatisfaction caused by the inadequacy of available labor skills is negatively correlated with search time (and, hence, with resource availability). Nonetheless, the absolute level of dissatisfaction with available labor skills is still very high from an international perspective (recall Figure 4.4).

¹²² High capacity utilization is defined as capacity utilization exceeding 75 percent.

Figure 4-5: Guyana: Degree of Dissatisfaction with the Availability of Labor Skills, by Type of Firm

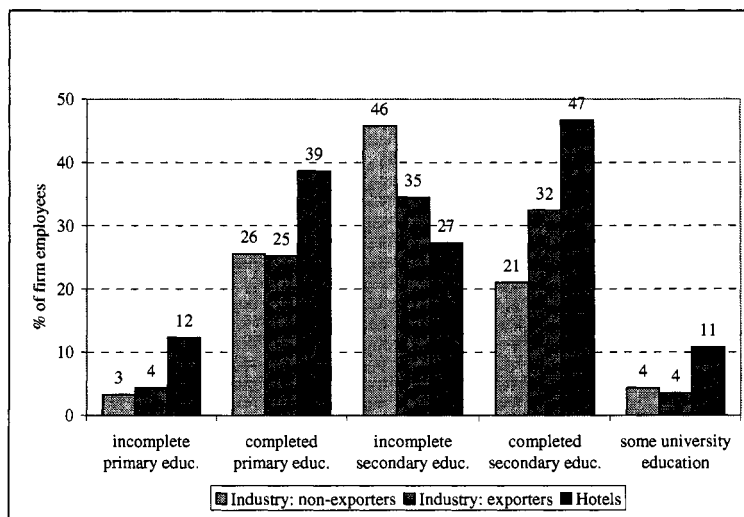


Source: World Bank Guyana ICS, 2005

4.23 **Partly as a result of skilled labor scarcity, employees with incomplete secondary education and below constitute a wide majority in industrial firms according to reported education levels in the ICS.** As Figure 4.6 indicates, 75 percent of employees of non-exporting industrial establishments in Guyana, on average, do not have complete secondary education. This figure goes down to 64 percent for exporters. Regardless of a company's export orientation, only four percent of its employees have some university education.

4.24 **In the hotel sector eleven percent of 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 and, as detailed later in the text, (ii) the fact that the education system does not emphasize the development of problem-solving skills and critical thinking.

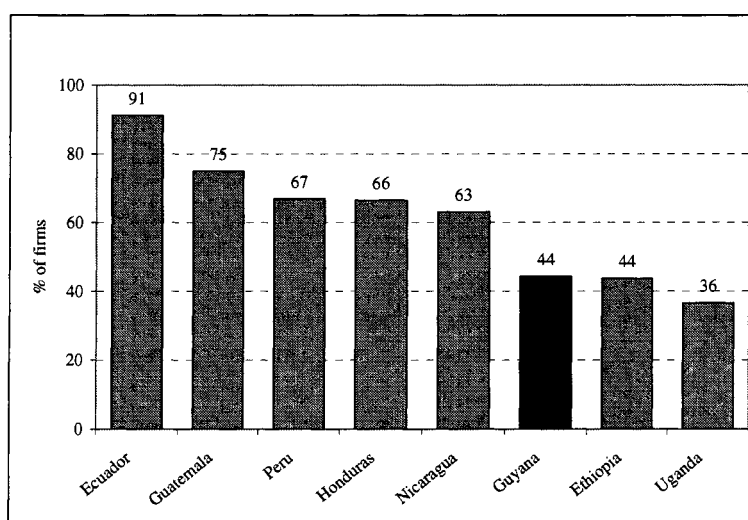
Figure 4-6: Guyana: Educational Attainment of Employees in Industry and Hotels, average percent of employees with a given education level



Source: World Bank, Guyana ICS, 2005

4.25 The educational level of firm managers in Guyana is also relatively low, with only 44 percent of interviewed companies having a top manager with at some university-level education. 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 only fares better than some countries in Africa. The econometric analysis based on the data from the IC surveys for various countries shows that, in almost all cases, managerial education is a significant determinant of firms' total factor productivity, a key ingredient of a firm's competitiveness.

Figure 4-7: Percent of Surveyed Firms Whose Managers Have Some University Education, by Country



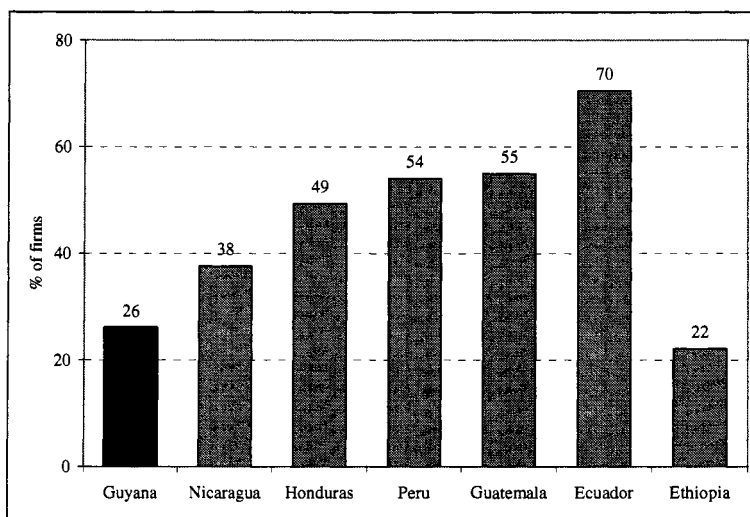
Source: World Bank, IC surveys, various years

4.26 **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 4.8).

4.27 **It is worthwhile noting the striking difference between countries in Central America such as Guatemala, and Guyana: while the dissatisfaction with the availability of skilled labor is practically the same in the two countries, the provision of training differs enormously.** While in both countries 40 percent of respondents rated lack of skilled labor availability as a “major” or a “severe” obstacle, only 26 percent of Guyanese industrial firms provide training, while this figure is as high as 55 percent in Guatemala.

4.28 **The factors behind this phenomenon include the scarcity of resources at the firms, the threat of emigration, and the lack of training centers.**¹²³ Very few companies have been able to establish their own training centers – such as, for example, the Diamond Technology Training Center at the Demerara Distillers Limited (DDL), a major holding with a main business of production and exports of liquors. And although DDL is able to offer among the best salary packages in the country, 25-30 percent of the employees trained in its center still end up going abroad.¹²⁴

Figure 4-8: Provision of External Training by Manufacturing Firms, Selected Countries



Source: World Bank, IC surveys, various years

¹²³ An additional possible reason, though, is that the firms are mostly small and do not use advanced technologies – which makes the simple learning-by-doing the preferred type of training. Yet, the industry mix may also have an endogenous component – that is, the industries in which formal training is important simply do not choose Guyana because of the impossibility of organizing such training in an efficient way.

¹²⁴ This information was obtained during an interview with senior management at DDL in May 2005.

4.29 **An additional concern for the Guyanese education system is to focus on developing students' mathematics and science skills, and to foster problem-solving skills and critical thinking.** The growing unwillingness of students to engage in technical professions, as well as the lack of the necessary educational institutions (e.g., vocational training) and teachers are seen as major problems. They are readily acknowledged by the Government, including in the NDS that envisions "focusing more on scientific and technical education". As the SPME states, "the emphasis will be placed on setting up a National Accreditation Body, a National Council for Teacher Education and a National Council for Technical and Vocational Education." Among others, the TVET (Technical and Vocational Education and Training) program of the CDB is aimed at creation of technical institutes and training centers in Guyana.

4.30 **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. Therefore, it makes sense to concentrate in a technical discipline mostly with an expectation of emigrating in the future – an expectation which is likely to be self-fulfilling. The move away from technical professions starts at the secondary school level – where few students opt for technical and related disciplines. The provision of better training infrastructure for technical specialties may not bring desired results if the negative attitude to such professions stays unchanged.

4.31 **Reforms in education must, therefore, be undertaken together with major improvements in the other areas of the investment climate.** Without significant changes in the business environment, Guyana will continue to face a substantial reduction in the supply of high-quality technical specialists. Subjected to the contracting supply of skilled labor as well as unable to offer adequate wages in the currently prevailing risky business environment, the industrial sector in the country will face serious challenges. Other sectors may follow this fate as well.

4.32 **The changes should address the whole set of the problems identified in this and other studies. This set includes - in addition to the lack of skilled labor - macroeconomic instability, high crime rates and other security issues (e.g., drugs transshipment, alleged money laundering, etc.), inferior infrastructure (especially electricity), among others.** Improvements in these areas will positively impact the education sector by refocusing students' incentives and expectations onto the desired path through boosting the resources on the domestic labor demand side. If these incentives and expectations stay unaltered, the reforms in education will be unlikely to bring the desired results – they will likely only fuel further emigration.

4.33 **Otherwise, the current reforms in education seem to have the right direction.** While expansion of secondary education coverage (in terms of years) is very important, improving the *quality* of school education is, perhaps, a more urgent task. Given the serious constraints with the supply of qualified teachers, reaching universal secondary coverage in the near future may imply a further reduction in the quality of the education – unless serious economic progress is achieved leading to greater supply of teachers.

4.34 **Another important element of the reforms, especially important for industry, is the provision of the necessary infrastructure and legislation for private training centers.** The Government's efforts in the above areas are being actively supported by international multilateral and bilateral organizations, including the World Bank.

EMIGRATION AND WORKER REMITTANCES

4.35 **Emigration in Guyana slowed down in the beginning of the 1990s, but increased thereafter, and further accelerated in the new millennium.** The airline data available from an EU Transportation Sector study suggests an increase in emigration rates to around 16 persons per 1000 - from approximately 10 in 1996-2000. This number is practically the same as the one implied by the ICS, which indicates that, on average, 1.5 percent of employees of the surveyed industrial establishments left the country in 2003.¹²⁵ The high rate of emigration explains the absence of notable increases in the population of the country over the last two decades.¹²⁶ The recently conducted Rights of the Child (ROC) Survey indicated that over 85 percent of young people do not see a future in Guyana. The Guyanese diaspora currently by all accounts exceeds the population living in Guyana.

4.36 **While the whole Caribbean suffers from high rates of emigration of skilled labor, the brain drain from Guyana is the highest in the region, after Suriname (see Figure 4-9).** Understandably, skilled workers stand a much higher chance of obtaining good jobs and being absorbed into the societies abroad. In addition, the skills-sensitive immigration policies in many developed countries lower the mobility of low-skilled labor.¹²⁷ In the 1990s, more than 40 percent of the emigrants from Guyana had tertiary education, and around 77 percent of those with tertiary education left the country (Carrington and Detragiache, 1998). In 2000, approximately 86 percent of the Guyanese who received tertiary education in Guyana lived in OECD countries (Docquier and Marfouk, 2004). Note that most of the countries in Figure 4-9 have a relatively small population size.

4.37 **A small domestic market coupled with globalization is likely to be a major factor behind the brain drain which many small countries are experiencing.**¹²⁸ According to Docquier and Marfouk (2006), in 2000 Guyana had the highest recorded skilled-worker

¹²⁵ Data on emigration rates differ substantially across sources, though. The World Fact Book (CIA) has an estimate of only 7.5 per 1,000 for 2005.

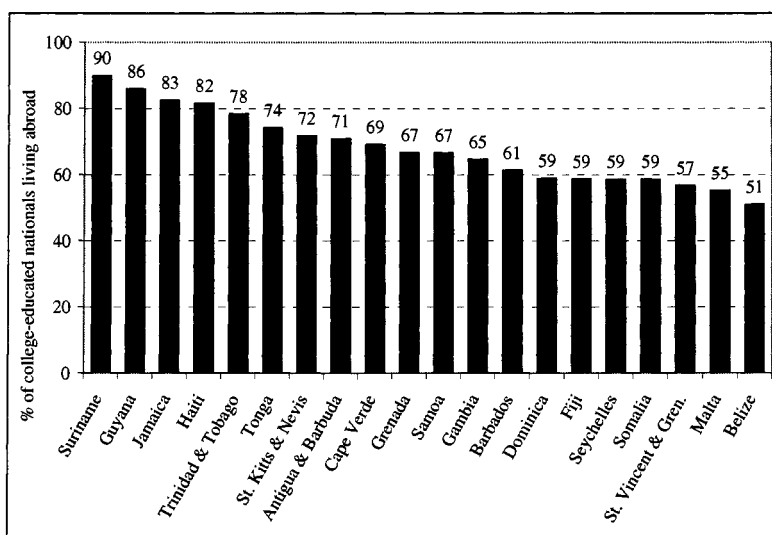
¹²⁶ Between 1980 and 2002 the population actually decreased from 760 thousand to 751 thousand. In 1990 the population was estimated at around 724 thousand. The slight increase in the population between 1990 and 2002 is explained, to a large extent, by the slowdown in the emigration in the first half of the 1990s.

¹²⁷ For example, Canada has the skills-based scoring system for prospective immigrants. In the United States, emphasis has been put on the selection of highly skilled workers, through a system of quotas favoring candidates with academic degrees and/or specific professional skills, etc.

¹²⁸ Adams (2003) cites two reasons why brain drain may be good or bad. It is bad because it reduces the human capital necessary for growth. It might be good as it happens due to the existence of better returns to skills in more developed countries – which gives more incentives to acquire education (in the hope to emigrate) and may result in an increase in the quality of the human capital stock remaining in the country, since the emigration, supposedly, takes only a small part of the skilled labor force. While the first argument suffers from the presumed exogeneity of the brain drain for growth, the second one is hardly applicable to Guyana and other, mostly small, countries in the Caribbean – as the migration rates of skilled labor there are extremely high.

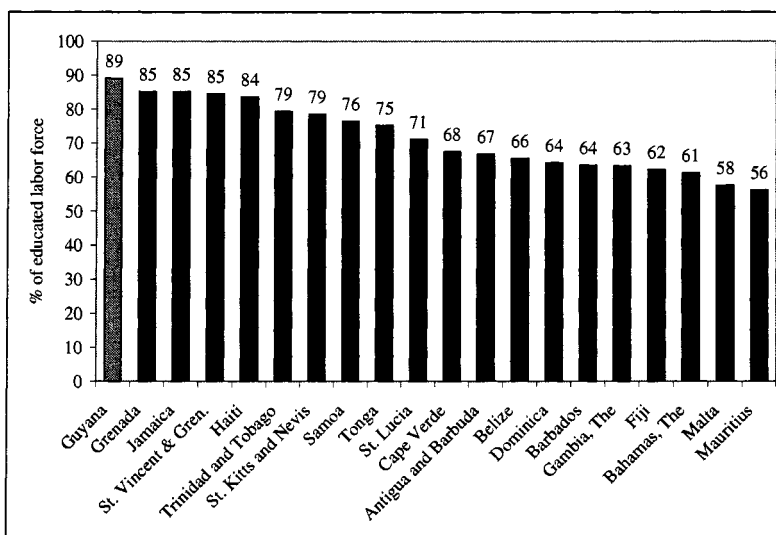
emigration rate at 89 percent of the educated labor force (Figure 4-10). Several other Caribbean islands shared a similar rate of skilled-labor out-migration – Grenada and Jamaica (85 percent), St. Vincent and the Grenadines (84.5 percent), Haiti (84 percent), Trinidad and Tobago (79 percent) and St. Kitts and Nevis (78.5 percent). St. Lucia, Antigua and Barbuda, and Dominica all had skilled-labor emigration rates above 60 percent. These high rates of skilled-labor emigration in the Caribbean are alarming as they mean a loss of skilled workers for the domestic economies, with potential negative impacts on economic growth.

Figure 4-9: Twenty Countries with the Highest Accumulated Brain Drain, percent of population with university education living abroad



Source: Docquier and Marfouk (2004)

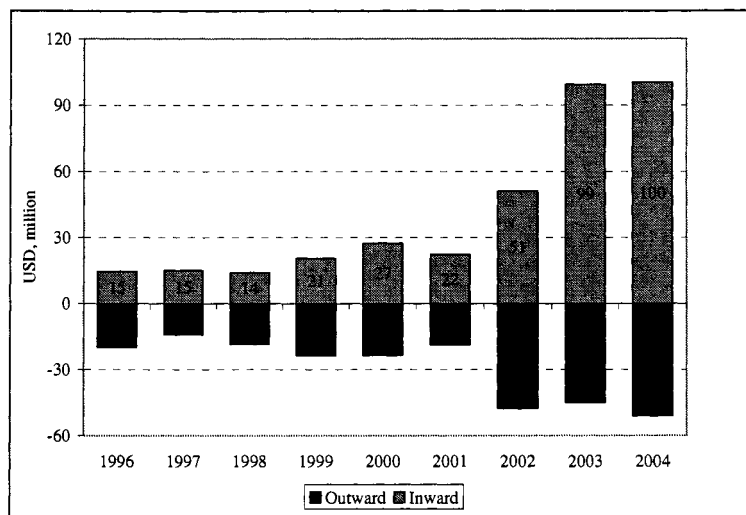
Figure 4-10: Twenty Countries with the Highest Skilled-Labor Emigration Rate, 2000



Source: Docquier and Marfouk (2006) in Ozden and Schiff, Eds., (2006)

4.38 **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 4.11 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*).

Figure 4-11: Guyana: Worker Remittances, 1996-2004



Source: Bank of Guyana and IMF data

4.39 **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)¹²⁹ examines the development impact of 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.

4.40 **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

¹²⁹ World Bank (2006), “The Development Impact of Workers’ Remittances in Latin America and the Caribbean”, a draft study, Finance, Private Sector and Infrastructure, and Chief Economist’s Office, Latin America and Caribbean Region, June 2006, World Bank, Washington D.C.

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.

4.41 Finally, the overall impact of remittances in Guyana is significantly undermined by the outward counter-flows that cancel out at least half of the inflows. As Figure 4.11 shows, outward remittances¹³⁰ have been increasing along with inflows of remittances – and currently constitute about one half of the latter. This implies that the previously discussed level of inflows should be significantly discounted. Guyana is the only low-income country in the LAC region in which outward remittances are of the order of the magnitude of the inflows. One possible explanation for the co-movement of inward and outward flows and their size, confirmed in numerous interviews, would be the recent growth in the illegal economic activities¹³¹ that allegedly require money laundering and thus undermine investor confidence.

4.42 Therefore, the best way out is to undertake major reforms that would restore investor confidence, reduce investment risk, and result in significant investment activities, thus increasing the demand for labor. As the history of the 1990s demonstrates, the Guyanese diaspora is a very powerful potential investor. Meanwhile, though, the majority of those who returned in the 1990s have already downsized their businesses and sent their families abroad¹³². Therefore, once they move out, not only will economic activity further contract, but also their subsequent incomes will have no impact on the country's development. The directions of the reforms are well-known and, in addition to reducing crime and ensuring political stability, include curbing existing illegal activities, restoring macroeconomic stability, resolving infrastructure needs, etc. Many of these issues are addressed in other chapters of this Investment Climate Assessment.

4.43 While Guyana does not have any policies directly related to emigration, such reforms taken alone are unlikely to work. While specific re-immigration policies aimed at attracting a part of the diaspora back into the country could be considered (e.g., like the retiree program in Belize), they are unlikely to work at least until the security and infrastructure (mostly the reliability of electricity) issues are resolved at a minimum.

4.44 The Government has already undertaken significant steps in implementing its legislative and regulatory reform agenda. They included the passage of an Investment Act in 2004 and the preparation of the Competition and Fair Trading Bill. The objectives of the Bill are to: (a) promote competition and enhance economic efficiency in production, trade, and commerce; (b) prohibit anti-competitive business conduct which prevents, restricts or distorts

¹³⁰ These data were collected by the Bank of Guyana through surveys of financial institutions. There is some scope for errors, including possible misclassification of other flows as remittances - as it is often difficult to adhere to the definition of the latter, given the uncertainty about the exact origin and the exact intended use of the transferred funds. However, the general picture must be correct. Interested readers may see Reinke and Patterson (2005) for the precise definitions and related discussions.

¹³¹ The IMF and Go-Invest estimate informal economic activity in Guyana to be close to 50 percent of GDP.

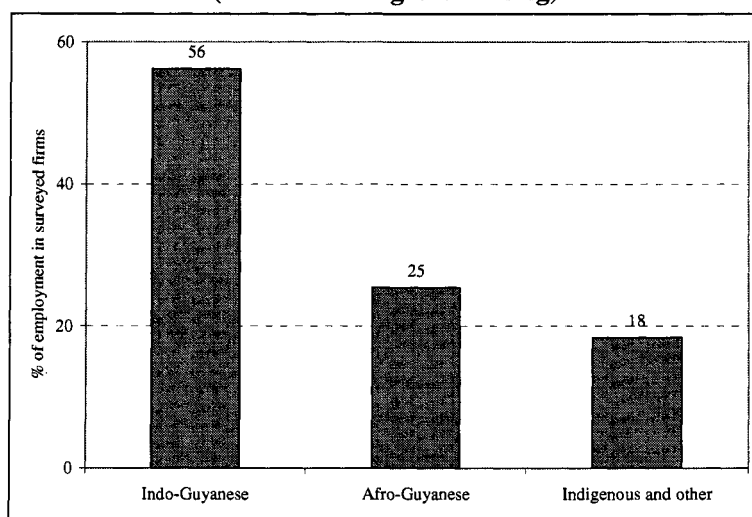
¹³² This information is based on an article in *Stabroek News* of May 3, 2005 that covers interviews with Mr. Bal Persaud, Executive Director of the Private Sector Commission, as well as on additional interviews held with representatives of the private sector.

competition or constitutes the abuse of a dominant position in the market; and (c) promote the welfare and interests of consumers. The Bill establishes a national Competition Commission as the implementation body invested with the powers to investigate potential abuses, to prohibit anti-competitive agreements or activities, and to levy fines. The Bill also grants powers of investigation and sanction to the CARICOM Regional Community Competition Commission, which will be authorized to act with regard to cross-border competition issues.

THE ETHNIC SEGMENTATION OF THE POPULATION AND ITS IMPLICATIONS

4.45 **The population and the labor force in Guyana 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 population of an African origin (Afro-Guyanese), around 35 percent. The rest are dominated by the country's indigenous people and by Chinese.¹³³ Figure 4.12 shows that, according to the ICS data, the proportion of Afro-Guyanese workers in industry and mining is somewhat smaller than that of Indo-Guyanese workers.

Figure 4-12: Guyana: Ethnic Distribution of Employment in Surveyed Private Firms (manufacturing and mining)



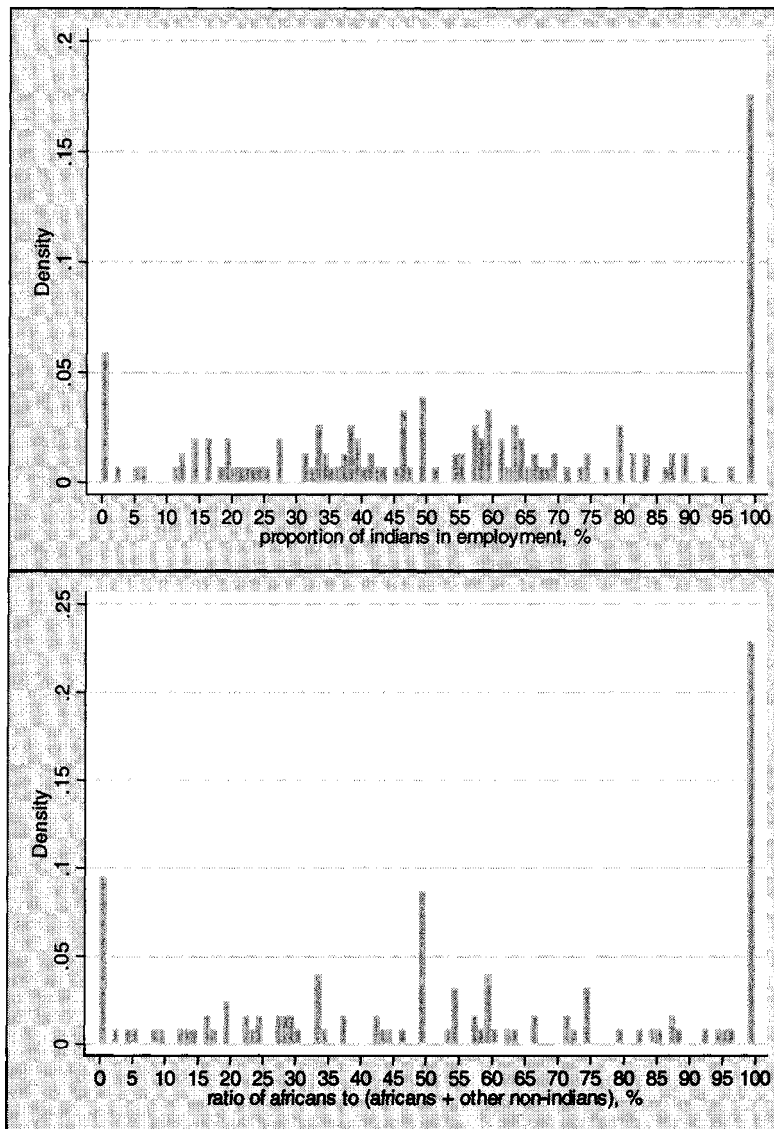
Source: World Bank, Guyana ICS, 2005

4.46 **The ethnic groups tend not to mix, which may impose certain costs on doing business in the country.** As Figure 4.13 illustrates, the proportion of a certain racial group in a firm tends to be either zero or 100 percent. Had there been no racial segmentation, the shape of the distribution would have come out to be between uniform and peaking at sample means, rather than having pronounced peaks at the extreme ends – which it happens to do. The existing ethnic segmentation obviously narrows labor choices of firms' managers, which is likely to result in

¹³³ Afro-Guyanese are, in a large part, the descendants of the slaves brought to Guyana in the 18th and the beginning of the 19th centuries. Many slaves left the country following the abolition of slavery by the British in the first half of the 19th 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.

higher inefficiencies of employed labor. At the same time, better networking within the ethnic groups may, to an extent, compensate for the negative effects of this segmentation.¹³⁴

Figure 4-13: Guyana: Ethnic Distribution of Employment in the Firms Covered by the ICS



Source: World Bank, Guyana ICS, 2005

Note: the step between bars is one percentage point

4.47 Local-level reforms may be particularly affected by the ethnic divide. The events in the political arena have, of course, been dominated by the struggle of the opposing parties with ethnically-defined membership since the time the People's National Congress (PNC, consisting mostly of Afro-Guyanese) separated from the People's Progressive Party (PPP) back in 1957. The strong ethnic dimension of the political divide may impose certain costs on the local-level

¹³⁴ See a good review of the economics of racial discrimination in Arrow (1998).

reforms, because the communities are also often divided by the same principle. This may have negative effects on the implementation of microfinance, basic infrastructure and other micro-level policies.

TECHNOLOGY AND INNOVATION

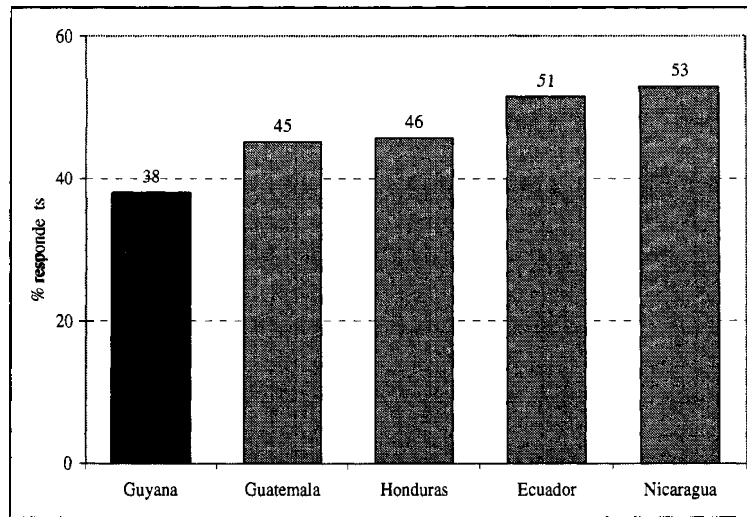
4.48 Investment in new technologies is far from being intensive and is fairly unsophisticated. Only just over one-third of the surveyed industrial establishments invested in new technologies in 2002-2003. This is considerably less than in many other countries in the region (Figure 4.14).¹³⁵ In the overwhelming majority of cases – more than 75 percent – the investment came in the form of simply purchasing new equipment, which is the highest proportion among surveyed countries in the LAC region (Figure 4.15). These numbers are practically the same for large and small companies (Figure 4.16).

4.49 Licensing or purchases of turnkey operations as well as hiring of key personnel were used by a negligible minority of Guyanese producers, except for the few foreign-owned firms covered by the ICS. 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 providers.¹³⁶

¹³⁵ 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 4.13 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.

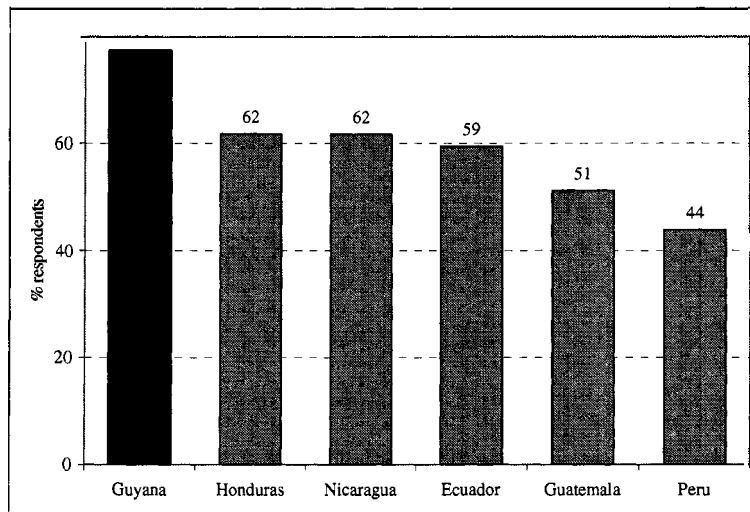
¹³⁶ This result is in a large part driven by the limited provision of telecommunication services in Guyana.

Figure 4-14: Percentage of Manufacturing Firms, Which Invested in New Technologies, Selected Countries



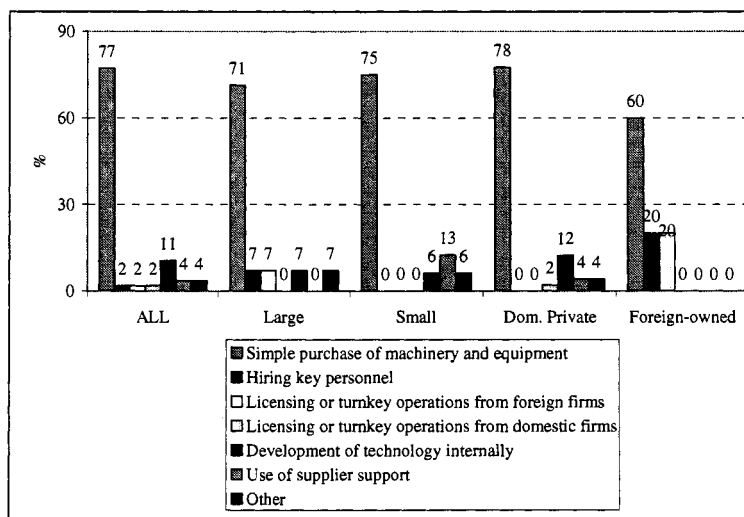
Source: World Bank, IC surveys, various years

Figure 4-15: 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



Source: World Bank, IC surveys, various years

Figure 4-16: Guyana: Top Most Important Method of Investment in New Technologies, by category of manufacturing firms



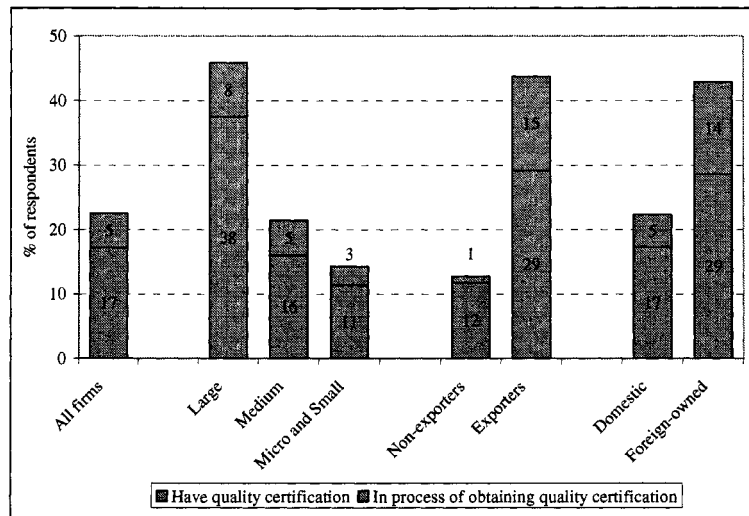
Source: World Bank, Guyana ICS, 2005

4.50 The number of Guyanese firms that possess at least some internationally recognized 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. Figure 4.17 illustrates that export-oriented foreign-owned companies had a substantially higher proportion of quality certifications than the rest of the interviewed Guyanese firms. While the ICS question does not allow us to distinguish between ISO and other types of quality certification (HACCP, etc.), additional interviews with the GNBS and the experience of other countries in the region reveal that the vast majority of these certifications are not ISO¹³⁷. Internationally, Guyana fares relatively poorly – yet, is ahead of Guatemala and Peru (Figure 4.18).¹³⁸

¹³⁷ In all the comparator countries in Figure 4.17 the share of firms with an ISO certification did not exceed six percent, and was less than three percent for Peru. Unfortunately, this figure is not available from the Guyana ICS.

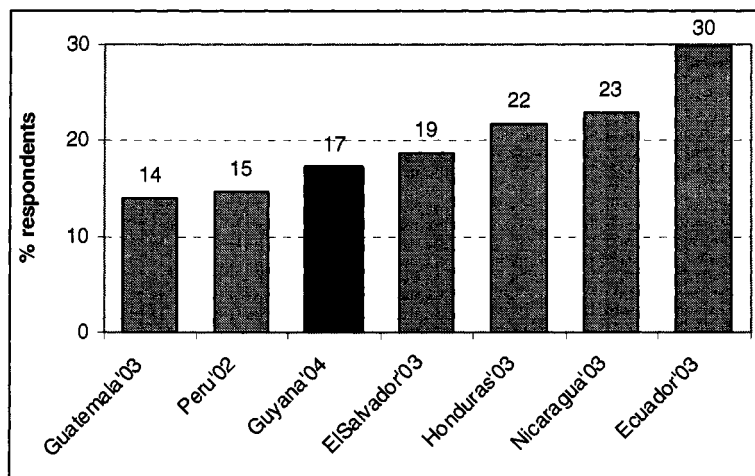
¹³⁸ The 17 percent obtained from the survey might represent a slight overestimation, as some firms could wrongly take the National Quality Mark to be an internationally accepted certification.

Figure 4-17: Guyana: Percentage of Firms with Quality Certification



Source: World Bank, Guyana ICS, 2005

Figure 4-18: Percentage of Firms Possessing Some Quality Certification: Selected Countries



Source: World Bank, IC surveys, various years

4.51 **The weaknesses of the business environment related to quality and technology are reinforced by the absence of adequate enforcement of intellectual property rights.** According to the U.S. Department of State, “patent and trademark infringement are ... common. Pirating of TV satellite signals is widespread and takes place with impunity.”¹³⁹ The weaknesses in the business environment result in a lack of resources, both financial and in terms of skills, available to firms – which prevents them from investing in high-level technologies. This self-

¹³⁹ This is a reference to the U.S. Department of State that appears in a 2004 Country Profile for Guyana by the Economic Intelligence Unit.

selection, reinforced by the weakness in intellectual property rights protection, has led to a relatively low level of technological advancement of the industrial sector in Guyana.

4.52 SME policies in the country at this moment are essentially equivalent to general economic policies. It is customary to discuss in an Investment Climate Assessment the existing SME policies, their impact on the creation of and support to technologically-advanced firms and related problems. Due to its size and economic problems, Guyana is a special case in that, with rare exceptions, all domestic businesses are small, at least on an international scale.¹⁴⁰ Only seven percent of the establishments surveyed in the ICS had more than 100 employees, including temporary workers. This means that, using the scale of a larger economy, for example, the majority of the surveyed firms in Guyana would have been classified as micro or small.

4.53 Of course, even within the existing population of firms in Guyana the relative size matters – as highlighted, on several occasions, in the analysis in this chapter and elsewhere in the document. However, it seems that the first most important task is the resolution of those problems that affect all firms. Once the investment climate becomes one that gets the incentives right and leads to higher investment and growth, then will be the time to elaborate specific micro-enterprise and SME policies.

4.54 Right now, there do not seem to be any formal difficulties with registering an enterprise, no serious constraints stemming from labor regulations. In part because certain inspections may simply not function, there seem to be no problems with lengthy red tape procedures. There appear to be no problems with pledging collateral (except for lack of resources to pledge). While there are problems with enforcing collateral, it seems that at least court decisions can be obtained in a reasonable time.¹⁴¹

4.55 A major problem, especially for smaller firms, is the high cost of financing. However, coupled with the high liquidity in banks, the high interest rates mostly mean that, at present, investment in Guyana is a very risky business. It is unlikely that, *ceteris paribus*, some specific SME policies would significantly reduce this cost and still leave the lenders profitable. Institutionally, the country seems to have a good basis for micro-enterprise development, including the private Institute for Private Entrepreneurship Development (IPED) with 72 staff engaged in various micro-lending operations.

INFRASTRUCTURE FOR QUALITY ASSURANCE

4.56 While created long ago, the infrastructure for the provision of Metrology, Standards, Testing and Quality (MSTQ) services has started to function only recently.

¹⁴⁰ Globalization is a major factor behind considering the firm size on an international scale.

¹⁴¹ Business licensing and operation permits as well as the quality of the judiciary were the two lowest-rated constraints to doing business identified in the ICS. The confidence in the judiciary is relatively high – with two thirds of the respondents to the ICS indicating that they at least tend to agree that the judiciary will uphold their rights in a business dispute. The time needed for a court resolution of an overdue receivable averaged in the ICS to only 43 days, whereas an out-of-court settlement required less than two weeks. Note that other sources of data may indicate longer times for conflict resolution; see Chapter 2 on this topic.

Globalization requires the use of internationally accepted standards and norms. This is especially important in a small economy where the effects of globalization are likely to be felt stronger and faster. Thus, a solid national MSTQ infrastructure is an important determinant of growth and competitiveness. While created back in 1984, the GNBS, the principal (and, in practice, the only) element of Guyana's quality infrastructure, started to function only in 1994. Yet, until recently GNBS had been experiencing serious financial difficulties. Significant improvements started around 2003 – when the GNBS budget increased and was topped up from the sale of advisory and other services.

4.57 GNBS is a semi-private, but government-controlled, institution that implements and coordinates practically all the MSTQ programs in the country. Responsible to a Board of Directors, the GNBS receives most of its financing through government subventions. Due to the recent positive developments, the GNBS was able to sell its services, the proceeds from which now comprise more than 20 percent of its budget.¹⁴² This has allowed GNBS, in the last two years, to preserve its staff that used to rotate very frequently in the past and increase it from only 13 employees in 1994 to 52 in 2005, including 15 inspectors. The pay ranges from US\$200 per month (entry level) to US\$700 per month (intermediate management level) and above, which is notably higher than similar current levels in the public sector. The GNBS is responsible for carrying out all the MSTQ-related tasks in the country. The activities it undertakes cover all the main components of a typical national quality system, with some country-specific extras (like the Metrification Program). Box 1 briefly describes the programs currently managed by the GNBS.

4.58 The all-encompassing nature of the GNBS is a matter of concern, as conflicts of interest may arise from the same body being 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 (resulting so far in only 52 employees at GNBS) 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. In other words, a substantial inter-departmental independence within the GNBS is required and must be a matter of serious attention.

¹⁴² This, and most of the rest, information is based upon an interview with the GNBS.

Box 4.1: Activities of the Guyana National Bureau of Standards (GNBS)

- Development of standards. The GNBS works with 15 sectoral committees and sub-committees on the development of national standards.
- Metrology and testing services. The GNBS develops or otherwise introduces the necessary measures and provides laboratory and similar services for calibration and testing (e.g., rice quality certification, gold quality testing, etc.).
- Accreditation services. The GNBS is responsible for accreditation of private quality measurement facilities to certain standards. The ongoing work includes the expansion of the set of the standards to which the GNBS can accredit – such as, for example, ISO9001.
- Product certification. The GNBS may assign its own National Standard Mark to products that meet specific characteristics. This mark is recognized in selected countries.
- Standards compliance. The GNBS directly enforces standards compliance. Currently, there are 25 categories of goods under the oversight.
- Audit and conformity assessment. The GNBS has just started a specific technical assistance service whereby it assesses (but not, yet, accredits) the readiness of the existing quality control systems for the various ISO 9001+ certifications.
- Other technical assistance and training. The GNBS provides technical assistance to private firms that need to prepare their facilities for ISO and other certifications. Currently six firms are being assisted in their preparation for ISO 9001 certification. The GNBS also works with micro-enterprises and SMEs (currently 17 of them) on the development of special, client-specific, standards that include the various features of ISO standards, but are less strict. The sectors represented by these clients include rice, furniture and jewelry. The GNBS also provides formal training to companies in all the aspects of quality control.
- Advisory and information services. The GNBS undertakes efforts to familiarize the business community in the country with the quality control framework and the importance of quality certification. The GNBS maintains a library of standards and related information.
- Metrification program. The GNBS is responsible for the gradual introduction of the metric system in the various sectors. While the education and health system have already undergone the transition, along with selected other sectors, such as petroleum, a lot of work still remains to be done – especially in marketplaces that are the slowest to adjust.
- International programs and cooperation. The GNBS, with the assistance of the Food and Agriculture Organization of the United Nations (FAO), participates in the CODEX, an international food standards organization – which is important, given the significant weight of the food industry in the country. The GNBS is also a member of the CARICOM Regional Organization for Standards and Quality (CROSQ), ISO, IEC, ITU, etc. The membership in these international organizations is extremely important for the worldwide recognition of the GNBS accreditations and certifications.

Source: Author's interview with GNBS, May 2005

RECOMMENDATIONS ON SKILLS, MIGRATION, TECHNOLOGY AND QUALITY

4.59 **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 other obstacles, most of which are identified and discussed in this report – including the notable crime activity (that includes drug-related activities) 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; the incentives of employers to provide training would remain low - as would their willingness to invest in sophisticated new technologies. Productivity and, hence, international competitiveness would then stay relatively low.

4.60 **The recently accelerated brain drain is difficult to stop without creating an adequate and stable business environment, which is conducive to growth.** Guyana has a great potential for rapidly increasing investments into its economy by the huge diaspora abroad which exceeds the population remaining in the country. The return to the country of numerous investors in the beginning of the 1990s provides testimony to this. Unfortunately, the expectations of these investors were not met. Reliance on remittances as a primary source of resources in the economy will not be sufficient. 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 quality of infrastructure are improved.

4.61 **While significant progress is observed in the formal level of educational attainment, the *quality* of school education over the last 20 years has substantially deteriorated and should be a matter of major concern for the Government.** 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. Government efforts in improving the education system are supported by a number of projects by international developmental organizations, including the World Bank.

4.62 **Work towards the creation of a greater number of vocational training centers for technical professions is necessary to complement the skills developed in technical disciplines in the general schools.** Recognizing this, the Government is working toward 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 other two factors underlying the bias remain intact, namely the general pessimism of the youth about the future of the country as well as the high emigration of technical specialists.

4.63 **Greater consensus among ethnic groups is needed.** Guyanese society is significantly split by the ethnic principle – which manifests itself in the ethnicity-based segmentation of

geography,¹⁴³ businesses and politics. While the ethnic polarization of the labor force may impose certain costs on doing business due to the restricted choice of labor that employers have, this effect may partly be offset by the greater intra-ethnic networking effects. On the political side, local-level reforms may experience difficulties due to the ethnicity-based community segmentation of the population. Finding consensus seems to be the only way to resolve the problems. There is no racial discrimination in the sense of a profound explicit suppression of general rights and freedoms of any particular ethnic group.

4.64 Intellectual property rights protection needs improvement. Patent infringements and other pirating of intellectual property lower investor confidence. The low technological sophistication of 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, alleviating major constraints, such as the lack of security, infrastructure bottlenecks, etc. is a prerequisite for technological advancement. It is not possible to say whether certain market failures in the technology and innovation market are present – this may require further research.

4.65 The development of the quality assurance infrastructure has recently shown notable progress that should be continued. The existence of a good quality assurance infrastructure is an important prerequisite for successful growth, especially in a very small and sufficiently open economy like Guyana. The GNBS, as the institution in charge of performing all the functions of a typical national quality system, appears to have been doing a satisfactory job recently.

4.66 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 GNBS activities may partially 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 to minimize potential risks of conflicts of interest.

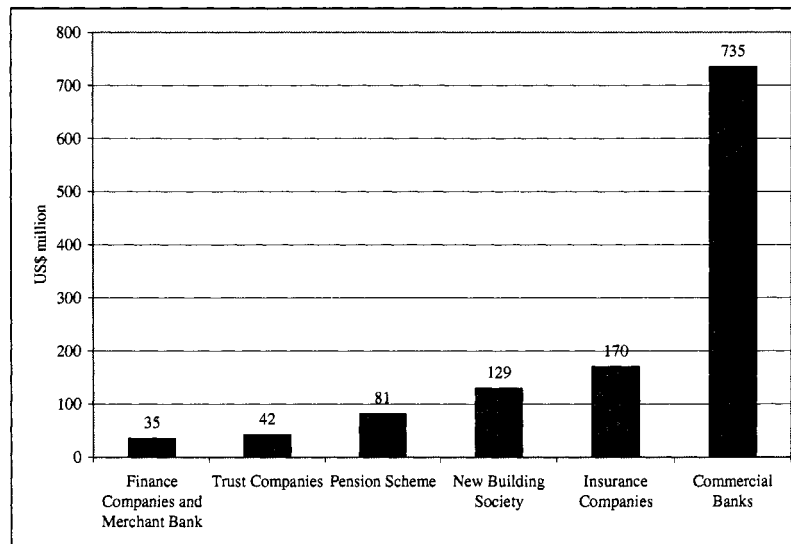
¹⁴³ This mostly means separation at a local, community level.

CHAPTER 5. FINANCE

ACCESS TO CREDIT

5.1 The Guyanese financial sector is relatively sizeable, although statistics are overestimated by 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 banks¹⁴⁴ 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 (see Figure 5-1)¹⁴⁵.

Figure 5-1: Financial Sector in Guyana, Total Assets 2004



Source: Bank of Guyana, Statistics 2004

¹⁴⁴ 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.

¹⁴⁵ 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.).

5.2 Private credit to GDP by commercial banks 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, 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: 1991-2004, Percent of GDP



Source: IMF International Financial Statistics, 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 (see Table 5-1). Private credit as percent of GDP is higher in Panama, as well as 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).

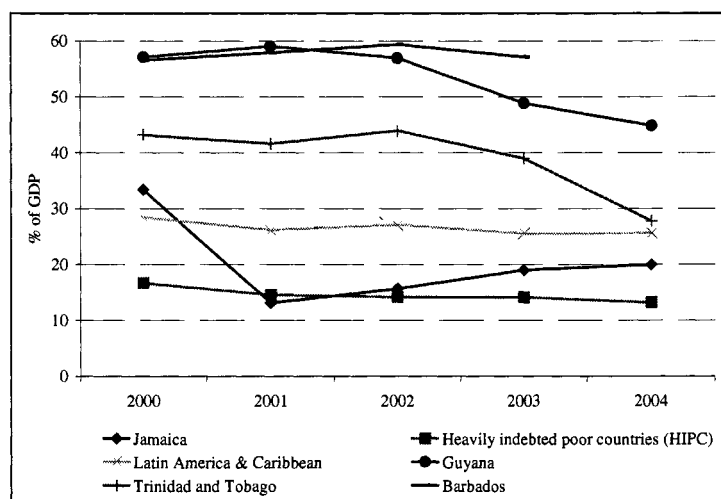
Table 5-1: Private Sector Credit as Percent of GDP: An International Comparison, 2004

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

(*) As of 2003

Source: World Bank World Development Indicators (WDI)

Figure 5-3: Private Credit to GDP, 2000-2004, by Country or Region



Source: Guyana FSAP background information

5.4 The decline in commercial bank lending occurred in all sectors, decreasing available loans to local firms and private households. Financial exposure of Guyanese banks in terms of loans to local enterprises gradually diminished over time. This reduction stems from multiple factors such as the stagnation of the local economy, the bad experience with agricultural lending

in the late 1990s, and the present institutional constraints¹⁴⁶. The reduction in credit volumes also affected private households, which are now worse off in terms of access to credit than in 2001 (see Table 5-2). In terms of a sectoral breakdown, services currently account for 54 percent of total loans, followed by manufacturing (32 percent) and agriculture (13 percent).

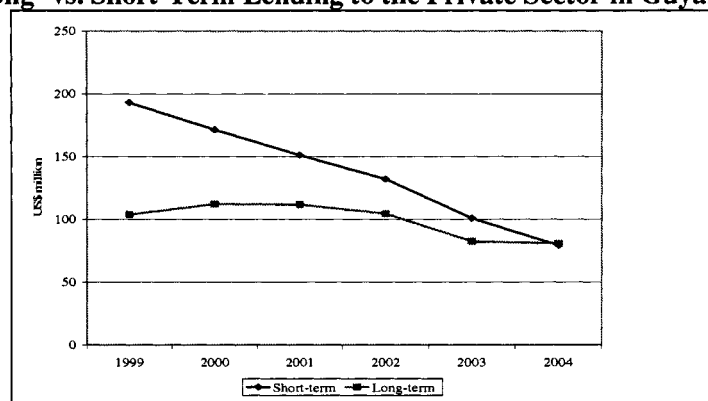
Table 5-2: Guyana: Commercial Bank Loans by Sector (% growth)¹⁴⁷

	2001-2002	2002-2003	2003-2004
BUSINESS ENTERPRISES	-13.5	-26.5	-11.8
Agriculture	-20.7	-50.8	-8.8
Mining and Quarrying	-8.3	-5.9	-43.8
Manufacturing	-14.1	-30.6	-17.8
Services	-9.8	-13.9	-6.9
HOUSEHOLDS	-2.0	-7.4	-10.1

Source: Bank of Guyana Statistics 2001-2004

5.5 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.¹⁴⁸ 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.¹⁴⁹ 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 (see Figure 5-4).

Figure 5-4: Long- vs. Short-Term Lending to the Private Sector in Guyana: 1999-2004¹⁵⁰



Source: Bank of Guyana Statistics, 2005

¹⁴⁶ Significant barriers are the weak credit information infrastructure, the lengthy foreclosure proceedings and poorly protected creditor rights.

¹⁴⁷ Original data are adjusted for inflation using the Urban Consumer Price Index of Georgetown. The base year is 2001.

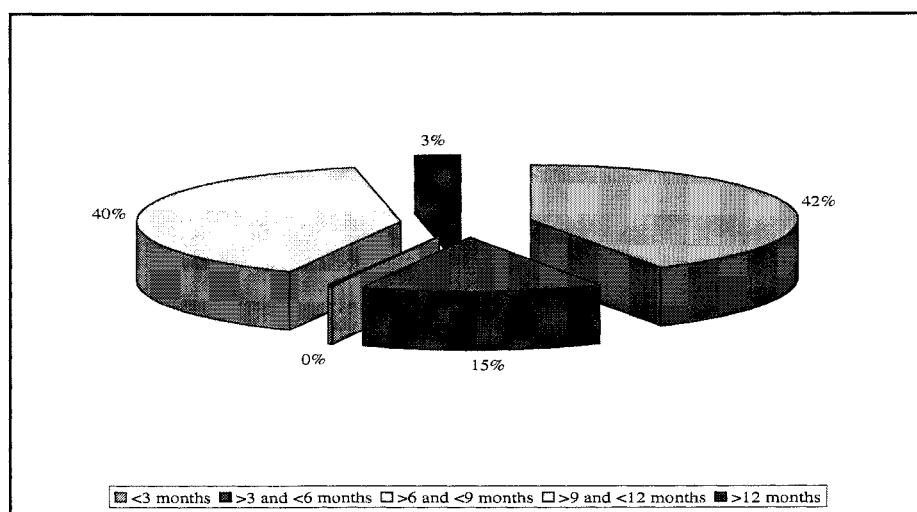
¹⁴⁸ Long-term credits represent about 60 percent of commercial bank loans and advances in the OECS, but this figure includes a large proportion of real estate mortgage loans.

¹⁴⁹ This figure does not include real estate mortgage loans.

¹⁵⁰ Original data are adjusted for inflation and the exchange rate. Base year: 2001.

5.6 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 sector¹⁵¹. 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.¹⁵² 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 (see Figure 5-5).

Figure 5-5: Maturity Structure of Time Deposits with Guyanese Commercial Banks, December 2004



Source: Bank of Guyana Banking System Statistical Abstract, January 2005

5.7 The percentage of funds loaned out to the top twenty borrowers continues to increase, confirming the conservative attitude of Guyanese banks and the concentrated nature of the real sector¹⁵³. 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 conservative trend is also coupled with an increasing tendency toward loaning out funds following others rather than following 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 2005¹⁵⁴.

¹⁵¹ 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.

¹⁵² Savings withdrawals require a minimum of one-day notice, whereas demand deposits are not subject to notice.

¹⁵³ Source: Bank of Guyana.

¹⁵⁴ Related parties comprise director, senior officers and shareholders with 20 percent or more shares.

5.8 The reduced exposure of commercial lenders is also the result of loan portfolio quality problems. Despite recent improvements mainly attributed to the loan restructuring process, the level of non-performing loans is still quite high (18.8 percent of total loans as of end 2004). Provisions for loan losses have declined rapidly since 2001, and are still far below the level of doubtful loans, covering only 33.3 percent in 2003. The percentage of total loans written off has increased consistently over time (jumping 53 percent from 2002 to 2003, and 90 percent from 2003 to 2004), although part of it is due to the privatization of loss-making banks.¹⁵⁵

5.9 The range of guarantees accepted by the financial system is quite limited, leading to a financial bottleneck for Small and Medium Enterprises (SMEs). Collateral instruments required by Guyanese banks are either physical guarantees, such as real estate and land, or liquid assets, mainly constituted by cash. Other forms of guarantees such as machinery, inventories and accounts receivables are scarcely accepted, which might be due to the lack of expertise by commercial banks on the evaluation and tradability of those firms' assets. The lack of possibilities for firms to use movable assets as guarantees certainly represents a significant obstacle for smaller firms' access to finance. Banks are often faced with a choice – accept reputational collateral, or not lend to large numbers of clients.

Costs of Credit

5.10 Interest rate spreads are high by developed economies standards, above the regional average, and fees and commissions increase the effective interest rate¹⁵⁶. As of December 2004, the Guyanese commercial bank prime lending rate amounted to about 14.5 percent (with a range from 13 percent to 17 percent), while the deposit interest rate averaged 3.4 percent over the same period. Though high by developed economies standards, interest rate spreads in Guyana are comparable to those in other small economies in the Caribbean region. Interest rate spreads in Guyana over the period 1999-2004 are second only to those in Suriname and Belize, and well above that of leading Caribbean economies such as Barbados and the Bahamas (see Table 5-3).

5.11 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 (see Figure 5-6). 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.

¹⁵⁵ The portfolio of one privatized bank constituted by a large fraction of non-performing loans was transferred to a state-owned recovery agency in 2003.

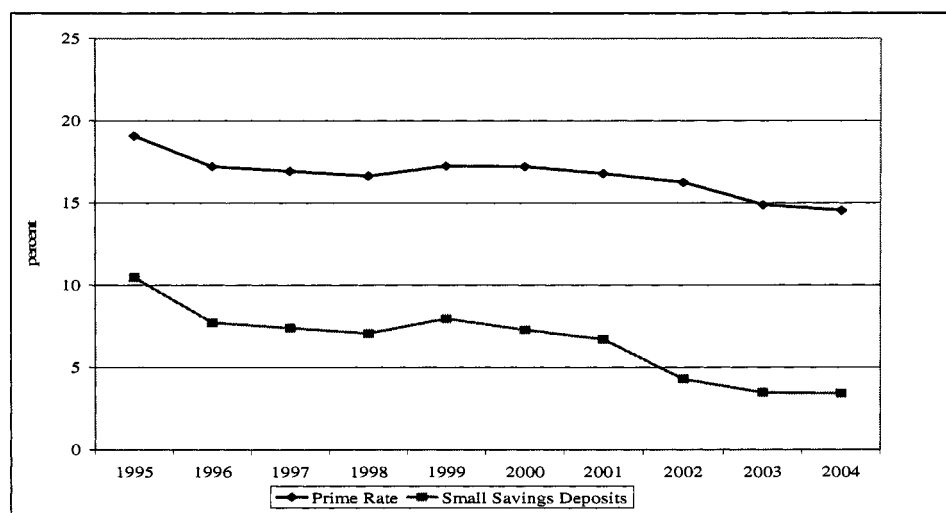
¹⁵⁶ Bank intermediation spreads refer to the difference between the weighted average lending rate and the average three-month deposit rate. Information on fees and commissions was provided in interviews with commercial banks (ICA team mission, May 2005).

Table 5-3: Interest Rate Spreads, International Comparison (%)

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

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

Figure 5-6: Lending vs. Deposit Rate Trend in Guyana, 1995-2004



Source: Bank of Guyana Banking System Statistical Abstract, January 2005

5.12 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)¹⁵⁷. The result might be explained by existing difficulties in assessing the creditworthiness of potential borrowers, as demonstrated by the inexistence of credit scoring

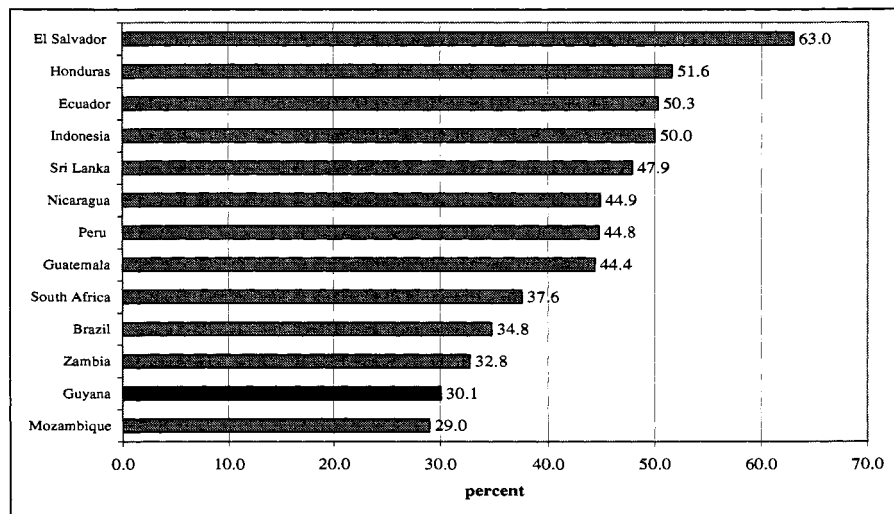
¹⁵⁷ Data are based on information provided by the Questionnaire on Supply-Side Issues of the Guyana Investment Climate Assessment (ICA).

mechanisms in almost all commercial banks and the rejection rate of credit applications from SMEs, as high as 27 percent per year.

COSTS AND ACCESS TO FINANCIAL SERVICES: THE PERSPECTIVE OF THE FIRMS¹⁵⁸

5.13 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. This is comparable to Mozambique (29 percent) and Zambia (32 percent), but substantially lower than comparator countries from Latin America such as Guatemala (44 percent), Ecuador (50 percent) or El Salvador (63 percent). Firms in other regions also appear to enjoy a better access to credit: for instance, a 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 5.7).

Figure 5- 7: Firms with Loans: an International Comparison, percentage of interviewed firms

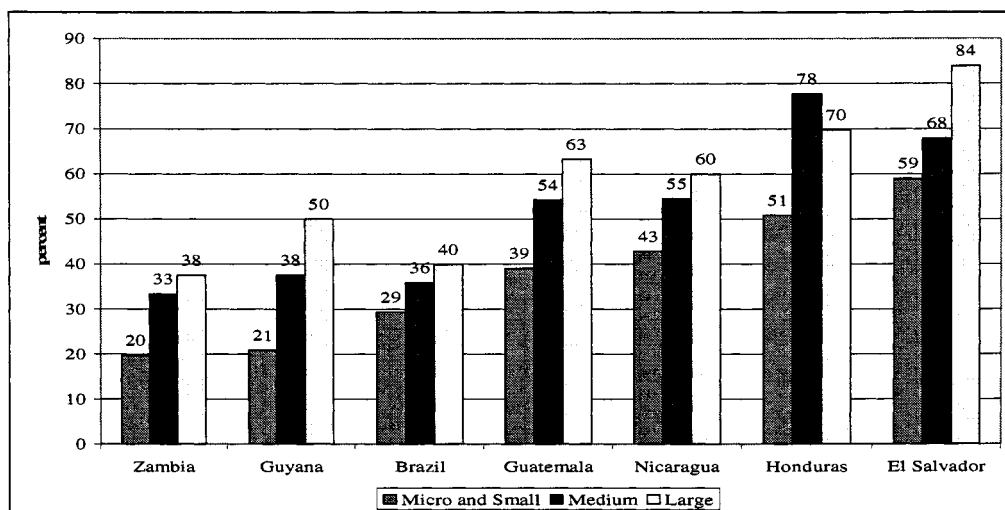


Source: World Bank Investment Climate Surveys, 2002-2004

5.14 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 5-8). 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.

¹⁵⁸ This section reflects the results of a firm-level survey of 164 Guyanese manufacturing firms. 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.

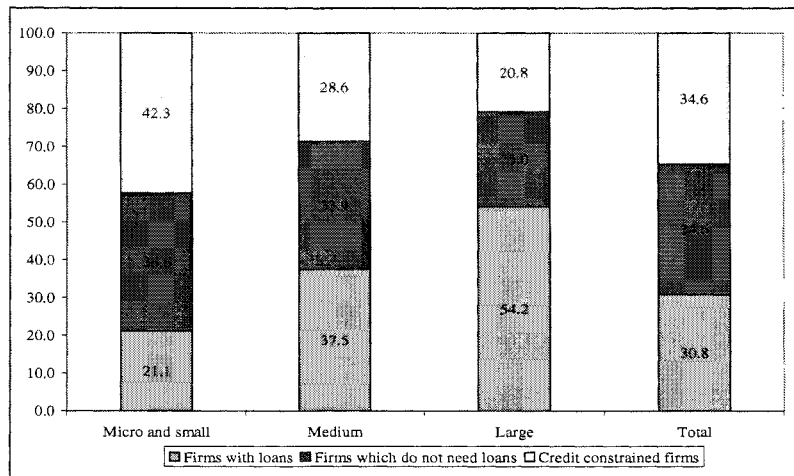
Figure 5-8: Firms with Loans by Firm Size and Country, percentage of interviewed firms



Source: World Bank Investment Climate Surveys, 2002-2004

5.15 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 5-9, more than one-third (34.6 percent) of all 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) and 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.

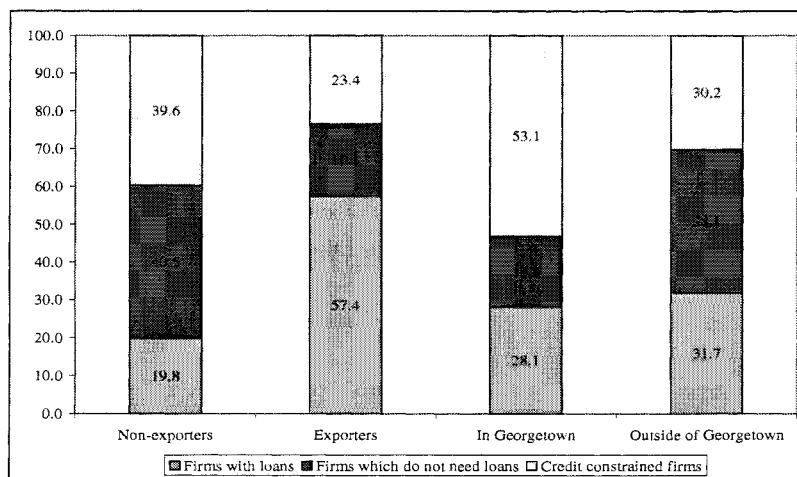
Figure 5-9: Proportion of Firms with Loans, Firms without a Need for Loans, and of Credit Constrained Firms, By Size, Percentage of Interviewed Firms



Source: World Bank Guyana ICS, 2005

5.16 Firms in Georgetown and non-exporters are more credit constrained than firms located outside of the capital and engaged in exporting. This is likely due to the fact that most of the wood industry firms (logging and processing) and the food processing ones are outside of Georgetown and are mainly exporters. As illustrated in Figure 5-10, 53 percent of firms in Georgetown are credit constrained (i.e. have unmet demand for credit) versus only 30 percent of firms in the countryside. In terms of exporting activity, 40 percent of non-exporters are credit-constrained in contrast to 23 percent of exporters. Interestingly, a large proportion of non-exporting companies declare that they have no demand for bank loans – 41 percent, which probably reflects a lack of opportunities to export and grow.

Figure 5-10: Proportion of Firms with Loans, Without a Need for Loans, and of Credit Constrained Firms, By Exporting Status and Location, percentage of interviewed firms



Source: World Bank Guyana Investment Climate Survey, 2005

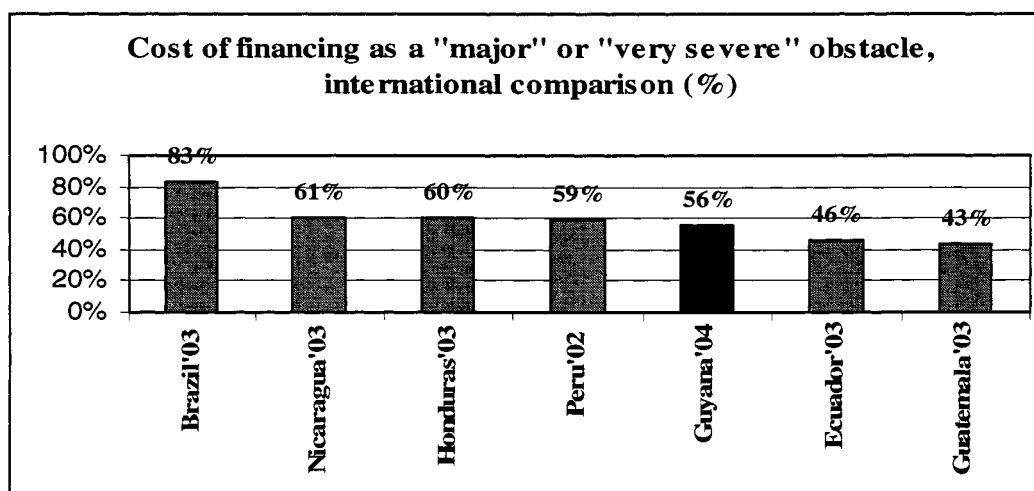
5.17 **The cost of finance is rated as the highest ranking obstacle to business operation and growth identified by firms in Guyana.** This concern is shared by all firms, regardless of firm size and whether they export products or only sell in the domestic market. It is a slightly more important concern for medium-sized firms than others, and for non-exporting companies, as Table 5-4 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 5-4: Cost of Finance and Access to Finance: the Perceptions of Guyanese Firms

Percentage of firms which rated as a "major" or "severe" obstacle to their operation and growth:	All	Large	Medium	Small-Micro	Non-Exporters	Exporters
1. Cost of financing (e.g., interest rates)	56%	58%	61%	51%	58%	50%
5. Access to financing (e.g., collateral)	31%	31%	29%	32%	30%	32%

Source: World Bank Guyana ICS, 2005

Figure 5-11: Financing Costs as an Obstacle to Business Operation and Growth: A Cross-Country Comparison



Source: World Bank Investment Climate Surveys, various years

5.18 **The average annual nominal interest rate on loans denominated in Guyanese dollars reported in the survey is just over 19 percent, ranging from 20 percent for small firms to 18 percent for large firms.** These interest rates do not include fees, commissions, mandatory savings balances and other expenses related to the loan transaction, which are common in Guyana. Only about 15 percent of responding firms' outstanding loans in 2004 were denominated in foreign currency (US dollars mainly). For US-dollar-denominated loans the nominal rate of interest ranged from 3 to 13 percent per annum, and its recipients were only large firms. In sectoral terms, the nominal lending interest rate for Guyanese-dollar-denominated loans

is highest for food, wood and textiles manufacturers (19 percent) and lowest for garments (13 percent)¹⁵⁹. For USD-denominated loans the nominal interest rate was 13 percent per annum for one large mining company and 3 percent for one large food processing firm. It is likely that the differences reflect the relative risk of the sector, as well as the amount of fixed asset collateral available to back a loan. Both exporting and non-exporting firms pay the same interest rate on average on their Guyanese-dollar-denominated loans (19 percent). Exporters pay markedly lower interest rates (nominal, annual) than non-exporters (3 percent versus 13 percent) on their US-dollar-denominated loans, but this comparison should be taken with caution as only 2 firms provided information. Geographic location matters little, with firms located in the capital paying almost the same (19 percent) as firms in secondary cities and rural areas.

ACCESS TO FINANCIAL SERVICES: A KEY PROBLEM FOR FIRMS WITH GROWTH POTENTIAL

5.19 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.¹⁶⁰ This is lower than in comparator 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 sharing¹⁶¹.

5.20 Access to loans varies significantly by the currency denomination of the loan (Table 5-5). 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.

¹⁵⁹ The 13 percent nominal annual interest rate for textiles is based on one observation, i.e. only one firm is reported having a loan and provided information about its rate of interest.

¹⁶⁰ 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 Survey found that firms cited interest rates as the most important constraint to investment (*Stabroek News*, October 5, 2005).

¹⁶¹ Guyana was not included in the sample of the Doing Business in 2004 and 2005 reports hence no comparison with previous years is possible. It should be noted that the Getting Credit index of Doing Business places a heavy emphasis on the existence of a credit bureau, which can negatively bias against financial systems that are otherwise performing adequately, but lack a functioning credit bureau (public or private).

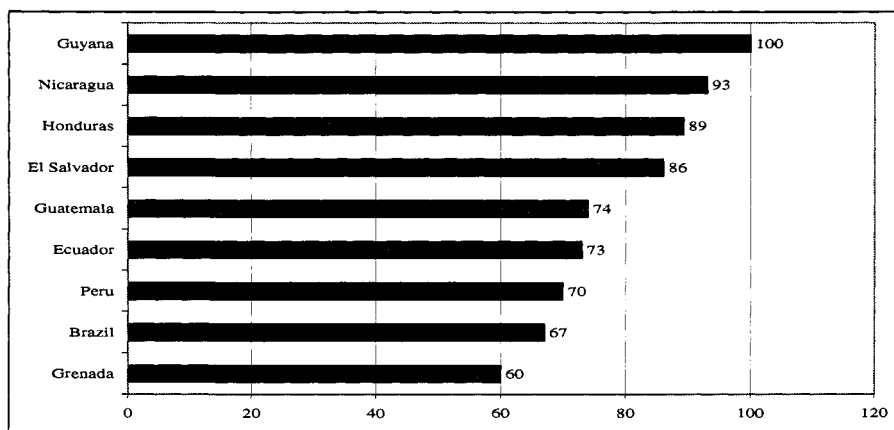
Table 5-5: Even Exporters and Large Firms in Guyana Have Trouble Getting US Dollar Loans

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

Source: World Bank Guyana ICS, 2005

5.21 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), Honduras (89 percent), and Grenada (60 percent in 2004, a drop from 90 percent in 2001) (Figure 5-12). 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 (see Figure 5-13). The required level of collateral ranged from 195 percent for large firms to 250 percent for small firms.

Figure 5-12: Percentage of Loans which Require Collateral, by Country

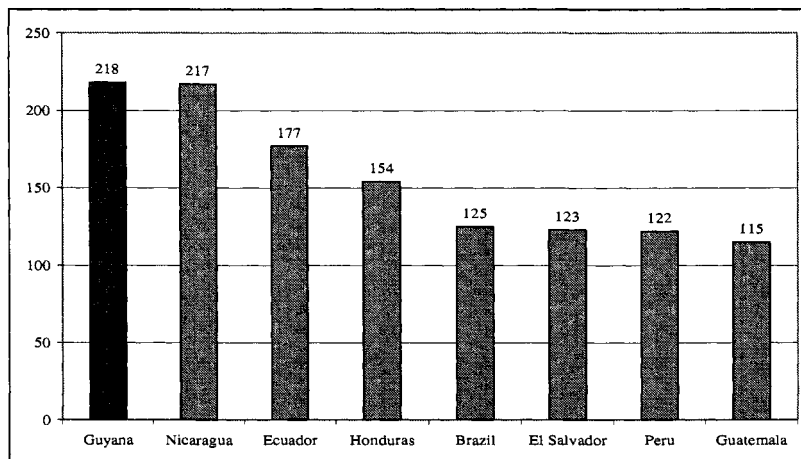


Source: World Bank Investment Climate Surveys, 2002-2004

5.22 Interestingly, credit-constrained firms which had not applied for a bank loan (those with demand for credit but no access) did not list collateral but rather high interest rates as the most important reason for their failure to apply. However, among those credit-constrained firms whose loan applications were turned down, lack of acceptance of the property as collateral was the principal reason for rejection of 58 percent of the micro and small firms' applications, and none of the applications of medium and large firms. Therefore, lack of

acceptable collateral assets is a serious barrier for micro and small firms when they apply for a loan.

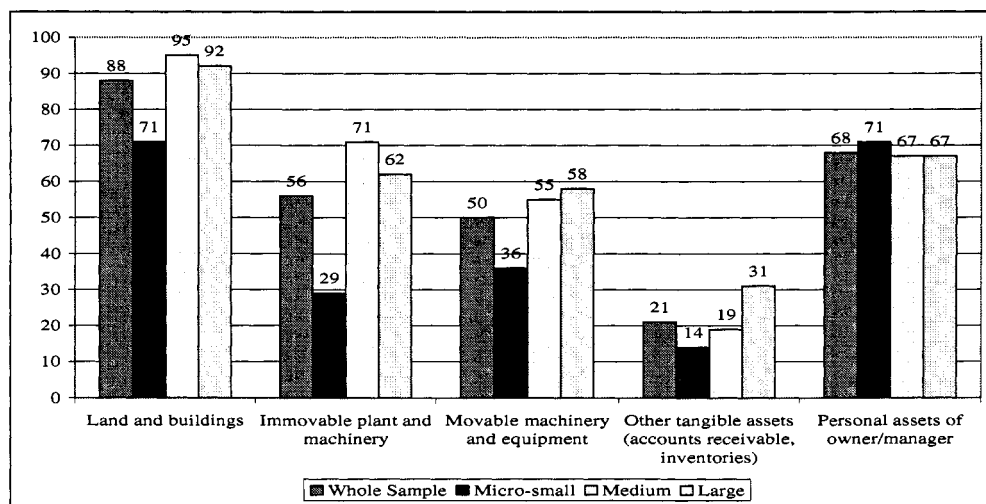
Figure 5-13: Collateral-to-Loan-Value Ratio, percent: By Country



Source: World Bank Investment Climate Surveys, 2002-2005

5.23 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 (see Figure 5-14).

Figure 5-14: Sources of Collateral: by Firm Size



Source: World Bank Guyana ICS, 2005

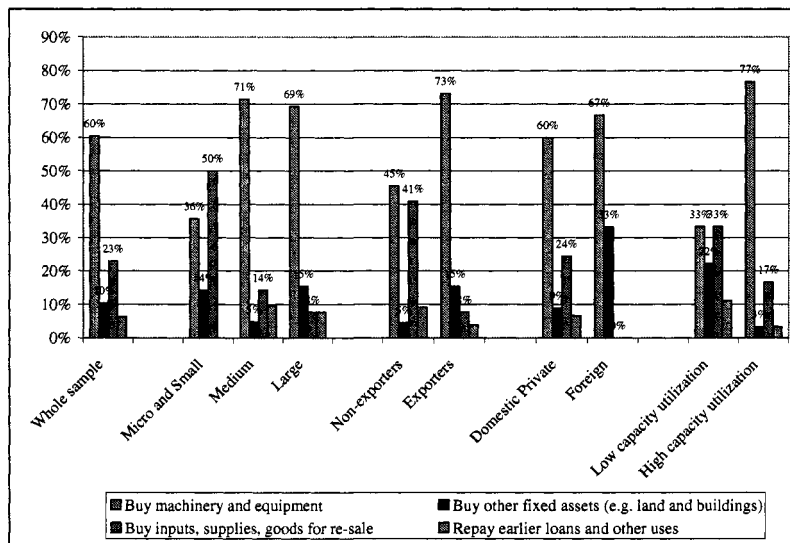
5.24 When credit is provided, maturities are very long by regional standards, especially for large firms. In overall terms, the average loan maturity in Guyana for ICS sample of firms is 80 months¹⁶². The average Guyanese-dollar loan maturity is 61 months for small firms, increasing to 84 months for medium sized businesses and 114 months for large companies. Exporters obtain a loan with an average maturity of 86 months, slightly above the 77-month average for non-exporting firms. These long maturities were confirmed in interviews with senior representatives of the leading banks operating in Guyana. However, maturities of Guyanese-dollar loans for small and medium enterprise (SME) lending were reported in the latter survey to be closer to 42 months (3 and a half years) rather than the 61-month average of the ICS. There were three USD-denominated loans in the ICS, with maturities of 12, 20 and 60 months. In addition, only two loans had a maturity of 10 years (120 months) each.¹⁶³

5.25 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). 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. Only 8 percent of large firms' loans, and 14 percent of medium firms' ones financed inputs and supplies. Interestingly, small firms and large firms used a similar share of their loans to invest in land and buildings (14 and 15 percent respectively), in contrast to only 5 percent of medium firms' loans being used for the same purpose. Furthermore, exporting firms and firms with high capacity utilization exhibit a higher propensity to use bank credit to buy plant machinery (73 percent and 77 percent of loans were for new machinery and equipment respectively) than non-exporting companies and firms with low capacity utilization (46 percent and 33 percent of loans were for machinery and equipment among them, respectively). Figure 5-15 illustrates the use of bank loans by type of firm in Guyana.

¹⁶² Firms interviewed for a Diagnostic Assessment of the Investment Climate in Grenada in 2004 also reported long maturities of their outstanding bank loans: more than half of those firms with loans (56 out of 104 firms) indicated a duration of the loan of more than 4 years. The maximum reported loan duration was by Grenadian firms was 20 years.

¹⁶³ Given the small number of valid observations in these examples, the averages reported for the ICS here should be interpreted with caution.

Figure 5-15: Main Uses of Bank Loans in Guyana: by Type of Firm



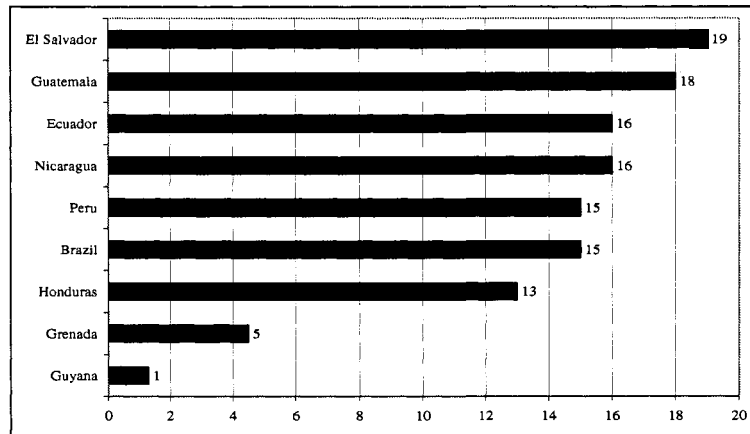
Source: World Bank Guyana ICS, 2005

5.26 Beyond credit, there are few financing alternatives available 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.

5.27 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 (see Figure 5-16). 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.¹⁶⁴ Similarly to Guyana, Grenadian firms financed only 4.5 percent of their working capital needs through trade credit.

¹⁶⁴ Figures taken from Investment Climate Assessments for Guatemala (2004), Nicaragua (2004), Honduras (2004), Peru (2003), Ecuador (2004), El Salvador (2004) and Brazil (2005).

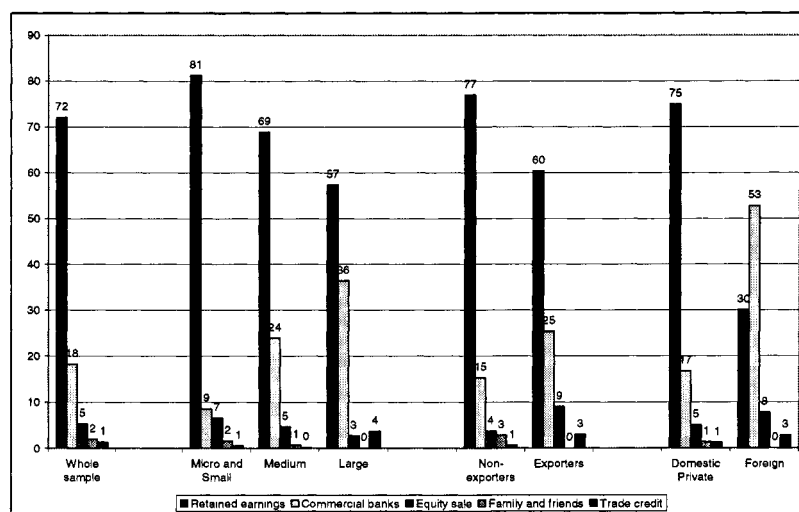
Figure 5-16: Use of Trade Credit in Working Capital, percentage by country



Source: World Bank Investment Climate Surveys, 2002-2005

5.28 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 (Figure 5-17). 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.

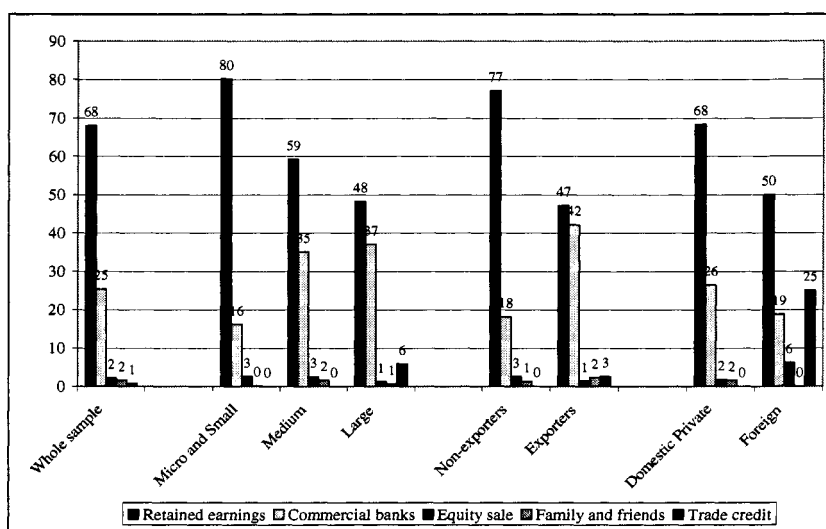
Figure 5-17: Main Sources of Finance for Working Capital in Guyana, percent, by Type of Firm



Source: World Bank Guyana ICS 2005

5.29 **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 (see Figure 5-18). 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 5-18: Main Sources of Finance for Investment Capital in Guyana, percent, by Type of Firm



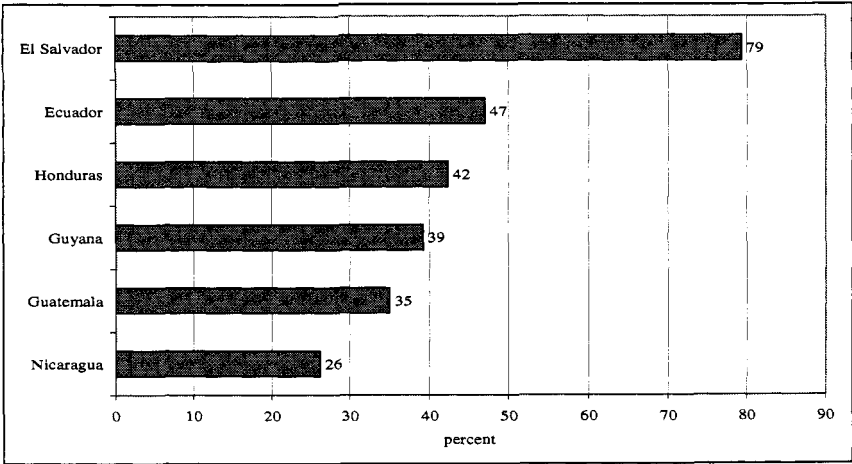
Source: World Bank Guyana ICS 2005

5.30 **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.

5.31 **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 5-19). 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

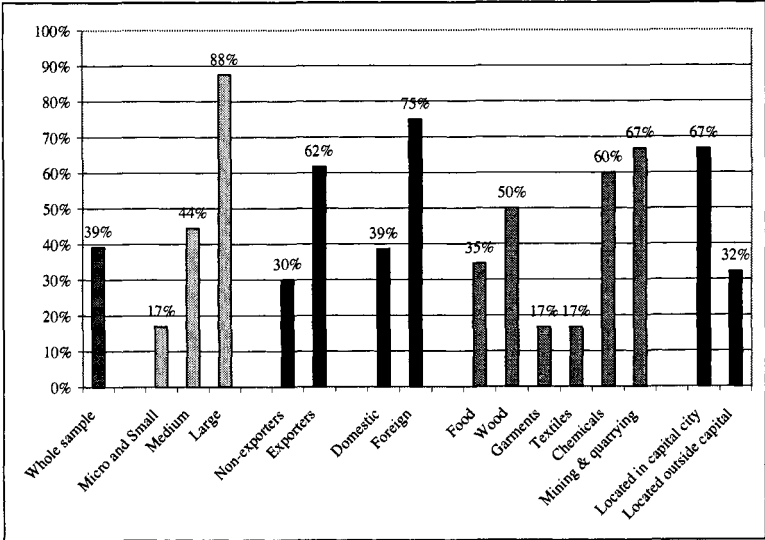
large companies. The use of external auditors is also twice as high among exporting companies (62 percent) and foreign firms (75 percent) compared to non-exporting ones (30 percent) and domestic ones (39 percent). Two out of three firms located in Georgetown have audited accounts (67 percent) compared 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 (see Figure 5-20). 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 5-19: Percentage of Firms with Externally Audited Annual Financial Statements, by Country



Source: World Bank Investment Climate Surveys, 2002-2005

Figure 5- 20: Percentage of Firms with Externally Audited Annual Financial Accounts in Guyana, by Type of Firm



Source: World Bank Guyana ICS 2005

5.32 There are other reasons for the low levels of external financing for the private sector in Guyana. These include a generally slow rate of economic growth, a scarcity of well-developed business plans for smaller firms, and problems with creditor rights protection and contract enforcement. Combined with slow liquidation, unreliable financial statements, and low-risk investment opportunities for commercial banks, it is clear that the lack of private sector access to financing is caused by structural realities of the national financial sector as well as by features of its institutional environment which supports credit markets (insolvency regime, contract enforcement, judiciary performance, etc.)

POLICY RECOMMENDATIONS TO IMPROVE THE ACCESS AND COST ASPECTS OF FINANCE

5.33 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. For instance, Djankov, McLiesh and Shleifer (2005) find that credit information sharing raises the ratio of private credit to GDP significantly across a cross-section of 129 countries worldwide. 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.

5.34 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.

5.35 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.

5.36 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.

5.37 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 products.

CHAPTER 6. POTENTIAL FOR ECO-TOURISM GROWTH

OVERVIEW

6.1 Throughout much of Guyana's post-independence history, tourism was de-emphasized as an economic development tool. More recently, tourism has been recognized as an important source for foreign direct investment and a tool to create linkages and encourage job creation. In 1999, the National Development Strategy (NDS) included a chapter on tourism and recommended the establishment of a statutory body—the Guyana Tourism Authority (GTA)—to bring together public and private sector interests in the management and marketing of the sector. In response to the NDS recommendations, the GTA was established by an Act of Parliament in 2002. Its main function is to assist in the formulation and implementation of government policies for the tourism sector, and to liaise with stakeholders. Specifically, the GTA has responsibility for research and statistics, marketing, product development, and sector-related information technology.¹⁶⁵

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. However, a comprehensive review of the tourism sector is limited by the lack of complete statistical information. 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. The proposal, though not dramatically new, illustrates the comprehensive planning that should accompany the development of a tourism development plan, including, incorporating local communities and providing them with training for the roles they can play. It includes providing tourists with good interpretative materials that can be distributed as marketing materials and also to educate Guyanese in coastal areas about the rest of the country.

6.3 At present employment in the tourism sector of Guyana is still low. The World Travel and Tourism Council (WTTC) estimated direct employment from travel and tourism in Guyana in 2003 as 6,849 jobs, and direct and indirect employment at 21,307 jobs, or 6.9 percent of total employment. With only 1,133 rooms or 2,623 beds in visitor accommodation in the whole country and even with the indirect employment that tourism generates, this estimate appears to be rather high, even allowing for the inclusion of the "travel" sector with the tourism sector. However, a large segment of this employment could be part-time either because the level of demand is insufficient to employ a person full-time and/or because of seasonality of demand – the low season in Guyana can last for 8 months. Indirect employment from tourism is likely to be high in Guyana since much of the daily food inputs into hotels and lodges are grown locally.

¹⁶⁵See the GTA website: <http://www.guyana-tourism.com/>

Among the sub-sectors attracting investments are: fresh and processed fruits and vegetables, poultry, fish farming and seafood processing; the south of the country is famous for its cattle ranches. The local furniture-manufacturing sector exports its products and many hotels buy local furniture.

6.4 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.

6.5 Guyana's tourism assets are its people, its history, geography and its rich variety of flora and fauna. Guyana's people, with their racial and cultural mix, are the country's major asset. Guyana's rich variety of cultural and historical resources reflects the planting traditions of Dutch, British, African and West Indian settlers. The capital, Georgetown, contains several colonial-era wooden buildings, a lively cultural and night life, and a variety of restaurants that serve international and local cuisines. Some indigenous groups in the forested and savannah areas provide guides for adventure and community-based tourism. Good shopping opportunities are available in Georgetown and in the Amerindian villages. Products include local crafts and jewelry created by artisans from locally mined gold and diamonds. Georgetown is the main focus of heritage tourism. Most tours begin or end with a visit to the city. Guyana's several forts, dykes, petroglyphs, and archaeological remains throughout the country are of considerable interest. Another focus of tourist interest is Amerindian villages and customs. These Amerindian villages are also a major tourist attraction.

6.6 Guyana's natural resources include four ecological zones: a coastal belt comprising silt beaches and mangroves; large tracts of savannah; a small sandy zone; and the rainforest, which covers between 80 and 90 percent of the country. The rainforest is part of the Guiana Shield, one of the largest surviving "frontier forests" in the world, stretching across Venezuela, Guyana, Suriname and French Guiana.¹⁶⁶ There are several mountain ranges, with elevations of up to 9,300 feet. The country's four major rivers and their tributaries contain over 600 miles of navigable river and several waterfalls. The width of the Essequibo River, at its widest point, is between 20 and 21 kms wide. Kaieteur Falls, at 741 feet, is the world's highest single drop waterfall, and home to a unique cloud forest micro climate and ecosystem. It is located in one of the largest and most bio-diverse rainforests in the world. Kaieteur is the only national park in Guyana and is accessible by either a one-hour flight or a three-to-five day wilderness trek from Georgetown. Other destinations include: the *Iwokrama* field station, which combines ecological research, a canopy walk, and reception facilities for tourists; the Kanuku

¹⁶⁶ Bryant, Dirk, David Nielsen and Laura Tingley (1997), *The Last Frontier Forests: Ecosystems and Economies on the Edge*; World Resources Institute. See also: <http://www.guianashield.org/ie/index.htm>

and Marudi Mountains, and the savannahs of the Rupununi. Most of the tours to these parts are organized by Guyanese tour operators who work with international tour operators to market personally designed trips. Guyana's wildlife is also a major tourism asset. There are around 786 known species of birds. The country's flora and fauna are varied and its distinct ecosystems are particularly interesting to visitors. The climate is tropical: hot and humid, but cooled by northeast trade winds. The average annual temperature is 81.5 degrees, ranging from 68 to 93 degrees in coastal area to 64 to 104 degrees in the hinterland.

6.7 Guyana's port and river system lend themselves to tourists and exploration of the country's natural beauty. Guyana's abundant rivers are navigable by oceangoing freighters for between 60 to 100 miles inland. The rivers are used extensively in transport to and from tourist destinations within the country and, of course, for fishing and rafting. Sand beaches on some stretches of river lend themselves to the construction of hotels and their promotion as "resort" areas. Georgetown is a potential port of call for some small cruise lines. The largest cruise ship to visit, the *Swan Hellenic*, has a 600-passenger capacity and specializes in cultural cruises. The tour operator was able to distribute the passengers to all the major resorts within easy reach of Georgetown, including those on the Essequibo River, Kaieteur, and on tours of Georgetown. Another tour operator brought in the *MS Bremen*, with a passenger capacity of up to 160, specializing in non-traditional cruise ports of call. Passengers were taken on day trips. Other small cruise ships called at Georgetown in 2005, and continue doing so. Larger cruise ships (passenger capacities of over 2,000) have port requirements that Guyana cannot meet. (i.e., a deep-sea port). Future improvements to the port in Georgetown should include plans to improve facilities for the smaller cruise ships that are looking for new and "exotic" ports of call, rather than trying to create infrastructure for the mega ships.

6.8 The sense of isolation and discovery in Guyana's interior is a major tourist asset. Guyana's natural beauty lends itself mainly to "adventure" travel and activities, partly because they entail exploration of a natural wilderness and partly because Guyana does not yet have the transport or accommodation infrastructure to offer easier access and greater comfort on most circuits. At the moment, the lack of standard tourism infrastructure is part of Guyana's major selling point as an unexplored destination in today's much traveled world. Visitors, who travel to Guyana, even if they do not go to the most remote areas, have a sense that they are entering relatively unexplored territory. The very low population density, combined with the small numbers of tourists, add to this sense.

6.9 Niche markets are among the fastest growing segments of the tourism sector and Guyana's assets lend themselves to adventure and eco tourism, birding and angling (sport fishing). Niche markets are valuable because these tourists are relatively easy to target and their needs are known. Specialized associations, magazines and websites cater to these interests. Tour operators have begun listing Guyana among their offerings in adventure tourism and ecotourism, both of which are the fastest growing segments of the tourism sector. Most adventure tourism and ecotourism takes place outdoors and, for both types of tourists, the lesser known the destination, the more attractive it is. Guyana's offerings for these niche markets tend to be for the hardy. For some people the conditions may be arduous. Lodges range from: "very basic but comfortable" to "superb as each bedroom has an air conditioner, private bathroom with hot water and flush toilet." The food receives high marks, as does the expert guidance of local boatswains. The river experience is made easier because the guides speak English.

6.10 Guyana's variety of total and exotic bird species and plentiful fishing supplies compares favorably with neighboring countries making it an attractive destination for the niche birding and fishing tourists.¹⁶⁷ The Guyana Amazon Tropical Birdwatchers (GATB) was founded to preserve the country's avifauna and natural heritage by stimulating interest in the natural environment and encouraging its protection. The GATB is also a birding tour operator and provides guides for tour operators. Guides are also drawn from the Amerindian communities living in the Rupununi and elsewhere. Although most fishing takes place in the Rupununu river and its tributaries in the south, many rivers have plentiful fish populations. Guyana's potential as an attractive yachting destination has also been recognized by tour operators. This is an interesting niche market for Guyana, given that the yachts anchor for several days at a time and need provisioning.

6.11 Guyana is seeking to attract more sporting and meetings events to the country but in order to compete with long established destinations in the Caribbean, it must improve its information and logistical infrastructure. In late 2004, Guyana hosted the Central American and Caribbean (CAC) Body-Building and Fitness Championships, which brought in nearly 400 athletes, officials and spectators. In May 2005 it hosted the Caribbean Development Bank meeting. Guyana will also host at least one of the quarter-final matches for the 2007 World Cricket Cup. However, in the long term, Guyana will continue to face strong competition from long-established convention, resort and sporting destinations in the Caribbean. To increase its share of sporting events and conventions, Guyana will need to ensure that its capacities in hotel rooms, meeting management, energy, telecommunication and transport are adequate to meet the demands of the international organizations. This will include Customs and Immigration procedures that are adapted to the special needs of these events. Organizers will not return if they face too much red tape and impediments to the entry of essential equipment for the event. To that end, the Government has been encouraging investment in new hotels in Georgetown, partly to cater to the 2007 World Cricket Cup. In preparation for the World Cricket Cup, a new stadium is under construction, with the assistance of the Government of India.

6.12 Growth in the demand for tourism to Guyana has been erratic with no discernible pattern. A statistical series for monthly tourist arrivals between 1992 and 2005 (April) is available, however, its reliability for comparative purposes is questionable. Data collection was sporadic in some years; with one break in the data (three months of 1999 are blank). Visitors numbered 75,000 in 1992, rose to 113,000 in 1994, and then declined steadily until 1998 to 66,000. A new series, beginning in 2000, started with 105,000 visitors and then declined to 99,000 in 2001, as travel dipped worldwide in the aftermath of the events of September 11, 2001. Visitor arrivals since then, with the countries of tourist origin, are shown in Table 6-1. These and other data suggest that growth has been erratic with no discernible pattern, except for annual fluctuations.¹⁶⁸ The one exception is in 2004 when visitors from all regions, except South and

¹⁶⁷ The Smithsonian Institution identified over 72 known species and 736 sub-species of birds. The list may grow as more local experts document birds and as more observations are made by visiting birders. See *A Field Checklist of the Birds of Guyana* (2000), Smithsonian Institution, Washington DC

¹⁶⁸ The data for 2002 to 2005 do not include arrivals at Molsen Creek, the main entry point from Suriname, nor from Lethem -- the main entry point from Brazil. This may have contributed to an apparent decline in arrivals in 2004.

Central America, showed an overall increase in arrivals over 2003 of 21 percent, for a total increase of some 21,078 visitors. Visitor arrivals in the first four months of 2005 at 32,647 were 4,330 visitors less than in 2004; the floods of January and February 2005 and consequent travel advisories, undoubtedly deterred visitors.¹⁶⁹

Table 6-1: Tourist Arrivals in Guyana, 2002-2005

	2002	2003	2004	2005
Annual Total	104,341	100,911	121,989	
Countries of Origin				
USA	50,058	49,625	64,948	
Caribbean	28,211	24,779	28,091	
Canada	14,190	14,144	15,900	
Europe	8,190	8,136	9,056	
South & Central America	2,161	2,474	2,140	
Jan-Apr Arrivals	34,793	28,947	36,977	32,647

Source: Guyana Tourism Authority

6.13 Guyana receives about half its foreign visitors from the United States. Only the Eastern Caribbean states, Cuba, the French and Dutch speaking territories (except for Aruba and Haiti), have a lower dependency on the U.S. market. Dependency rates reach over 85 percent for Bahamas, Puerto Rico and the Cayman Islands, while Belize and Costa Rica, direct competitors to Guyana, had rates of 61 and 56 percent, respectively. Canada, with a large Guyanese immigrant population, provides about 15 percent of visitors. The United Kingdom, the Netherlands and Germany are the main tourist supplier countries from the European market, which contributes about eight percent of total tourists. Of the 122,000 tourists recorded in 2004, 10 percent were foreign visitors (tourists, business people and others), 25 percent were from other Caribbean countries, and 65 percent were Guyanese resident abroad. Guyana also received nearly 2,500 visitors from all of Central and South America in 2003.

6.14 Table 6-2 provides some comparison with Belize, Costa Rica and Dominica in the nature and eco-tourism market. The most striking feature of the data is the depth and variety of the demand for nature and ecotourism. This suggests the potential for expansion of tourism to Guyana from the North American, European and South American markets.¹⁷⁰

¹⁶⁹ CTO regional publications make evident the lack of tourist data for Guyana in several of the standard tables: sometimes there are no data in the Guyana country line, in others the country is just not listed in certain tables. Exactly how the estimate of foreign visitors is arrived at, shown above, is something of a mystery, derived as they are from an unsatisfactory landing card.

¹⁷⁰ Cruise visits were also significant in Belize, Costa Rica and Dominica, but there are no data for Guyana.

Table 6-2: Number of Nature and Eco-tourists in 2003 (thousand)

	Belize	Costa Rica	Dominica (Jan-Nov)
Overnight visitors	221	1239	66
Tourists (non business)	208	908	
Arrivals by Region			
North America	175	1018	
USA	157	511	15
Canada	10	55	2
Mexico	6	46	
South America	2 (approx.)		
Argentina		14	
Colombia		27	
Venezuela		14	
Europe	34	198	10
UK	9	23	
Spain	2	34	
Germany	4	29	
Netherlands	4	25	
France	3	24	
Italy	4	18	

Source: Caribbean Tourism Organization

6.15 Guyana’s visitors fall into four groups: business travelers, travelers from the rest of the Caribbean, returning expatriate Guyanese, and “true” tourists. Tourists and business people share similar characteristics in that they both use hotels, restaurants, and ground, air and river transportation, though tourists are likely to travel more widely within the country. There is no basis for estimating how many of these visitors use commercial tourist facilities. However, an indication of the small share of foreign tourists in the overall total of visitors to Guyana is the use of hotels. Of the 28 member countries of the Caribbean Tourism Organization (CTO), only Montserrat (8.7 percent) and Suriname (11.0 percent) have a lower hotel usage. Similarly, Guyana had the highest share of all countries in use of private accommodation (Table 6-3).

Table 6-3: Tourist Arrivals in Guyana by Place of Stay (percent)

Hotel	Guest House/ Apartment	Private Accommodation	Other	Total
17.2	0.6	82	0.2	100

Source: Caribbean Tourism Organization

6.16 Few individual tourists arrive in Guyana and travel around the country on their own. This is largely because of the lack of tourism infrastructure. Several tour operators, however, offer special tours for couples or small groups. For the immediate future there are unlikely to be significant structural changes to permit more individual travel or larger group

travel. The Guyana Tourism Authority (GTA) reports that Caribbean visitors came mainly from Antigua, Barbados, St. Lucia and Trinidad & Tobago, all with the largest resident Guyanese populations. Individuals and groups from the Caribbean region travel to Guyana for meetings, sporting and religious events, but it is not known how many visit purely for sightseeing. The ability to estimate the general profile of visitors to Guyana is hampered by a lack of data. Anecdotal evidence suggests that most foreign visitors are young and male, which is to be expected since they include business and adventure travelers. The only hard information about the income levels of visitors comes from birders and anglers. These tourists, who arrive from North America or Europe, are probably relatively wealthy as there are no cheap packages or charter flights to Guyana, and air fares from Europe and North America to Guyana are a sizeable upfront cost.

CHARACTERISTICS OF TOURISTS

6.17 The average length of stay is a major factor in the success of a tourist destination in Guyana's case, because the volume of tourists is tiny by international standards and costs of access are considerable, the sector's profitability depends on inducing the tourist to stay as long as possible. Few destinations can profit with short lengths of stay unless there is a very large volume of visitors. Some sense of the typical length of visitor stays can be derived from discussions with tour operators. The shortest trips are structured for people already in Guyana, like business travelers, who want to see the interior by visiting any one of a number of resorts that are within easy reach of Georgetown, or for foreign tourists who want to see as much of Guyana as possible, so they visit more than one area, spending a short time in each. The short circuits are also used by tourists on multi-country visits.

6.18 Diversification of source tourist markets could well be a means of achieving increased lengths of visits. A comparison of recent average lengths of stay in the top Caribbean destinations, using mainly data from the World Trade Organization, shows the following (in nights): Cuba 10.5, Dominican Republic 9.5, Jamaica 6.4, Bahamas 4.6, and Puerto Rico 2.6. The average lengths of stay of non-resident visitors to two of Guyana's main competitors in 2003 were: 11 nights in Costa Rica and 6.8 nights in Belize.¹⁷¹ The weighted average of the lengths of stay of visitors is heavily dependent on the characteristics of the predominant supplier country. The three islands in the Caribbean that are most heavily dependent on the U.S. market have the lowest average length of stay. The Dominican Republic and Cuba sell many package tours to the European and Canadian markets, which tend to have longer lengths of stay than U.S. visitors. By diversifying its source markets, Guyana could well increase the average length of stay of its visitors. Nevertheless, average length of stay is declining worldwide following the developed world's trend of more frequent annual holidays and shorter stays on each trip.

¹⁷¹ Average length of stay data may be based on different definitions in each country and, consequently, may not be comparable. In Jamaica the data refer to average length of stay in hotels of 6.4 nights, while the average length of stay on the island, whatever the accommodation used—including non-commercial—is 10.2 nights. The estimate for Cuba is from CTO data, which does not distinguish between average length of stay in commercial accommodation and average length of stay on the island. The distinction is important where there are large groups of visitors who are nationals living abroad and who return to stay with family and friends. In Cuba's case it could well accurately reflect the tourists' average length of stay.

6.19 The peak months for visitor arrivals are: March/April (depending on when Easter falls), July, August, and December. In 2004, Guyana received between 45 and 50 percent of its visitor arrivals in those four months. The rainy season in late November through January -- and May and June—does not prevent Guyanese residing abroad from visiting to celebrate the holidays (Table 6-4).

Table 6-4: Tourist Arrivals in Guyana by Month, 2002-2004 (percent)

Month	2002	2003	2004
January	6.0	6.1	5.8
February	7.1	6.2	6.8
March	11.6	6.9	6.9
April	8.7	9.5	10.8
May	6.5	6.1	6.3
June	7.8	7.3	7.3
July	13.3	10.7	14.3
August	12.2	11.1	11.4
September	5.9	7.2	6.1
October	5.2	7.5	6.1
November	5.2	7.8	6.4
December	10.6	13.5	11.8

Source: Guyana Tourism Authority

6.20 Guyana’s primary advantage for adventure, nature and ecotourism is the remoteness of its destinations. Given the low level of Guyana’s tourism and the minimal promotion of the product in the past, the prospects for modest growth in these sectors look promising. The very many destinations offering sun, sea and sand means that competition within this tourist sector is very strong. Adventure, nature and eco-tourism are much smaller segments than resort tourism but they are precisely the segments in which Guyana possess natural advantages. These are each expected to grow by 20 percent per year. Other segments from which Guyana benefits, such as cultural tourism, meetings and conferences are all expected to grow globally by 10 percent per year, which is much higher than the rate for resort tourism.

6.21 Guyana’s history of immigration provides a further potential market for tourism. Because more Guyanese live outside the country, Guyana has the potential to attract Guyanese living abroad to its tourism assets. As such, the Minister of Tourism launched a marketing campaign in June 2005 primarily targeting the media, the industry and expatriates. In the process general concerns were raised about the security in the country, crime rates, improved facilities at the Cheddi Jagan International Airport, and about comfortable hotels and inns for visitors. Given the contacts that many Guyanese retain with their homeland and the size of their remittances home, Guyanese expatriates appear to be an obvious untapped market. Therefore, an upgrading of tourism facilities should by itself attract Guyanese expatriates to wilderness areas and not just to Georgetown. While there are cultural and economic benefits to attracting expatriates back to the homeland, these travelers are only of value to the tourism sector if they use tourist facilities.

SUPPLY OF ACCOMMODATION AND TOURISM RELATED SERVICES

6.22 The ultimate success of Guyana's tourism programs depends on the quality and quantity of the country's tourism assets and of the accommodation and services that are available for sale. Industry insiders say no more than about 400 rooms of the hotel stock in Georgetown are marketable to foreign visitors. In a personal communication, the Minister of Tourism stated that about 586 rooms "could be classified as three stars and above" in the entire country. The current low density of tourist rooms in Guyana has two effects: it creates a real sense of being in a wilderness area that has not been explored and, on the other hand, it also raises internal transport costs compared to other destinations.

6.23 The lack of a direct reporting system to allow hotels to inform the GTA of changes to their accommodation profiles means that much of the information received by the GTA is not up-to-date. The incomplete and undated accommodation list on which the following table is based was provided by the GTA. The list omits at least one hotel in Georgetown that serves tourists and one resort hotel, with 13 cabins and 26 beds. It includes one hotel under a previous name. Ongoing approved additions to room capacity are not yet shown. This is an extremely important list for marketing and license control purposes that GTA should keep up-to-date. For this purpose, a direct reporting system should be established.

6.24 The GTA is just beginning to license tourist facilities and there is as yet no classification of hotels by category. The total stock in all types of accommodation in Guyana is 1,133 rooms and 2,623 beds distributed in 60 hotels—defined as hotels and guest houses, with some of the accommodation in cabins, hammocks and tents (Table 6-5). Of these, 598 rooms are in Georgetown, and 136 on the East Bank of the Demerara (a combined total of 65 percent of all rooms in Guyana), and 117 rooms (10 percent of total accommodation) are in resorts around the country, which are mainly used by tourists. The remaining hotels and guest houses, with 282 rooms (25 percent of total) are located mainly in Berbice near Suriname, in Linden, a commercial centre, and in Lethem near the Brazilian border. These are mainly commercial hotels that cater to travelers crossing the Brazil and Suriname borders, and to local business people.

Table 6-5: Supply of Hotel and Resort Accommodation in Guyana

Accommodation in Hotel, Apartments and Guesthouses						
Rooms per Hotel	Georgetown			East Bank Demerara		
	No. of Hotels	No. of Rooms	No. of Beds	No. of Hotels	No. of Rooms	No. of Beds
100+	1	132	260			
75-99	1	75	160			
50-74				1	60	220
25-49	3	85	169	1	36	42
20-24	5	111	224			
15-19	8	126	298	1	19	38
10-14	3	35	84	1	14	31
0-9	4	34	94	1	7	28
Total	25	598	1289	5	136	359

Resort Accommodations			
Rooms per Resort	No. of Resorts	No. of Rooms	No. of Beds
25-49	1	40	140
15-19	1	17	40
10-14	2	22	60
0-9	9	38	170
Total	13	117	410

Non-resort Accommodations in the rest of Guyana			
Rooms per Hotel/ Guest House	No. of Hotels/ Guest House	No. of Rooms	No. of Beds
25-49	5	144	261
20-24	2	40	76
15-19	2	30	78
10-14	3	34	82
0-9	5	34	68
Total	17	282	565

Grand Total All Guyana			
	No. of Hotels	No. of Rooms	No. of Beds
	60	1133	2623

Source: Guyana Tourism Authority with author's amendments

6.25 Guyana trails regional eco- and nature tourism markets such as Belize, Dominica and Costa Rica. Table 6-6 reveals the number of accommodations in Guyana, compared to competitors in the region. Belize, Dominica and Costa Rica have all been marketing nature/ecotourism assets for several years. As an indication of the density of the tourism product within the economy, the surface area and the ratio of rooms to area are shown. Guyana is the least densely populated in terms of tourist accommodation by far. By contrast, the high density in Costa Rica leads some industry analysts to view the country as no longer “remote” or “exotic.”¹⁷²

¹⁷² Zweig, Miguel, “Cluster Market Assessments of Guyana”, CARANA Corporation, USAID GTIS Project November 2004.

Table 6-6: Supply of Tourist Accommodations in Guyana and Competitor Destinations

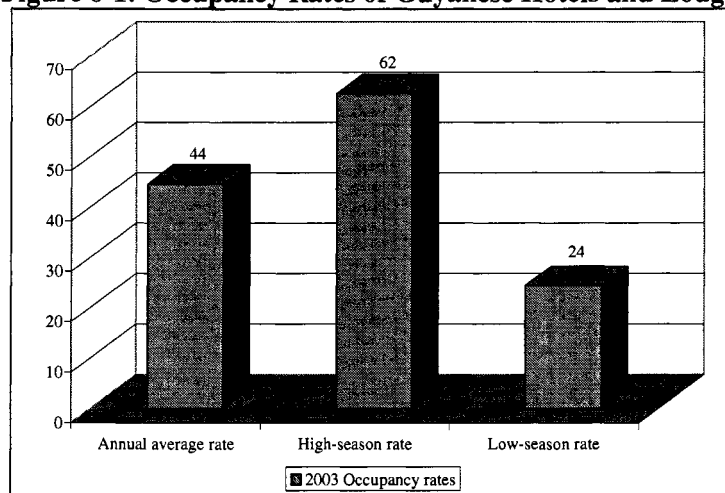
	Belize	Dominica	Costa Rica	Guyana
No. of Rooms in Hotels and Similar Accommodations (2003)	5,050	889	35,003	1,133
Surface Area (sq. km)	22,960	750	57,100	215,000
Room per sq. km.	1:4.5	1:0.8	1:1.5	1:190

Source: Caribbean Tourism Organization
 Note: Data for Dominica are for 2002

OCCUPANCY RATES AND PROFITABILITY

6.26 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 (Figure 6-1). 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. The manager of one well known resort stated that occupancy rates can reach 30 percent in the peak season but are at 10 – 15 percent in the eight months of the low season. Remarkably, these low occupancy rates occur in hotels whose average size is around nine rooms. Clearly, resorts where the accommodation is mainly hammocks and tents, will have much lower fixed costs than built accommodation and, therefore, higher rates of profitability.

Figure 6-1: Occupancy Rates of Guyanese Hotels and Lodges



Source: World Bank Guyana ICS 2005, hotel module

6.27 Almost all of Guyana's resort hotels at the high and low end survive because they are not run as truly commercial operations but rather as family retreats rented out part-time. They are either family retreats that are rented part-time or they are subsidized by other ventures in an integrated business structure, while others are community-based initiatives used to diversify the source of income in the community. The fact that the majority are not run as commercial operations has meant that when the owner's age and heirs are not interested in using the resort, or if the other businesses in the conglomerate become less profitable, or if better income earning opportunities arise elsewhere, money for maintenance and refurbishing can stop suddenly and the number and quality of services can decline. Reduced standards and services create a poor image and, if widespread, lead to a loss of competitiveness of the sector as a whole.

6.28 At this stage of its tourist development Guyana cannot support very large hotels (250 to 600 rooms), which at present characterize the Caribbean tourism industry – and certainly not outside of Georgetown. Hotel size reflects the growing capacity of airplanes and marketing strategies by major tour operators. In a recent analysis of the costs of package holidays to resort destinations, the average first-class hotel size in all-inclusive hotels used by KUONI and Thomas Cook ranged from 280 to 363 rooms in Jamaica, and 400 to 661 in Cancún/Riviera Maya, Cuba and the Dominican Republic. New hotel construction in Jamaica is increasing the average hotel size in that island. Sizes range from a low of 250 rooms to 850 rooms with a cluster of hotels in the 400-plus size. In Georgetown, there is only one hotel with more than 100 rooms. However, a 190-room hotel is under construction near the new CARICOM Headquarters building, and two 150-room hotels are at the planning stage. A number of smaller hotels are also expanding their capacity. According to the Ministry of Tourism, about 104 rooms were added in the last three years.

6.29 As the tourism sector expands, the GTA should consider the needs of the small hotels sector and decide whether to request donor assistance for training and establishing systems for joint purchasing, marketing and reservations, which could reduce costs and introduce efficiencies. Many small hotels do not have the funds to maintain and improve their properties, nor deal with cash flow shortfalls. Owners have little management and marketing know-how. They also have difficulty raising commercial loans for their needs. Many owners run their hotel as a family business, often living on the premises, without imputing full costs to family labor. When these hotels cater to low-income commercial travelers, no harm is done. If they are located in newly developing tourism areas they can damage the sector's image. The CHA and donors have offered technical assistance and training programs to small hotels in the wider Caribbean for many years.

6.30 Despite numerous obstacles to doing business in the country, reviewed in detail in later, Guyanese tourism entrepreneurs are continuing to make investments and are expanding. Guyana's tourism business community is dynamic, enterprising, and eager to move ahead with expanding the activities of the sector. It is perhaps a sign of the difficulties of doing business in Guyana that many entrepreneurs have set up businesses in the related sectors on which their original business depends. A number of entrepreneurs that have a hotel or lodge also operate an internal airline and sometimes river transportation, as well as a travel agency or inbound tour operator. Any one of these may have been the original investment and the rest were added over time. This diversification reduces the entrepreneur's dependence on others. It is also a tribute to the ability of Guyanese entrepreneurs to identify weaknesses in their own

operations, to take the risk of moving into a different venture and to make a success of a business in which they have no direct experience. It also means that local entrepreneurs make substantial investments in Guyana and are expanding their holdings in the country.

INVESTMENT INCENTIVES AND RECENT INVESTMENTS IN TOURISM

6.31 The Guyana Tourism Incentive Package was launched in 1995 and is being implemented by Go-Invest. It was designed to encourage “an increase in the number of hotel rooms in Guyana and improvements in existing plant and other facilities in the tourism sector.” Selected companies are eligible for these incentives once in a period of five years. The essence of the incentive package is duty-free and consumption tax concessions for basic furnishings, plant, equipment and building materials. No difference is made between local and foreign investors, except for a provision that requires foreigners to obtain permission from the Ministry of Finance to borrow over G\$2 million from local Guyanese lenders. This acts as an inducement to foreigners to bring in capital from abroad. Import duty and consumption tax concessions are given for 17 items comprising basic furnishings, plant, equipment, and building materials. An additional seven items are eligible for concessions in interior locations (for example 4 x 4 vehicles, boats and engines, and life jackets). Duty free concessions are limited to 25 percent of the value of the investment. Any items that are locally manufactured and available would not be entitled to the exemption from duties if imported. A waiver of consumption tax would be granted on eligible locally manufactured items.

6.32 At a time when the tourism sector seems poised to play a stronger role in the Guyanese economy, the Government may wish to review the existing tax and incentive system applied to the tourism sector. Although the concessions are valued by investors, they are, by Caribbean standards, quite modest. In Guyana, tourism investors are subject to the same tax rates as other producers of goods and services. The Government may wish to consider whether tourism should be classified as an export industry, as is the case in some countries, and what benefits might accrue to the sector under this classification.

6.33 It has been recognized that the Tourism Incentive Package has certain deficiencies which are being addressed by the Government. According to some investors, government decision makers have discretionary powers that enable them to approve or not each application for benefits under the Tourism Incentive Package. Others complain of the delays in the decision making process to grant incentives¹⁷³. A separate issue for the Government to consider is whether incentives should be used as a policy tool to attract investments to those areas of the country where there is a need to create new accommodation. This would be a useful tool if a tourism strategy is formulated to select “specially designated tourism areas” or “specially designated types of tourism” (for example, community-based tourism) to enhance the attractiveness of particular areas in Guyana where facilities can be upgraded and tourism successfully expanded. Currently, the Inter-American Development Bank (IADB) is responding

¹⁷³ In an interview in May 2005, the Minister stated that it had recently become clear that some language in the Act was ambiguous and it was being clarified, and that this had caused some confusion for investors.

to a request for a study of the concessions and incentives presently offered in Guyana. Concessions and incentives for the tourism sector should be reviewed separately.

Table 6-7: Recent Investments under the Incentives Regime

	2002	2003	2004	2005
Investments				
Tourism G\$"000	1,300,000	4,900,000	204,000	4,615,000
US\$ equivalent million (1US\$=G\$200)	6.5	24.5	1.0	23.1
No. of Projects	21	20	60	8
Jobs Created	156	333	23	228
All Sectors G\$"000	9,796,300	15,756,000	9,356,000	36,246,000
US\$ equivalent (1US=G\$200)	49.0	78.8	46.8	181.2
No of Projects	104	128	75	72
Jobs Created	1,349	2,283	1,686	2,353
Tourism as percent of Total Investment	13	31	2	13
Tourism Jobs as percent of Total Jobs Created	12	15	1	10

Source: Guyana Office for Investments

GUYANA AND ITS COMPETITORS

6.34 Guyana's tourism business sector must provide high value to tourists in order to justify the higher price of its product in comparison to competitors. Within reason, travelers will accept higher prices charged by one destination over another if the quality or value of the experience is high. Table 6-8 compares the costs of travel to Guyana with those to other nature tourism destinations in the region and gives a sense of the breadth of the competition.¹⁷⁴

Table 6-8: Comparative Costs of Nature Tourism

Country Visited	No. of Days	Departure City	Cost From	
			(GBP)	(US\$)
Belize	9	Belize	(excl. airfare)	\$1,995
Belize-Guatemala	15	London	GBP 1,399.00	\$2,429
Belize-Guatemala-Mexico	16	London	GBP 1,299.00	\$2,255
Costa Rica	9	Costa Rica	(excl. airfare)	\$1,498
Costa Rica	16	London	GBP 1,375.00	\$2,387
Costa Rica (upgraded)	16	London	GBP 1,649.00	\$2,863
Costa Rica-Nicaragua	16	London	GBP 1,275.00	\$2,214
Guatemala	8	Guatemala	(excl. airfare)	\$1,395
Panama	14	London	GBP 1,968.00	\$3,427
Panama	10	Panama	(excl. airfare)	\$2,305
Venezuela (Angel Falls)	14	Caracas	(excl. airfare)	\$4,325

¹⁷⁴ A significant difficulty in doing this exercise is that the packages and prices are drawn from a variety of tour operators that advertise on the web, so that complete comparability is not guaranteed among them. A further difficulty is that the samples are very small because it is not at all easy to find quotes for Guyana.

Country Visited	No. of Days	Departure City	Cost From	
			(GBP)	(US\$)
Guyana (Wildlife Tour)	14	London	GBP 2,300.00	\$4,005
Guyana +Trinidad & Tobago	16	London	GBP 2,400.00	\$4,179
Guyana (3 nights) + Barbados	10	London	GBP 1,724.00	\$3,002

Source: Author's compilations based on tour operator quotes

6.35 Guyana's tourism product has a higher unit price compared to other international competitor destinations. Therefore, lower cost structures in other destinations mean that Guyana should provide a high value product to compete successfully. A common denominator for the tour packages can be established by dividing the total cost by the number of days on the trip, and excluding those packages where the international airfare is not included. Using only those trips that involve one destination, the resulting ranking by daily price is presented in Table 6-9.

Table 6-9: Daily Price for Packaged Tours: a Comparison

Costa Rica	\$149-179
Panama	\$245
Guyana	\$286

Source: Author's calculations

6.36 Many indicators, however, point to the low-quality tourism product which Guyana offers at present. A USAID financed report on "Cluster Market Assessment of Guyana's tourist facilities" highlighted several concerns: poor accommodations, high cost, mediocre food, poor service, expensive, inconvenient and time-consuming access and expensive internal travel costs. The Assessment noted that "*poor accommodations are not perceived to be, by themselves, a deterrent to the more adventurous travelers, however... Guyana's hotels and lodges are significantly less attractive than those, for example, of Alaska, making it difficult to sell Guyana even to travelers accustomed to some hardship.*" Most travel operators cited clean accommodations, potable water, private bathrooms, hot water showers and excellent service and food as the minimum conditions acceptable to travelers.

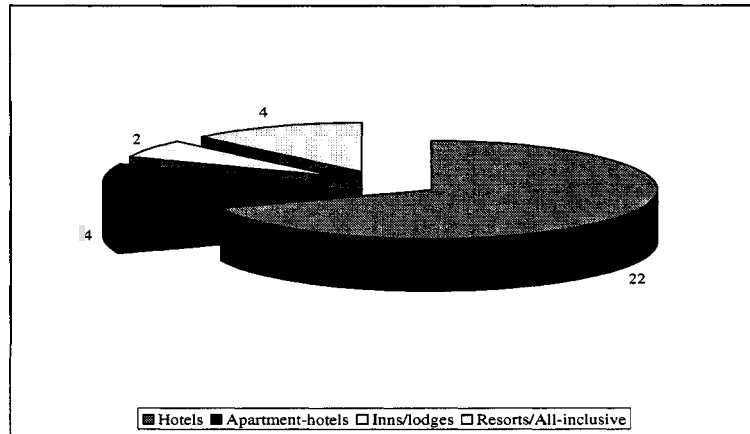
6.37 The cost of marketing Guyana as a tourism destination is high due to the potential small volume of travelers. From a marketing perspective, the above-quoted study concluded that Guyana is not a commercially attractive market for mass-marketed package tours. Guyana is potentially attractive only for a small niche market that is interested in its unspoiled nature and uniqueness, and not even for the larger niche market of adventure travelers.

COMPETITIVENESS OF THE GUYANESE TOURISM SECTOR

6.38 Guyana's tourism sector contains processes and involves various costs that raise prices or act as a constraint on the operations of hotels and other tourist services. The Hotel Module of the World Bank ICS questionnaire revealed serious obstacles to tourism establishment in their daily operations. Figures 6-2 and 6-4 present the number of surveyed hotels and some of the main obstacles perceived by them. An IADB assessment noted that the

Internal Revenue Division (IRD) and the Customs and Trade Administration (CTA) systems and procedures need urgent reforms, and that these should focus on simplifying procedures, revamping IT systems, and introducing enforcement measures to increase revenue in the short and medium term.¹⁷⁵

Figure 6-2: Number of Surveyed Tourism Establishments in Guyana



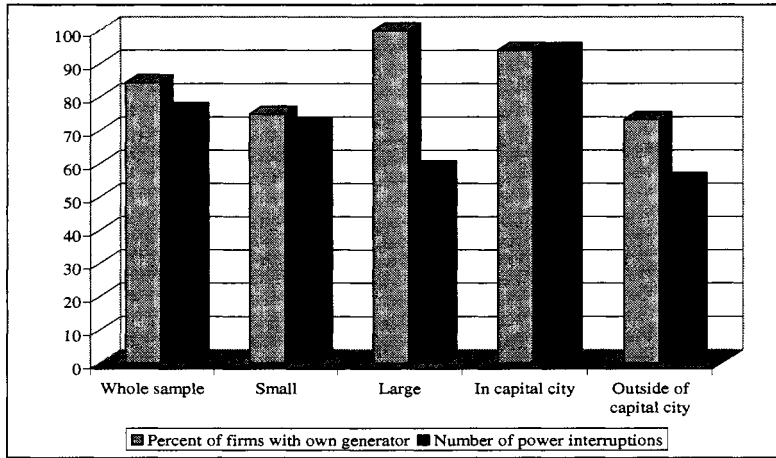
Source: World Bank Guyana ICS 2005, hotel module

6.39 The cost and unreliability of Guyana’s electricity supply has been identified as a major obstacle as electricity accounts for about 30 percent of most hotels’ operating costs (Figure 6-3). The rate charged to hotels is G\$55.70 per KWH (US cents 0.28 /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.¹⁷⁶ 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.

¹⁷⁵ Earle, J. “More economic growth needed in Guyana - IADB representative”, *Stabroek News*, May 3, 2005.

¹⁷⁶ Tourism & Industrial Development Company of Trinidad & Tobago (TIDCO)

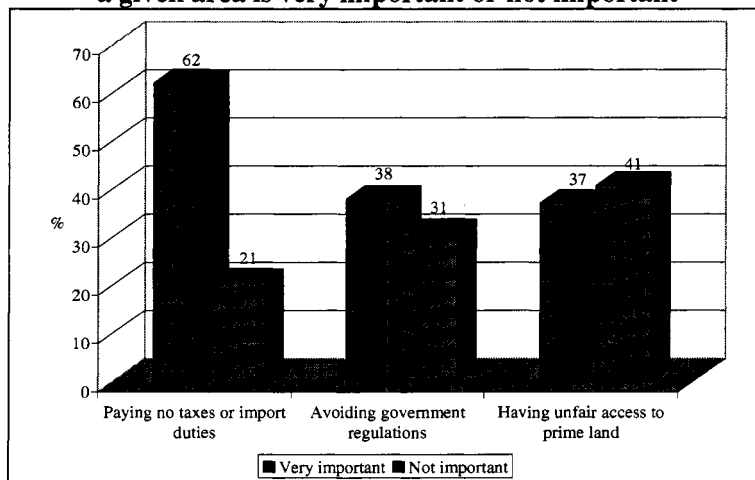
Figure 6-3: Percent of Firms with Own Generator and Number of Power Outages, by Type of Hotel



Source: World Bank Guyana ICS 2005, hotel module

6.40 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.

Figure 6-4: Tourism Firms: Perceptions of Important Obstacles, percent of firms sharing view that a given area is very important or not important



Source: World Bank Guyana ICS 2005, hotel module

6.41 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 6-4). 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, with introduction scheduled for January 1, 2007. 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. Departure taxes on stopover visitors range from a low of US\$3.00 in the US Virgin Islands to a high of US\$35.42 in the Cayman Islands. In 2002, Guyana charged US\$15.00 per passenger but raised that recently to US\$20.00. Guyana does not presently charge a tax on cruise passengers and is one of six out of 29 Caribbean countries not to do so. Given its needs for port infrastructure, the Government could consider such a tax but should also ensure that it does not deter the fledgling cruise traffic. Given the comparatively low level of port facilities that Georgetown provides compared with some of the more established cruise ports, Guyana may want to keep the level of its cruise passenger tax at the lower end of the scale.

6.42 Hotels and other tourism enterprises are required to have a number of licenses, and acquiring these can be a lengthy and costly process. The main licenses for hotels are: (i) hotel license, which costs G\$7,000 for initial registration and G\$5,000 annually subsequently; (ii) business registration fee of G\$5,000 initially and G\$2,500 annually subsequently; (iii) liquor license of G\$5,700 for the initial registration and G\$5,000 annually subsequently; (iv) health and safety inspection license, based on the size of the premises, charged at G\$3 per sq. ft; (v) fire inspection certificate at G\$260. Interviewed hotel managers and owners commented on the length of time involved in obtaining these licenses, and this is also confirmed by the ICS data.

6.43 There are reportedly some delays in applications for import duty concessions on the import of vehicles. Commercial-use vehicles are not subject to import duty. Other vehicles require an application for duty-free concessions, which some transport company owners said they preferred not to apply for because of the delays this entailed. Imports of 4 x 4 vehicles are covered under the Tourism Incentive Package legislation for interior locations, where they are an essential means of transport.

6.44 As discussed in Chapter 4, an ongoing problem for all sectors in Guyana, including tourism, is the brain and skills lost to migration abroad. According to Docquier and Marfouk (2004) 80 percent of graduates leave Guyana for other countries. Once individuals obtain a skill and some experience they become more marketable abroad and their training becomes a loss to Guyana, except, of course, for the remittances that many send back to family.¹⁷⁷ As in the rest of the Caribbean, Guyana faces a skills shortage for the positions of Head Chef and Food and Beverages manager. Guyanese chain hotels often prefer to have an internationally experienced manager trained in the particular business practices and internal culture of that hotel; otherwise

¹⁷⁷ In an interview in May 2005, Cathy Hughes, President of THAG, told *Stabroek News* that the migration of skills plagues the entire Caribbean leaving the region unable to compete in many areas of production and in the provision of certain skilled services.

hotel managers are Guyanese. An identified skills shortage in the services sector is marketing expertise, which is needed throughout the tourism sector. Most hotels in the country are largely staffed by Guyanese citizens.

6.45 Training – as discussed in Chapter 4 is insufficient and is regarded as a weakness in the sector’s efficiency. 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 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. Owners of transport companies were concerned with the lack of professionalism of guides in Georgetown. Most guides are free lancers and are not organized into associations. Language skills are in short supply, with an increasing demand for Portuguese. In the interior, reports on fishing expeditions and wilderness expeditions normally include complimentary comments about the guides used¹⁷⁸.

6.46 To address insufficient training, a partnership between GTA and THAG could be established. It should lead to the raising of standards and an increase in local expertise. The GTA now has the mandate for education and training of employees in the tourism industry. With so much training needed, particularly if there is to be an expansion in the sector, there would be considerable benefit in developing the relationship between GTA and THAG. The latter’s membership can identify training needs and ensure that the training provided is adapted to the particular needs of Guyana. The larger hotels and service companies could offer practical internships to complement expert teaching.

6.47 Construction and financing costs are prime determinants of the profitability of hotel projects. It is, therefore, to Guyana’s advantage to have relatively low construction costs. At the same time, the quality of Guyana’s hotel product does not allow managers to charge the same rates as those charged by higher category Caribbean hotels. The average cost to construct a 3-star hotel in Georgetown is about US\$ 25,000 per room, according to the Ministry of Tourism. The National Development Strategy Chapter on Tourism, which was published in 1999 but written three to four years earlier, stated that “*a typical capital investment cost per unit at an eco-lodge is about US\$35,000 with appropriate fiscal concessions and infrastructure already in place (i.e., roads, air strip, etc.). A similar unit in a Caribbean destination is about US\$100,000.*” If by “unit” the NDS means a cabin or cottage, the construction cost data must have been derived from a high-quality lodge with very good facilities, rather than the lodges that are the target of the criticism in the USAID Cluster Reviews discussed elsewhere in this report. Lodges are generally constructed from local materials and, particularly from Guyana’s abundant

¹⁷⁸ In December 2003, the Iwokrama management completed a training program, funded by CIDA, to train guides to provide an informative tour of the reserve. The THAG, with assistance from CIDA and in collaboration with the Caribbean Regional Human Resource Development Program for Economic Competitiveness, undertook a number of training programs using expertise and trainers from the region. Among the areas covered were: tour guiding, hotel training, front desk operations, culinary arts training programs, visitor and security systems, hotel plant and maintenance, and customer care service. The training programs were of considerable benefit to the sector.

forests. However, they import all the bathroom, kitchen and major appliances to meet the standards of travelers.

6.48 On the financial side – as with manufacturing firms – cost of finance is a major obstacle to investment. So is access (i.e. collateral requirements). Thus, interviewed hotel investors noted that interest rates in nearby CARICOM member states are much lower than in Guyana, for example, 5 percent compared with Guyana’s 19 percent. Borrowers are required to put up substantial collateral against any loans from commercial banks. Most investors did not apply for financing for their ventures. Hotel owners noted that even though their lease is for 99 years (at least originally), commercial banks do not accept the lease as equity in the property.

6.49 Guyanese tour operators are struggling to cover the substantial cost of the insurance coverage required by EU legislation. No tourism sub-sector requires this insurance more than adventure and wilderness travel. If Guyana is to increase its tourist base, ways to comply with this insurance requirement must be found. Only if local tour operators comply with international standards and requirements, can the sector survive, expand and be sustainable. While adventure tourists necessarily take some physical risks in pursuing their interests, they require that their tour operator take no unnecessary risks. In this regard, the European Union’s current legislation holds the tour operator responsible for the health and welfare of the tourist.¹⁷⁹ Guyanese tour operators are currently dealing with the requirement by foreign tour operators that they obtain costly insurance coverage (at the cost of GBP 2 million) in order to be able to comply with any liability. The local tour operators complain about the high cost of coverage but failure to obtain this protection could have a highly detrimental impact on Guyana’s ability to attract tourists from its main market, the United Kingdom.

6.50 Crime is another strong deterrent to investment in any economic activity, including tourism. The recent decline in violent crimes is attributed to a more aggressive stance by police to criminal gangs in Georgetown. Nevertheless, tourists are advised to take as many precautions as they would in urban areas in their home countries. A concern is the possibility of civil unrest during elections. Guyana’s fledgling tourism industry will have difficulty weathering reports of unrest. As it grows, the level of investment in the industry will be higher and more will be at stake, not just in investment capital but in the incomes and employment that tourism generates. While political stability and lack of crime are desirable for much more fundamental reasons, they are essential to the success of the tourism industry.

6.51 Increasing the number of airline carriers that serve Guyana and opening direct flights to European airports are critical to the expansion of Guyana’s tourism sector. Recent improvements in inter-island service already make Guyana more accessible to European travelers, particularly from the United Kingdom, with more frequent and more reliable access to Barbados. With one of the biggest tourist market in the United Kingdom, Guyana cannot hope for a significant expansion in tourism from that country until it has a direct flight with U.K. airports. In 2002, Guyana was only one of three countries not served by a North American carrier. It was one of 8 countries not served by a European airline and one of 10 not to have received any charters. Guyana did not receive any “private” planes, which flew to some seven islands. It did receive, however, 26,130 passengers (or 27 percent of total arrivals) on “Other

¹⁷⁹ The European Community Directive on Package Holidays, 1994

Scheduled.” No explanation is provided for this classification but it most likely includes visits from specially chartered scheduled airlines to transport expatriate Guyanese.

6.52 The Government has substantially upgraded the Cheddi Jagan International Airport (CJIA) in the past few years with assistance by the IADB. Furthermore, since 2002 Guyana’s air transport capacity has improved with additional service by Caribbean Star Airlines, North American Airlines, Universal Airlines and Suriname Airways. This considerable improvement in air service should be enhanced even more once Air Canada begins its service. In 2002, BWIA and LIAT, both regional airlines, served Guyana’s airport. Most travelers from Europe flew to Barbados and from there to Georgetown; similarly, most North Americans, flew to Barbados or Trinidad for a connecting flight to Georgetown.

6.53 The road transport network mainly follows the great rivers and, not surprisingly, forms the backbone for the tourism destinations running from the coast diagonally across the country to the southwest. The construction of a road from Linden to Lethem, which bisects the Iwokrama Research Station, a major tourism resort, has immensely improved access to tourism destinations in the South West and to the Rupununi in particular. The rehabilitation of the New Amsterdam to Molson Creek highway facilitates the incipient tourism travel between Suriname and Guyana. However, roads require regular maintenance and their generally poor condition takes a heavy toll on the suspensions of vehicles and raises maintenance costs greatly. Guyana’s roads to remoter areas are impassable in the wet season. Moreover, the licensing system for transport is not fully computerized and only an estimated one third of drivers are licensed. As a result, competition for taxis and day trips comes from unlicensed vendors.

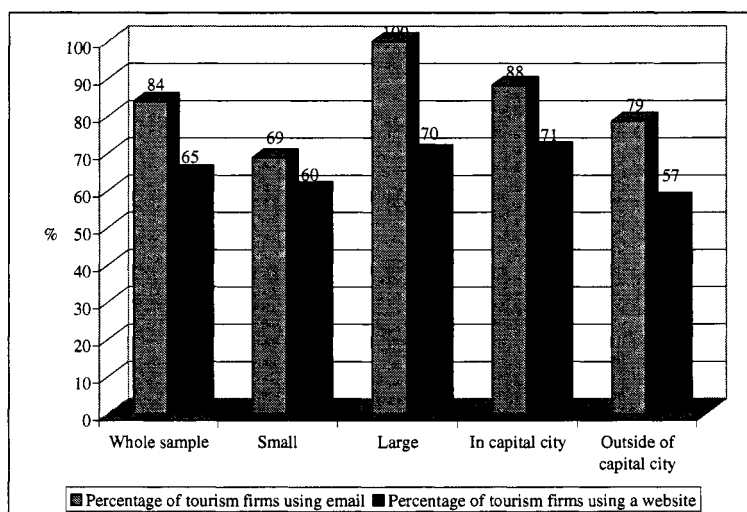
6.54 The golden rule in tourism is that tourists should not have to travel for more than one hour by any form of transport immediately after their arrival, which is the case with arriving at CJIA. Guyanese airline owners support the upgrading of Ogle airport, their home base, because of its much closer proximity to Georgetown than CJIA. The upgrading of Ogle airport to a regional municipal airport to international standards will facilitate improved air services and will provide a back-up for CJIA in case of an emergency. Since 2001, the Government has leased the management and operation of Ogle aerodrome, on the outskirts of Georgetown, to a private company under a renewable twenty-five year lease. Land around the airport has been zoned for the future expansion of the airport and environmental impact assessments have been completed. Some tour operators currently receive visitors at CJIA and transport them immediately by road, river or air to their final destination, others take guests for an overnight stay in Georgetown before moving on. The former arrivals are the ones who would most benefit from arriving at Ogle.

6.55 The country’s road network leaves much of the southern part of Guyana inaccessible, except by air. The main domestic airlines serving tourists appear to be well-managed and efficient. However, with a minimum number of passengers (at least four) required for each flight, the airlines are regularly unable to accommodate passengers during low season. Three of the main local airlines serve tourists and general passenger and cargo needs. They offer scheduled services on a few routes and charter services on others; these airlines fly to at least 20 destinations within Guyana. Airstrips, belonging to resorts, local communities or major companies in the interior, are estimated to number 200, with about half in frequent use. How profitable they are is unknown, particularly so as each of the main three companies are parts of a

wider business structure and serve the needs of those companies as well as other passenger and cargo demands. Both passenger and cargo traffic from Ogle has increased annually from 2002, but there are no estimates as to how much is attributable to tourism. The Civil Aviation Authority recently received technical assistance from the IADB to strengthen its staffing, regulates airlines, aircraft and airport operators, aviation training schools, fuel companies, freight forwarders and the traveling public.

6.56 River travel is a strong tourism asset, and Guyana’s extensive river system strongly supplements road and air transport, and provides tourists with a pleasurable mode of travel to destinations in the interior. There are over 450 nautical miles of rivers navigable for vessels and barges drawing no more than 2.00 to 2.50 meters. River transport like air transport is in the hands of integrated companies that originally needed boats to transport workers and related cargo up river to mines or for logging. The boats were converted to tourism uses as that need became evident.¹⁸⁰

Figure 6-5: Percent of Tourism Firms Using Email and Internet



Source: World Bank Guyana ICS 2005, hotel module

6.57 Tourists require another type of infrastructure that includes banking, telecommunications and medical facilities. Tourists cannot rely on local ATM machines to withdraw money from their banking accounts in their home country or to make cash advances on their credit cards. Many hotels charge a commission to change foreign currency for their guests. Licensed currency exchange houses in Georgetown are open daily, including Saturdays. Banks have short opening hours and are very crowded but are necessary for more complex transfer operations. The U.S. dollar is accepted almost everywhere, as are, though to a lesser extent, the British pound and the Canadian dollar. Travelers’ checks and credit cards, though accepted by most hotels, restaurants, and tourist enterprises, are not universally accepted even in Georgetown. Telecommunications have improved immensely to, from and in Georgetown, as evidenced by the proportion of hotels and tourism establishments reporting to use email and a

¹⁸⁰ GOPA/E & A Consultants, financed by the European Development Fund Guyana Transport Sector Strategy Study, Interim Report, May 2005.

webpage to interact with clients (Figure 6-5). Internet cafes are easy to find in Georgetown and are available in the larger towns in the interior, while most hotels offer internet access and mobile phones are ubiquitous. In remoter areas outside Georgetown communication is mainly by radio telephone.

6.58 While Georgetown and coastal areas are reported to be malaria-free, there is a risk of contracting malaria in certain parts of the Guyanese interior which requires that tourists take preventive anti-malarial medicine. This is not a major constraint to the growth of tourism, because it is a fairly common condition in countries offering adventure and wilderness tourism, though it does add to operational costs for all businesses supplying accommodation to tourists and is an additional minor cost for tourists. Water in Georgetown is not potable and most hotels provide some drinking water in bottles in the accommodation. Hotels use introduce purification systems or offer their clients bottled water, with a warning not to drink tap water. Bottled water is widely available. More problematic is the poor quality of health services throughout Guyana, even in Georgetown. While hospital treatment is available, the hospital is not rated very highly. Little medical care is available in the interior, but some domestic airlines offer Medivac services. This throws a heavy burden of responsibility for the health and welfare of the tourist on the tour operator or travel agent in Guyana.

6.59 In 2005, the GTA, with assistance from the Guyana National Bureau of Standards (GNBS), formulated standards for the tourism sector. These include all types of built accommodation, tour operators and tour guides. The GTA has now moved to the second step in this process by notification that these establishments must now register with the GTA to obtain a license to operate. The regulations are clear and contain financial penalties for non compliance with the regulations and particularity for the operation of any enterprise without a license. These penalties should certainly raise standards in the tourism sector. The GTA license seems to leave in place the licenses already required from the EPA, the Chief Environmental Health Officer, the Chief Fire Officer and the Central Housing and Planning Authority. At some stage, the GTA should try to streamline all these licenses into a one-time application by the owner or manager. In time, the GTA should attempt to introduce a classification system by category for hotels, but for the moment this licensing program will be a big step forward for Guyana.

6.60 A public-private partnership is essential in tourism and nowhere is this more necessary than in promotion and marketing. The accepted practice with tourism promotion is that the private sector is responsible for promoting its particular unit or units of operation and the national tourist organization is responsible for overall promotion of the image of the country. A government agency might take responsibility for promoting its country in a new source market of high potential. Prior to the establishment of the GTA in 2002, the Government was not involved in the promotion of tourism to Guyana. The marketing of Guyana received almost no support from the Government and was in the hands of the private sector. The GTA now has the mandate for promotion, and in addition to its website and several print and audio-visual materials, it also rents a booth at international travel markets, marketing events, exhibitions and conferences at which numerous private sector entities display their promotion materials. A comparison of expenditures by national tourism organizations in the Caribbean in 2003, prepared by the CTO, gives some indication of the allocations that different countries make for their tourism promotion budgets. Table 6-10 presents a sample of promotion budgets from the behemoth of Puerto Rico

to Guyana, which is at the bottom of the list. Even though Guyana has one of the smallest promotion budgets in the Caribbean community, its budget has doubled in the past three years, reflecting the Government's increasing support for the tourism industry.

Table 6-10: Expenditures of National Tourism Organizations

Country	US\$ 2003	Percent Admin.	Tourist Arrivals (000)
Puerto Rico	172,999,000	23	3,087
Bahamas	69,409,000	35	1,538
Barbados	22,137,000	24	498
St. Lucia	6,918,000	28	253
Belize	4,576,000	19	200
Dominica	1,568,000	52	67
Bonaire	1,098,000	7	52
Guyana	283,500*	-	104

Source: *Promotion*: CTO based on data provided by National Tourism Organizations; *Arrivals*: Data are from World Tourism Organization (WTO), generally refer to 2002 and make no distinction between foreign tourists and non-resident nationals, but should exclude cruise visitors.

*Note: The budget figure for Guyana refers to 2005 and has been growing annually. The figure of 104,000 arrivals in 2003, given by WTO for Guyana, refers to all arrivals: business people, Guyanese resident abroad and foreign tourists, as discussed elsewhere in the report. The CTO figures for other destinations are likely to have similar or other weaknesses just by the nature of tourism statistics.

CONCLUSIONS AND RECOMMENDATIONS

6.61 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. With the project unit within the Ministry, this can be done in the name of the Minister. The project unit would liaise with the GTA Director and staff, who should be included in a weekly briefing for the Minister on the workings of the project unit.

6.62 The Guyana Tourism Development Charrette Report recommended that focal points or tourism development poles be designated for product development; it is expected that this will help refine marketing and promotion activities, concentrate investment and define training needs. The selection of a first group of sites or tourism development poles, should be followed by the selection of another group so that there can be new tourism development poles coming on stream over time. With the GTA's help in setting criteria for standards in each tourist activity, Guyana should soon be able to expand and raise the value of the product that it offers to its tourists and sustain that value. Ideally, when a tourism pole is

identified, it will attract investors to any aspect of the tourism product and lead to greater competition and improved standards.

6.63 If Guyana is to attract more visitors from a wider range of market segments and niche markets and is also to combat negative images in the travel market, the GTA will have to be more active in promotion. One constraint, however, is that Guyana probably cannot spend as much as other competitors in the market. The GTA's detailed plans illustrate a well thought-out marketing program, with a strong emphasis on niche markets and FAM trips. These latter are relatively low cost and effective marketing efforts, where the costs of inviting representatives of specialized travel websites, trade publications and tour operators for familiarization trips are shared by the public and private sectors. This has been done with increasing frequency over the past two years or so. Representation at the major travel markets and those specialized in Guyana's niche markets, such as the Rutland Bird Fair, at which Guyana was represented for the first time in 2004 and again in 2005, are a very important means to reach the all-important tour operators who mobilize most tourist travel. Even established wildlife destinations like Kenya and South Africa were spending US\$10 and 23 million respectively on tourism promotion a few years ago, and Belize is spending over US\$4.5 million annually. The GTA Marketing proposal for 2005 is a very good one, but it consists of a lot of work for the GTA's very small staff. Clearly, the private sector will continue to promote its own individual products but the combination of GTA's tiny budget for promotion, as already discussed, and its equally tiny staff makes implementation of the marketing proposal a Herculean task.

6.64 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.

6.65 The costs of a visit to Guyana are already high enough, so other sources of income for promotion 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.

6.66 At its current level of tourist development Guyana needs to increase the amount of external advertising it receives. The main sources are wilderness and adventure tour operators' websites, which is where demand for Guyana's tourism is greatest. Local hotels and tour operators have developed relationships with tour operators, mainly in the United States and Europe, and each has a website. Currently, Guyana is served mainly by regional airlines and by only one large chain hotel. BWIA was mentioned frequently as a good marketing partner for Guyana. As more international airlines and chain hotels serve the country, marketing will grow.

6.67 Although the GTA, THAG and individual websites are of a very high standard, they should be updated frequently and should be specifically designed to attract potential new market segments. The importance of websites is shown by the fact that in 2004 the number of Americans buying travel online rose by 14 percent to 40 million¹⁸¹. Half of all online combination purchases consist of air and hotel. In 2005 alone, nearly one-third of U.S. travel was booked online, with online agencies accounting for nearly half of that total. European trends are in the same direction. *Explore*, a major U.K. adventure tour operator, reports that online sales are continuing to rise and that 18 percent of its business now comes through the Internet.

6.68 The role of Guyana’s Embassy and Consular offices in tourism promotion should be enhanced. The staff should be prepared to provide information to those seeking information about the country and should themselves be knowledgeable about Guyana’s tourism assets. This may entail nothing more than making sure that each office has a copy of the video promoted at the Tourism Fair in New York in 2005.

6.69 To allow it to focus its urgent responsibilities on standards and licensing, marketing, statistics and research, the GTA should transfer training responsibilities to, for example, a strengthened Carnegie School. Another option would transfer the responsibility to THAG, at least temporarily. In either case, the goal should be to raise the level of training and worker skills in the tourism industry.

6.70 Data collection systems and methodologies need to be developed and improved further in Guyana. There is a lack of good tourism statistics in Guyana. The most immediate problem in data collection is with the arrivals data. Currently, arrivals data are taken directly from the Entry/Departure card that passengers present at the airport. This card makes no distinction between Guyanese resident in Guyana and Guyanese resident abroad, nor does it have any line on it for “Purpose of Visit—Business or Pleasure.” The CTO is providing some training, which should improve the management of the statistics. The management, however, will only be as good as the statistics collected, so the GTA may need to discuss improved data collection with the immigration authorities, as outlined above.

6.71 The Ministry of Tourism, in consultation with the tourism industry and with the Guyana Environmental Protection Agency, should begin to draw up guidelines for the industry to ensure the sustainability and prevention of damage to the country’s tourist assets. The National Trust has already drawn up some basic guidelines for visitors to heritage sites.¹⁸² This is most urgent for Kaieteur, the most visited asset and the flagship destination, which has been reported to be showing damage. The greatest protection for Kaieteur would come from its inclusion in the system of National Parks and Protected Areas.

6.72 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

¹⁸¹ PhoCusWright Survey, 2004

¹⁸² National Trust of Guyana, Heritage Site Visitor Rules

the park, it should be possible to raise the fees from US\$12.00. Differential entrance fees (higher for tourists than for resident Guyanese) should be introduced as soon as the public and private sectors can agree on a fee that will not deter travelers, yet provides some revenues for maintenance of the Falls and for the local communities. The method of collection of that entrance fee also needs to be discussed between the public and private sectors so that administrative costs are not excessive.

6.73 The EPA, possibly supported by international funding, should establish environmental standards for lodge construction, as well as for tourism activities such as trekking and rafting, and attractions, particularly on lakes and rivers. Zoning laws should be established for the area surrounding tourist lodges to avoid the existing problem for at least one lodge of having commercial activities in the near vicinity that run counter to the tourists' enjoyment of the natural surroundings. By establishing physical planning, including zoning, and architectural standards for construction on or for the use of natural resources, natural resources can be conserved. An Environmental Impact Assessment (EIA) should always be required for any construction on or use of natural resources, and the Environmental Protection Agency (EPA) should monitor EIAs to ensure that conditions are fulfilled. These "green" regulations for developers should be included in an original package given by Go-Invest to potential investors, whether for lodges or other activities, otherwise the latter may not discover their existence until after preparing the mandatory EIA for the project. Guyana should follow the example of a number of countries, including Belize, which provides investors at the outset with two booklets: A Developer's Handbook, which includes the principal environmental regulations that Belize enforces, and A Compendium on Environmental Protection and Natural Resource Management Legislation, which is a more complete version for use by all investors and local residents. These are low-cost projects to prepare and can be updated regularly on the web. Their success depends on the capacity and will of the Guyanese authorities to enforce the laws.

6.74 Guyana presently has no recycling programs at all. This is an area in which a donor might be willing to assist the Government to do an initial assessment in Georgetown to evaluate the commercial possibilities of a recycling program there, together with the possibility of establishing collection centers elsewhere in Guyana.

6.75 To enhance Guyana's image, as well as help preserve the natural resource base, the larger accommodation units and, particularly those in sensitive ecological areas, should begin to aim for hotel accreditation that signifies that the unit has met clearly defined environmental standards. Most large hotels seek international accreditation, either from the non-profit International Standards Organization (ISO) for a 14,001 accreditation, or Green Globe status, which was launched by the World Travel and Tourism Council (WTTC) and has now become independent. Some regions of the world are preparing their own accreditation system. It is nevertheless important that the accreditation system be seen to be independent and objective. The CTO has a special agency, the Caribbean Sustainable Tourism (CAST), which can provide guidance to Guyana on this topic. The process of acquiring green accreditation improves waste disposal and sets up recycling and utility monitoring programs and, as a result, after an initial capital investment that is generally recouped within the first year, hotels have recorded considerable savings in both energy and water consumption and they have greatly reduced their waste. For example, thanks to an accreditation program supported by USAID in Jamaica, hotels have improved profitability, enhanced guest relations, built bridges to local communities and

helped to preserve the island's beauty. There has also been a significant externality in improving health and sanitation in employees' homes and in their communities.

6.76 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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