

TC Document

I. Basic Information for TC

Country/Region:	Guyana
TC Name:	Removing barriers to growth by creating more local opportunities in the oil and gas value chains in Guyana
TC Number:	GY-T1152
Team Leader/Members:	Claudia Stevenson (IFD/CTI); Team Leader; Juan Carlos Navarro (IFD/CTI); Alternate Team Leader; Sylvia Dohnert (IFD/CTI); Valarie Pilgrim (IFD/CTI), Kayla Grant (IFD/CTI), Ramon Espinasa (INE/INE);, Lenin Humberto Balza Angulo (INE/INE); Natascha Nunes de Cunha (INE/INE); Carlos Sucre (ENE/INE), Mark Peters (NFP/CGY); Navita Anganu (IFD/CMF); Clevern Liddell (CCB/CGY); Maria Fernanda Lopez de Valles (IFD/CTI) and Pilar Jimenez de Arechaga (LEG/SGO).
Taxonomy:	Client Support
Number and name of Operation Supported by the TC:	n/a
Date of TC Abstract:	October 12, 2018
Beneficiary:	Cooperative Republic of Guyana
Executing Agency:	Inter-American Development Bank (IDB), through Competitiveness and Innovation Division (IFD/CTI)
Donors providing funding:	INS – OC Strategic Development Program for Institutions
IDB Funding Requested:	US\$400,000
Local counterpart funding:	US\$0.00
Disbursement period:	24 months
Required start date:	December 2018
Types of consultants:	Individual
Prepared by Unit:	IFD/CTI
Unit of Disbursement Responsibility:	IFD/CTI
TC included in Country Strategy (y/n);	Y
TC included in CPD (y/n):	N
Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; and Cross cutting issue of Strengthening Institutional Capacity and the Rule of Law and Environmental Sustainability.

II. Objectives and Justification of the TC

- 2.1 Guyana’s economy has traditionally been highly concentrated in mining and agriculture (45% of exports were attributed to gold, 18% to rice, 6.6% to raw sugar and 3.5% to crustaceans¹). Although the Guyanese economy has experienced steady growth in the last decade, with an average growth of 3.78% during the 2013-2017 period, the high concentration makes the economy vulnerable to external shocks and changes in international conditions. On the other hand, the recent discovery of offshore oil reservoirs, with first oil production projected for

¹ IMF Article IV 2017.

- 2020², will bring to Guyana a new set of economic opportunities³ as well as challenges. The oil discoveries located 120 miles offshore (Liza, Payara, Liza deep, Snoek, Turbot, Ranger, Pacora, Longtail, and Hammerhead discoveries are located in the Stabroek Block), have estimated reserves of 4 billion barrels of oil (boe). In this regard, the estimated cost for the Liza Phase 1 development from ExxonMobil, Hess and Nexen (a subsidiary of China National Offshore Oil Corporation) will be around US \$4.4 billion, which includes a lease capitalization cost of around US\$ 1.2 billion for the floating production storage and offloading (FPSO) facility⁴. In addition, the Liza 1 field has proven to have significant quantities of associated gas produced with oil, with the potential for a gas pipeline to provide gas and thus facilitate a cleaner and cheaper energy source than that currently used.
- 2.2 The current proven reserves, plus the recent new discoveries, will produce changes in the overall economic structure of the country and have the potential to not only increase the country's GDP but to also promote structural economic transformation. The impact of the additional revenue on a country with a GDP of US \$3.5 billion and a population of 773,000 must be carefully managed to promote inclusive, sustainable growth that benefits the Guyanese people.
- 2.3 The oil and gas sector can have different impacts on the economy. First, the operation of the public sector will be impacted as a result of fiscal revenues and royalties. Second, the external sector will be impacted through direct foreign investment and the boost in external commerce which will have an influence on the terms of trade. The third impact is related to the potential for developing linkages with the local economy as new investors will demand a new set of services and products, and by extension a new set of skills in the labor force⁵. Within the oil and gas value chain, several types of services can be identified with different levels of technological sophistication and requirements. The fourth impact is increased demand in other sectors of the economy, caused by the first three, such as increased demand for infrastructure, communications, recruitment, housing, medical, and lodging and food services, among others.
- 2.4 As the oil and gas sector requires very experienced and skilled labor together with highly specialized equipment, many companies outsource some of the services⁶. Usually, the activities in the higher range of the value chain, corresponding to exploration and exploitation are dominated by international companies, while the lower ranges (e.g., catering, security, logistics, engineering, environmental, maintenance, inspection, and other services) provide more opportunities for local participation. It has also been observed, that as the sector matures, linked with a

² In 2015, Exxon Mobil made a significant oil discovery offshore, which is estimated to produce an output of 120,00 barrels of oil equivalent per day.

³ For example, in some regions, studies have shown that GDP per capita can increase by 20% during the exploitation period. This analysis does not consider the effect of royalties and show significant increase in both onshore and onshore discoveries. World Bank. 2014. Winning the Oil Lottery: The Impact of Natural Resource Extraction on Growth.

⁴ <https://news.exxonmobil.com/press-release/exxonmobil-makes-final-investment-decision-proceed-liza-oil-development-guyana>

⁵ IDB. 2015. Servicios intensivos en conocimiento en la industria del petróleo en Colombia. Gallego, Jaramillo,

⁶ Mohan, Strobl and Watson. 2015. Knowledge Intensive Business Services in the Oil and Gas Sector In Trinidad and Tobago

policy for capacity building for workers and enterprises, local participation can increase along the value chain⁷.

- 2.5 There are already initiatives in progress to provide training and to build the capacity of SMEs, especially women-owned firms, and individuals, including youth, in Guyana, to integrate them into the upstream part of the oil value chain⁸. There has been increased access to business support services with the establishment of the Exxon-financed Centre for Local Business Development (CLBD), particularly for those local Tier 3 firms that have achieved pre-qualification, from main contractors and consulting firms (Tier 2 companies), for the supply of services. The Centre's services will result in a cohort of local Tier 3 suppliers with improved supply chain readiness. There is, however, the need for a broader initiative aimed at (i) providing access to more advanced business support services (e.g. technology extension services⁹, business incubation, etc.) to increase the number of firms, which can meet the pre-qualification requirements of the Tier 2 companies; and improving the competitiveness of existing SMEs, across the various sectors, which can provide support/indirect services¹⁰ to the oil industry; (ii) identifying and communicating supply gaps, and promoting the start-up and growth of businesses to fill the observed gaps, particularly for support/indirect services; (iii) increasing local firms' access to financing that supports their participation in the oil supply chains, in particular, working capital financing; (iv) improving access to skilled workers (ranging from petroleum engineers, geologist, technicians, and instrumentalists to oil policy experts); and (v) improving the other elements of an enabling environment for local firms. What is a need for a more comprehensive and coordinated approach to supporting local businesses at the various stages of development (i.e. a strengthened entrepreneurial ecosystem) that will accelerate private sector development, facilitate the development of competitive supply chains, and improve the likely level of local content in Guyana's oil industry.
- 2.6 If Guyana manages to take advantage of the growth opportunities by involving local companies and employers in the new economic reality, the impact of the new oil discoveries will be maximized. Thus, this Technical Cooperation (TC) provides recommendations in the form of detailed action plans for (i) increasing the supply

⁷ See the cases of Colombia, Trinidad and Tobago and Brazil.

⁸ For example, Exxon has financed the establishment of the Centre for Local Business Development Center (<http://clbdguyana.com/>) with the objective of providing a space for local firms to learn about opportunities in the oil and gas sector, strengthen their competitiveness, and prepare to join the oil and gas supply chain. The Centre, which is managed by Development Alternatives, Inc (DAI, <https://www.dai.com/>), in collaboration with local business support organizations (BSOs), offer the following services: **basic** business trainings; e-procurement support; business coaching; and (assistance with establishing) business linkages. The basic training is offered by the BSOs and the other services by directly by the Centre.

The Centre has established an e-procurement portal. 1,400 business (50% are Guyanese) are registered on the portal. Businesses must be registered on the portal to be able to compete for contracts. A number of local businesses have been audited and pre-qualified as suppliers. Those which have pre-qualified are mentored by the Centre to improve their supply capacity.

⁹ TES are support services provided directly to companies to improve their management and modernize their technologies, focusing mainly on already established small and medium sized enterprises (SMEs). Their objective is to improve companies' productivity to make them more competitive and integrate them into value chains. Delivering TES is intended to achieve the following main objectives: (a) improve productive efficiency (i.e., competitiveness), especially of SMEs; (b) facilitate the management and integration of value chains involving the beneficiary companies; and (c) facilitate the adoption and use of technologies developed outside the firms receiving the TES.

¹⁰ Such as catering, transport, recruitment, training, communications, health and environmental management, quality management, medical, insurance, accounting, etc.

- of more advanced business support services to the local private sector to improve the competitiveness of existing businesses and increase the rate of ideation and deal flow, in areas where there are gaps in the supply of services to the oil industry, including support/indirect services; (ii) increasing access to education and training to develop skills critical to the development of the local private sector; and (iii) stimulating activity in sectors related to the supply of support/indirect services to the oil industry .
- 2.7 The Ministry of Business (MOB) has been carrying out actions to support economic diversification and productivity, value added and export readiness as part of the Ministry's 2016-2020 Strategy, supporting new growth and diversification in new sectors, as well as supporting SMEs in the use of local content, integration of local supply chains and knowledge transfers. The Ministry has led the dialogue with the Private Sector Commission, the Guyana Manufacturers Association, the Guyana Oil and Gas Commission, as well as academia and civil society, discussing the best way to generate positive impacts in the new oil discoveries in local Guyanese firms via a local content policy framework¹¹.
- 2.8 The GoG has started to take actions for building capacity at several levels to prepare for the expected impacts of the upcoming oil production in 2020, including managing of public spending, creating a long-term strategy and building administrative capacity. In this regard, the IDB is supporting some of these initiatives through Bank operations GY-T1148 Guyana's Emerging Oil and Gas Sector: Getting Institutions Right, which addresses the Oil and Gas governance in the Ministry of the Presidency Oil and Gas Team; GY-T1147 Tapping the Promised Land: Guyana's future as an Oil Producer that tackles the regulatory framework for the Oil and Gas Industry; and GY-T1141 Implementation of Secured Transaction Regime and Green Business Framework in Guyana¹² that tackles the use of collateral by SMEs to borrow, which is one of the main bottlenecks for small firms to participate in the Oil and Gas value chains and is also developing a green business framework for Guyana.
- 2.9 The present TC is aligned with the Guyana 2017-2021 Country Strategy as it will contribute to the facilitation of private sector development. In addition, the TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (GN-2788-5) and is aligned with the development challenges of: (i) productivity and innovation as it supports Guyanese firms to engage into new, more productive economic activities and (ii) limited economic growth as it aims as promoting Guyanese private-sector led growth. The Program is also aligned with the cross-cutting themes of institutional capacity and the rule of law as it strengthens the capacity of the Ministry of Businesses and the Small Business Bureau to support local linkages with the Oil and Gas activities.

¹¹ For draft of Guyana's Local Content Policy framework, see <http://www.business.gov.gy/wp-content/uploads/2018/05/Second-Draft-Local-Content-Policy-Framework.pdf>

¹² A Secured Transactions Framework is the legal and institutional framework to facilitate the use of movable property (equipment, livestock, intellectual property, receivables) as collateral for both business and consumer credit. As such, this TC financed and executed by the Compete Caribbean Partnership Facility, IDB will contribute to improving access to finance by allowing a wide variety of collaterals to be used by firms seeking to access credit. This should be particularly beneficial to MSMEs.

III. Description of activities/components and budget

- 3.1 The objective of this TC is to remove barriers to growth by promoting the linkages, between Guyanese and foreign enterprises within Guyana's oil industry firms, which will increase the opportunities for nationals to actively participate and engage in the economic activity spurred by recent oil findings.
- 3.2 **Component 1. Boosting local capacity for integration of Guyanese human capital into the oil economy (US\$150,000).** This component will finance a gap analysis of the current education and training offer in Guyana and will develop a strategic plan to: (i) Adapt current curriculum in the University or tertiary institutions to provide professions associated to the petroleum activity (petroleum engineering, geology, oil policy)¹³. This may include: a) launching or reinforcing engineering degrees in mining, petroleum and similar areas; b) seeking international partnerships with leading petroleum engineering schools in the world to develop high quality undergraduate and graduate local programs; (ii) Liaising and exploring partnerships with other universities in the region to provide specialization in areas such as petroleum law and regulation, hydrocarbon project management, oil policy, social and environmental management including partnerships with online institutions; (iii) Providing scholarships for international programs in engineering, advanced degrees in the areas related to (i) and (ii) and ensuring gender-sensitive criteria for the selection of scholarship recipients and provide educational and vocational training in technical areas of the petroleum, industry, metal mechanics, welders etc.; and (iv) invest in a minimally adequate research capability in areas relevant for the oil industry. This would include both natural and social sciences. In addition, key partnerships and technical exchanges between key government officials and other relevant institutions in the region will be identified.
- 3.3 **Component 2. Linking local firms to the oil and gas economy (US\$200,000).** This component will support: i) a prospective study on the new economic activities that will emerge as part of the indirect effects, both positive and negative, of off-shore oil exploration and their complementary activities; ii) an in-depth analysis of potential value chain mostly in the indirect areas of the oil and gas value chain, identifying gaps among suppliers and standards and quality requirements to participate in the value chain, key stakeholders and key leaders and selecting the most likely to be set up in the short to medium term of the selected value chains; iii) an action plan for the development and deployment of value chains will be carried out, including the development of an implementation plan, identification of public goods, technological prospective analysis, identification of key stakeholders, awareness and capacity building among participants and key actions to address any gaps identified and (iv) an analysis of financial constraints for SMEs to participate in the existing value chains. This component will also support an assessment of the current supply of business support services in the context of the services required to increase the competitiveness of existing SMEs, particularly those in sectors relevant to the supply of support/indirect services and provide recommendations on improving the relevance and effectiveness of existing services and the introduction of additional more advanced services. The

¹³ The University of Guyana, for instance, has plans to launch a new engineering career curriculum in gas and oil in 2019.

assessment and recommendations will include (i) coordination among business support service providers to reduce overlap, ensure that the range of services cover the needs of businesses at each stage of development (i.e., from ideation, start-up, growth-stage, maturity, etc.); and (ii) the special support needs of women-owned SMEs.

- 3.4 **Component 3. Dissemination, Coordination and Monitoring (US\$50,000).** This component will support (i) consultations with stakeholders to validate findings and obtain inputs into the development of recommendations and action plans; (ii) the hosting of workshops to discuss the findings and agree on next steps towards implementation of the Action Plans; and (iii) general coordination, monitoring and reporting activities.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1:	Boosting Local Capacity for Integration in the Oil Economy	150,000	0.00	150,000
Component 2:	Linking local firms to the oil and gas economy	200,000	0.00	200,000
Component 3:	Diffusion and Awareness	50,000	0.00	50,000
TOTAL		400,000	0.00	400,000

IV. Executing Agency and Execution Structure

- 4.1 As a result of a direct request from the client (see [Annex I](#)), the Bank is the proposed executing agency to manage the procurement of consultancies and quality submission of studies and strategies. The execution will be carried out by the Bank through Competitiveness and Innovation Division (IFD/CTI) in coordination with the IDB Country Office in Guyana and the Ministry of Business. The Ministry of Business will oversee all the coordination activities with all the relevant stakeholders. This TC will be coordinated by the IDB Guyana Oil & Gas Working Group.
- 4.2 The activities to be procured are included in the Acquisition Plan ([Annex III](#)) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-20 for logistics and other related services.

V. Major Issues

- 5.1 The main risks for this TC are, first, the buy-in from the academic institutions to alter their academic curriculums in the short term. This risk will be mitigated by providing results-based evidence from other countries. Secondly, implementing the value chains action plan and supporting participants in meeting the standards required will be a risk. This risk will be mitigated by the development of a strategy that has garnered stakeholder buy-in for address the gaps identified. In addition,

Component 3 ensures that partners are incentivized to work closely together to achieve common outcomes.

VI. Exceptions to Bank Policy

6.1 There are no exceptions to the bank policy.

VII. Environmental and Social Strategy

7.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as "C." (See [Safeguard Policy Filter Report](#) and the [Safeguard Screening Form](#)).

REQUIRED ANNEXES:

- Annex I: [Request from Client](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)

**REMOVING BARRIERS TO GROWTH BY CREATING MORE LOCAL OPPORTUNITIES IN THE OIL AND GAS
VALUE CHAINS IN GUYANA**

GY-T1152

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Institutions (INS)** through a communication dated October 12, 2018 and signed by Kai Hertz (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$400,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, representing a risk that will not be absorbed by the Fund.

Certified by:	<u>Original Signed</u>	<u>11/16/2018</u>
	Sonia M. Rivera	Date
	Chief	
	Grants and Co-Financing Management Unit	
	ORP/GCM	

Approved by:	<u>Original Signed</u>	<u>11/19/2018</u>
	Gonzalo Rivas	Date
	Chief	
	Competitiveness, Technology and Innovation Division	
	IFD/CTI	