

Development Challenges in Guyana

Mark Wenner
Elton Bollers

Country Department Caribbean
Group

POLICY BRIEF N°
IDB-PB-277

Development Challenges in Guyana

Mark Wenner
Elton Bollers

Inter-American Development Bank

May 2018



Cataloging-in-Publication data provided by the Inter-American Development Bank

Felipe Herrera Library

Wenner, Mark D.

Development challenges in Guyana / Mark Wenner, Elton Bollers.

p. cm. — (IDB Policy Brief ; 277)

Includes bibliographic references.

1. Economic development-Guyana. 2. Fiscal policy-Guyana. 3. Investments-Guyana. 4. Guyana-Economic conditions. 5. Guyana-Social conditions. I. Bollers, Elton.

II. Inter-American Development Bank. Country

Department Caribbean Group. III. Title. IV. Series.

IDB-PB-277

<http://www.iadb.org>

Copyright © 2018 Inter-American Development Bank. This work is licensed under a Creative Commons IGO 3.0 Attribution-NonCommercial-NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license (<http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode>) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

Note that link provided above includes additional terms and conditions of the license.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.



CET@IADB.ORG

Abstract

This policy brief presents a summary of the development challenges facing the country.

Key Words: Regional Integration, Economic Growth, Productivity and Growth, Economic Integration, Investment, and Global Trade

JEL Codes: H30, F15, F31, F32, F34, Q32



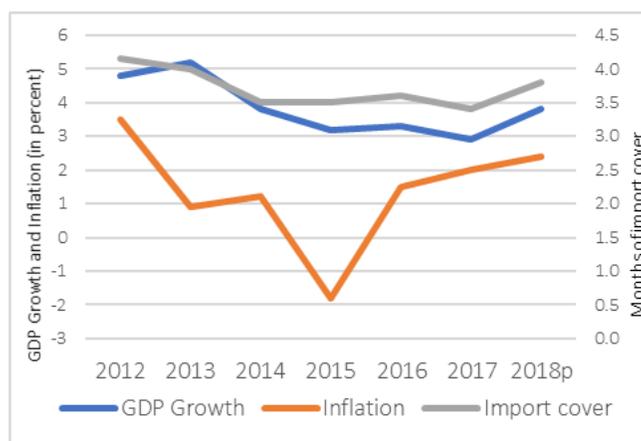
Development Challenges in Guyana

Mark D. Wenner and Elton Bollers

Medium-Term Economic and Social Trends

Guyana's macroeconomic situation over the last few years has been stable, with low inflation and moderate growth (see Figure 1). This is coupled with sufficient international reserves (above the 3 month import cover benchmark), a stable currency (G\$206.5/US\$1), manageable public debt (45.2 percent of GDP) and current account deficits. With the discovery of commercial quantities of oil, the prospects for large increases in GDP are expected starting in 2020.

Figure 1. GDP Growth Rate, Inflation Rate and Months of Import Cover



Sources: Bank of Guyana and IMF (2017).

Social trends remain mixed. Current and comprehensive data on unemployment, poverty or inequality are not available for Guyana, but the indicators that do exist indicate that Guyana in general underperforms compared to its peers. For instance, in 2015 the life expectancy of 66.5 years in Guyana was well below the Latin American and Caribbean (LAC) regional average of 74. Over the last three decades, moreover, the rate of improvement has been faster in most other countries compared to Guyana. The areas where Guyana performs well, though, are vaccination rates and primary and secondary school gross net enrollment. The 12.9 percent rate of tertiary enrollment, however, is much lower than the LAC average of 43 percent.

The quality of social services remains a challenge. Even though enrollment at the primary and secondary level is high, quality of schooling varies. Student performance at the Caribbean



Examination Councils Examination is below the Caribbean average. To compound the issue of human capital formation, Guyana has the world's seventh-highest rate of emigration, and most of the emigrants tend to be skilled and/or university-educated persons. With respect to health, maternal and infant mortality lags regional averages. Maternal deaths per 100,000 live births in 2015 was estimated at 229, which is 9 percent above the 2010 level. The average for LAC excluding Haiti is 68. The infant mortality is 30.4 per 1,000 live births, whereas most Latin Caribbean countries are less than 17. Contributing to poor health indicators is insufficient public investment in healthcare, resulting in understaffing, outdated equipment, and poor quality of service rendered. Evidence suggests that the quality of human capital is not sufficient to assure sustainable growth.

Medium-Term Economic and Social Outlook

Economic growth is projected to jump considerably from the 3-4 percent range in 2018-19 to over 30 percent in 2020 and 2021.¹ This is owed to Guyana becoming an oil producer within 3 years. However, the country should take steps to create the appropriate institutional and regulatory framework to be prepared to manage the resource prudently. It must develop concessions laws, establish a Sovereign Wealth Fund, the Petroleum Commission, and craft an energy policy before the commencement of extraction. The gross recoverable resources for the Stabroek block are now estimated to total approximately 3.2 billion recoverable oil-equivalent barrels.² Additionally, *Eco Atlantic* and its operating partner, Tullow Oil, revealed that leads from seismic studies indicate the Orinduik Block may have more than 1 billion barrels of oil.

These prospects make it necessary to formulate a sustainable development plan. The focus should be on improving productive capacity, undertaking needed structural reforms, and improving efficiency and competitiveness, as well as diversifying the base of the economy and better protecting the environment. The announced vision of the standing government is to pursue a “greening of the economy” by building four model towns in the interior that will have renewable energy, modern basic infrastructure (clinics, potable water, sanitation), and based on a local economy with substantial value-added production. In addition, the government plans to continue to address the country's large infrastructure deficit by pursuing additional concessional resources and cultivating private investors.

Risk Factors

Real GDP growth is expected to be in the 3-4 percent range in the 2018-2019 period, but it hinges on commodity prices, especially for gold, and the absence of major external shocks. Guyana faces climatic risks such as increased sea level rise, more irregular rainfall patterns, and greater frequency and severity of floods and droughts. Adaptation to climate change remains insufficient,

¹ See IMF (2017). Non-oil growth is projected to average 3.9 percent between 2020-21.

² The total recoverable oil equivalent is from the following wells: Liza, Liza Deep, Payara, Snoek and Turbot. See Exxon website for details: <http://corporate.exxonmobil.com/en/company/worldwide-operations/locations/guyana/about-us/project-overview>



and the continued rise in average temperatures is likely to further increase the country's vulnerability. Finally, the political culture is divided and polarized, which makes it difficult to craft bipartisan solutions, build consensus and undertake structural reforms that would improve the functioning of the public service, enhance competitiveness, and achieve economic diversification.

Critical Development Challenges

Guyana's development and growth challenges center on low investment that is about one third of the LAC average. Underlying this are the high cost of domestic financing, lack of access to international capital markets and low returns on investment. The latter is influenced by a low rate of appropriability due to weak public and private sectors compounded by inadequate infrastructure, and it reflects low social returns that stem from low human capital.

Underlying low appropriability is the problem of a weak public sector. The public sector is large but inefficient and supplies inadequate public services. Among the challenges for the public sector is to improve the fiscal and public financial management capabilities, which will be required to manage the implications of oil production expected for 2020. Better governance, combined with greater human capital, would improve public sector institutional effectiveness. The World Bank ranks Guyana in the 42nd percentile for government effectiveness and in the 37th percentile for regulatory quality. Higher institutional effectiveness could improve the quality and quantity of public investment boosting growth. At present, the public investment program faces low but improving disbursement rates, and there is room to improve the quality of project supervision and management and provisions for operations and maintenance.

The quality of infrastructure in general can also be improved. Better electricity generation and distribution is critical to sustained growth and economic diversification. Improving transport links between the coastal areas and the interior and between the country and the rest of the world will be key to sustaining growth. Gross private fixed investment as share of GDP is at 6 percent, compared to the LAC average of 17 percent. Both public and private sector monies should be leveraged to address infrastructure bottlenecks. Moreover, not all the expected oil revenue resources can be spent on infrastructure. Trade-offs must be made between future generational savings and productive investments.

There are significant geographic inequities in access to health care, particularly in the rural interior locations. The country's health profile is characterized by a double burden of disease, with non-communicable diseases (NCDs) increasing, while communicable diseases remain a challenge. Malaria remains endemic in the interior regions of the country, affecting mostly indigenous and mining communities. Additionally, there continues to be a dearth of nurses and physicians in the public healthcare system.³ Given the country's epidemiological profile, health posts and health centers should be the gate of entry of the population into the health system, which would require

³ In 2010, the number of physicians in Guyana per 1,000 persons was 0.2 compared to 0.3 per 1,000 in 1960, prior to independence, ranking 155th in the world. The number of nurses and midwives per 1,000 persons in 2010 was 0.53, ranking 162nd in the world. See World Bank database at <https://data.worldbank.org/indicator/SH.MED.NUMW.P3?locations=GY>.



the upgrading and expansion of the physical infrastructure and the equipment of facilities. In addition, recruitment and retention of trained workers has been a challenge. A shortage of skilled labor and poor infrastructure, coupled with limited accessibility, present considerable challenges to the development of adequate social services. The safety net system, for its part, needs to improve the promotion of nutrition and education outcomes for children from poor households, starting in early childhood.

Many of the poor are unemployed, but poverty affects the working population as well. Despite commodities-based growth, the hinterland continues to have high incidence of poverty and scant access to basic services and economic opportunities.

Crime and insecurity are detrimental to Guyana's social capital and social cohesion. At the same time, the Guyanese Police Force (GPF) is the country's least trusted institution. Poor operational capacity of both the GPF and the justice system, caused by understaffing, lack of proper training, and tense relations with the community, contribute to the GPF's limited effectiveness.

Conclusion

While rich in natural resources, Guyana must become more effective in translating its natural capital into reproducible capital and improve the general standard of living. Over the last decade the country has sustained consecutive years of positive real economic growth associated with the commodity super-cycle, but human development has lagged. The medium-term outlook continues to be positive given the slated production of oil in 2020 and a high level of recoverable reserves. However, in order to assure more broad-based distribution of benefits and to improve living standards and competitiveness, a series of economic policy and institutional reforms will be necessary.



References

IMF (International Monetary Fund). 2017. “2017 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Guyana.” IMF Country Report no. 17/175. International Monetary Fund, Washington, DC. Available at <https://www.imf.org/en/Publications/CR/Issues/2017/06/28/Guyana-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45010>. Accessed March 2018.

