

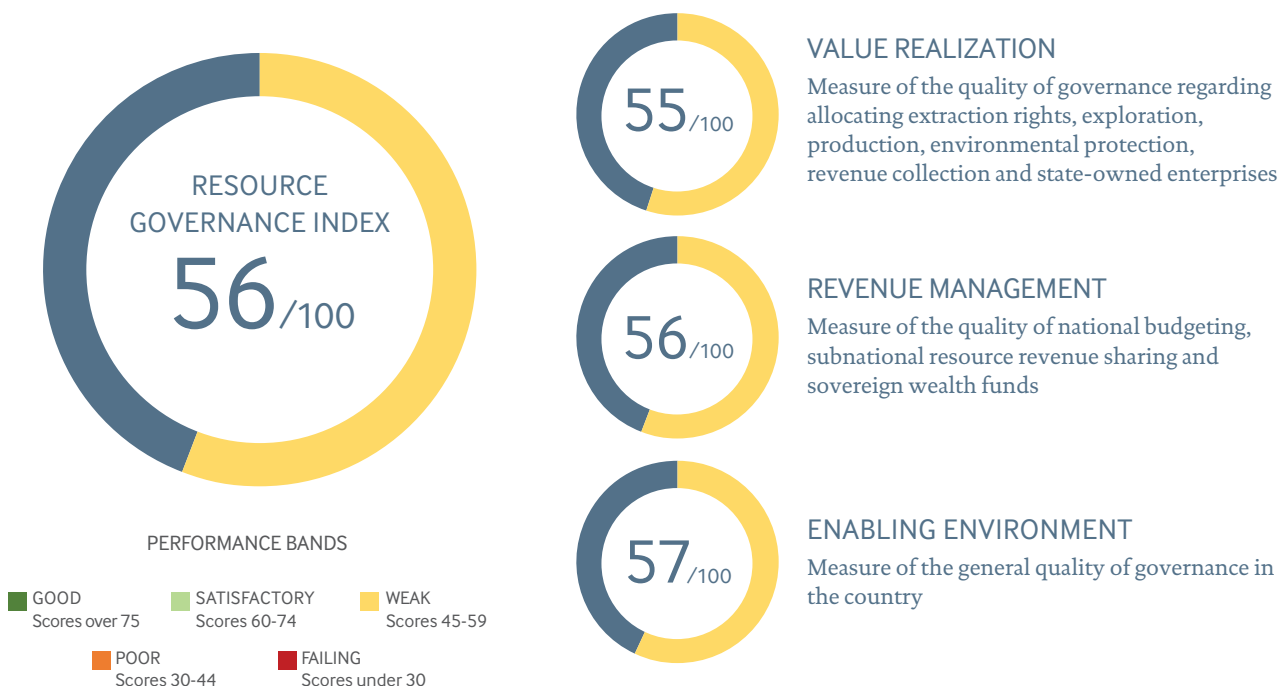
# 2021 Resource Governance Index Guyana



Guyana’s oil and gas sector has placed in the “weak” performance band of the 2021 Resource Governance Index (RGI), with a score of 55 out of 100 points. As a new producer, Guyana is still developing the institutional framework to successfully govern its oil and gas sector. With weakness evident in value realization, revenue management and the overall enabling environment, the government should prioritize the development of a robust resource governance framework, considering that production started in 2019 and is well underway.

- The legal framework governing Guyana’s licensing process is cause for concern. Authorities have taken considerable time to disclose contracts, with negotiations and re-negotiations taking place behind closed doors.
- The absence of fiscal rules governing public spending merit attention; Guyana’s government should establish such rules as soon as possible.
- Guyana’s enabling environment is also weak. Government effectiveness and regulatory quality are problematic, but commitment to open data standards is the most concerning indicator, with a “failing” score of just 12 points. The governance of the sector, both in terms of successful policymaking and public accountability, would benefit from an adherence to open data principles.
- On the positive side, government manages local impacts of the sector in line with best practices; environmental and social impact assessments are publicly available.

Guyana oil and gas: 2021 Resource Governance Index and component scores



# 2021 Resource Governance Index

## RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

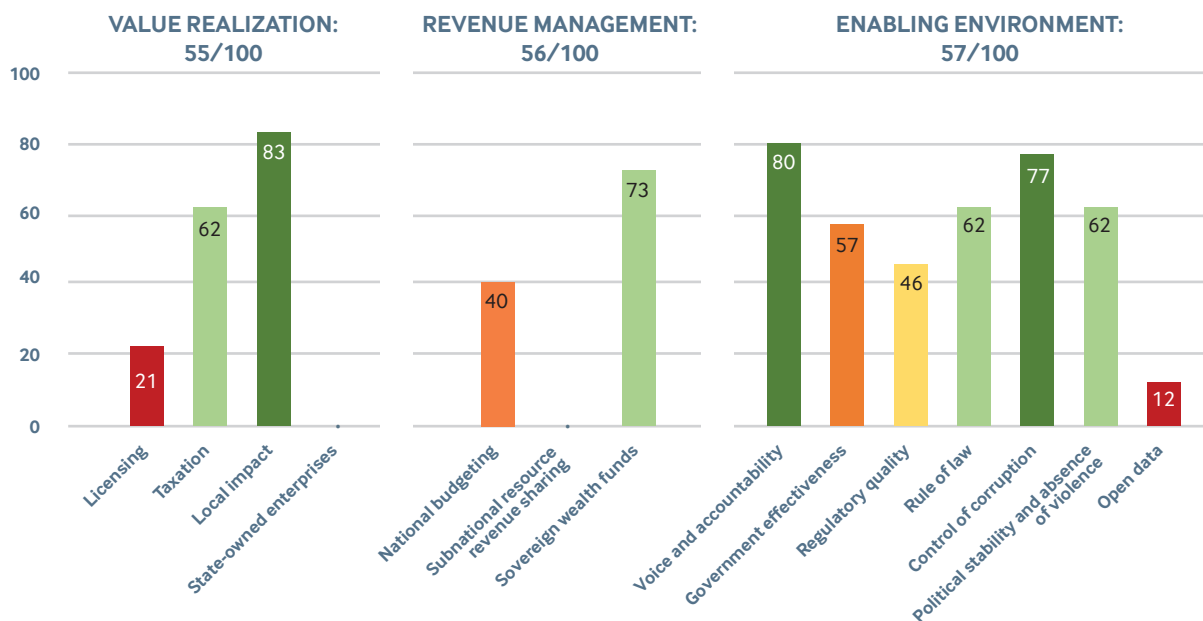
### Resource governance is weak in Guyana

Offshore oil exploration started in Guyana in the late 1950s, but it was only in May 2015 that oil was discovered in the Stabroek block, leading to new discoveries that raised expectations that Guyana would become a major oil producer.

Since these first discoveries, the country has begun developing an institutional framework to regulate the sector. The 2021 Resource Governance Index (RGI) shows a “weak” performance in all three components, with an aggregate score of 56 out of 100. Guyana’s score in the value realization component was 55, with licensing an area of particular concern. Although also “weak,” with 56 points, the revenue management component includes governance of the sovereign wealth fund, which itself shows evidence of best practice, scoring 73 points. The enabling environment scores 57 points, but the open data subcomponent obtains only 12 points.

The Guyanese government should develop an institutional framework to prevent the country from becoming a new case of the “resource curse.” To date, political instability has affected different institutional decisions regarding the sector’s management, with a no-confidence vote against the former government in 2019 generating an impasse, and a long wait for results of the general election in 2020.

Guyana’s 2021 Resource Governance Index subcomponent scores



## VALUE REALIZATION

### **Guyana's governance of local impacts from oil extraction shows signs of best practice, while licensing and taxation remain concerns**

Guyana scored 55 points out of 100 in the 2021 RGI's value realization component, mostly due to low marks registered for the licensing subcomponent, which scored only 21 points out of 100. Nevertheless, Guyana shows evidence of good practice when it comes to governance of local impacts with a score of 83.

Guyana's Petroleum (Exploration and Production) Act established that prospective licensees should apply through a bilateral grant system; no biddable terms are published in advance. The minister responsible for the petroleum sector has discretion to establish the conditions by which petroleum prospecting license applications are made. Consequently, Guyana's framework leaves crucial fiscal terms to be determined by the production sharing agreement for each specific contract.

The 2016 negotiations for the first oil contract between the Guyanese government and ExxonMobil were opaque, with questionable results contributing to public mistrust. In 2017, and after extensive pressure to be more transparent, the government published the contract, resulting in an intense debate on its suitability and leading to demands for a renegotiation. Subsequently, the government allocated all licenses through bilateral negotiations and hasn't allocated any licenses at all since 2019.

There is still no legal stipulation that the government disclose contracts to the public after the award. But recently due mostly to public pressure, the government fully disclosed rights allocations for all assigned petroleum areas. This was a decisive step toward transparency, as all stakeholders can access information about what the government and extractive companies are doing with the nation's natural resources and, as a result, begin to hold them accountable.

Although the Petroleum Act establishes a framework for competitive allocation of rights, in practice it is far from competitive: highly discretionary negotiations are held on a first come, first served basis. Guyana's low score on the index's licensing subcomponent points to the need for a reliable legal framework built on competition and transparency. Other licensing issues also require attention. No comprehensive registry of licenses and/or contracts is yet available on government portals and there is no comprehensive cadaster to enable civil society, oversight bodies and the private sector to understand what rights have been allocated. Having become an Extractive Industries Transparency Initiative (EITI) candidate in 2017, Guyana should redouble its efforts to improve the public access to information related to the allocation of resource rights and the extractive sector in general.

On the positive side, Guyana's "good" score for governance of local impacts results from the existence of rules requiring companies to commission environmental and social impact assessments and environmental mitigation plans. All such documents are accessible on the Environmental Protection Agency's website.

Finally, Guyana has received a "satisfactory" score for taxation. However, the government has yet to determine taxation rules regarding companies' income tax and royalty rates, or rules that establish the government's and companies' production shares within production sharing agreements.

## REVENUE MANAGEMENT

### Guyana should adhere to a fiscal rule to avoid misuse of oil revenue and continue strengthening sovereign wealth fund practices

Guyana's revenue management is "weak." This is mostly due to a poor national budgeting assessment; in that subcomponent, Guyana has scored 40 out of 100 points. However, Guyana's sovereign wealth fund subcomponent, with a score of 73 points, places at the upper end of the "satisfactory" performance band.

The country's fiscal regime was designed in the 1980s and does not reflect recent economic changes in Guyana. The absence of a fiscal rule is a major red flag. Given the prospects of high revenue in the coming years, it is crucial that Guyana has a decentralized mechanism to decide fiscal expenditures and shield them from politicized decision-making.

Positively, Guyana obtained "good" scores regarding the government's disclosure of the national budget and national debt.

The decision to create the Natural Resource Fund (NRF) in 2019, with clear withdrawal rules that control the amount that is transferred to the national budget, constitutes a step toward sound economic policy for the sector. Oil production in Guyana started in 2019; when the 2021 RGI assessment took place in 2020 no NRF annual report accounting for the size of the fund or other relevant information had been published. Because the legislation has not been activated and no withdrawal has taken place since production started, international organizations and civil society are now asking the government for the early operationalization of the fund given the legislation has not been activated and no spending has taken place since production started.

The institutional set-up of the NRF shows that Guyana's government intends to address volatility in commodity prices and save for the future. However, passage of the NRF bill was not smooth due to the no-confidence vote against the former government. Its approval was voted in absence of the opposition party, now in power, and uncertainty regarding its future prevails.

If the Guyanese government decides to amend or repeal the NRF bill, it is crucial this process is transparent and inclusive so that citizens can trust any new institutional framework.

## ENABLING ENVIRONMENT

### Governance fundamentals needed for sector strengthening

Guyana's broader enabling environment for governance scored 57 out of 100 points, placing it within the "weak" performance band.

Opacity, lack of citizen participation and the absence of accountability have characterized the first years of oil production, with secret contract negotiations that led to mistrust and contributed to an already uncertain political context. Thus, a more stable and less polarized environment, where different stakeholders are equipped to hold government and companies accountable, will pave the way for agreement on common priorities to strengthen the management of Guyana's oil.

# 2021 Resource Governance Index

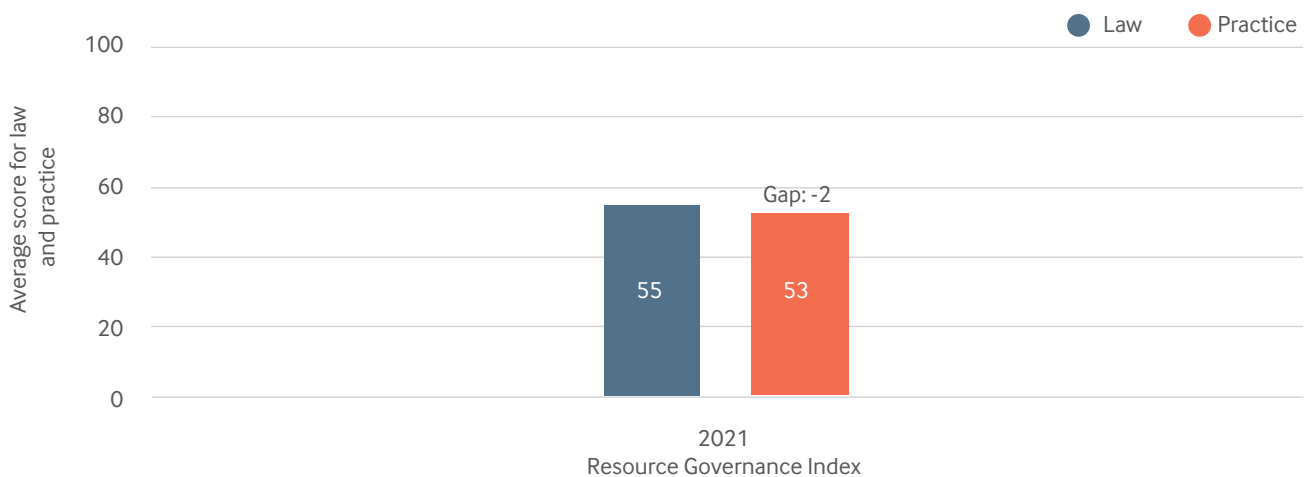
## LAW AND PRACTICE SCORES

While the gap between laws and their implementation is small, Guyana must develop a stronger institutional framework

Assessment of Guyana's oil and gas sector shows only a 2-point gap between the quality of relevant laws and their real-life implementation.

Although it already produces oil, Guyana is behind on both legislated rules and their implementation in practice, resulting in weak governance overall. Therefore, a combination of efforts leading to a stronger institutional design, coupled with enforcement of best practice in implementation, ensured by increased capacities within the sector, would improve oil and gas governance in the interest of Guyana's further development.

Gap between law and practice in Guyana



# RECOMMENDATIONS



1. **The Ministry of Natural Resources** should expedite the update of the Petroleum Act, aiming for the adoption and enforcement of competitive and transparent licensing processes to build public trust and strengthen accountability mechanisms.
2. **The Ministry of Natural Resources** should continue disclosing contracts and maintain an up-to-date registry of licenses in line with EITI commitments.
3. **The Ministry of Finance** should lead a comprehensive redesign of Guyana's fiscal framework and prioritize the adherence to a fiscal rule to prevent detrimental management of resource revenues.
4. **The National Assembly, the Ministry of Natural Resources, the Guyana Energy Agency and the Department of Environment** should prioritize a consultative discussion around Guyana's oil and gas sector and its role in the energy transition, to adapt the institutional framework to the challenges of the changing global environment.
5. **The National Assembly, the Ministry of Natural Resources and the Ministry of Finance** should strengthen the Natural Resource Fund, to ensure transparent and accountable practices that contribute to successful revenue management. If the government decides to amend or repeal the related legislation, civil society actors and other stakeholders should be invited to actively participate in the process.

## What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.