



KCS Country Risk & Threat Advisory

KCS Group Europe  
Risk & Threat Advisory paper

Political Risk Advisory Briefing: Guyana  
.. January 2019

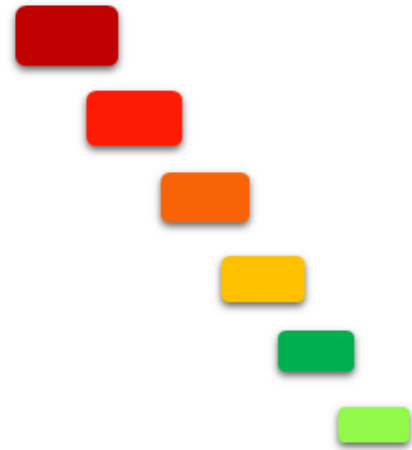
## Political Risk Advisory Briefing: Guyana



**Country:** Guyana  
**Population:** 737,718  
**Source:** CIA World Factbook

### Guyana has a Possible risk rating of 3

- |                        |  |
|------------------------|--|
| <b>6 Very High</b>     | The assorted threats described in the report are almost certain to have a derogatory effect. |
| <b>5 High</b>          | The threats are extremely likely to negatively affect the business.                          |
| <b>4 Very Possible</b> | There is a strong likelihood of problems arising in this country.                            |
| <b>3 Possible</b>      | There is a fair chance of problems arising in this country.                                  |
| <b>2 Low</b>           | There is a low likelihood of any threats impacting business.                                 |
| <b>1 Very Low</b>      | There are virtually no impediments to successful business in this country.                   |



## **Politics**

Guyana held its latest elections in 2015 and since then David Granger has been ruling the country as President along with Moses Nagamootoo as Prime Minister. It was an important moment in Guyana's history as it declared the end of 23 years of rule by the People's Progressive Party.

Guyana politics has been traditionally influenced by race, rather than political ideology; with the majority of the parties leaning left. The People's Progressive Party being mostly Asian/Indo-Guyanese, and the opposing People's National Congress supported by the Afro-Guyanese community. Granger was able to bring something new, a multi-ethnic coalition promising to end the racial divisions.

The new government is focusing on economic transformation. Especially after oil was discovered around the Venezuelan border, which President Granger contracted to Exxon-Mobil. The government appears to be fully committed to turn Guyana into a more competitive economy. Whether it has the capability to do this is quite another matter.

## **Economy**

Out of place, and out of time. Although Guyana sits on the northern coast of South America, it is commonly considered a Caribbean country given the shared culture and heritage with those islands. And it is still reliant on agriculture and extraction, while fighting an inadequate supply of labour and infrastructure. With growing Western interest in this tiny state, the next decade to be crucial in determining whether it evolves or remains stagnant.

One-third of Guyanese, primarily indigenous peoples, live below the poverty line and 'brain drain' is a major factor in the country's precarious position – 80% of those with tertiary education emigrate and the population is aging disproportionately. This has led Guyana to lag behind its neighbours in development, infrastructure and economy (not helped by its small size).

In terms of raw resources, Guyana may be the world's next great oil nation, with an estimated 3.2 billion barrels now considered to be present, where absolutely none was thought ten years ago. Clearly this is a great opportunity (\$300m per year in oil revenues at a minimum) but also one which could bring the 'back-seat' culture of corruption out into full view at last, as happens in practically every developing nation where resources are found which far outstrip the capabilities of that nation to deal with it appropriately. The government has so far been bullish about the joy that oil (expected in 2020, just in time for presidential elections) can bring – but there is little guaranteeing that it will shepherd its benefits as it should.

The country already has a burgeoning extractive industry, based around the mining of precious metals (gold and bauxite pre-eminent among them).

In terms of domestic business and exports, the country focuses on agriculture and extractive mining (with recent deposits of oil discovered), which it trades through the Caribbean Community (CARICOM) as well as through partnerships with the US, UK, Canada, China or Germany. The balance of trade currently stands at \$2.55m in Guyana's favour.

Guyana's infrastructure is severely sub-par. Never seeing the developments and advancements that comparable states were getting in the 1980s, Guyana has been very much behind the curve ever since – few roads outside the capital Georgetown are paved, the capital port is wholly inadequate at present for the ships that will be needed come the oil explosion, and infrastructure both domestic and outward-looking is badly in need of the \$24m USD loaned from the Inter-American Development Bank to expand and improve the transportation networks.

Moreover, Guyana is the fastest growing economy in the Caribbean Community (CARICOM) – a headline statistic that trumps all the others. In 2017 the country's economy grew 3% and inflation was kept under control. However, this one is also subject to the corruption that fills the gaps between poor regulation and inadequate supervision, which will inevitably widen with the commencement of oil production in 2020. Therefore, the government is expected to implement structural reforms and regulatory framework.

## Corruption

The problem of corruption is prevalent across all economic sectors, as well as the general trend towards poor protection and security from crime in general. Something of specific note is the 'illegal economy' – a black market for practically all kinds of goods and services in which facilitation payments (read: bribes) would traditionally be expected. Given that the GDP is one of the weakest in the world, and continuing poverty only exacerbates the infrastructural/economic/societal development required, there is already the risk that this is irreversible.

Civil servants are known to be underpaid and a number are forced to resort to 'grey measures' in order to get by. The wider political sector is also underpinned to an extent by misappropriation, embezzlement and OCG involvement in the public funds (extending to contract and tender bids as well). There is little transparency in any public office or affair.

Indeed, the financial sector is exceedingly opaque and problematic. Corruption both grand and enterprising occurs regularly within deals, and procurement is known to be influenced heavily by the payments that were made before bidding started. Those looking to establish any kind of business in Guyana would likely have to pick a path through facilitation payments, outright requests for bribes, predetermined contracts and mercenary politicians to have any chance of success. Equally, should anything go wrong, the judiciary is both inefficient and under-resourced, and at risk of interference by the political executive.

Pure statistics, the depth and exact nature of corruption are often hard to come by as the main actors are a 'closed shop' and only occasionally does information leak out. Hence, the value of intelligence and getting on the inside track.

Governance indicators from national and independent bodies do offer some kind of picture. The Corruption Perception Index has had Guyana ranked very low for the past five years (although its score has improved from 28 to 38 in that time), and the economy is ranked as 'mostly unfree' by the Index for Economic Freedom, while the government is rated as having poor effectiveness and very low control of corruption by the World Bank (2016 report).

Guyana has been attempting to stem this corruption for a number of years, but to debatable effect. As tends to be found, where the corruption is so deep-rooted there are bureaucratic, logistical and infrastructural barriers to its removal.

## **Business Environment**

As a business destination, Guyana certainly has some merit. It is (if slowly) rising up the various ranks of the 2018 Doing Business reports: typically, only between 0.10 and 0.5% a year across categories such as getting permits, enforcing contracts and taxes, but confirmed reforms in some of these areas are a genuine step in the right direction.

Despite the government willingness to promote it, FDI remains low. However, the country offers a very favourable business environment for foreign investors. Chinese, Brazilian and British companies have invested largely in the energy sector.

In fact, Guyana is particularly attractive to investors based in the UK because, as a former colony, it has English as the official language, legislation based on UK law, direct shipping to the UK and an enticing double-taxation agreement.

## **Foreign Affairs**

Brazil is one of Guyana's close neighbours. The relation between the two is stable, and they have recently renovated and strengthened their bilateral ties started 50 years ago. A bridge on the Takatu River on the border is also under construction, which will clearly bring benefits but also create security challenges, such as trans-border criminality.

Guyana is in the unenviable position of being squeezed politically from both sides: Suriname claims much of the territory on the west of the river, while Venezuela (with its own problems) claims a full two-thirds of the entire country.

Relations with Suriname have stabilised whereas the same cannot be said for Venezuela. Earlier this year Guyana raised the issue to the International Court of Justice after multiple attempts of peaceful conciliation failed. Venezuela refused and still refusing to collaborate, despite the UN efforts to settle the dispute.

## **Criminality/Terrorism**

Although figures report a decrease, crime level in the country remains high, mostly due to armed and violent robberies.

The threat of terrorism is particularly low in Guyana. However, Venezuelan gangs are disrupting the safety of citizens inhabiting the area around the disputed border. The well-known and most feared gang is the Sindicato.

In conclusion, there is plentiful opportunity, but a very fine line must be trod in Guyana between the multi-level corruption and the difficulties investing and establishing in a sector where in the rush to catch up to its potential, it is very easy to make a wrong step.

## **APPENDIX**

### **GREY AREA DYNAMICS**

Over the years, KCS has made it their business to find workable solutions to impossible problems. To do this, KCS has sought to establish clearly the intelligence gap between perception and reality.

In today's market where terrorism, organised crime, cybercrime and government sponsored cyber espionage and war appear to confront us daily, we need reliable tools to identify the risks well in advance. It was for these reasons that KCS created and developed the analysis of risk by Grey Area Dynamics or GAD's, as they are often referred.

GAD's are all the risks, weakness and threats that will, at one time or another, interfere, disrupt or at worst close down businesses. In the projects and work in which KCS have been involved in all over the world, it has been evident that the GAD's identified, can and do kill. This method of risk assessment and measurement goes well beyond standard due diligence and is a collective description of factors, which can be passive and non-passive, legal and illegal. Because GAD's are difficult to quantify or assess from a purely economic viewpoint, these considerations do not normally feature in most credit ratings, investment and banking reports, which focus only on sovereign risk.

The main categories of Grey Area Dynamics usually encountered are:

#### **Passive/Legal**

- Language & Dialects
- Local Customs & Traditions
- Local Staff – motivation and training
- Tribalism and Integration
- Cultural & Local sentiment
- Regulations, Taxes and Duties
- Currency & Capital exposure – payment methods and banking practice
- Environmental Hazards
- Pressure Groups
- Media Relations



### **Non-Passive/Legal**

- Industrial & Labour Relations
- Absence or effectiveness of Legal Safeguards
- Government Policy and Nationalisation
- Overt and disguised/beneficial ownership
- Bureaucracy and Local Government
- Public or Media hostility

### **Passive/Illegal**

- Bribery & Corruption
- Vested Interests and Cronyism
- Patronage
- Product diversion
- Parallel Trading
- Hidden Barriers to entry

### **Non-Passive/Illegal**

- Counterfeit & Fraud
- Pilferage
- Unfair Market Competition
- Product Piracy
- Ethics and Corporate Espionage
- Organised Crime
- Threats to physical assets
- Kidnap & Extortion
- Religious Extremism
- Terrorism
- Civil Unrest
- Product Contamination

For a risk assessment to be thorough, it must encompass the potential for a broad array of economic, political and business situations that might affect a business venture. Evaluations limited just to political issues or financial factors may be completely misleading.

The degree of severity of a risk portfolio will also depend on the origin of the investing entity; for example, European companies often face different risk profiles to American corporations considering the same investment opportunity.

Grey Area Dynamics pose a challenge of diagnosis<sup>1</sup>. The key to avoiding problems before they occur or solving them after they have begun to take a toll on performance, lies in their early identification and evaluation. Ignoring the impact of GAD's can be a costly business.

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<sup>1</sup> KCS Group Europe won the European Service Provider of the Year, 1999-2000 at the European Risk Management Awards magazine International Risk Management for their work on GAD's. In 2004, the company won an award for Product of the Year from StrategicRisk.