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GUYANA: PROPOSALS FOR AN INVESTMENT STRATEGY

BUILDING EQUITY AND ECONOMIC PARTICIPATION (BEEP) PROJECT
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We appreciate this opportunity to lend our professional services to this important initiative and to the ongoing process of economic development in Guyana.

GUYANA: PROPOSALS FOR AN INVESTMENT STRATEGY

EXECUTIVE SUMMARY

Public Sector - Private Sector Partnership Initiatives

In a recent article, "Trading Places: The Caribbean Faces Europe and the Americas in the Twentieth Century", Dr. Anthony T. Bryan, a noted Trinidadian scholar, pointed out that the leadership in CARICOM countries has expended more time and effort "on trying to preserve existing preferences than on preparing for the transition to open economies" and "reciprocal trade." An investment strategy for Guyana needs to provide a plan for the time when Guyana will lose its trade preferences in Europe, Canada, and the U.S. and to open its market to free trade within the Western Hemisphere. Private domestic and foreign investment, with a supportive role of the Government, can play a key role in this adjustment process.

There is a general recognition that the private sector must be the "engine for economic growth" and for future export development. The Government has already introduced successfully macro-economic reforms that have improved the investment climate and the private sector has responded with increased production and exports. More needs to be done, however, as was pointed out in the National Development Strategy (NDS), to stimulate private investment and to make more sectors competitive internationally.

In a number of Latin American and Caribbean countries, conflicts between the public sector and the private sector have given way to new partnership initiatives for advancing a common interest in stimulating economic development. Each participating sector – government, labor, non-governmental organizations, and the private sector – clearly understand their role in the development process. The government has been phasing out of all production and services which the private sector is willing to perform and has increasingly concentrated its limited tax revenues on spending for safety, health, and education. The role of these governments is to set standards for environmental protection, rules for operating private company monopolies, and incentives for stimulating private investment. The private sector, motivated by profit expectations, invests its management talents, capital, technology, and access to markets for production and exports by employing labor and natural resources. The result is profits, wages, government revenue, and economic development.

The private sector needs to strengthen its private business associations under a strong umbrella organization to be capable of playing a constructive role in public sector - private sector partnership initiatives and being influential in government economic policy formulation and in government trade negotiations with other countries. It is not enough to be on public-private sector boards and voice opinions or complaints. An important function of an umbrella private sector organization is to develop well-documented written analyses of specific issues with detailed workable recommendations and presenting them to the Government as major inputs for the policy formulation process.

The government for its part needs to organize to respond effectively and speedily to private sector proposals for changes in policies or regulations that would improve the investment climate. Task forces composed of public and private sector representatives, including foreign investors, can be formed to solve temporary and narrowly defined problems while working advisory boards assist government ministries and agencies to remove institutional, regulatory, and procedural constraints to private investment. These efforts can include such tasks as the reduction of red tape in the investment approval process, reform of the customs administration, new approaches to land ownership and leasing, or ways to improve access or lower the cost of credit.

National, that is, non-discriminatory treatment should be accorded to foreign investors by ending all legal and regulatory discrimination of foreign investment and by including foreign investors and seeking their active participation in the local business associations and in public-private sector partnership initiatives. The success of future economic development of Guyana will largely depend on the growth of exports and tourism by companies that are competitive internationally. Foreign companies will play a significant role in efforts to develop new exports and tourism. Local firms will benefit as joint venture partners, as contractors, suppliers and service providers. Foreign investors should thus be invited to participate in a partnership role with the Government for advancing economic development.

Macro-economic Policies in Support of Private Investment

Most developing countries, including Guyana, are introducing reforms of their macro-economic policies which improve the investment climate for the private sector. A basic shift in orientation has occurred from inward looking, protectionist, nationalist, statist policies to market-driven, export-oriented policies open to imports and foreign investment. Governments have generally opted for a market-based exchange rate system, trade liberalization, privatization, fiscal and monetary policies designed to curb inflation, financial sector strengthening, administrative reforms, and sectoral policies aimed at increasing efficiency, competitiveness, and infrastructural development.

Guyana has made significant progress towards macro-economic reforms and restructuring of the economy. A program of progressive trade liberalization within CARICOM is lowering the Common External Tariff (CET) from levels ranging between 0% and 45% to a maximum 20% by 1998. The exchange rate has stabilized in line with the slowdown of inflation. Excess liquidity in the financial system has been siphoned off by issuing treasury notes and by commercial bank reserve requirements.

More needs to be done, however, to improve the investment climate for private domestic and foreign investors. Guyana needs to complete the process of trade liberalization by eliminating the remaining quantitative trade restrictions, by completing the reductions of the CET (excluding agriculture), by improving access to credit at international lending rates for exporting companies, and by providing tax and duty relief to exporters and investors in priority areas. Duties of up to 50% and consumption taxes of up to 30% plus other indirect taxes and fees on imports present a heavy burden to importers, consumers, producers and even exporters who require imported inputs. Competitiveness is adversely affected. Arbitrarily differentiated consumption tax rates that distort the cost structure in the economy should be replaced by a uniform consumption tax or ad valorem tax.

A corporate tax rate of 45% applied by Guyana on profits of banks, telecommunication firms, and companies engaged in commerce is discriminatory, because other companies pay only 35%. In most countries the service sectors create more jobs and contribute more to the GDP than the industrial sectors. A withholding tax on dividends applied only on non-resident investors is also discriminatory. Equal, non-discriminatory treatment should be part of an improved investment climate for Guyana competing to attract more private foreign and domestic investment not only in production but also in the service sectors. Fiscal incentives to attract particularly investments for exporting and in infrastructure development should be re-introduced. Tax policy reform should seek to enhance the transparency and simplicity of the tax system and broaden the tax base and make tax collection more effective. The aim of these reforms should be for tax revenue to grow even after fiscal incentives are implemented.

Limited access to credit for many domestic firms and very high nominal (19%) and effective, real (15%) interest rates are a major impediment for many companies, particularly for exporting and for smaller firms. The causes for these problems need to be analyzed, including the wide intermediation spread of 10% and the high savings rate of 8% paid by banks. Various options adopted by other countries should be explored, including government loan guarantees, expanding private land ownership to improve loan collateral, reductions in the volume of treasury emissions, and easier access to foreign borrowing by qualified private companies.

Macro-economic policy reforms can be designed to help improve the investment climate and to stimulate private investment. Guyana has moved part of the way, but more needs to be done as part of a successful Investment Strategy.

Institutional and Regulatory Framework in Support of Private Investment

The key issues regarding public sector entities involved in the process of stimulating and attracting private investment is their effectiveness in promoting Guyana as a competitive site for investment. Guyana still lacks a legislative and regulatory policy framework which clearly stipulates the procedural, administrative, and decision making channels for investment incentives approval. This weakness affects implementation and management of this process. The approval process for investment and incentives has evolved on a case-by-case basis.

Currently there are two entities in place for approving incentives for private investments: (a) the Ministerial Committee on Investment and (b) the Ministry of Finance. While in principle all applications for incentives and concessions should reach the Committee via GO-INVEST, the investment promotion office, many project requests are channeled by individual Ministers directly to the Committee. While the Committee has made progress in advancing decisions, the process lacks transparency and suffers from frequent delays and inaction to reach a decision. These constraints cloud the investment climate and jeopardize worthwhile new investments.

The Ministry of Finance has overall responsibility for economic development and acts as the authorizing entity for granting concessions and incentives to investors. Other Ministries and agencies often channel their initiatives and decisions pertaining to investments, incentives, and concessions directly to the Ministry of Finance for final approval.

The Guyana Office for Investment (GO-INVEST) was established by the Government in 1994 to (a) provide investors with information about incentives, trade and tax regulations, and authorizations to start a new business; (b) act as liaison between investors and other Government agencies; (c) assist with negotiating joint ventures, securing factory space and land, work permits and other licenses; (d) facilitate all investment approvals; and (e) engage in investment promotion.

Lack of executive authority has been the major weakness of GO-INVEST from which derived other weaknesses, such as an inadequate budget and inadequate staffing. This institutional weakness impacted negatively on the overall functioning of this agency and ultimately on the entire process of attracting and stimulating private investment. The Government continues to be unwilling to devote sufficient resources for an effective functioning of this investment promotion effort. GO-INVEST has been unable to properly service the needs of private investors and has, therefore, been largely neglected by the private sector.

Following the example in other countries, a decision has been reached to merge the related functions of GO-INVEST and the Export Promotion Council. Similar organizations in other countries have benefited from active participation by the private sector in the promotional institution. With private sector help, commercial financial ventures were started to make the institution at least partly self-reliable and partly independent of government support. A major challenge for GO-INVEST will be how to engage the private sector to assist in advancing an investment strategy without succumbing to contradictions and opposing views. While, for example, the private sector should play a role in the formulation of investment reform legislation, it should not be involved in the incentive approval process and in a position to bar new foreign investment for Guyana.

The Guyana Export Promotion Council (GEPC), designed to promote and assist non-traditional exports, suffered similar constraints and neglect from the private sector as GO-INVEST. The New Guyana Marketing Corporation (NGMC) helps develop the non-traditional agricultural sector by providing marketing intelligence, improving access to markets, promoting linkages between buyers and sellers, assisting exporters, and recommending policy improvements. It has the support of local producers. Under a “New Strategy”, its scope of operations is being broadened to play a stronger role in facilitating and coordinating domestic and export market development for fresh agricultural produce.

A well-organized trade and investment information office can be a vital part of an investment strategy designed to attract and to stimulate private foreign and domestic investment and export development. In most countries this function is merged or associated with the promotional function. It should be organized to provide reliable, relevant, up-to-date information to private investors about investment and domestic market opportunities, joint venture partners, costs of doing business and the legal and regulatory regimes affecting business. For exporters, such an office should provide information about markets abroad, trade leads, foreign importers and distributors, foreign import regulations, trade fairs, price trends, transport costs, and other issues vital for exporters. Lack of resources have prevented GO-INVEST and the other promotional organizations to implement the information function effectively for the benefit of private investors and exporters.

A One Stop Shop for Investors and a similar one for Exporters can also be a useful part of an organization or a center designed to stimulate private investment. A One Stop Shop would be the place, the only place, where an investor can have all of the paperwork correctly filled out and corresponding documentation included and authorizations expeditiously obtained for starting a new investment. He would avoid frequent delays, mistakes, misunderstandings, frustration, and the potential for corrupt practices. In some countries, all ministries and government agencies involved with any aspect of investment approvals each have a representative in the One Stop Shop who assists the investor in filling out correctly all necessary applications. Each representative assumes responsibility for expediting the approval process for the investor. A One Stop Shop thus serves as an important link in the efficient, transparent process or system of facilitating and stimulating private investments.

A private investment institution should have a policy, strategy, and program focus and include all investment-related services and activities from conception to promotion to pre-investment to implementation to commissioning. It should have an investment focus to attract and facilitate investments as well as an export focus to help identify market opportunities and overcome export impediments.

For Guyana, given its small internal market, it is particularly critical to attract private investment that can develop export growth. Foreign investors, with access to foreign markets, cheap capital resources, advanced technology, and high levels of efficiency, are often in the best position to develop exports. That is why developing countries compete for foreign investment. Foreign investors have a wide choice in which countries they wish to invest.

Fiscal and other incentives and the level of taxation are prime policy tools used by developing countries to attract private investments. Incentives offered by governments include (a) import duty reductions or exemptions; (b) depreciation or accelerated depreciation allowances for investments in plant and equipment; (c) reduction or exemption from corporate income taxes, dividend withholding taxes, and consumption and other indirect taxes and fees; (d) reduction or exemption from municipal and other local taxes; and (e) various subsidies with a positive effect on profits and cash flow. Aside from incentives, governments offer various guarantees and commitments to private investors, such as a guarantee of corporate income tax rate stability during a specified period of time or a loan servicing guarantee or a guarantee against the effects of any future devaluation.

Guyana's current investment regime offers very few of the incentives mentioned above. The current incentives regime is inadequate, non-competitive, non-transparent, discretionary, and discriminatory. Guyana no longer offers fiscal incentives. Most countries competing for private investment offer far more generous incentives than Guyana where an investor usually does not know in advance whether he will qualify for accelerated depreciation or reduction in the consumption tax.

Guyana is committed by the International Monetary Fund (IMF) not to grant any new tax holidays or renew those that expire at least until the Enhanced Structural Adjustment Facility expires in 1999. Most other countries, including the member countries in CARICOM, offer generous fiscal incentives to private investors. This places Guyana at a serious disadvantage when competing for private investment. The Subsidy Code of the World Trade Organization (WTO) prohibits member countries from offering specific incentives targeting exports, but most countries ignore the Subsidy Code provisions. Guyana, classified among the least developed countries, qualifies for exemption from the Subsidy Code.

To stimulate private investment, Guyana should consider implementing an investment incentive law at least after its commitment to the IMF expires in 1999. Such a law should clearly state its purpose and objectives and offer investors specific guarantees designed to raise the confidence to invest in Guyana. An investment incentive law should offer accelerated depreciation allowances from taxable income and exemption from import duties and consumption tax machinery and equipment that is part of a new investment or upgrading of an existing investment.

Tax holidays for a defined period should be offered on profits generated by new investments from exports, including assembly operations for re-export. Write-offs from taxable income should be allowed for expenses incurred to train a company's own work force in order to improve productivity and worker skills to operate and to maintain increasingly sophisticated machinery. A tax deduction would be a greater incentive than a payroll tax to finance general technical education.

An investor who cannot wait for the Government to extend the necessary infrastructure to the area where his investment will be located should be allowed to write off his expenditures on infrastructure related to his investment, such as the cost of constructing an access road, installation of an irrigation system, purchasing an electric generator, or installing a telecommunication system.

Guyana's vast inland areas remain largely undeveloped, yet rich in potential natural resources that could become the main source of the country's future export growth. Investors willing to develop projects in the hinterland areas should qualify for generous incentives to compensate for the additional risks, such as higher transport costs and transport delays, poor communication, supply problems, equipment break-downs, and longer waiting periods to have such problems resolved.

There are several options for deciding how to administer an investment incentives law: An Investment Commission can be composed of (a) representatives from all ministries and government agencies involved with private investment activities or (b) a small group of public administrators reporting to one Minister or (c) a group operating independently of all Ministries, reporting to the President or Prime Minister. (d) Alternatively, each individual Ministry can be empowered to approve incentives for investments in its economic sector without an Investment Commission. Each option has its advantages and disadvantages.

The entire process of approving investment incentives should be simplified, speeded up, made transparent, standardized, and less bureaucratic. To approve incentives, the Commission should follow exactly the procedures outlined in the regulations. The Commission should not burden itself nor the investor with requests for information about feasibility studies, future production programs, expected cash flow, capital sources, prices or profits. One single, simple, standard application form can be developed for all companies in all sectors applying for incentives for new investments.

Sector-Specific Investment Opportunities and Constraints

There are a number of potentially attractive investment opportunities in specific sectors in Guyana if the constraints to new investments are removed. Aside from broad-based constraints affecting the general investment climate which were outlined earlier, there are sector-specific constraints inhibiting investments. A detailed analysis of sector-specific investment opportunities, constraints, and recommendations are offered in Appendix A.

Sugar industry prospects will depend on whether GUYSUCO, the Government sugar monopoly, succeeds in reducing unit production costs from US$0.19 to at least US$0.13 per pound by the time Guyana loses its preferential market in the European Union (EU) under the Lome Convention. This may happen as early as year 2000. GUYSUCO, operating under private management (Booker Tate), has developed a five-year strategy aimed at increasing yields sufficiently to lower unit production costs. Management is optimistic that this can be achieved without privatizing ownership of the sugar industry.

The rice industry is also expected to lose its preferential, protected status in the EU. Guyanese rice producers, particularly small farmers, will have difficulty competing in world markets unless production yields and quality can be raised, unit costs reduced significantly, and world market prices increase. Low capacity and deterioration of milling facilities require additional investments, which are restricted, however, by limited access to credit.

Non-traditional agriculture, such as tropical fruits, spices, and various vegetables, is mostly produced on small and medium-sized farms constrained by poor infrastructure, insecure land tenure, lack of credit, and poor extension services. These constraints would need to be removed for new investment to be stimulated. Other countries, such as Chile, Nicaragua, and Guatemala, have succeeded, with incentives and joint ventures, in attracting foreign investors who are developing substantial production and exports of new agricultural products.

Investment in mining has been discouraged by high levels of taxation and discrimination against foreign investors. A Price Waterhouse study of 1996 shows that Guyana applies the highest level of overall taxation among a large number of countries with mining activities. A 5% royalty on production or gross revenue (on precious metals and stones, other mining pays a 1.5% royalty), a 35% corporate income tax with a 2% turnover tax, and a 6.25% withholding tax on dividends, taken together, are viewed as unattractive by foreign investors in mining, particularly considering Guyana's mining prospects. Reduction of the royalty to a uniform 2% or 1.5% and elimination of the turnover and withholding tax would probably stimulate more foreign investment in mining. Guyana's domestic small miners suffer from limited access to credit and poor infrastructure which makes it costly to move and to maintain mining equipment.

The Government-owned bauxite industry lacks capital to modernize its facilities and to lower costs of production in order to become competitive. Privatization might make the industry viable, if a suitable foreign investor can be attracted. The Government's LINMINE is burdened by significant losses stemming from excessive labor costs and deteriorated plant and equipment. BERMINE restarted refractory (RASC) bauxite production which has better prospects in world markets.

The forestry sector has a large export potential, particularly if private investment can be encouraged in downstream wood processing activities developing added value to Guyana's valuable wood species. Modern harvesting practices and planned reforestation need to be applied to improve commercial utilization of more wood species and maintaining long-term production capacity. Guyana maintains very low royalty rates on timber relative to other countries. Low rates of taxation encourage logging and exports of logs rather than domestic wood processing.

Guyana's relatively small manufacturing sector is quite diversified, consisting of wood products, fabricated metals, apparel, leather products, chemicals, paper products, beverages, and food products. Despite low wages and GSP and CBI trade preferences, many manufactured products are not competitive in export markets due to diseconomies of scale, high maritime transport costs, high electricity rates, and burdensome red tape. Most CARICOM countries have a competitive advantage over Guyana in these areas. Guyanese manufacturers do not get exemption from duties and consumption tax on many imported inputs for the manufacturing process. Imports of spare parts and retooling and upgrading of machinery and equipment do not qualify for import tax exemption, tax write-offs, or accelerated depreciation. There are no tax benefits for expenses incurred for training the work force to become more productive and skilled in handling and maintaining sophisticated equipment. Companies that need to compete in foreign markets do not have access to credit at international lending rates. There is no export processing zone where companies can qualify for generous fiscal incentives on profits generated from exporting. Guyana would be able to develop some additional manufacturing exports and attract foreign investment in processing for export if these diverse constraints can be removed.

Guyana's tourism sector has good potential, but remains undeveloped. Most visitors to Guyana are businessmen or visiting relatives; only an estimated 2,000 genuine tourists arrive annually. A Master Plan for tourism development may be needed, which would identify the attractions Guyana has to offer, the type of tourists that can be attracted, the promotional efforts to be organized, the infrastructure improvements required, the incentives needed to attract private investments for tourist facilities, and the funding sources to help the Government implement its share of the Master Plan. The Government's environmental policies should preserve all potential eco-tourist sites from unchecked mining or logging activities. Fiscal incentives need to be improved in order to be competitive with those offered investors in the tourism sector in competing countries. Reliable and efficient air service to and within Guyana is a pre-condition for developing the tourism sector. The creation of a Board of Tourism with a strong marketing function, supported by GO-INVEST or an equivalent investment promotion agency, could develop and implement the Master Plan and enter into negotiations with foreign companies experienced in developing tourist facilities and in promoting tourist interest and in bringing and accommodating tourists.

The infrastructure sectors – air transport and airport services, highways and bridges, port operations and ferry services, electric power generation, transmission, and distribution, waterworks, sewerage, and solid waste collection and disposal – all used to be developed by governments. More and more countries are now actively promoting private investments in these infrastructure projects in order to (a) save public revenue for other uses where private investors do not wish to enter; (b) avoid further public sector indebtedness; and (c) to improve the quality, reliability, and cost effectiveness of vital public services under private management.

The Government should actively encourage and prepare all necessary conditions for private investors to establish and to expand efficient, reliable, regular air service to and within Guyana and to offer the operation of airport services to private companies on a competitive concession basis allowing upgrading investments to be recovered from fees charged for services. Guyana and Cuba appear to be the last holdouts with a Government-owned airline in the Western Hemisphere.

Private investors can be attracted to build, expand, rehabilitate, and maintain highways and bridges under competitive bid concession contracts that permit erection of toll booth to recover expenses plus a reasonable return. Where traffic is too low to justify this approach, private operators can be compensated out of budget revenue or from levying a gasoline and diesel tax and car registration fees. The result would be a better maintained road system and bridges safe from collapsing.

Fiscal incentives and aggressive promotion and an adequate fee structure at the ports can encourage private investors to replace, upgrade, and expand port installations and equipment and participate in financing a new deep water port. After the hinterland highway connecting with northern Brazil is completed, Guyana's port should strive to be organized to compete for the export and import business of Brazil's Amazonas and Roraima States. More shipping lines should then be encouraged to include Guyana as one of their stops. These efforts would raise the volume of trade for Guyana, the frequency of vessel arrivals, competition for freight, and probably lower the currently very high maritime freight charges.

Private investors should be encouraged, with incentives and Government guarantees, to invest in additional electric generating capacity aimed at displacing private electric generators by meeting electricity demand, offering reliable, uninterrupted supply, and lowering electricity costs. Phasing out diesel-powered generators would save Guyana foreign exchange from lower diesel fuel imports.

Private investment can also be attracted to the construction, improvement, and maintenance of waterworks, sewerage lines, and solid waste disposal in order to provide reliable services safeguarding the health of the population. Fees charged consumers and business for these public services would have to be raised to proper levels and collection enforced in order to generate the funds for private operators to recover their costs with a reasonable rate of return.

Some countries consider private investment in the infrastructure sectors so critical for a country's economic development and rising living standards that they have made special efforts to create special institutions, agencies, laws, regulations, and incentives designed to attract private investments in infrastructure projects. Some countries have set up an infrastructure investment center staffed by professionals to provide technical assistance and training (sometimes with USAID or IFC funding) to government officials in municipalities and other agencies to be effective in constructing the terms for public tenders and concessions offered private investors for infrastructure projects on a competitive bid basis. Guyana should consider setting up a similar agency within the Ministry of Public Works.

SUMMARY OF RECOMMENDATIONS

Public Sector Private Sector Partnership Initiatives

The Government should strengthen its role as facilitator, catalyst, and promoter of private domestic and foreign investment in all sectors of the economy.
The Government should respond and act speedily to complaints about Government restrictions or discrimination against private investment and constraints on doing business.
The private sector should organize its private sector associations to work with the umbrella Private Sector Commission more effectively in developing and advocating proposals for reforming Government policies, laws, regulations, and administrative practices that impede private investment.
Companies should encourage their executives to be active within business associations and participate in public sector - private sector working groups to help remove impediments to private investment.
The Government should encourage public sector - private sector partnership initiatives to develop joint programs for removing constraints to private investment.
Public - private sector working groups should be formed for specific, clearly defined tasks relating to such issues as reducing red tape and administrative delays that are burdensome and costly for the private sector; replacing discretionary, unpredictable decision making by a clearly defined legal and regulatory process designed to encourage rather than restrict private investment.
Public - private working groups should be formed to develop trade negotiating positions for Government negotiators to protect and expand Guyana’s markets abroad and to create new export opportunities within trade liberalization agreements.
Representatives of foreign companies in Guyana should be invited to participate actively in local business associations and in public - private sector working groups.
A public - private sector task force should be formed to identify all remaining areas of discrimination against foreign investors and develop recommendations how to remove discriminatory laws, regulations, or procedures.

Macro-Economic Policies in Support of Private Investment

To support private companies engaged in trade, the Government should (a) remove all import controls and remaining quantitative import restrictions; (b) reduce all import tariffs to the agreed CARICOM CET; and (c) maintain a market-based exchange rate system.
A fiscal policy supporting an improving investment climate should include a lower and more uniform consumption tax; a uniform 35% corporate income tax; and elimination of the withholding tax on dividends. Revenue losses from incentives should be offset by other tax reforms and by improved tax collection.
To stimulate private domestic investments, it is necessary to reduce interest rates and improve access to credit. Competition among banks should be stimulated via regulatory reforms to lower banks' administrative costs. Access to credit for the private sector can be improved by reduced public sector indebtedness and improved fiscal performance as well as expansion of private land ownership that would improve private borrowers' collateral.

Institutional and Regulatory Framework in Support of Private Investment

A simplified, efficient, transparent system of applying the investment incentive process would greatly enhance investor confidence.
A joint Government and private sector effort should advance the development of a stable institutional framework and process for stimulating private investment. The private sector should be involved not only in investment promotion, but also in the overall process of helping to implement the investment regime, applying it to all investors in all sectors, and in establishing the terms and conditions for applying the investment regime.
Private sector associations should also work with their member companies to define the terms and conditions in an investment regime that will be effective and efficient for an investment strategy to stimulate private investment and advance these private sector proposals before the Government as input for both policy and institutional decisions.
Private investment will be encouraged under stable rules of the investment environment with incentive agreements having the force of a binding national contracts between the investor and the country. Stable rules and terms enable the investor to calculate his expected cash flow from a planned investment and thus assess the profitability of the project.
For the effective implementation of an investment strategy designed to stimulate private domestic and foreign investment, it will be necessary to clearly delineate, to strengthen, and to empower the following divisions of a private investment agency: (a) investment promotion, (b) export promotion, (c) investment and export incentive administration, (d) trade and investment information office, and (e) One Stop Shop for Investors and preferably also for Exporters. In this way, all investment-related activities and services will be incorporated in one interrelated effort.
Each division should be adequately funded, with trained staff, to be able to produce

measurable results within a reasonable time frame in attracting private investment and in stimulating exports in the diverse sectors of the economy.
Implementation of an Investment Strategy and an Investment Code, including a competitive fiscal incentive regime and a more automatic and transparent administration of this regime, will significantly contribute to an improved investment climate and position Guyana to better compete for private investment.
The privatization program should be accelerated in order to bring improved management and technology, access to capital and markets to the major firms in the Guyanese economy.
Free-hold land tenure and ownership should be facilitated as part of policies designed to improve the investment climate and to stimulate private investment by improving collateral for access to local credit.
Other legal, institutional, and financial reforms may be needed to broaden private sector access to more sources of credit, such as debt/equity swaps, venture capital financing, lease financing, equity placements, and merchant banking.
Exporters need credit at international interest rates in order to compete with their products in foreign markets. The experience in other countries should be studied for providing exporters access to foreign borrowing or local banks to channel foreign loan funds to local exporters.

Fiscal Incentives and Administration for Attracting Private Investment

Guyana should re-introduce a fiscal incentive regime that will attract private investment, because competitor countries are offering investors generous incentives and because fiscal incentives play an important role for many investors in the decision where to invest.
An incentive law should be composed of two parts: (a) Government commitments and guarantees applicable to all private investors and (b) fiscal incentives offered for specific activities or sectors which the Government wishes to encourage.
Government guarantees should relate to the freedom to organize production and services and the corporate structure, protection of intellectual property rights, freedom to remit profits and repatriate capital, access to foreign exchange, non-discrimination, rights to private property, and fair treatment in case of expropriation.
Accelerated depreciation should be offered to all priority sectors benefiting from other fiscal incentives.
A zero level import tariff should be established in the customs code for all imports of machinery and equipment, except for those where equivalent products, comparable in price and quality, are produced domestically.
Exemption from duties, consumption tax, and other charges should be granted to imports of materials and components used in the assembly for re-export regardless of where the plant is located in Guyana and for materials and furnishings used for resort and

hotel development.
Profits generated from such re-export activities should be exempt from all income, withholding, and other taxes for the first 15 years of operations.
Profits generated from exports by new investments or expansion of existing investments should be exempt from all income, withholding, and other taxes for the first 10 years of operations. New investments in a hotel or resort should qualify for a similar tax holiday on profits.
Companies should be allowed to deduct from taxable income an amount spent on training its own permanent work force equivalent to up to 2% of its total annual company payroll.
A developer of a major investment project who cannot wait for the Government to introduce the infrastructure necessary to realize his investment should be allowed to deduct from taxable income all his infrastructure expenditures related to his investment in the same way an investor in agriculture is allowed to write-off his expenditures in developing land for crop cultivation.
Private investors willing to invest in developing the hinterland should, in most cases, qualify for at least as generous incentives as investors in the more developed and populated areas of the country, because investments in the hinterland carry additional risks, while bringing large potential benefits for the country.
An incentive approval authority should develop a single, simple, standard form to be used for applying for investment incentives in accordance with a new Investment Code. Only information directly relevant to qualify for incentives should be requested.
The entire incentive approval process should be simple to administer, predictable, transparent, non-discretionary, following clear, detailed guidelines established in the investment regulation, similar to the Peruvian Framework Law for Private Investments.

Sector-Specific Recommendations

For sugar: (a) applying new field practices to increase crop yields; (b) investment to develop a deep-water port to lower transport costs; (c) increased worker training programs; (d) rehabilitation of two surgar mills.
For rice: (a) new regulations to raise quality standards to internationally accepted levels; (b) improving access to credit by reform of the land tenure system and by lower banks' lending risks by making several farmers jointly responsible for loan re-payments or combining their collateral in support of their loans; (c) increased efforts to raise crop yields to lower unit production costs below world market price levels.
For non-traditional agriculture: (a) improving foreign market information and export marketing services at the NGMC; (b) special credit lines from credit unions or development finance institutions; (c) improving internal transportation and other infrastructure; (d) attracting higher skilled personnel via salary increases and improved

market conditions.
For mining: (a) removal of collateral constraints to access to credit for small and medium-sized mines by banks' acceptance of mining rights or by forming joint ventures with financially stronger partners; (b) tighter regulations for administering the Mining Act; (c) creating a study program for excellence in geology and mining at the University of Guyana in collaboration with the NGMC.
For gold mining: (a) reduction of the royalty rate to 2% or unify with the 1.5% rate applied to other mining; (b) elimination or reduction of the discriminatory 6.25% withholding tax on dividends applied to foreign investors.
For bauxite mining: (a) privatization; (b) search for ways to lower maritime transport costs.
For forestry: (a) applying sound, sustainable re-forestation practices; (b) raising substantially the royalty rate on logging; (b) specialized marketing for various species with a focus on find niche markets; (c) aggressive promotion of foreign investment; (d) increased skills training; (e) setting up a clear policy framework for granting concessions.
For manufacturing and agro-processing: (a) incentives and special credit facilities for re-tooling and upgrading of machinery and equipment; (b) credit at international lending rates to compete in export markets; (c) improved pre-shipment financing facilities; (d) evaluation of feasibility of setting up export processing centers.
For tourism: (a) creation of the National Board of Tourism which would develop a Master Plan with national objectives, policies, strategies, and implementation of a comprehensive program how to compete and attract tourists; (b) environmental regulations to protect sites for eco-tourism from logging and mining operations; (c) improvements of infrastructure to help stimulate investments in the tourism sectors, particularly improving reliability and frequency of air transport to and within Guyana; (d) fiscal incentives for new investments in the tourist industry, specifically accelerated depreciation on machinery and equipment; duty and tax exemption on all imports of equipment, furnishings, and building materials not available in Guyana.
For air transport and airport services: (a) privatization of all air transport; (b) transfer of airport services to private operators under management contracts, concessions, or some BOT (build-operate-transfer) arrangement, with fees for airport services recovering investments and a reasonable rate of return.
For highways and bridges: (a) promotion of private investment to rehabilitate, expand, and maintain road network and bridges under concession contracts with fees mostly from vehicle registration fees and Government budget and a recommended introduction of a gasoline and diesel tax.

For maritime transport: (a) creation of a National Port Authority with responsibility for enforcing compliance with Government maritime policies; (b) privatization of vessels and Government port installations; (c) establishing and implementing a transparent process for public tender offers for the private sector to invest in port terminals and other installations and in ferry services; (d) establish incentives, including port charges, that will encourage private investors to upgrade, replace, and improve existing port equipment and installations for more efficient port services; (e) create a public - private sector task force to evaluate Georgetown port operations and make recommendations for improvements; (f) implement a plan for private investment to assume a major role in the construction and operation of a new deep-water port.
For electric power: (a) limit the Government's role to policy formulation and legal and regulatory enforcement, while the private sector assumes full responsibility for ownership, investments, and operations; (b) complete privatization of the power sector with obligation for substantial upgrading and rehabilitation investments by the private operator; (c) establishment of a sound regulatory regime designed to encourage investments to provide adequate, reliable electricity services and to protect consumers from potential abuses by the private monopoly; (d) encouragement of investments in additional generating capacity designed to replace private diesel-powered generators and save foreign exchange from reduced diesel imports.
For waterworks, sewerage, and solid waste treatment: (a) promote private investment under concession, BOT, or management contracts; (b) raise substantially and expand collection of user fees, some of which could be combine with electricity bills for easier and more efficient collection.
An Infrastructure Investment Center: In view of the critical importance to improve the infrastructure sectors in order to attract private investment in other sectors and in order to improve the competitiveness of exports, the Government should consider creating an Investment Infrastructure Center in the Ministry of Public Works as part of the overall Investment Strategy. This Center would have the single task of developing and implementing programs for attracting private investments in infrastructure projects.

1. INTRODUCTION

A. Background

USAID has been supporting the economic reform policies of the Guyana Government through the Building Equity and Economic Participation (BEEP) Project. The BEEP Inception Report and subsequent planning documents, recognizing the need for increased private investment in the productive sectors of the economy, listed as a key element in that process support for the development of a positive investment climate. To attain this objective which would stimulate and attract private investment requires that the Government of Guyana removes impediments to private investment in its existing policy as well as in the legal, regulatory, and institutional framework relating to private investment activity.

Through the BEEP Project, the Ministry of Trade, Tourism, and Industry has adopted a strategy for improving the capacity for implementing trade policy recommendations. The Ministry of Finance, with assistance from the Carter Center, has completed a draft for a comprehensive National Development Strategy (NDS), which is currently undergoing public discussion prior to finalization. It is within this context of wide ranging discussions about how to strengthen Guyana's economic development process with increased private sector participation that the proposal for this BEEP study has evolved.

B. Scope of Work

USAID, with the approval of the Government of Guyana, has contracted the services of IGI International, Inc., which is managing the BEEP Project, to conduct a broad-based process of data collection, dialogue, and analysis resulting in

- recommendations of an investment strategy for stimulating private investment

and

- a draft investment code for Guyana

which include specific, detailed recommendations for revising legal and regulatory provisions and institutional and procedural reforms designed to stimulate private domestic and foreign investment. This study is being done as USAID Project #504-0107-C-00-6201-00 for Guyana.

This Report deals with the first part of the study. Proposals for an Investment Strategy for Guyana were developed by three consultants: Siegfried Marks, the team leader, David Lewis, and Arnold McIntyre. All team members have extensive experience relating to Caribbean economic issues, investment promotion, and government economic policy reforms. Further details of their expertise and experience are summarized in Appendix C.

C. Methodology.

Information relevant to this analysis was collected during the consultants' visit to Georgetown from July 28 to August 16, 1997. A wide array of published reports, documents, and other countries' incentive laws and investment promotion agencies were consulted (listed in Appendix E and F), including all volumes of the Ministry of Finance National Development Strategy and private investment legislation and promotional brochures from CARICOM and Latin American countries, Tunisia, and the Philippines. GO-INVEST generously made available its library of information relating to investment regulations for specific sectors and the customs code.

Extensive interviews were held with a wide range of representatives from several Ministries and other public sector agencies and from the private sector in Guyana (listed in Appendix D). A wealth of useful information, assessments, and recommendations were obtained. This draft report is now being distributed to representatives from the public sector and the private sector for feedback and suggestions during three Workshops to be held October 14-17 for revisions before final submission to the Government of Guyana and commencement of work on a draft Investment Code.

II. PUBLIC SECTOR - PRIVATE SECTOR PARTNERSHIP INITIATIVES

A. Private Sector "Engine for Economic Growth"

In a highly perceptive recent article, "Trading Places: The Caribbean Faces Europe and the Americas in the Twenty-First Century," Dr. Anthony T. Bryan, a well-known Trinidadian scholar, signaled the way for Guyana and other Caribbean countries to adjust to the new realities of globalization and free trade. He pointed out that "beginning in 1998, Caribbean countries will experience excruciating demands on their trading regimes and negotiating capabilities. Negotiating with the European Union for a post-Lome arrangement will commence, and the negotiating process for the Free Trade Area of the Americas is expected to be launched." How is Guyana organizing to participate in these negotiations and to defend effectively its trade interests? Dr. Bryan indicated that the leadership has expended more time and effort "on trying to preserve existing preferences than on preparing for the transition to open economies" and on adjusting to the new global reality of shifting "away from preferential trade arrangements toward globalization and reciprocal trade."

Dr. Bryan emphasized that "the increasing momentum in Europe away from preferential arrangements and the direction of trade reciprocity for developing countries is a challenge for the Caribbean." Is the local private sector in Guyana organizing to meet effectively increasing competition of imports resulting from future trade reciprocity arrangements? Dr. Bryan mentioned that NAFTA "has greatly reduced the value of U.S. and Canadian trade and tariff preferences under the Caribbean Basin Initiative and the Caribbean and Canada Trade Agreement." Are Guyanese exporters cutting costs and seeking new markets to offset the diminishing trade preferences?

According to Dr. Bryan, the challenges facing Guyanese and other Caribbean policymakers and the private sector will be "the future of existing regimes of significant preferences, the need to plan for the long term without such preferences, and the development of a strategy to meet the transition." An investment strategy for Guyana needs to plan for the time when Guyana will lose its trade preferences in Europe, Canada, and the U.S. and open its market to free trade not only within CARICOM, but within the Western Hemisphere. If the Government and the private sector can effectively organize for free trade and loss of trade preferences and these developments do not fully or do not soon materialize, then the country will still benefit from having a more competitive, export-oriented private sector.

Dr. Bryan concluded that "managing the transition process will be difficult and will demand ..... effective collaboration among governments, the regional private sector, and the NGO's." Dr. Bryan recommended:

1. "Caribbean countries should ....make a significant effort to improve their public administration."
2. "Caribbean exporters should consider ways to penetrate new markets."

3. “Caribbean governments must empower the private sector to generate economic development by providing the appropriate physical infrastructure and by implementing human resource development.” “Investment and growth in the region increasingly will be linked to trade in goods and services.”
4. “The agenda for the Caribbean is ....global competitiveness.”
5. “A formal body (should be created) that provides for rapid consultations between private sector associations and trade negotiators to assess the impact of proposed trade measures.”

There is a general recognition in Guyana that the private sector must be the “engine for economic growth.” Guyana has taken important steps in its transition from the State to the private sector becoming “the engine for economic growth.” The implementation of the National Economic Recovery Program largely freed the private sector from extensive Government controls and restrictions. A positive climate was created for the private sector with successful macro-economic reforms, which included trade and exchange rate liberalization, relaxation of price controls, and improved management of the Government budget. The result has been increased production and exports, accelerated economic growth, and a substantially lower rate of inflation. The private sector has responded with increased investments.

Substantially more needs to be done, however, for the private sector in Guyana to assume the role of “engine for economic growth” as it has done in many other developing countries of Asia and Latin America. Conditions need to be improved further in many areas in order to stimulate a high level of private investment on a sustainable basis, greater efficiency, and international competitiveness and thereby ensure a continued long-term high rate of economic growth and development after reciprocal free trade replaces protected access to preferential markets. How can the private sector “engine for economic growth” move at full speed? Governments in many developing countries have played a key role in helping stimulate private investments that fuel the engine to move faster.

Aside from privatization, liberalizing foreign trade, and ending price controls, Governments have implemented many other measures designed to make the climate and the conditions more attractive for private domestic and foreign investment. Governments have implemented financial reforms, strengthened public institutions, introduced legal and regulatory changes, reduced red tape, and streamlined Government procedures and processes with a view to reduce the costs of doing business, to help make the private sector more efficient and more competitive, to stimulate exports, and to open sectors to private investment.

In these countries, partnership initiatives have developed in which each participating sector – government, labor, non-governmental organizations, and the private sector -- clearly understands its role in the pursuit of a common interest in stimulating economic development. The government has been phasing out of production and services which the private sector is willing to perform and increasingly concentrated public sector expenditures on safety, health, and education. The Government sets the standards for environmental protection, the rules for the operation of private company monopolies, and the incentives for stimulating private investment. Labor defends the interests of the work force in higher wages and better working conditions, while non-governmental organizations represent the interests of other sectors in sharing in the benefits of economic development. The private sector, motivated by profit expectations, invests its management talents, capital, technology, and access to markets, to produce and to export by employing labor and natural resources. Its success generates economic development, profits, wages, and government revenue.

Recent experience in many developing countries has shown that such a delineation of partnership roles advances economic development, while government efforts to compete against the private sector, to crowd out or exclude or restrict the private sector from areas of production or services resulted generally in unsatisfactory economic development. Even Communist China has learned this lesson.

Recommendation: Guyana has also embarked in this new direction with the start of its privatization program and macro-economic reforms designed to improve and broaden the scope for private sector activities. More can be done along the lines outlined above. The Government should strengthen its role as facilitator, catalyst, and promoter of private investment and by inviting public sector - private sector partnership initiatives to identify and remove impediments to private investment and to help design and implement programs to overcome obstacles for private investment.

In most Latin American and some Caribbean countries, private business associations have used their members' substantial position in the economy, including production, trade, revenue, and job creation, to assume an influential role in the Government economic policy making process. While their umbrella business organization speaks for the private sector with a unified voice, individual business associations do at times take opposite advocacy roles where their interests clearly diverge, such as the Chamber of Commerce representing importing companies versus the Chamber of Manufacturers with companies that compete against imports.

Many countries, such as Venezuela, Colombia, Costa Rica, Honduras, and El Salvador have a strong umbrella business association to which belong virtually all sectorial private business associations. The umbrella association and some of the individual industry associations have technical staff or can mobilize technical assistance from member firms to develop carefully documented analyses and detailed workable recommendations on issues of concern to the private sector. The member firms are often very active and support financially association staffing or hired consultants to help develop well-reasoned proposals on issues, laws and regulations affecting the private sector and they develop detailed proposals on how the Government should change regulations or processes that would help improve the investment climate further. These proposals are well publicized and often trigger a national debate with participation by organized labor and other interest groups until the Government makes a decision and responds.

The private sector in Guyana should get acquainted with private sector organizations in countries such as El Salvador, Costa Rica, Guatemala, Colombia, and Venezuela. In these countries, public sector - private sector partnership initiatives have played a decisive role in creating a business climate attractive for private domestic and foreign investment. Conflicts have, of course, also prevailed at times.

In Guyana, some mixed public-private sector boards have been created and private sector leaders and associations are being consulted by Government ministers on important policy issues. These consultations and joint meetings are usually done on an ad hoc basis. The private sector voices complaints and makes demands and complains that the Government often fails to respond or to act. Mr. Christopher Ram pointed out in the August 10th edition of Stabroek that "business leaders are too ready to accept favors from the Government thereby losing their independence and the right to engage in honest and constructive debate with it." The private sector cannot always be unified and speak with one voice on issues. Importers, for example, often have the opposite interests from local manufacturers on trade issues. The private sector, however, should be united and well organized on issues affecting negatively all elements in the private sector.

In Guyana, the role of an umbrella business association speaking for a unified private sector on national issues of concern to the private sector was assigned to the Private Sector Commission (PSC). It has demonstrated its capability of commenting in some detail to the recommendations in the National Development Strategy as well as in Trevor Hamilton's "Diagnostic Evaluation of the Enabling Environment for Private Sector Investment in Guyana." The PSC has a clear vision of the strengths of the Guyanese economy as well as its weaknesses and problem areas. The recommendation below is designed to propose strengthening the capability of the PSC to organize the private sector to effectively advocate solutions to problems of concern to the private sector and to effectively influence the decisions of the public sector to solve the identified and analyzed problems.

Recommendations: All private business associations should be invited to join the umbrella Private Sector Commission. Individual companies will be represented through their industry associations in the PSC, but be invited to actively participate on the Board and in task forces to be created to analyze specific problems of concern to the private sector and develop detailed recommendations how to solve such problems. Membership fees collected by the Commission from the industry associations should provide for hiring four or five full-time analysts, each capable of actively assisting private sector working groups with responsibility for developing analyses and recommendations on specific issues of concern to the private sector.

Private companies should find it in their own best interest to lend some of their executives' time occasionally to serve on a task force of the PSC. On important, complex issues, funding to hire a consultant for a study and recommendations should be secured from member firms or outside sources. Unless the private sector is well organized to develop, advance, and defend detailed workable solutions to problems of common concern, it will not be able to effectively play its role in any public-private sector partnership designed to influence major Government decisions.

B. Public Sector Responses to Private Sector Needs

In a survey, conducted by Christopher L. Ram and Company and published in its Annual Guyana Business Outlook Report for 1997, local companies cited Government policies as the most important single factor affecting their business success. It was not market conditions or foreign competition. In fact, the Ram Report found that "foreign competition is not regarded by many respondents as having a major impact on their business." Their chief concerns were interest rates, the exchange rate, availability of trained staff, consumption tax, electricity supply, income taxes, customs procedures, and access to capital – all directly or indirectly related to Government policies.

What would help their business the most? 69% cited lower interest rates, 64% introduction of investment incentives, 60% privatization of the Guyana Electricity Corporation, and 48% export incentives. More than half, 52%, of the business respondents were pessimistic about the business outlook for Guyana. The reasons? The key factor for 27% is the lack of Government support for business and private investment. For 26% it is the low level of new investments and for 23% the poor Government relations with the private sector.

The Ram Report did not place all the blame on the Government for this unsatisfactory relationship. The Report concluded that "the private sector needs to define exactly what it needs the Government to do to promote the introduction of those measures in a professional manner that does not suggest a handout or pursuit of narrow objectives."

The major problems faced by the private sector in Guyana are identified, well-known and articulated. The difficulty lies in the absence of carefully developed recommendations that are workable and that take into account also the Government's constraints --recommendations formulated in sufficient detail to enable the Government to take and to implement. Another major difficulty is having Government institutions well organized and an established, universally respected process or system in place for acting on workable proposals received from the private sector. Public-private sector cooperative efforts are needed for receiving and for developing proposals for solving private sector problems, for developing detailed recommendations for relevant action programs, and for effectively advocating implementation of recommended action programs.

A crucial pre-condition for stimulating more private investment will be a more effectively working public sector - private sector partnership that can establish and work toward common goals of national interest. Communication between the public sector and the private sector certainly exists in Guyana, but effective cooperation and effective responses to proposals often appear to be lacking.

Two key outcomes of an effective public sector - private sector working partnership will be

- well-reasoned presentations of the constraints to private investment facing the private sector and proposals for workable solutions that take into account the limitations and constraints faced by the Government; and
- speedy, effective responses and decisions by the Government to private sector needs.

In a public sector - private sector partnership, the Government needs to organize itself to respond effectively and speedily to private sector proposals for improving specific elements in the investment climate. The decision making process at the responsible Ministries, Commissions, and other agencies need to be streamlined and made transparent with the objective of avoiding long delays and discretionary powers of individuals in order to reduce uncertainties and temptation to circumvent the duly established legal and regulatory process. A clear delineation of policy making and policy executing powers between the Ministries and the Commissions and other agencies should be established with as little overlap as possible in order to ensure that the efforts of the private sector organizations are directed to where the decision will be made. There should probably also be greater decentralization of decision making power in some cases and recourse to higher levels of authority for the private sector when decisions are delayed at lower levels of Government. In some cases, automatic approvals can be established when an established deadline for a decision is not met by the approval authority.

Recommendations: The Government should organize itself for more effectively working public-private sector partnership initiatives in order to better respond to private sector needs if the private sector is to carry out its role of "engine for economic growth" and organize to operate successfully in a future world of free trade without access to preferential markets.

Internal Government reforms should be designed to clearly separate policy from operational functions of Government and to assign the policy role solely to the Ministries and the operational and policy executing functions to the Government Sectorial Commissions and other Government agencies. Such a delineation would help avoid overlapping jurisdictions and reduce conflicting, confusing, delayed, discretionary, and non-transparent decision making.

Ministries and Commissions should set up public-private sector working groups and invite private sector proposals for streamlining some functions of Government, reducing red tape, and replacing discretionary decision making by clearly defined laws and regulations – all aimed at building private sector confidence to invest.

C. Private Sector Participation in Government Decisions

In a public sector - private sector partnership, the private sector should not only be invited to identify constraints to investment and propose solutions, but also participate in the decision making process for removing constraints and for promoting private investments. Mechanisms and institutions that permit such private sector participation further strengthen the means of communication between the public sector and the private sector. Private sector participation in the Government decision making process affecting private investments would give the private sector a better understanding of Government limitations, constraints, and commitments that influence the decision making process. It would place the onus on the private sector to respond positively to Government decisions in which the private sector participated.

The Government of Guyana currently consults with the private sector, but mostly on an "off-the-top-of-the-head" ad hoc basis. Recently, for example, President Hinds invited several local business leaders to meet a Government team to discuss the issue of electricity tariffs, privatization of the Guyana Electricity Corporation (GAC), the air transport problem, and rice exports to the European Union (EU). The private sector representatives voiced their views and complaints and advanced some policy suggestions. There were apparently no papers presented on each of these issues analyzing these problems from the private sector point of view, with supporting factual data and offering well worked out, detailed recommendations of an action program, taking into account also Government limitations and commitments, designed for implementation by the Government.

The process and the private sector input would probably have been more effective if a temporary public-private sector task force had been created earlier for each of these issues which would have prepared for this occasion a brief analysis of the problem faced by the private sector accompanied by detailed recommendations how to launch an action program for solving the identified problems. A joint public-private task force working on private sector problems would ensure that the Government's commitments, limitations, and objectives are considered. It would also ensure that the public sector on the task force learn to understand clearly and in detail the scope and depth of the problem for the private sector.

There are several options for bringing the private sector into the Government's decision making process on issues that affect private investment directly or indirectly.

- A temporary private sector or a mixed public-private sector task force can be created to advise a Minister or an agency on a response to a proposal to reform legislation or an institution relating to private investment.
- A mixed public-private sector task force can be created to assess a private sector proposal and to come up with a recommendation for a decision.
- A private sector or a mixed public-private sector board can be permanently created to advise a Minister or a Commission on a defined set of private sector issues.
- Management of a public sector agency can be transferred to private sector management operating under the supervision of a public sector agency or Ministry.
- A public sector agency can be privatized with management and full or partial control transferred to the private sector.

In all of the above options, the private sector would participate in the Government's decision making, and in some cases, executing process. The decision which approach to adopt should be guided by the nature and type of problem involved and its likely duration. A watch-dog, over-sight, or monitoring issue may require an on-going role for private sector involvement, while a decision on tax or financial reform may be a temporary issue requiring the assistance of a task force that can easily be disbanded.

There are many current policy issues and problems that affect the private sector for which public-private sector partnership initiatives could be employed to seek solutions. Mayor obvious areas are public-private sector partnership initiatives to

- prepare for negotiations defending preferential markets and Europe, Canada, and the U.S. and for advancing CARICOM and a Free Trade Area of the Americas (FTAA);
- major policy reforms relating to imports, foreign investment, taxation, financing, land use and ownership, and other policy issues;
- institutional, legal and regulatory reforms to remove obstacles and disincentives for private investment;
- administrative reforms, fiscal and other incentives to promote exports and investment;
- educational reforms to meet the needs of the private sector; and
- new approaches to stimulate private investment in all infrastructure sectors.

It would be in the best interests of both the private sector and the Government to work together on improvements in these areas. Some of it is being done with private sector cooperation; more can be achieved.

Recommendation: Strengthen existing public-private sector advisory boards and create new ones to assist Ministries in the formulation of policy decisions and reform programs on identified specific issues retarding the competitiveness of exports and private domestic and foreign investments. Create temporary public-private sector task forces or working groups for the solution of specific issues of a temporary nature.

D. Joint Efforts to Remove Constraints to Private Investment

Joint public-private sector task forces can be created to assist the Government's sectorial commissions, regulatory and other policy executing and administrating agencies to remove institutional, regulatory, and procedural constraints to private investment. These tasks can include how to

- reduce red tape at Government agencies dealing with trade and investment;
- solve problems at the administration of customs;
- speed up approval processes at Government agencies;
- replace discretionary with transparent, systematic approval processes;
- develop a balanced approach to environmental regulations and job creating investments;
- develop new approaches to land ownership, leasing, and zoning designed to remove investment constraints;
- improve access to credit for the private sector at lower interest rates;
- develop and propose an incentives program for upgrading, re-tooling, and modernizing plant and equipment;
- re-structure the administration of export and investment incentives and promotion;
- structure incentives that will stimulate private investment in priority activities or areas.

More effective public-private partnership initiatives can be created for improving and expanding business and technical training to meet the needs of the private sector. Options include

- public-private sector boards to plan and program more teacher training, more courses, and highly relevant course material for business and technical training that addresses the requirements of private sector in Guyana;
- invitations and encouragement of more businessmen teaching courses or conducting lectures or seminars at all levels in schools;
- a task force, composed of representatives from the Ministry of Education, labor unions, and business associations, to develop a program for skills upgrading for company employees at different levels in different industries with the aim of improving productivity and corresponding higher wage scales; and
- a revision of the income tax code to allow companies to deduct from taxable income documented expenses, up to a defined limit, incurred for training their own work force;
- preparation of applications for funding such educational programs by international financial institutions and foreign foundations.

A deduction from taxable income acts as an incentive for worker training which will qualify the upgraded worker for better pay and ultimately benefit the entire community, whereas an employer tax would be a new burden on the private sector to pay for an initiative that will also benefit the employee and the community. An ongoing business and technical training program (developed by a public-private sector task force) operated by the Ministry of Education for groups of employees for specific industries could be financed by some foreign donor organizations at the developmental stage, but later by the companies benefiting from the training program.

A direct, operating public sector - private sector partnership initiative can be developed for attracting private domestic and foreign investments in the infrastructure sectors: airports and air services, seaports and ferry services, highways and bridges, power generation and distribution, waterworks, and solid waste collection and disposal. Private investments can be encouraged to displace public investments in these infrastructure sectors under diverse suitable partnership arrangements in order to

- speedily remove existing infrastructure constraints plaguing investments and other activities throughout the economy;
- meet large capital requirements for needed modernization, expansion, and maintenance of these infrastructure sectors;
- avoid diverting scarce Government budgetary revenue from priority social expenditures to these infrastructure areas;
- avoid further external or internal indebtedness increasing the Government's debt service burden; and
- improve the operation, the management, and the reliability of these infrastructure sectors by placing them under private management.

These partnership arrangement could be in the form of long-term leases to allow the private investor to recover his investment usually from user fees, which sometimes need to be supplemented by Government revenue transfers (subsidies). These projects can be build-operate-transfer (BOT) or build-lease-transfer (BLT) or build-own-operate (BOO) arrangements. An increasing number of developing countries is resorting to these types of arrangements in resolving successfully their infrastructure constraints.

The Philippine Government has considered this approach so vital for the economic development of the country that it has created a separate institution, the BOT Center, directly responsible to the Office of the Presidency, for promoting private domestic and foreign investments in all of the above mentioned infrastructure areas and for providing technical assistance to the Governmental agencies that need to prepare and process public bid offers, make awards, and monitor implementation of private investments and compliance with contract terms.

Guyana has started a similar process haphazardly on a piecemeal, very limited scale. Much more can be achieved with a well-planned, organized, systematic process.

Recommendations: Public-private sector working groups should be formed to examine and analyze all areas that affect the competitiveness of Guyana's exports and the ability of domestic companies to compete against imports under future conditions of reciprocal free trade displacing access to protected preferential markets. An analysis of the cost structure of individual products produced or that can be produced in Guyana should reveal cost elements that are most out of line with those of international competitors. Such an analysis should permit identification of cost elements that can be reduced by the companies themselves and cost elements that require Government action.

An action program should then be proposed by the task force for reducing excessive cost elements by either the Government or the private sector. Solutions adopted to similar problems in competitor countries should be analyzed as to their applicability in Guyana. Targeted efforts to attract investments by specific foreign companies should be made where access to foreign markets, technology, or cost of capital are identified as key problem areas for Guyana.

E. A Partnership Role for Foreign Investment

Development of exports and tourism will be the sectors in the Guyanese economy with the best potential for attracting investment. To be successful, these sectors will need to be competitive internationally with access to world consumer markets, up-to-date technology, and financing at international lending rates. It is the foreign investors who have most ready access to foreign markets, capital, and technology. Many local companies, however, can greatly benefit from foreign investments as joint venture partners, as contractors or as suppliers of diverse services, resources, materials or components. The Government benefits from foreign investment in terms of revenues and foreign exchange from exports and capital inflows. The community benefits from foreign investment in job creation, skills training, better quality products and services, and the attraction of additional foreign investments producing similar benefits.

The net benefits from foreign investments are impossible to fully calculate because of the multiplier or ripple effects throughout the economy produced by foreign investments. Opportunities for supplier firms, for example, produce additional employment, incomes, and revenue not only in the directly affected local supplier firm, but also in other local firms supplying services and materials now needed by that firm to service the foreign investment. These secondary firms in turn also have increased demands, and so on. An employee trained in a foreign firm who leaves to take employment in a local firm will bring with him advanced skills acquired in the foreign firm that will benefit the local company. This can work in reverse also, of course, with foreign firms drawing away skilled workers with better wages. Foreign firms may create more competition in the local market by offering consumers better and/or cheaper products, thus forcing domestic firms to lower their costs and prices or go out of business.

Rather than attempting to calculate or to maximize the benefits from a foreign investment, it might be prudent to assess the potential net loss of jobs, loss of job training, loss of incomes, revenue, and exports by foregoing foreign investments. The Government should investigate why foreign investors do not want to invest in Guyana and then undertake concerted efforts to remove constraints to foreign investment. Guyana has to compete for foreign investment against a host of countries well-organized and aggressively competing for foreign investment. As a start, national or non-discriminatory treatment is needed to attract foreign investment, because all other competing countries are offering it. Guyana has a choice of waiting for foreign investors to decide to develop an interest in Guyana, but these may not necessarily be the most desirable foreign investors, or Guyana can take the initiative to target specific sectors or even single companies it wishes to attract.

Recommendation: A public-private task force should be created, with participation by representatives from the private domestic and foreign sector, to identify all remaining areas of discrimination against foreign investors and develop specific recommendations how to remove these discriminatory legal, regulatory, and administrative measures. The objective of this effort will be to prevent that publicity abroad about such discrimination defeats the promotional efforts to attract foreign investment.

III. MACROECONOMIC POLICIES IN SUPPORT OF PRIVATE INVESTMENT

A large number of developing countries, including many CARICOM countries, have significantly altered their development strategies in the last twenty years. The emphasis on the inward-oriented development policies aimed at expanding production via access to protected domestic markets, has been replaced by outward oriented development policies that center around macroeconomic and microeconomic policies and institutional reforms designed to facilitate and not distort the function of markets. The movement to market-driven development has invariably occurred in developing countries under the auspices of IMF/World Bank structural adjustment programs (SAPs). In all cases, the need for structural adjustment was derived from external shocks (oil price increases, world recession); weaknesses in the domestic structure of the economy (dependence on a single crop, inappropriate institutions) and flows in domestic economic policies (expansionary fiscal policies, heavy external borrowing).

Many CARICOM countries, including Guyana, adopted IMF/World Bank SAPs in the 1980s in response to one or a combination of external shocks and inappropriate policies and weaknesses in the structure of their economies.

A. Economic Reforms Towards A Competitive Market Oriented Economy

A.1 **Structural Adjustment**

Structural adjustment can be broadly defined as the process of deliberately adjusting or changing the structure of the economy to mitigate the effects of negative internal or external shocks or to take advantage of new opportunities to more effectively and efficiently achieve the objectives of economic development (economic growth, poverty alleviation, gainful employment, social services provision and environmental protection).

Structural adjustment therefore has two components: a stabilization component which is concerned with defensive short-run macroeconomic adjustment policies to counteract negative shocks and a developmental component which involves long-term changes in the operation of the economy. These components are, however, not mutually exclusive as short-run macroeconomic policies (e.g. monetary and fiscal policies) can have a profound impact on the long-run performance of the economy. Although stabilization is supposed to precede structural reforms, in practice stabilization tends to be an ongoing process thus blurring the distinction between macroeconomic management and economic development policy.

Structural adjustment is not feasible if it is unsustainable. According to Rodrik (1990; p.394) an economic policy environment is sustainable if it is perceived as stable by the private sector. Importantly, a lot of private investment is irreversible so stable and credible macroeconomic policies are a sine quo non for increasing private investment flows.

Stability requires a small fiscal deficit, a realistic exchange rate policy and an unbiased set of economic incentives. Stability also demands the absence of sharp changes in the income distribution, which would create political pressures to reverse the adjustment process.

SAPs that are centered around the pursuit of market-oriented policy reforms normally comprise the following policy initiatives.

(a) The reduction in the cost of Government, as well as the size of the fiscal deficit through:

- privatization and public sector reform;
- tax reform;
- wage restraint/incomes policy.
-

(b) Market liberalization by means of deregulation.

Specifically, such policies include:

- removal of price controls and subsidies;
- interest rate liberalization;
- exchange rate adjustment or liberalization.

(c) Foreign trade liberalization to increase efficiency by reducing tariffs and eliminating import controls.

(d) Export promotion.

(e) Sectoral reforms to improve resource allocation, productivity and overall levels of output.

(f) Social safety net policies to mitigate the social costs of adjustment, and to target social services for the poor.

A.2 Guyana's Adjustment Programme

Guyana has been implementing an economic stabilization and restructuring program designed to reduce the severe macroeconomic imbalances that had emerged in the late 1980s and to promote economic growth that would help to alleviate poverty which had become widespread. The broad strategy has been to reorient economic, management away from the administrative controls that had impeded economic development in the 1980s, with the principal objectives of achieving sustainable economic growth with low inflation and external viability, including a lasting solution to Guyana's external debt burden.

The adjustment programme was initiated in 1988 under the Economic Recovery Programme and subsequently access to the IMF's Enhanced Structural Adjustment Facility. The program has centered around the adoption of market-oriented macroeconomic and microeconomic policy reforms including a market-based exchange rate system, trade policy reforms, tight fiscal management, privatization of public enterprises, administrative reform, financial sector strengthening, sectoral policies aimed at increasing efficiency and infrastructural development. These efforts have been supported by technical and financial arrangements from the IMF and resources from the World Bank, the Inter-American Development Bank (IDB), the Caribbean Development Bank(CDB), the European Union (EU) and bilateral donors.

Guyana has made significant progress towards the achievement of the macroeconomic objectives and the restructuring of the economy. Substantial reduction in the overall fiscal deficit has been completed by reform of the public sector that involved size reduction, tax reform, expenditure controls and the privatization of public enterprises. The institutional conditions for financial sector intermediation have been strengthened, the exchange and trade system has been liberalized, and the incentive framework for the private sector has been improved through the removal of virtually all price controls and state interventions. Simultaneously, Guyana has attempted to mitigate the adverse impact of adjustment by providing support to the most vulnerable groups affected by the reform process.

A.3 Recent Macroeconomic Performance

The SAP has had a positive impact and Guyana's recent macroeconomic performance has been encouraging. In the period 1995-96 real GDP growth averaged 6.5% per annum, as a temporary shortfall in gold production was more than offset by continued increases in rice production and expansions in other economic sectors(see Table 3.1 for a summary of recent macroeconomic indicators (1994-97). Inflation declined from 16% in December, 1994 to 4.5% in December 1996.

Public savings in the two year period more than doubled to 15.5% of GDP in 1996 reflecting efficiency gains in tax administration, tight control of current expenditures, higher surpluses of the public enterprises, as well as a temporary decline in interest payments and lower central banks operational losses. Capital expenditure increased by 7 percentage points of GDP to

18.5% of GDP in 1996. Notwithstanding this, the overall deficit of the public sector was reduced from about 6% of GDP in 1994 to 3% of GDP in 1996. The public sector investment program (PSIP) was centered around projects aimed at rehabilitating the social and physical infrastructure.

There were noticeable improvements in the balance of payments and the official reserve position strengthened in 1995-96, rising to US$332 million (about five months of imports of goods and nonfactor services) compared to US$269 million in 1994. Increased export receipts and lower interest payments on the external debt more than offset the increase in imports resulting from increased investment.

A.4 Medium-Term Macroeconomic Policy

Despite the significant progress under the SAP, imbalances in the economy still persist. The economy is still adversely affected by a large public debt, high unemployment and unacceptably high levels of poverty. The economy continues to be too dependent on agricultural products (rice and sugar) that benefit from preferential trading arrangements with the European Union. In addition, the physical and social infrastructure remains inadequate, and skilled labor is critically short.

In these circumstances, Guyana's medium/long-term macroeconomic policy objectives will be:

- Promoting continued high growth rates of output and employment.
- Ensuring that inflation remains at relatively low levels
- Ensuring that the population basic needs are met and that the growth process contributes to a reduction of poverty.
- Ensuring that the growth path is sustainable in fiscal, environment and institutional terms.

The NDS (1996; p.11-13) contended that in order to satisfy these objectives, it will be necessary to meet some specific macroeconomic criteria. The principal criteria identified were the following:

- Enhancing the institutional and financial effectiveness of the public sector to fulfill its roles and responsibilities.

- Adopting policies that encourage exports and improvements in the institutional competitiveness of Guyana's producing sectors and firms.

Table 3.1 Guyana Selected Economic and Financial Indicators, 1994-97				
	1994	1995	1996	1997
Output, incomes and prices				
Real GDP	8.6	5.0	7.9	7.0
Real GDP per capita	7.0	3.0	6.4	4.2
Real per capita consumption	3.1	- 0.9	8.8	4.8
Consumer price index (year-end)	16.1	8.1	4.5	4.0
Consumer price index (average	13.6	12.3	7.1	5.5
External Sector (in US dollars)				
Exports (fob) at current prices	10.7	10.8	18.0	7.5
Imports (cif) at current prices	4.7	6.0	9.7	12.0
Money and credit				
Net domestic assets 1/2/	7.4	25.1	-80.1	-45.2
Net domestic credit 1/	- 9.1	19.6	13.9	-51.9
Of which: Government	-19.8	1.0	-16.9	-63.3
Private Sector	10.7	18.7	30.8	11.4
Money and quasi-money (M2) 1/	17.2	26.1	16.7	10.5
Central bank intervention rate (percent per annum) 3/	18	16	10	
Public Finances				
General Government				
Revenue (excluding grants)	32.0	33.5	34.0	34.2
Tax revenue	29.8	31.6	31.6	32.4
Nontax revenue	2.2	1.9	2.4	1.7
Expenditure	35.8	39.4	39.0	42.5
Current expenditure	25.6	25.3	23.4	27.7
Of which: wages and salaries	4.5	4.8	5.0	6.2
Capital expenditure	10.1	14.0	15.5	14.9
Overall deficit (-)	-3.8	-5.8	-4.9	-8.4
Primary balance (excluding grants)	16.5	18.4	18.1	16.9
Public sector overall deficit, excluding grants (-)	-4.2	-4.0	-3.1	-4.4

Savings and Investment				
Gross domestic savings	12.6	17.8	21.3	20.4
Public sector	5.9	12.3	15.6	13.3
Private sector	6.7	5.5	5.7	7.1
External and Public Debt and Debt Service				
Public sector external debt (end-of-year)	382.0	308.0	221.7	192.7
Of which: external arrears	-	-	-	-
Public sector external debt service	31.2	26.0	16.8	15.2
Of which: interest due	15.8	13.3	7.8	6.8
Public sector external debt service/exports of GS (percent)	17.0	16.9	16.6	15.2
Public sector domestic debt (end-of-year)	208.3	176.5	150.1	133.4
Of which: domestic arrears	-	-		-
Gross official reserves				
In millions of US dollars	269.0	269.0	331.6	335.8
In months of imports of goods and services	5.1	4.6	5.2	
Exchange rate (local currency/US dollars)	142.5	140.0	140.2	-
Nominal GDP (in millions of US dollars)	539.0	646.2	723.2	789.2

Sources: *Data presented by the Guyana authorities, and Bank and Fund staffs' estimates and projections*

1/ Change in percent of broad money.
2/ Net of valuation changes.
3/ Three month treasury bill rate.

- Continuing to improve the solidity and efficiency of the system of financial intermediation promote both savings and investment and safeguard the system's integrity. This thrust includes reestablishing the positive net worth of the Bank of Guyana, as a basic step towards strengthening its independence as an institution.

- Promote policies that enhance the role of the private sector in the economy and encourage greater levels of participation in decisions related to economic development and economic management on the part of families, communities, associations of diverse kinds, and local governments.

B. TRADE AND EXCHANGE RATE POLICIES IN SUPPORT OF INVESTMENT

B.1 Trade and Exchange Rate Policies and Incentives

A critical element in developing a market economy is to have in place an adequate set of economic incentives or relative prices for economic agents so that the production of goods and services can be socially efficient. Trade and exchange rate policies have an important influence on the structure of economic incentives. The pursuit of an outward oriented development strategy requires that trade and exchange rate policies are deployed to maintain a stable real exchange rate (RER). The RER is the relative of tradables to nontradables.

Stability in the RER means that the relative price of tradables to nontradables is not changing and at the aggregate level there are no distortions encouraging a mini-allocation of resources into either the tradable or non tradable sectors.

In a small, open economy an important relative price facing the tradable sector in the price of exports relative to import competing goods. Bhagwati (1988) defines such a relative price to the real effective exchange rate. Furthermore, Bhagwati contends that countries pursuing an outward oriented trade strategy as part of their development policy should adopt trade and exchange rate policies that in the aggregate result in a neutral set of economic incentives. This means that the relative to import competing goods is approximately equal[i]. Therefore, trade and exchange rate policies are not biased in favor of export or import competing goods and encouraging a misallocation of resources in favor of either sector.

A stable RER and an unbiased structure of economic incentives defines a trade and exchange rate policy regime that is conducive to private investment. Neutrality on the structure of economic incentives allows resources to flow into their most profitable uses. Trade and exchange rate policy distortions, such as high tariffs and overvalued exchange rates, can induce resources to move into inefficient and ultimately unprofitable activities. These distortions act as a disincentive to private investment.

B.2 Trade and Exchange Rate Policies

Since the adoption of the Economic Recovery Programme, Guyana has adopted trade and exchange rate policies that are intended to achieve a stable RER, improve international competitiveness and encourage investments in exports and efficient import competing activities.

Guyana has implemented a program of trade liberalization by implementing the progressive reduction of the CET, eliminating negative lists or prohibited goods and significantly reducing the number of goods requiring an import license[ii]. Under the CET, tariff rates will gradually be reduced to a range of 0-20 percent by 1997.

Guyana's exchange system is free of restrictions, and since 1991 all transactions have taken place at a market-determined exchange rate. All of the surrender requirements for export receipts were eliminated in 1996. Given the objective of the GOG of pursuing a development strategy of export-oriented and efficient import substitution activities, GOG will seek to maintain a stable exchange rate for the Guyana dollar (vis-a-vis the intervention currency US dollar) through prudent fiscal, monetary and wage policies, and improve competitiveness via efficiency enhancing structural reform.

The Central Bank's intervention in the foreign currency has been limited to meeting its international reserves target and smoothing out temporary fluctuations in the exchange rate that do not reflect fundamental economic trends.

The trade and exchange rate policy reforms implemented by Guyana in pursuit of an outward-oriented development strategy have undoubtedly contributed to improving overall economic performance, achieving macroeconomic stability and reducing the anti-export bias via the structure of economic incentives. The stability in the RER is an indicator of improvements in international competitiveness and overall macroeconomic stability. This has facilitated an improved export performance and contributed to balance of payments stability.

Guyana needs to finalize the process of trade policy reforms by removing any remaining QRs, completing the reductions in the CET (excluding agriculture), providing tax and duty relief to exporters to ensure that they purchase capital and intermediate inputs at international prices. Guyana should continue to adopt a market based exchange rate allowing adjustments of the nominal rate, reflecting underlying macroeconomic fundamentals, to maintain a stable RER and encourage export expansion. One obvious concern is the impact of exchange rate depreciation on inflation and the negative welfare effects resulting from reduced purchasing power by consumers. An unstable exchange rate and increasing inflation rates should signal to the authorities that there are other macroeconomic imbalances that need correction and not simply the exchange rate. In the medium term, it is expected that Guyana will maintain macroeconomic stability with no significant fluctuations in the exchange rate or movements in inflation.

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1. **C. MONETARY AND FISCAL POLICIES IN SUPPORT OF INVESTMENT**

Complementary monetary and fiscal policies are essential to maintaining a stable RER and promoting international competitiveness. Monetary policy that focuses on achieving low rates of inflation is essential to maintaining macroeconomic stability and international competitiveness. Prudent fiscal policy characterized by a simple, transparent tax system with appropriate rates of taxation and tight expenditure controls facilitates increased levels of public sector savings. The latter is essential to maintaining a PSIP that centers around infrastructural and human resource development. These are essential ingredients to encouraging investment, expanding exports, sustainable growth and reduction in poverty.

C.1 Monetary Policy

Before the implementation of the Economic Recovery Programme (1988) the Bank of Guyana adopted an accommodating monetary policy stance by financing the Government's deficits. Some of the financing was based on external credits that were relent in domestic currency.

The major goals of monetary policy after 1988 were the reduction of inflation and the stabilization of the Guyana dollar. The other objectives of the authorities were to promote financial deepening and ease the private sector's access to banks credit. The NDS (1996; p. 12-29) argued that the "authorities intervened in the foreign exchange market through sales of foreign exchange and adopted a policy of monetary stabilization of capital inflows to keep the growth in the monetary base broadly in line with the growth and inflation targets". In addition, the authorities liberalized the financial system via interest rate liberalization and credit and most foreign exchange controls and restrictions were removed.

After 1988, largely as a result of increases in the net foreign assets of the banking system, a large buildup of liquidity emerged. The NDS (1996; p. 12-29) estimated that excess liquidity as a percent of required reserves from 81% at the end of 1990 to a record level of 202% in February 1993, before gradually declining to 57% at the end of June 1995. To reduce excess liquidity Government used securities (treasury bills and debentures). In addition, up to 1994, a significant part of the balances of the commercial banks' liquid asset was in Special Deposits (SDs) held as remunerative reserves at the Banks of Guyana. Subsequently, SDs were phased out by and converted into treasury bills. In the circumstances, treasury bills with longer maturities (six month and one year) were introduced. In addition, the authorities increased the frequency of the treasury bill tender from a monthly to a fortnightly basis. The strategy of absorbing liquidity through treasury bill tenders, resulted in a substantial buildup in Government's net deposits at the Bank of Guyana. The authorities are reducing their dependence on the issuance of treasury bills to mop up excess liquidity and increasingly relying on indirect monetary instruments e.g. interest rates.

There is a lot of concern, especially in recent years, over the huge losses by the Banks of

Guyana since Central Bank losses can be an important source of liquidity creation. It is well documented that cash flow losses in domestic currency have an expansionary effect on the money supply, which can only be temporarily offset by the Central Bank by incurring debt. Ultimately, Central Bank losses will contribute to money creation (and inflation) and the depletion of foreign reserves. GOG is addressing the problem of Central Bank losses and a revised Central Banks Act will be approved this year which further strengthens the institution. In 1997, the external debt will be restructured and GOG is committed to eliminating the Central Bank's losses and to restoring its net worth.

In the medium term, the authorities will need to further reduce excess liquidity and this will require improvements in the liquidity forecasting framework.

Monetary policy will have to continue to focus on controlling the monetary base that comprises currency and reserves of banks. Movement in the non-currency part of the monetary base is determined by net domestic credit and net foreign assets. To the extent that foreign exchange inflows/outflows result in fluctuations in the liquidity of the commercial banks, the Bank of Guyana (subject to its foreign reserve target) should continue to initiate sales and purchases in the Cambio market to offset such liquidity effects.

Finally, interbank markets are virtually non-existent in Guyana. The Bank of Guyana should take steps to develop an interbank market and move towards indirect monetary management. The NDS (1996; p. 12-62) recommended two possible options: First, the Bank of Guyana should promote a market leader and help it to launch the inter-banks. Second the Bank of Guyana could establish and operate the interbank market on a collateralized basis until it is well grounded.

C.2 **Fiscal Policy**

(a) *Fiscal Policy and Structural Adjustment*

Fiscal policy can have a profound impact on private investment to such an extent that a Government's stance on private investment can be gauged by its fiscal policy. Advocates of IMF/World Bank SAPs argue that simple, transparent and efficiently administered tax systems are essential to encouraging increased levels of private investment. In addition, prudent expenditure management characterized by partial/full cost-recovery for Government services is an essential component of an effective fiscal policy. Furthermore, Government must not be directly involved in economic activity as this is better done by the private sector.

The IMF/World Bank SAPs generally advocate low, rates of taxation, a few rates and a limited range of exemptions. Low rates of personal and corporate income tax are recommended with a few if any exemptions. This is considered to be a superior fiscal policy stance to higher rates of income tax with a complex (even confusing) set of assumptions and deductions. It is felt that such a system encourages low levels of compliance and high rates of tax avoidance resulting in significantly lower levels of revenue. The indirect tax system which interferes with economic activity and can offset costs of production, ultimately international competitiveness, is a critical part of an SAP. Typically, reforms are aimed at low, uniform rates of tax with a limited range of exemptions to widen the tax base. Traditionally, in most CARICOM countries the indirect tax system is characterized by taxes on international trade and taxes of production. Import and excise duties are compounded by consumption taxes and in some cases import surcharge. Relatively high rates of consumption tax are imposed with temporary relief provided to producers by a wide range of complex and confusing tax exemptions.

Apart from increasing the transactions costs associated with trade such a system invariably results in high rates of taxation being imposed on a narrow tax base. This provides disincentives to exporters, can encourage smuggling or tax evasion and contributes to high domestic costs of production. IMF/World Bank advocates argue that how and ultimately uniform rates of duty e.g. Chile at 11% supported by a value-added tax (zero rating inputs for exporters) is a superior fiscal policy stance. In these circumstance the removal of a wide range of exemptions widens the tax base and the low rates of taxation reduce domestic costs and improves tax compliance.

(b) *Fiscal Policy In Guyana*

In CARICOM, governments have decided to reduce the Common External Tariff (CET) to 0-20% by 1998 with the mean unweighted tariff averaging 13%. Since countries - Jamaica, Trinidad & Tobago, Belize and Barbados - have replaced cumbersome consumption tax systems with a value added tax.

Guyana has adopted the decision to reduce the CET and is therefore lowering import duties from a range of 0-45% to 0-20% by 1998. The World Bank (1993) has estimated that as a result of the extensive use of remissions and tax concessions Guyana receives much less revenue from import duties than in comparable countries. The Banks argued that on the basis of historical data import remissions are at least 50% of potential collectible tax. In addition the tax and duty exemptions associated with fiscal incentives concessions are provided in a non-transparent ad hoc fashion for a variety of different reasons. With such an erosion of the tax base it is not surprising that consumption taxes, which are applied on a tax base of import cif value plus import duty, are relatively high. Most of the goods are taxed at the rate of 10% or 30%. Note, the consumption tax is levied on imports and domestically produced goods.

Excise taxes are imposed on domestic production and imports of alcoholic beverages and matches. The tax range on alcoholic beverages is between 5% and 30%. Most of the revenue comes from beer and rum, which is taxed at 20%.

Guyana's indirect tax system needs further reform. A simple, transparent and efficiently administered scheme of fiscal incentives must be developed providing tax and duty relief to exporters. There must be no ad hoc granting of tax concessions. Significantly reduced tax concessions would widen the tax base and permit the application of a uniform consumption tax.

Lower rates of taxation would reduce tax avoidance and in combination with a wider tax base will result in increased revenues.

For tax reforms to be implemented effectively additional strengthening of tax administration will be required. This will mean continuing to improve tax administration by strengthening the newly created Revenue Authority (combining the Internal Revenue and Customs Authority) through adequate staffing and computerization. Significant improvements will be required in customs administration with intensified efforts at eliminating corruption and incidences of wrongful declarations, particularly 'under-invoicing'.

On the direct taxation side, Guyana maintains two different rates of corporate income taxation. 45% is applied to traders or distribution trades and 35% is applied to the remaining productive areas of the economy. GOG intends to discourage trading and encourages productive activity by maintaining a corporate tax differential. The distribution trades are a significant part of business activity and a relatively high tax rate of 45% is probably encouraging a high incidence of tax avoidance. Adopting a uniform corporate tax rate of 35% and removing that anti-export bias in the structure of economic incentives would increase revenues and encourage exports.

An important component of Guyana's macroeconomic policy reforms is tight expenditure management to reduce the fiscal deficit and generate higher public sector savings. The latter are required to provide counterpart financing to finance the PSIP. Public sector savings have increased from 1.6% of GDP in 1992 to 15.6% of GDP in 1996. This is attributable to efficiency gains in tax administration, strict control of non-interest current expenditures, higher surpluses of the public enterprises, as well as a temporary decline in interest payments and lower central bank operational losses.

The NDS (1996; p. 13-23) argued that "further improvement of public sector finances needs to be pursued in the context of a comprehensive public sector reform, including: (a) strengthening public sector administrations; (b) enhancing resource mobilization; (c) improving the efficiency of resource allocation; and (d) pursuing further privatization." However, in order to improve the effectiveness and efficiency of the public sector, public service wages need to be improved. Current wages are not sufficient to attract or retain qualified higher level personnel, resulting in a low quality of the public service which adversely affects the overall economic efficiency and is a serious disincentive to private investment.

Two proposals have been made to improve wages: Firstly, an across-the-board increase of wages by specified amounts per wage category. Secondly, a selective wages supplement scheme, in which a number of qualified positions would receive substantial higher wages for a period. The latter proposal emphasizes the repatriation of qualified Guyanese workers living abroad. Both options are worth considering and can have a positive impact. However, the supplementary wage support program benefits from allowing better targeting and can lead to substantial improvements in efficiency. This is a matter requiring urgent attention and GOG should act expeditiously.

(c) *Medium Term Fiscal Policy*

The medium term fiscal strategy should continue to emphasize generating sufficient public savings to permit higher investment and a reduction in public debt. The strengthening of the public sector finances will continue to permit a significant reduction in its net indebtedness - particularly to the domestic banking system - and facilitate increased credit to the private sector and a decline in interest rates.

Tax policy will need to focus on improving the transparency and simplicity of the tax system simultaneously broadening the tax base. This would require improvements in the consumption tax systems and an examination of the feasibility of a VAT. In addition, a uniform corporate tax rate will need to be introduced. Tax administration efforts will have to focus on the operations of the new Revenue Authority which will take control of the Inland Revenue and Customs Department to ensure a more effective system of inspection and internal audit and a wider coverage of the tax system, particularly the informal sector.

Government expenditure will have to be tightly managed in the medium-term. External support for the PSIP is expected to taper off and with increased demands for improvements in the public service infrastructural development and expanded social programs, prudent expenditure management will be required. To improve the efficiency of the public service and generate savings public sector wages as a percentage of GDP will have to fall. This may require direct staff reductions and/or reductions by attrition. However, growth in other sectors of the economy should abort any declines in public sector employment. The program budgeting system being introduced in the public service will facilitate the process of tight expenditure management.

D. CREDIT AND FINANCIAL POLICIES IN SUPPORT OF INVESTMENT

Credit and financial policies have been focused on the attainment of low rates of inflation, balance of payments stability and adequate support for private sector activity. With the continued reduction in public sector indebtedness to the banking system, there is increased scope for an expansion in commercial banks credit to the private sector. Financial sector policies have focused on institutional strengthening of financial institutions, improving the efficiency of intermediation and adopting more effective regulatory arrangements. The Financial Institutions Act (FIA) was enacted to improve the regulation of the financial system. The FIA extends the coverage of regulation to include all institutions that take deposits from the public, including the presently unregulated trust companies and the institutions regulated by the Cooperative Financial Institutions Act (COFA). In addition, the FIA has tightened the requirements for the provisioning for bad and doubtful debts, raised capital adequacy standards, established borrower limits, and improved reporting and disclosure to meet required and international standards. These reforms are expected to improve the efficiency of financial intermediation, the quality of loan portfolios and the overall performance of financial institutions.

D.1 Interest Rate Policies

Interest rates have been liberalized in Guyana as part of the SAP. Notwithstanding, the significant improvement in fiscal performance and relatively lower rates of inflation minimal lending rates remain relatively high at 19% or higher and with deposit rates at 8% the intermediation spread is relatively high at approximately 10%. The high interest rate spread is a major source of concern to policy makers as it is largely responsible for the continued high lending rates at commercial banks. The high lending rates severely constrain the ability of producers to finance productive activity and also increase the domestic costs of production.

The most plausible explanation for the high interest rate spread is the high administrative costs reported by financial institutions. Local analysts indicate that approximately 50% of the interest rate spread is accounted for by administrative costs.[iii] The high administrative costs are indicative of inefficiency in financial institutions as wages and salaries are a significant proportion of administrative costs. It is hoped that the increased liberalization of the financial system, improved financial regulation and increased competition will serve to improve efficiency at financial institutions and reduce administrative costs. Foreign investment can play a positive role in this regard, by increasing the competition in the local financial sector.

D.2 Financial Policies

Financial sector policy will have to be centered around continued improvements in the regulation of the system and institutional strengthening. In the medium-term the following policy issues will have to be addressed:

(a) *Improving Accounting and Disclosure Standards*

Reporting and accounting standards and practices vary among banks in Guyana. An improvement and some harmonization of accounting and disclosure practices are highly recommended since it would ensure transparency in financial markets (see NDS (1996; p. 15-15). Although the enhancement of disclosures as required under the FIA would increase transparency, the assessment of financial institutions can still be very difficult because of a lack of uniformity in auditing and accounting standards.

(b) *Credit Concentration*

Legislation to reduce credit risks are vital to maintaining financial stability. There is heightened concerns in Guyana over credit risks and the NDS (1996; p. 15-16) identified three main factors responsible for this: First, the recent trends towards deterioration of the loan portfolio of some banks. Second, enhanced awareness of credit risks following the introduction of the capital accord. Finally, the increased difficulty in assessing the credit rating of business given the paucity of statistical data.

To address the issue of credit risk the FIA has placed limits on loan concentration. The FIA seeks to limit the exposure of a license to a single person/borrower group in case the person/group fails to repay the credit. However, additional measures are required to prevent excessive credit concentration among a few borrowers and within a specific sector.

(c) *Provisioning For 'Bad' Debts*

The FIA stipulates that supplementary regulations dealing with provisioning for bad debts must be drafted. The regulations have been drafted and require all depository institutions to conduct, at least, annual review of their credit portfolio and submit the results to the Banks of Guyana. The proposed regulations provide a common minimum standard to be applied by financial institutions in the clarification and provisioning of credit assets. The minimum standards provide a benchmark against which the quality of loan portfolios and the adequacy of reserves can be assessed.

Improvements in the above areas will increase financial efficiency and the quality of financial intermediation. This will provide further encouragement to private investment and facilitate growth and development.

E. SUMMARY OF RECOMMENDATIONS

POLICY AREA	MACRO TARGETS	MACRO POLICIES
A/ Trade and Exchange Rate Policies	a/ Stability of the RER	Market based exchange rate system. Reduction of the CET. Remove all import controls e.g. licenses. Providing tax and duty relief to registered exporters.
B/ Monetary Policy	a/ Low rates of inflation	Controlling the monetary base via foreign exchange intervention by the Bank of Guyana.
	b/ Reducing excess liquidity	Improving the liquidity forecasting framework used by the Bank of Guyana. Use of indirect monetary instruments e.g. interest rates to mop up excess liquidity. Eliminate losses at the Bank of Guyana and restore its net worth. Bank of Guyana should take steps to initiate an inter-bank market.

C/ Fiscal Policy	a/ Improvement in economic efficiency.	Increased simplification and transparency of the consumption tax system. In addition, lower rates of consumption tax. Reduced deductions and exemptions.
	b/ Improved fiscal performance.	Increased revenue generation via strengthening of tax administration. Strengthening newly created Revenue Authority. Significant improvements in customs administration. Adoption of a uniform corporate tax rate of 35%. Tight controls on current expenditure. Increased savings from higher levels of public sector efficiency. Higher wages via a wages supplement scheme for specific qualified personnel.
D/ Credit and Financial licies	a/ Lower interest rates.	Reduced interest rate spreads via reductions in administrative costs at commercial banks. Reduced public sector indebtedness and improved fiscal performance.
	b/ Improved regulations of the financial sector.	Improving and some harmonization of accounting and disclosure practices. Reduced credit risks by preventing credit concentration among a few borrowers within a specific sector. Better provisioning for bad debts by adopting the supplementary regulations to the FIA—provisioning for bad debts. Fully implement the FIA regulations.

IV. INSTITUTIONAL AND REGULATORY FRAMEWORK IN SUPPORT OF PRIVATE INVESTMENT

> "Doing business in Guyana is challenging. Legislation and regulations are often antiquated and many laws are in the process of being rewritten, creating confusion and uncertainty in the short term. Bureaucratic procedures are cumbersome and time-consuming. Decision-making is centralized and businessmen, both Guyanese and foreign, say it is often difficult to know who the decision-makers are on a given issue or what the rationale was for decisions made. One of the biggest obstacles in establishing a business is navigating land deeds and title registries. Getting clear title to land is one of the most frequent administrative difficulties for prospective businesses. Customs procedures also present problems. Efforts are being made is some segments of the government and private sector to improve the business climate but, as long as Guyana faces the other difficulties mentioned, those who seek to tap into Guyana's vast potential should be prepared for the challenges".1

The effective and active development of private investment in Guyana, both domestic and foreign, is directly affected by the institutional and regulatory nature of the framework and processes which can support or hinder such investment. More often than not this framework is mostly public-sector in its legal and institutional format, and benefits from limited private sector involvement.

This chapter seeks to analyze this framework as it stands today in Guyana; assess the balance of public and private sector involvement, commitment, authority, and responsibility; and, recommend some options for an appropriate regulatory framework and process which can result in a tangible improvement in the functioning of the private investment process, as well as in the actual growth of private sector investment in the Guyanese economy.

Sensible economic policies are the most important precondition for an effective investment framework and process, and in many regional and international cases it is macroeconomic instability which accounts for the ineffectiveness and ultimate failure of many investment programs. The institutional framework is a complement to the conditions necessary for successful investment, namely: political commitment, economic stability, and investment policy continuity, certainty, and predictability. The economic conditions are best achieved through a process of economic reforms in support of a competitive market-driven economy, such as a realistic

1 Executive Summary of Guyana Country Commercial Guide, October 1996. U.S. Department of Commerce and U.S. Embassy-Guyana.

exchange rate, an absence of price controls, adequate credit and financial facilities and physical infrastructure, an effective fiscal incentives regime to stimulate productivity for the domestic and export markets, monetary policies supporting investment, among others. These factors have been analyzed in detail in Chapter III, and it is fair to say that Guyana has been progressing positively over the past few years toward a more suitable economic environment for private investments.

However, the recent performance of private investment in Guyana (see Table 1 in this chapter), coupled with the limited success of public-private sector collaboration in support of investments, have led to the need to also emphasize the strategic importance of the institutional framework as a key factor in advancing and stimulating private investments, as well as its complementary role in the creation of an economic and business environment which is favorable to private investment, both domestic and foreign.

The captioned quotation at the beginning of this chapter points to the disproportionate impact which the institutional process and framework for investment are having on the performance of the Guyanese economy, despite what are comparatively impressive macro-economic policies in support of private investment. This situation, along with the overall concern for greater economic development in Guyana, is reason enough for assessing and reforming the current processes and the current institutional framework, making them more inclusive of private investment needs and criteria and, therefore, more responsive to the investment needs of the country.

A. Clear "Rules of the Game" Towards Private Domestic and Foreign Investment

A climate of business and policy stability and credibility is critical for the effective attraction of capital investment, both local and foreign. Not only is access to foreign capital investment predicated on this environment, but it also affects the interest and willingness of local business to invest in the domestic economy versus flowing out to foreign locations which offer a more positive investment climate.

Incentives to an investor must be absolutely clear and stable, and cannot be subject to the continued sways of national or local policies. It is because of this that the linkage to macro-economic policies and economic reforms is so important, as these form the foundation upon which investment policies are developed. As such, the role of national consensus regarding the nature, scope, and depth of the country's incentives programs is of fundamental importance to the investor's perception that the investment environment is stable, credible, predictable, and long-lasting.

The stability of the investment environment is also linked to the degree of attractiveness of the country to the investor and to the investor's degree of commitment to doing business in the country. Investment instability has a high cost to the country, not so much because it acts as a deterrent to investment, which it does, but more so because it markets the country as a "high cost/risk" investment environment, which compels the country to offer many more incentives to attract the investor than if it were a more stable and "low cost/risk" country. Moreover, the more unstable the investment environment is in the eyes of the investor, the shorter will be the required period requested for the recovery of an investment.

The Guyanese investment environment of the past 4-5 years has reflected both aspects of this analysis, and has impacted negatively on the country's investment performance. Since Guyana offers a limited spectrum of sectors for investment which could be categorized as "AAA" opportunities, and given the competitive environment for investment which exists in the rest of the Caribbean and Latin America (many countries of which offer much more attractive incentive packages and stable investment environments than Guyana), it is critical for the country to develop and enhance itself as a location with a stable investment environment. The investment experience of the recent past, while clearly important in capital volume and employment generation terms, also reflects the structural weakness of an uncompetitive investment environment:

• For the most part, investments have been large and undiversified, centering on sectors with limited competition.

• Initial investments have not resulted in "followers", thus emphasizing the "one-shot deal" nature of the investment framework and process.

• Limited negotiating power of the Government and the Guyanese private sector vis-á-vis the new investor, due in most part to the fact that the investor is facing no major competition from other investors, thus severely limiting Guyana's ability to use market competition as a factor in the investment negotiations.

The established "rules" of the investment environment cannot be subject to changes in the middle of the game, especially if these will affect the country's standing as an attractive investment site. The incentive agreement, for example, must have the force of a binding national contract between the investor and the country. As such, it is beneficial that it be established for a determined period of time, to be established in the law or in the incentives agreement, thus providing the investor with a reasonable capability to calculate or foresee a rate of profitability for the investment in the country. Once the terms of an existing agreement are completed, then it is viable and reasonable to revise and change terms and conditions, as per the negotiations and interests between the parties involved.

In order for a country to effectively engage investors in such a process and framework, there must a be a proper and thorough market analysis of the country's resources, investment sectors and opportunities, as this analysis must form the basis of the incentives legislation to be developed. A country like Guyana, when embarking on an investment strategy exercise of this nature, must clearly assess and define its competitive advantages and disadvantages, identify its competitive natural resources and its competitive "offerings" to investors, and have a good sense of the real "costs" of doing business in Guyana, both for foreign and domestic investors. Moreover, such analyses must be comparative in nature, thus allowing for a proper assessment of the offerings and conditions of competing countries, and their successes and failures in investment promotion, utilizing these to formulate competitive programs for investors.

These are market issues and information which investors utilize to make their decision where to invest. Investment sites must also perform these market analyses (both at the public and private sector levels) if they are going to be able to properly negotiate an investment arrangement which will be of benefit to its country.

The National Development Strategy has advanced significantly in assessing the investment framework currently in place, and its impact on Guyana's investment performance to date. The policy and legislative framework proposed in the NDS focuses on the legislative and regulatory weaknesses and inadequacies which currently affect the country's investment regime:

- easing of business registration procedures and requirements via the revision of the Companies Act;

- tax reforms;

- export processing incentives legislation;

- institutional revision and strengthening of the body of existing investment and export promotion, and business development organizations;

- development of an investment strategy and code; and

- rationalization of licensing requirements in investment, export, patents and standards.

1. Role of the State

"In any economy, it is the Government's responsibility to articulate a vision of national development, foster a consensus around it, and to formulate policies and programmes to address issues that the economy is not dealing with through its own momentum. At the same time, worldwide experience of the last fifty years has abundantly demonstrated that the private sector is far more efficient in carrying out activities of production, commerce, and finance, and that lack of efficiency in these areas hurts development prospects by holding back the growth of incomes and employment. Therefore a central challenge of the development strategy is to find the most appropriate ways of combining the power of market forces, as the primary impulse to development, with the role of the State in providing the development framework, monitoring the process, and providing special assistance to target groups and issues".[2]

The role of the government of Guyana in ensuring the development of a proper stable and effective investment framework, both in institutional and regulatory terms, is fundamental as it is the government and the state which functions as the guarantor of any investment laws or regulations based on the development of a private enterprise economy and committed to free market policies with the private sector as the "engine of growth". It is the government's commitment in its laws, policies, and institutions to the guarantee of private sector development and investment which form the backbone of any effective private investment regime. These items are disaggregated with specific recommendations in Chapter V of the Report.

The role of Government/State is fundamental in establishing a regulatory and policy framework covering the areas of importance to private investment: finance, trade, taxation, infrastructure and utilities; while at the same time providing the institutional framework with a purpose of clear and balanced "rules of the game" which incorporate the needs and requirements of investors, producers, and consumers, while assuring a maximum of economic opportunities for all. The institutional manifestation and functioning of this role (e.g. the organizations of government and/or the private sector which are mandated with this responsibility) will end up being the fundamental factor affecting incentives and decisions to invest and produce in Guyana, and their impact on the country's economic development.

2. Non-Discriminatory Treatment of Foreign Investment and a Level Playing Field

National or non-discriminatory treatment is critical to the attraction of foreign investments, because all competing investment sites offer such a guarantee to potential investors. As such, these investment sites are able to proactively target specific sectors and potential companies and investors the government wishes to attract, rather than passively waiting for interest in its investment site to develop. It is because of this stark competitive reality of seeking to attract investment that it is so important for the government and private sector of a country to work together to recommend the removal of discriminatory legal, regulatory, and administrative measures which exist against foreign investors.

Similarly, the converse is also critical as there are many instances in which foreign investors receive much better treatment as businesses than do local, domestic investors. This seriously hinders the collaboration of the local private sector with the government in pursuit of an effective investment and business environment, while also creating unnecessary hostility and challenges to foreign investment from the domestic private sector.

Likewise, one of the most divisive issues in defining clear "rules of the game" for private investment, is that of instances where the application of the investment regime and its benefits (or

2 National Development Strategy, Vol. IV, 36-25. Ministry of Finance, Guyana, 1996.

costs) is not universal and thus ends up affecting the competitive nature of the business environment. More often than not many investment regimes and frameworks tend to overemphasize the foreign direct investment aspect at the cost of the local investor (actual and potential), thus feeding an anti-foreign investment sentiment amongst the local business community and providing both a perception and a reality of an uneven playing field.

As such the "level playing field" not only refers to ensuring that all benefits (and responsibilities) of an investment regime accrue to all investors alike, it also refers to the necessity, at any given point in time, of providing local investors with certain benefits and incentives which allow for the effective development of any given sector of the local economy. In the case of Guyana and many other Caribbean countries, this can be seen in the promotion of the manufacturing-for-export sector via export incentives. As a result of economic policies which stimulate productivity and growth in a sector, government action tends to stimulate the growth of investments by local businesses in that sector, as well as across the economy. As local capital grows therefore, so usually does its level of investment in the domestic economy.

3. Efficient and Transparent Procedures

The lack of a consolidated, universal investment regime -- whether in the form of one singular "omnibus" investment legislation, or in the form of several sector-specific regimes -- more often than not lends itself to restricted efficiencies in implementation and lack of transparency in the process itself. Both results have serious implications for the stability, credibility, predictability, and confidence of the investment regime by investors, foreign and local. Moreover, much of the reason for the effectiveness of investment regimes, whether in Jamaica or Trinidad, or the Dominican Republic or Honduras, has as much to do with the efficient and transparent nature of the procedures for investment and the non-discretionary/"objective" application of the procedures as with the market advantages and competitiveness of one investment site versus another.

Not knowing how incentives are applied, what are the qualification criteria for receiving certain incentives and benefits, or not knowing if certain incentives and benefits are extended to all investors across-the-board or are the result of discretionary and arbitrary decisions, are some of the most important issues for investors. The application of tax rates, exemptions, allowance regimes, etc. are as important in a competitive investment environment, as exists in the Caribbean and Latin America, as the incentives themselves.

Recommendations:

- All this means that the establishment of a simplified, transparent system of applying the investment incentive process in Guyana would go a long way in raising the level of private investment confidence in the economy and contribute to their decision to advance or postpone their investment decision.

• The government and private sector of Guyana should advance the development of an institutional framework and process in support of private investment which is not only responsible for the effective promotion of Guyana as an investment site, but which is directly involved in the overall process of implementing and administering the investment regime, its application to all investors in all sectors, the terms and conditions of the applicability of the investment regime and agreement, and can therefore play an effective counterpart role vis-á-vis potential investors in the negotiation of an investment "package" of benefit to the Guyanese economy and nation as a whole.

• While working jointly with the government on these initiatives, the Guyanese private sector must also advance on its own process of defining and devising what would be effective and efficient terms and conditions for private sector investment in Guyana, and use these as inputs into the process with the government. These inputs should be both of a policy and of an institutional nature.

B. Current Institutional Arrangements in Support of Investment and Government Policies Towards Private Investment

Chapter V focuses on the overall analysis on the incentives regime in Guyana and its role in stimulating private investment, particularly in terms of the role of fiscal and other incentives and the ways in which Guyana can advance its investment prospects via the implementation of a competitive fiscal incentive system, as part of the new Investment Strategy and Code. This section seeks to detail the current institutional composition and administration of the investment process in Guyana and identify the normative and actual functioning of this framework and its impact on investments and economic development.

The investment strategy process and institutional arrangements for private investment in Guyana have traditionally been fragmented and disoriented activities. While government pro-activity and aggressiveness have been limited and restricted to some sectoral initiatives, private sector activity in support of investment has been curtailed by the absence of clear-cut legal, regulatory, and institutional guidelines. The absence of a harmonized incentive regime with uniform applicability has led to many sectoral and discretionary applications of incentives and to the inefficient approval and implementation of investment packages with limited cross-sectoral linkages and with no overall investment policy strategy or framework.

This has been compounded by a tradition of limited government-private sector collaboration in support of business development and private investment, and the fact that the economy and the private sector have barely had a decade of economic opening and reform after almost thirty years of a closed, socialist-oriented, and state-centered economic development process. As with this proposed Investment Strategy and Code, there has been since 1992 a partial legislative reform and revision process along with a new private sector focus to economic development. However, serious regulatory and legislative deficiencies remain, as well as implementation and administrative weaknesses, all linked to the lack of effective institutions and organizations working together to advance private sector development and investment. Despite recent advances, there remains to exist a formal public-private sector body working jointly to advance the investment process forward (policy, strategy, and implementation).

More immediate and functional limitations have been those regarding lack of proper financial and human resources with which to effectively implement and administer the policy mandate(s) regarding private investment. This has been the principal obstacle and hindrance to effective and efficient investment development, particularly given the very competitive investment environment facing Guyana (rest of Caribbean, Central America, some South American countries), all possessing major advantages over Guyana in terms of legal and regulatory processes, institutional arrangements, sectoral comparative advantages, and less constraints.

Guyana has traditionally been dependent on a narrow production base and, until recently, investment flowed mostly only into the key productive sectors of rice, sugar, mining (bauxite, gold), and forestry. Recent major foreign investments have also tended to concentrate in these areas. The government has sought to attract investments in light value-added manufacturing for export, public utilities and infrastructure, agro-processing and non-traditional agriculture for export, eco-tourism, as well as some areas of financial services. The emphasis on new investments has centered on promoting employment generation and growth; increasing exports and foreign exchange earnings; development of natural resources and Guyana's comparative advantage in this area; advance value-added productive activities; advance the development of the service sector, including tourism with a specific emphasis on eco-tourism; promote the development and transfer of technology; and promote investment and economic development in the hinterland and other depressed and under-developed areas of Guyana. Chapter VI outlines some of the key sector-specific investment constraints and opportunities, as gauged from private and public sector consultations in Guyana.

The forthcoming ***Information Guide to Doing Business in Guyana*** is being finalized by the Guyana Office for Investment (GO-INVEST) and will include analyses of the various institutions and organizations which are currently involved in supporting private investment in Guyana. Our purpose here is to identify the key institutional mechanisms in place for supporting private investment, detail their functions and mandate, as well as services provided for investment support, as background analyses for the following section which would engage options regarding the organizational nature of the investment support framework and process.

The recent IDB Report ***"A Diagnostic Evaluation of the Enabling Environment for Private Sector Investment in Guyana"*** identifies a relatively strong institutional infrastructure for private investment, incorporating over 20 organizations providing a combination of services ranging from business start-up assistance, registration, advocacy, trade & investment promotion, credit and finance, labor mobilization, to enterprise and entrepreneurial development. These range from government Ministries and autonomous institutions to private organizations, all with a clear mandate and presence in terms of supporting investment initiatives, but institutionally weak and relatively ineffective due to limited human and financial resources, as well as membership commitment.

1. Public Sector Level

The key issues regarding public sector entities in the investment process is to what degree these are properly equipped to advance the goals of private investment and to promote Guyana as a competitive site for investment. In addition to providing a stable and credible investment environment, government must also play a role in positively engaging the private sector to join the investment effort as partners, thus effectively developing a public-private alliance to market Guyana as a competitive site for investment. Chapter II provided some of the structural and macro recommendations for this earlier on, and part of the challenge ahead for the government will be how to materialize and disaggregate that private sector involvement at the level of the various public sector agencies mandated to advance private investment.

Consensus is still developing within the public sector as a whole, as well as within each agency independently, as to what should be the established public policy towards private investment, both domestic and foreign. Variations exist according to the nature of the public sector agency, its actual or perceived role in the investment process, as well as its place in the authority "ladder" of government.

"Investment Incentives Approval Authority"

There are currently two (2) structures in place to administer incentives for private investment, one superseding the other. Clearly policy regarding the approval process for investments and incentives has developed on a case-by-case basis, and even in the instance of a supra-ministerial body, Guyana still lacks a legislative and regulatory policy framework which clearly stipulates the procedural, administrative, and authority/decision-making channels and mechanisms for the approval of these decisions. This weakness of lacking in policy and regulation also affects implementation and management.

• Ministerial Committee on Investment

Established in July 1996 via GO-INVEST to streamline the investment approval process by "fast-tracking" hitherto "backlogged" decisions regarding investment authorizations, incentives, and implementation. Decisions have been either project-specific or policy decisions establishing precedents in any one area related to investments and incentives. The Minister of Finance chairs the committee, with technical staffing from the Ministry of Finance (MoF), GO-INVEST, and the Ministry of Foreign Affairs. Core membership includes:

- Prime Minister
- Minister of Foreign Affairs (MFA)
- Minister of Agriculture (MoA)

- Minister of Trade, Tourism, & Industry (MTTI)
- Head of the Presidential Secretariat
- Presidential Adviser on Science, Technology, Energy, Environment, and Natural Resources
- Managing Director of GO-INVEST
- Coordinator of Private Investment and Private Sector Development of the MoF

While in principle all applications for incentives and concessions should reach the Committee via GO-INVEST, many project requests are channeled via individual Ministries directly to the Committee, bypassing GO-INVEST. Since much of the approval process entails work and decisions in other agencies, and GO-INVEST lacks authority in many of these areas for permits and licenses (land, utilities, Customs, Agriculture, Health, etc.), in a small economy many investors, or their representatives, decide to go straight to the source of authority and decision rather than utilize GO-INVEST. Lacking any executive authority means that GO-INVEST has no ways or means via which it can counter this process. Until government advances on centralizing the process for investment promotion, development, approval, implementation, and monitoring, there will be a diversity of channels and mechanisms through which investment processes will reach the Committee.

While the Committee has succeeded in advancing decisions regarding investments and incentive concessions, the process remains lacking in transparency and efficiency since there is still no permanently established, legally defined policy procedure for investment approvals and incentive decisions. Potential investors have reported delays in the decision-making machinery within government concerning their investment projects. These delays have caused financial losses, and along with the delays in effectively accessing duty and other concessions are serving as a disincentive to new investors and contribute to the further deterioration of the investment climate in Guyana. Similarly, the process has limited, if any, private sector involvement built into it, thus severely restricting the role of the private sector in supporting the process.

- **Ministry of Finance**

Has overall responsibility for economic development and is the authorizing entity for granting concessions and incentives to investors. Responsible for public financial management and the development of policy directives for public and private initiatives in the area of mobilizing and managing financial inflows and resources. On matters pertaining to investment decisions, concessions, and incentives, sectoral Ministries and other agencies channel their initiatives and requests via the MoF.

Investment Promotion Agency

A modern and effective agency must be organized and structured with the promotional functions and administrative powers to advance the primary goal of investment promotion. The administrative and executive authority of the "Director" must be derived from the highest power in the country and government, whether President or Prime Minister, thus allowing for limited institutional and political intermediaries between the work of investment promotion (including approvals and decisions) and the power of policy and executive power. Even in the instance of a Ministerial-level approval body, as with the Ministerial Committee on Investment, the "Director" must have the institutional, administrative, and policy wherewithal to manage the investment process from identification to full authorization and fruition.

The agency's ideal scope should include manufacturing, agriculture/agroindustry, trade, tourism, and some infrastructure. If not under one same administration, these sectors need very efficient and effective policy coordination and implementation if the investment process is to proceed swiftly and effectively. Within the realm of the agency's authority there is also need for rapid and effective coordination with support agencies such as Inland Revenue and Customs, Planning, utility companies, Port authorities and other infrastructure agencies, without which the efficiency of the Agency will be reduced considerably and will become mired in bureaucratic politics and conflicts.

An investment promotion agency as well as an export promotion agency need to have an adequate budget and a trained staff for aggressive promotion abroad of private investment and exports, including the ability to target specific foreign companies for a campaign to interest them to invest in Guyana and other to import from Guyana. Promotion activities should include organizing participation in trade fairs and other business events abroad, in addition to the Caribbean Conference in Miami, that could result in investments or exports. Staff people from the promotion office can occasionally get invited to address business associations in a foreign country about the investment climate and business opportunities in Guyana. Staff people can write articles for foreign business publications, developing a glossy brochure about investment opportunities in Guyana. The promotion office can organize groups of smaller Guyanese companies in the same industry to share expenses to jointly produce a brochure advertising their lines of products. The promotion office can organize a training program for one official from each Guyanese embassy to be more effective in promoting exports and investments for Guyana.

• Guyana Office for Investment (GO-INVEST)

Operational functioning in August 1994 as a public corporation reporting to the MTTI, as a replacement to the Guyana Manufacturing and Industrial Development Agency (GUYMIDA), responding to government needs to establish a single entity charged and equipped to deal with all the aspects of business development for investment in Guyana. The major areas of focus have been manufacturing, forestry, mining, agriculture (including agro-industry) and fisheries, tourism (e.g. eco-tourism), and other services. The mandate, functions, and services of GO-INVEST cover:

- providing investors with information and assistance for commencing business operations in Guyana, including relevant documents for permits and approvals, and guidance for their proper completion;
- provide information re: incentives available to investors and regulations relevant and applicable to the sector of interest, including trade and fiscal (tax) regimes and responsibilities;
- primary contact for investors and main liaison with all government agencies throughout the application, approval, and implementation process;
- monitoring and servicing of all investment applications, ensuring speedy processing and responses on progress and decisions;
- preparation of all activities pertaining to investment promotion for Guyana, including publication of materials, marketing, and promotion;
- assist in identification of factory space, land for business purposes, and other business opportunities for investors;
- assist in development, promotion, and coordination of joint ventures;
- assist with bureaucratic approvals for work permits, utilities, services, etc. for investors.

Executive authority with which to advance the investment process is probably the major institutional weakness of GO-INVEST, from which other resource weaknesses derive (financial and human). Such an institutional weakness permeates and impacts negatively on the overall functioning of the agency, limiting its ability to develop the investment promotion process from conception and identification, to project development and approvals, through to implementation and monitoring of achieved goals and objectives.

While current workplan initiatives will focus on these weaknesses, there seems to be limited willingness within the government to expand the resource base for the effective operation of the agency. Currently contemplated is a proposed merger with the Export Promotion Council in an effort to rationalize investment and export promotion activities, something successfully implemented by the Tourism & Industrial Development Corporation (TIDCO) of Trinidad, JAMPRO in Jamaica, Belize Export & Investment Promotion Unit (BEIPU), FUSADES in El Salvador, CINDE in Costa Rica, and to a lesser extend FIDE in Honduras. All, however, have also implemented varying degrees of financial self-reliance and commercial ventures as a way of operating with limited government resources. Likewise, all of these examples have benefited in some degree from the full-fledged incorporation of the private sector into the institution and its activities. FUSADES in El Salvador already functions in many areas as a private corporation.

In addition to human and financial resource constraints, GO-INVEST has suffered from years of neglect from the private sector as well as years of an inability to properly service the needs of the private sector. This lack of effective private sector involvement has resulted in a weakened linkage with the private sector, both organizationally and with individual firms, thus affecting the legitimacy and credibility of the organization as a whole, as well as its perceived ability to fulfill its goals and objectives.

A major challenge for GO-INVEST in the immediate future will be to organizationally incorporate the private sector into an effective workplan to advance an investment strategy, and to provide for the proper policy and regulatory framework for such participation, as many contradictions and opposing views are likely to emerge. For example, while there ought to be an effective role for the private sector in advancing investment legislation reform and recommendations, the private sector should not be involved in the incentive approval process and should merely be consulted for recommendations and advice but not for decisions. Major elements of the new workplan and strategy, currently under development, include:

- New Investment Guide, with an identification of specific projects and sectors to promote for investment, including priority to joint ventures and industrial partnerships through licensing, equity, and franchising;
- Review and compilation of institutional procedures for business in each sector, including compilation of duties and incentives per sector;
- Compilation of business costs per sector in Guyana: utilities, shipping and ports, industrial estates, labor (wages and training);
- Strategic plan for private sector linkages, promotion and marketing campaign and missions, advertising and PR program;
- Training and attachments for staff to regional investment agencies.

Export Promotion Agency

An export promotion agency can survive as a stand-alone agency autonomous from the investment promotion agency if it has an adequate export production base to guarantee the human and financial resources required to ensure its institutional viability. This presupposes a strong and diversified manufacturing and export sector in the economy, whose volume and contribution to economic development sufficiently justifies the existence of an autonomous body. This has been the case of some high per capita exporting nations such as Chile and Puerto Rico; but not so in other exporting nations such as Trinidad & Tobago or Dominican Republic (mostly export processing zones in the latter). Jamaica, on the other hand, maintains investment and export promotion functions in one institution, with separate and distinct divisions.

Guyana's dilemma is really centered on the problem of efficiencies of scale and the need to stimulate higher volumes of exports (as with investments above). Similarly, with no major sector dominating manufacturing or export production, the services of an agency of this nature need to be spread out over many industries, thus affecting the institutional strength of the organization.

• Guyana Export Promotion Council (GEPC)

is a 1983 statutory body reporting to MTTI, to promote and develop non-traditional exports, and to:

- provide support to exporting companies for export performance improvement (quality control, standards, marketing and labelling, sanitary and phyto-sanitary requirements, etc.);
- conduct and provide market research, overseas market promotion, trade information, technical assistance, for exporters and for interested buyers of Guyanese products;
- develop policy guidelines and advice for Minister of Trade re: national export policies, export trade stimulation, manufacturing sector support and other sectoral initiatives.

The GEPC has had very limited success in advancing its mandate, both due to severe human and financial resource constraints and to poor administrative functioning over the years. Other than the Annual GUYEXPO, the work of the GEPC in successful support of exporters has been limited. Despite having a Board composed of manufacturers and exporters, the Council has limited private sector dynamism and could use some stronger private sector linkages at the operational and administrative levels.

The Council serves as Guyana's liaison with the Caribbean Export Development Agency, the regional trade and export development agency for CARIFORUM countries, and it is expected that this linkage will assist Guyanese exporters in their foray into external markets. However, any future successful performance will depend on the administrative and policy reforms of the GEPC, plus the flow of adequate resources.

It is unclear how resources will be rationalized and expanded under the proposed merger with Go-INVEST, and what strategy will be developed to revitalize the export promotion aspect of the new organization. Likewise, resources are required to attend to both the needs of larger companies as well as of small companies in need of establishing relevant market niches. Export credit and financing mechanisms are sorely lacking in Guyana, and these are important as they have been identified as critical to the success of the export-oriented manufacturing venture.

There is a lack of work on regional and international trade policy and its impact on export production, although it is expected that the Trade Policy Unit at the MTTI will center much of its work on these issues. However, an effective new organization would need to rely "in-house" on its own trade information and market intelligence expertise if it were to be successful.

• New Guyana Marketing Corporation (NGMC)

an offshoot of the dissolved Guyana Marketing Corporation, a 1962 statutory body, now responding to the Ministry of Agriculture and functioning under a new strategy centered on work for the non-traditional agriculture sector in the following areas:

- improving market access and providing marketing intelligence and promotion activities, as well as market extension services including packaging, labeling, storage, and transportation of products;
- promoting joint ventures and linkages between buyers and sellers;
- provide government with recommendations on domestic agricultural marketing policy and on measures to stimulate the export of non-traditional products, including export incentives;
- assist exporters in the process of approvals, licenses, permits, etc. for exports.

The agency functions under a "New Strategy" intended to broaden its scope of operation so as to provide it with a facilitating-cum-coordinating role with respect to the domestic and export markets for fresh agricultural produce. This would imply a tri-dimensional function of market intelligence, policy formulation, and technology transfer capabilities, functioning almost as a "One-Stop Entity" for this sector. However, it is not clear what degree of autonomy and authority the NGMC and the MoA have in terms of the granting of export incentives and concessions, since all these fall under the purview of the MoF and the Ministerial Committee. Given current government restrictions on incentives and concessions, no proposals have been advanced in this area.

Trade and Investment Information Office

This institutional format can work very effectively under a situation where the organizational structure of a government and a private sector are such that there is a high degree of consensus regarding the role of private investment and external trade, the mechanisms for attraction and promotion, as well as the distinct role of each independent organization(s) in the overall process from identification to implementation and fulfillment of investment goals and objectives. The tendency in this instance is also to acknowledge the symbiotic relationship which exists in small, open economies between investment flows and trade development, and to work both as part of one harmonized economic development strategy and incentive program.

Caribbean experiences of effective structures of this nature are pretty much circumscribed to agencies in dependent territories, especially Aruba and the Netherlands Antilles, Guadeloupe, and Martinique; all instances of local governments fulfilling the role of trade and investment information and promotion, but with the central government controlling decision-making authority. In these instances, as well, human and financial resources are minimal limitations as central governments, and the private sector, tend to provide healthy resource endowments for these organizations.

For reasons of lack of these resources and organizational structures, GO-INVEST in Guyana has been relegating itself, and has been relegated, to performing a role of trade and investment information; merely facilitating information and expediting procedures for potential investors, as well as providing useful trade information. However, giving a dearth of human and financial resources, and the lack of a harmonized governmental policy regarding the investment process, little has been accomplished at the level of "managing" an investment project from its conception stage all the way to fruition and commissioning.

One-Stop Shop for Investors

The concept of a "one-stop shop" has lost vogue in Guyana due, in no small part, to the inability of GO-INVEST to perform effectively as what was to have been a "one-stop shop". However, semantics aside, it is important to assess to what degree can the business environment in Guyana, and its counterpart public sector, develop and "maintain" a true one-stop operation for private investment and business developments which may include trade and export promotion as well? Moreover, to what degree is a one-stop shop notion what is required in Guyana, given its relatively small market size and the relatively manageable universe of investment activities at any given point in time? Finally, a "one-stop shop" has the ability to perform in such a manner because a series of pre-requisite conditions critical to the fulfillment of its goals and objectives are institutionally in place: namely, effective human and financial resources for the effective management and implementation of such business activities.

In a One Stop Shop for Investors (OSS) an investor who wants to make an investment can have all of the necessary paperwork correctly filled out and the corresponding authorizations expeditiously obtained for his new investment. It avoids frequent delays, mistakes, misunderstandings, frustration, and the potential for corrupt practices. The OSS and a similar one for Exporters (called Ventanilla Unica in Latin American countries) can be an important link in an efficient, transparent process or system for stimulating private investments and exports.

Among a number of developing countries with a OSS, Tunisia maintains one of the most effective ones at the service of both private domestic and foreign investors. One building, in fact one floor of the building, houses a representative each from the Registry of the Articles of Incorporation, the Clerk of the County Court, the Government Printing Office, the Municipal Government, the Tax Department, the Customs, the Fiscal Incentives Authority, the Central Bank, the Ministry of Trade and Industry, the Ministry of Labor, the Ministry of Environment and Land Planning, and the Chamber of Commerce. Each representative has his own desk. The private domestic and foreign investor moves from desk to desk filling out the necessary applications with help from each representative who then assumes responsibility for processing the application in his area of activity. The investor does not have to spend time getting informed what offices and where to visit and search for information and what forms to fill out, what documentation to attach, and where to wait for a response. He does not need to hire lawyers and accountants to have this work done for him.

2. Private Sector Level

Private sector development in Guyana has had very slow institutional development when compared to the rest of the region, mostly due to the structural limitations imposed on the business community by state-centered and socialist-oriented governments for almost three (3) decades. Since 1992 there has been a slow, but steady, movement towards an acknowledgment and somewhat of an allowance of empowerment of the private sector as the "engine of growth" and on market oriented visions of economic development. As in any process of economic reform, accomplishments have been few and slow, despite a steady growth curve of economic performance in macroeconomic indicators of the economy as a whole, as well as key sectors.

Institutional strengthening and consolidation has been the weakest area of advancement for the private sector, with limited consensus on many initiatives for which a common voice of the private sector is required, e.g. private investment, incentive legislation, fiscal policy, etc. However, governments in Guyana have been able to benefit from a historical lack of a united position from the private sector, thus allowing for a diffuse and weakened negotiation position towards the government of the day. Recent expectations abound that the umbrella body of the Private Sector Commission (PSC) will be able to fulfill this role, especially as the Private Sector Center has taken on a more aggressive approach towards engaging investment issues. However, much will depend on Commission's ability to effectively "join forces" with the Guyana Manufacturers Association (GMA) and the Georgetown Chamber of Commerce & Industry (GCCI) to advance a "private sector investment agenda" vis-á-vis the government.

However, recent developments regarding the approval of "corporate membership" in the PSC will now have to be assessed in order to gauge the impact this decision will have on overall private sector consensus vis-á-vis the government, as the potential for a more dynamic and expanded role for the private sector in support of the investment process. As with other private sector groups, involvement in the investment process is limited to specific business ventures and/or sectoral initiatives, as with the tourism sector via the Tourism Association of Guyana (TAG) and micro-enterprise development via the Institute of Private Enterprise Development (IPED).

C. Options for an Institutional Framework to Execute Government Policies Towards Private Domestic and Foreign Investment

For the most part, investment environments and regimes in the English-speaking Caribbean have been de jure of top-notch quality. At the de facto level, however, institutional and administrative weaknesses, coupled with human and financial resource limitations, have resulted in less than competitive investment frameworks. Macroeconomic policies, fiscal incentive regimes, open and transparent investment regimes and processes, the rule of law, and more have been the trademark of the region's investment climate. It is in the practice of advancing private investments, however, were regional weaknesses most seriously affect the performance of sectors and of economies as a whole.

This institutional situation has been compounded in many instances by diseconomies of scale and supply-side limitations on the region's ability to attract investment. Particularly in the traditional sectors of manufacturing and agroprocessing, heavily dependent on access to labor and raw materials, it has become clear that many of the region's economies are not competitive enough to justify institutional, financial, and human resource expenses. As such, except for Trinidad and Jamaica, and to a lesser degree Barbados, the traditional manufacturing-oriented investment regimes and structures have given way to service-oriented regimes. In the case of the latter three (3) countries we now see a greater degree of balance and diversification between the sectors, with the smaller economies of the region concentrating more on offshore business opportunities and financial services, alongside the economic mainstay of tourism.

At the philosophical/ideological level, the rest of the Caribbean has also always been solidly in favor of the so-called free market orientation of private sector-led development and openness to private investment, local and foreign. Despite certain instances in the later 1970's and early 1980's in Jamaica and Grenada, the Caribbean has been a haven for private investment, and governments and businesses have worked "hand-in-glove" to ensure that the region remains high on international investment rankings.

Guyana's positioning in the region remains somewhat unique, as it never really had the 'boom' in manufacturing and export under preferential regimes which the rest of the region had, concentrating more on traditional products with little value-added. Moreover, with relatively free access to land and labor, the manufacturing 'crunch' experienced in the rest of the region did not really hit Guyana as hard. Rather, it has been competition from other producers amidst an environment of liberalized trade which has affected the position of manufacturing in Guyana.

In this sense Guyana's situation parallels that of Belize and Dominican Republic, where traditional agriculture and manufacturing for the domestic market were the traditional pillars of the economy, accessing large amounts of raw materials and labor as the key factors of domestic and regional competitiveness. Under the more recent competition of liberalized markets, and seeking to advance more on value-added business, both have begun to diversify into tourism, services, as well as value-added manufacturing such as agroindustry, with a focus on external markets for export. This is the stage which Guyana has yet to reach and for which a dynamic public-private institutional and organizational framework is required.

Politically and ideologically, the Guyanese economy and its private sector have had to bear the weight of three (3) decades of state-centered and socialist-oriented models of economic development and activity. It would only be fair to state that this resulted in close to the effective emasculation of private sector dynamism as it is seen in the rest of the Caribbean. The philosophical, if not political and economic, remnants of much of the policy underpinnings of that era remain very present in Guyana today -- at both public and private sector levels! -- and threaten to affect the slow, but steady process of embarking Guyana in a direction of private sector-led economic growth, amidst policies of trade liberalization, privatization, and openness to private investment. For the first time the Guyanese economy is being transformed into one that is predominantly private. Nobody is prepared to assess the potential dynamic changes that this will have on Guyanese society and economy. But we can be certain that it will form the foundation upon which a new modern Guyanese polity, society, and economy will be built.

1. The Strategic Focus

The strategic focus of a private investment institution must be diverse and flexible, covering the key elements of:

- Policy, strategy, and program focus, principally on the development of an effective industrial strategy with effective ministerial coordination for implementation. The absence of such a policy framework has been a major disincentive to investments. Such a strategy can be disaggregated into sectoral programs of action, both in accordance with national priorities, investor interest, and market preferences.

- Incorporate all investment-related services and activities, from conception --> promotion --> pre-investment --> implementation --> commissioning. Institutional authority should encompass identification of investment opportunities for domestic and foreign investors, targeting of investor markets, obtaining permits, approvals, licenses, as well as fiscal and industrial incentives, as well as provide for productivity development and technology transfer, all centered on minimizing the bureaucratic constraints to investment.

2. The Investment Focus

While priorities and timetables will determine the short-, medium- and long-term focus, the structure and format of the organization must allow for the identification, promotion & marketing, and confirmation of bankable projects in as wide an array of sectors as possible. The institution will have to prioritize key strategic sectors related to Guyana's investment and production competitiveness, but should always allow for flexibility in the identification of new areas and sectors of interest to the country, the agency, the market, or a specific investor.

3. The Export Focus

The export orientation of the organization is critical since in an economy like that of Guyana's, production is concentrated in very few sectors, which also happen to be those sectors in which private investment is concentrated. Trade and investment flows and activities feed off each other, making it extremely difficult and complicated for a small economy to have and sustain efficiently two (2) or more distinct institutionalities performing work in these areas.

4. Recommendations

- The Government of Guyana has embarked on a strategic decision regarding the institutional merger of GO-INVEST and GEPC into a future organization encompassing investment and export promotion. We recommend that this policy process not be interrupted and that the decision advance into fruition, with the caveat that the details regarding structure, organization, and mandate, must be discussed and decided upon as part of this overall Investment Strategy & Code exercise. The institutions in place, or those to be developed, become the tools with which the strategy is built and developed, so it is essential that the tools are made to fit the strategy needs and objectives which this report details.

- The relative success of other institutional arrangements within CARIFORUM and in Central and South America have hinged as much on resource commitments as on policy and strategic direction and guidance. Private sector involvement has been, in all cases, a permanent factor of all cases mentioned. The tools, the direction, and the nature of the work of these institutions is private sector centered and involves work with business people as much as with governments. However, as the policy and the strategy mature, and the implementation succeeds, the role of the public sector is minimized to an as-needed basis, whereby the role of the private sector and business community only continues to grow as they become empowered themselves by the success of the investment institution.

- This situation requires the incorporation of the private sector into the new institutional venture, "privatizing" it to a certain degree and making it more market friendly and responsive, as in the successful cases of FUSADES in El Salvador, CINDE in Costa Rica, FIDE in Honduras, and TIDCO in Trinidad and JAMPRO in Jamaica, where manufacturers, chambers of commerce and other associations, exporters, and service companies (especially in Barbados via the BIDC) form part of the institutional framework to advance investment.

- This strategic objective can be achieved by defining the private sector commitment as part of the executive structure via a Board or an Advisory Body, while at the same time providing for a "buy-in" where the private sector provides in-kind resources as part of its contribution

Chapters II and V discuss in detail how this private sector involvement can be made productive and responsive to national needs, rather than selfish business-specific goals, especially insofar as the institutional nature of the collaboration is concerned as well as in the area of the specific role of the private sector in the process of approving and granting investment incentives. These are issues which can be incorporated into the strategic focus and structure of the organization, almost as in a "checks and balances" manners, ensuring that the institution benefits from only the best contributions from both its public and private sector constituencies.

D. Current Regulatory Framework and Process to Encourage Private Investment - SWOT Analysis

While Guyana's current framework for private investment development suffers from major institutional and organizational weaknesses which have been discussed earlier, a central weakness has to do with the inadequate regulatory framework which governs the overall structures of the organizations.

STRENGTHS	WEAKNESSES
Abundant natural resources (land, minerals, forests, rivers, sea)	Geographic isolation with poor international airline service
Stable macroeconomic environment (exchange rate stability, low inflation, growth)	Small population, small local markets, low purchasing power
Fast growing economy	Poor quality infrastructure and utilities (raising the cost of establishing and operating a business)
Most liberal exchange control regime in Caribbean	Relatively high rates of corporate taxation/lack of investment incentives
Preferential trade access to US and EU markets	Insufficient skills in the workforce, absence of technical/supervisory skills
Political stability and English language	High staff turnover due to migration and international competition in restricted labor market for skilled workers
Land ownership allowed to foreigners	Land title registry is difficult and time-consuming
High level of public expenditure on infrastructure	Government investment approvals are quite discretionary, slow and not fully transparent

Liberalization process of the domestic market with tariff reductions and easing of import controls	Public sector inefficiencies and some corruption, e.g. Customs
Government policy commitments to private sector development and investment, e.g. 1997 Investment Strategy & Code	High cost of land in Georgetown and coastal areas
Government initiatives to streamline investment and export initiatives via merger of GO-INVEST and GEPC	Leasehold land only in investments (not acceptable as a bank mortgage)
Initiatives for private sector consensus and unity, via Private Sector Commission and commitments to investment and trade promotion organizations	Financial markets and services underdeveloped and costly
1996-97 National Development Strategy policy and sectoral recommendations for economic growth	Legal system slow and ineffective
Government commitments to ERP and ESAF over an extended period of time	Basic social services are poor, with low ratings for investment in education and health
	Heavy economic concentration in agriculture and mining
	Most economic sectors are uncompetitive in liberalized markets
	Human and financial resource weakness of investment and trade organizations, GO-INVEST and GEPC
	Limited private sector involvement to-date in investment and trade promotion organizations and activities; and potential weakness of private sector
	Certain elements of government and political party structures remain unconvinced of the benefits of economic reform and liberalization and of the important development role played by private investment. Anti-business sentiment of the previous 30 years is still present in much of the "establishment" political culture.

OPPORTUNITIES	THREATS
Privatization of state enterprises and new investment ventures	Trade preferences to end by 2000
New infrastructure initiatives with roads, bridges, etc.	Increased and growing competition from imports
CARICOM/CARIFORUM integration efforts, e.g. Trinidad and Dominican Republic trade and investment interests in Guyana; prospects for Guyana exports to Haiti	Manufacturing sector debt overhang
Free Trade Area of the Americas	Competition in CARICOM (Suriname, Haiti) and CARIFORUM (Dominican Republic)
1997 Investment Strategy & Code	1997 electoral campaign and politicization of investment and trade promotion initiatives and strategies
MERCOSUR and Brazil market interests in Guyana, for trade and investment	Lack of adoption by government of clearly defined policies for investment strategy & code
Government interest in identifying new areas for private sector participation	

E. Options for an Appropriate Regulatory Framework and Process

Manifest in the 1997 Budget and in the terms and conditions of the 3rd annual arrangement with the IMF under the ESAF, Government has expressed commitments to advance investment in the nontraditional export sector by streamlining the regulatory and incentive regimes for investment in tourism, agro-processing, and manufacturing. This would also allow for the establishment of the government's proposed 1997 Investment Strategy & Code, which would serve as a more uniform and transparent system of investment mechanisms. The Government's challenge is to develop a strategic policy framework for private investment in order to arrest the current weaknesses of the investment regime and process:

- limited investor response and comparatively low levels of investment;
- limited business strategies and innovations towards investment;
- marginal sectoral and national competitiveness ;
- limited socio-economic returns to the PSIP;
- restricted economic growth (not evident yet);

- limited employment opportunities (already evident);
- high levels of poverty incidence.

In addition to the process of institutional rationalization of GO-INVEST and GEPC, and any eventual reorganizing and strengthening of GNMC, government has consolidated some important policy steps to enhance and stimulate private local and foreign investment, including among others:

- Promote the advancement of a consultative partnership between government and the private sector by ways of a formal and institutionalized managed process;

- Accelerate the process for completing an Investment Strategy & Code (whether an omnibus harmonized code or one sector by sector) in order to have a more automatic and transparent system for management of investment policy;

- Deregulation of the foreign exchange regime, thus increasing supply and giving exporters the choice of location for foreign exchange accounts;

- Civil service reform and modernization and salary revisions to improve and retain the public sector's ability to serve the private sector and service its organizations;

- Expanded social investment programs in education and health, complementing labor force training policies;

- Acceleration of privatization program to mobilize private finance to modernize the economy and increase domestic competition;

- Tight fiscal management policies to reduce deficit spending, thus allowing for greater portions of local financial resources to become available to the private sector;

- Improvements in tax policy and administration;

- Rationalization of PSIP to concentrate on economic projects directly related to the strategic sectors and sub-sectors of the economy;

- Improving access to land for productive purposes as a key economic resource;

- Rationalization of financial sector via the entry of regional banks into the domestic market.;

However, not all policy initiatives have resulted in positive outcomes, as many plans have not succeeded in mobilizing the desired level of private investment due to the following:

- Some policy management arrangements and policy designs have been inadequate for private sector needs and requirements;

- Lack of sectoral development plans and inadequate investor targeting and marketing. Industrial plans and policies can be used efficiently to support investment promotion programs, helping in the targeting of investors, the design of competitiveness strategies and institutional positioning strategies, as well as the rationalization of the PSIP and other policy support resources;

- Inefficient investments in social sector areas (education, health, training, etc.);

- Limited social marketing communication between public and private sector to allow for a joint strategic approach;

- Inadequate bureaucratic capability to facilitate business development in an increasingly competitive environment;

A comprehensive legal framework for promoting investments should span, but not be limited to:

- Fiscal and non-fiscal incentive eligibility;

- Special provisions for strategic sectors;

- Labor practice, environmental, and town/country planning standards;

- Promote and facilitate free-hold land tenure and ownership possibilities;

- Taxation and liquidation procedures, along with financial options such as employee share ownership requirements;

- Foreign/local participation and control requirements;

- Legal and institutional reforms to facilitate development of a capital market to enhance the private sector's ability to have access to more sources of financing (debt equity swap, venture capital financing, lease financing, equities, merchant banking);

- Public-private sector partnership programs in technical and vocational training, entrepreneurial development, social marketing, as well as technical assistance options;

- Promote private investment in economic infrastructure, such as: ports, services, utilities, and road construction;

- Public service reform to allow for more efficient functioning of organizations such as GO-INVEST and GEPC.

Table 1

Recent Investment Performance in Guyana (US$ millions)

Year	Total	Local Investment	FDI	# Projects	# Jobs
1995	184.4	131	53.4	---	---
1996	190	116.2	73.8	---	---
1997	203.4	---	---	34	1,859

Source: GO-INVEST, 1997

V. INCENTIVES TO STIMULATE PRIVATE INVESTMENT

The decisions by private companies to invest and where to invest are motivated by the expectation of profit derived from production and market opportunities or resource development. Among the uncertainties and risks that expected profits may not be realized from a planned investment is the general investment climate in the country. An extensive survey among foreign investors in five Middle East and North African countries has shown the following aspects of the investment climate relevant for decisions to invest, ranked in order of importance:

- business friendly government policies
- freedom to make financial remittances
- national, non-discriminatory treatment of foreign investment
- stable, transparent regulatory process
- stable exchange rate system
- fiscal and other incentives for investors and exporters
- foreign trade liberalization
- market size and market growth
- moderate level of taxation
- political stability.

These elements of the investment climate are important for investors in all countries. The ranking order may, of course, be different for investors in specific industries and for Guyana or other countries. Most of the above elements will be important also for private domestic investors. Governments of developing countries compete for private investment by constantly endeavoring to improve the above ten elements in the investment climate. The Government of Guyana needs to compete against other countries for attracting private foreign investment and by stimulating private domestic investment – both by generating confidence to invest through an improving investment climate. Currently, the Government can be given a high rating for at best only half of the above elements of the investment climate that are important for private investors when deciding whether and where to invest.

For Guyana, given its small internal market size, it is particularly critical to attract private investments that can develop export growth. Foreign investors, with access to large foreign markets, cheap capital resources, advanced technology, and high levels of efficiency, are in the best position to develop exports. Foreign investors, however, have a wide choice in which countries to invest.

Fiscal and other incentives and the level of taxation are among the top ten elements of the investment climate of importance to the private sector. Fiscal and other incentives have been a decisive factor for the success of some countries in attracting new investments in export assembly industries, for example. Fiscal incentives have been a major factor for attracting a large number of foreign investments in the Colon Free Trade Zone of Panama, in large employment-creating "maquiladora" industries along the Mexican border with the U.S., and in garment and other assembly operations for export from industrial parks in Guatemala, Honduras, Jamaica, the Dominican Republic and other Caribbean Basin countries.

Currently, the local governments of the northern and north-eastern states of Brazil are attracting new private investments to their states primarily with generous incentives and low labor costs in order to alleviate poverty and unemployment. Five companies announced investments totaling $300 million to produce cellular telephones in Brazil for the large potential market of the four member countries of MERCOSUR. They decided, according to their executives, to locate their investments in Brazil because that country offers the most generous tax incentives of the four Common Market member countries.

There are a number of fiscal incentives employed in different countries for attracting private foreign and domestic investment, such as

- import duty reductions or exemption,
- depreciation or accelerated depreciation allowance for installations and capital equipment,
- indirect (non-income) tax reductions or exemptions,
- reduction or exemption from the dividend withholding or remittance tax,
- reduction or exemption from corporate or other income tax,
- reduction or exemption from municipal and other local taxes,
- various subsidies, such as special low interest rates, with a positive effect on profits or cash flow.

Aside from incentives, governments also offer various guarantees and commitments to private investors which are also considered important for a positive investment climate to generate confidence to invest in the country. The Foreign Investment Commission of Chile, for example, is empowered by the Government of Chile to sign contracts with foreign investors guaranteeing that their corporate income tax rate will remain unchanged for the next 20 years.

A. Current Incentives Regime in Guyana

Guyana's incentive regime is not well adapted for stimulating and attracting private investment, because the prevailing incentive regime is

- **inadequate –** Guyana no longer offers fiscal incentives, while most other countries do offer fiscal incentives.
- **non-competitive –** Most countries competing for private investment offer more generous incentives than Guyana.
- **non-transparent –** A company often does not know whether its investment in plant and equipment will qualify for accelerated depreciation. Some industries qualify, others do not, without any clear justification.

- **arbitrary and discretionary –** Some machinery and equipment imports qualify for exemption from duty and consumption tax, while other imports also necessary for the production process do not qualify. Different rates of consumption tax are applied without any known policy indication why individual products fall under different consumption tax rates. Most countries have only one sales tax rate or one consumption tax rate or one value-added tax rate applied equally across the board, with a few generic exemptions for food or medicine.
- **discriminatory –** Local investors are exempt from the 15% dividend withholding tax, but not non-resident ones. A 45% corporate income tax applies to the telecommunication sector, commerce, and banking. Commerce is also liable to a minimum tax equivalent to 2% of total turnover whether or not profits are generated. All other sectors pay a 35% corporate income tax and are exempt from the 2% turnover tax.

Currently, some new private investments qualify for exemption or reduction of the duty and/or consumption tax on some imports of capital equipment, machinery, and raw materials. Presumably if a local product exists, regardless of how expensive or what poor quality the domestically product may be, its equivalent import no longer qualifies for duty and tax exemption or reduction. There is other imported equipment essential for the production process with no local equivalent that does not make the list of exempt products. For the forestry industry, for example, logging trucks are exempt from the consumption tax, but imports of flat-bed trucks used in forestry pay a 30% consumption tax.

Some private investments qualify for depreciation or accelerated depreciation of some investments in plant and equipment. Expenditures for developing and improving land for cultivation can be written off from taxable income. Depreciation and tax write-offs can be carried forward without time limit. Depreciation, consumption tax, and duty incentives apply primarily to investments in agriculture, fisheries, forestry, housing, manufacturing, mining, and tourism.

In the mining sector, investments in precious metals and stones are liable to an onerous 5% royalty calculated on production or gross revenues, while bauxite and other mining pay only a 1.5% royalty. Non-resident investors in mining pay in addition to the 35% corporate income tax also a 6.25% dividend withholding tax, while domestic investors are exempt from the withholding tax.

Companies in manufacturing or processing of non-traditional agricultural and other products are eligible to deduct 25% to 75% of the profits from exports outside the CARICOM area from their taxable income.

B. Elements of an Incentives Regime

Guyana has made a commitment to the International Monetary Fund (IMF) not to grant any new tax holidays or to renew expiring incentive contracts for the period through 1999 as part of the Enhanced Structural Adjustment Facility. Justification for this decision is the need to "continue to broaden the tax base." This constraint has put Guyana at a serious competitive disadvantage in its promotional efforts to attract private foreign investors and to enhance the competitiveness of private domestic investors.

Most other countries competing for private investment do offer attractive fiscal incentives, because they have found that private investors calculate the impact of fiscal incentives on their expected cash flow and bottom line profits when deciding where to invest. Additional investments attracted by fiscal incentives not only create more income, employment, and exports, but also additional tax revenue paid on the wages of the hired workers and by new business created for contractors, suppliers, importers, and other services.

Guyana's investment promotion effort needs to be able to offer competitive fiscal incentives to offset Guyana's disadvantages of small market size, narrow resource base, inadequate infrastructure, shallow harbors, distance from major shipping routes, and poorly functioning regulatory system.

According to Blackman Associates' "Comprehensive Review of CARICOM Investment Climate", "all Caribbean countries use fiscal and other incentives to encourage investment in priority areas such as manufacturing, agro-business and tourism. The range of incentives include benefits such as corporate tax holidays, capital allowances, and other forms of tax-related depreciation, tax-free dividends to shareholders, tax deductions for research and development, exemptions from property taxes, exemptions from many forms of indirect taxes, export incentives, repatriation or transfer of capital, dividends and other forms of payment, external payments, and tax privileges for expatriate personnel."

Recommendation: Guyana should consider re-introducing a competitive fiscal incentive system within a new Investment Code to go into effect on or before expiration of the IMF Enhanced Structural Adjustment Facility. This necessity should be demonstrated by the fiscal incentives offered by countries that compete for investors in the same industries that Guyana wants to attract. Potential loss of revenue from an enhanced fiscal incentive regime should be minimized by offsetting initiatives designed to generate new revenue, such as improved tax collection procedures, stiffer penalties for tax evasion, updating property assessments to collect more property tax revenue, increasing excessively low user charges for utilities and other various public services, and other similar measures. A study should be undertaken to calculate and demonstrate the multiplier effect of a new investment on Government revenue from other activities and incomes generated by such an investment. Guyana can also point to the Subsidy Code of the World Trade Organization (WTO) which currently permits Guyana to maintain fiscal incentives.

The Subsidy Code negotiated at the GATT Uruguay Round applies to all developed as well as developing countries that are signatories to the WTO. The Code includes enforcement of compliance with the rules on subsidies through mandatory dispute resolution. The Uruguay

Round Code defines subsidies in broad terms "where government revenue that is otherwise due, is foregone or not collected." Duty-free treatment of defined categories of imports in a country's customs code is not considered a subsidy.

The Code prohibits "specific" subsidies "where the granting authority .....explicitly limits access to a subsidy to certain enterprises." A subsidy is not "specific" and, therefore, not prohibited where the "granting authority ....establishes objective criteria or conditions governing the eligibility for, and the amount of a subsidy, ... provided that the eligibility is automatic and that such criteria and conditions are strictly adhered to. The criteria and conditions must be clearly spelled out in law, regulation, or other official document, so as to be capable of verification."

Objective criteria which make a subsidy non-specific are defined as "conditions which are economic in nature and horizontal in application, such as number of employees or size of enterprise." The Subsidy Code states further, "if, notwithstanding any appearance of non-specificity resulting from the application of the principles laid down...(above)...., there are reasons to believe that the subsidy may in fact be specific, other factors may be considered." A subsidy limited to certain enterprises "within a designated geographical region with the jurisdiction of the granting authority shall be specific."

"Subsidies contingent ..... upon export performance" are prohibited. "This standard is met when the facts demonstrate that the granting of a subsidy .....is in fact tied to actual or anticipated exportation or export earnings." Article 27 and Annex VII of the Subsidy Code, however, exempt member countries of the WTO that have been designated as "least-developed countries by the United Nations (UN) from violating the Code with incentives based on export performance. A specific list of countries are similarly exempt as long as their average annual per capita GNP does not reach $1,000. All other developing member countries have eight years from the date the Code went into effect in 1994 to phase out incentives identified as subsidies in violation of the Code.

As long as its annual per capita GNP remains below $1,000, Guyana will presumably not be in violation of the Subsidy Code with the investment incentives proposed in this Report for a new Investment Code. Furthermore, it appears that quite a number of WTO member countries that are in violation of the Subsidy Code have decided to ignore the Code's provisions regarding incentives or found ways around the letter of the Code.

1. Choices for an Investment Incentive Law for Guyana

Guyana has various options for an Investment Incentive Law. It can adopt separate investment incentive laws for individual sectors the Government wishes to promote, such as a separate incentive law for mining, a separate one for the tourist industry, a separate one for agriculture, for the financial sector, etc. Guyana can have an incentive law for foreign investment or for export assembly operations. Another option is one comprehensive framework law for private investment with component subsections dealing with special incentives for individual industries the Government wants to encourage. The examples of different approaches to incentive laws and to diverse fiscal incentives cited below have not been limited to CARICOM countries only because other countries, small or large, resource rich or poor, offer additional policy options that can be considered by Guyana.

Latin American and Caribbean countries have adopted various approaches. Peru has a framework law for private investment that offers extensive Government guarantees, but no customs or tax incentives. Chile has only a foreign investment law that offers long-term tax stability and other Government guarantees, but no incentives. Paraguay has an investment incentive law offering duty and tax incentives to eligible domestic and foreign investors. Uruguay has an industrial promotion law, a foreign investment law, and an export incentive law with separate incentives available under each of the three laws. The Dominican Republic has a Free Trade Zone Law with 15 and 25 year exemptions from all taxes, duties, charges, and fees, even exemption from all municipal taxes and incorporation fees.

Trinidad and Tobago (TT) offer fiscal incentives to specific industries under separate laws – for export assembly operations in free trade zones under the Free Zones Act; for other manufactured export firms under the Fiscal Incentives Act; for investments located in designated Regional Development Areas under the Finance Act; for investments in hotels under the Hotel Development Act. Details about TT's various incentives and qualification requirements are shown in Appendix F.

Jamaica has taken a similar approach to TT in offering generous fiscal incentives to a range of industrial sectors under individual laws, such as the

- Bauxite and Alumina Industries Encouragement Act
- Export Industry Encouragement Act
- Jamaica Export Freezone Act
- Hotel Incentives Act
- Foreign Sales Corporation Act
- Shipping Incentives Act

Also production of most agricultural products qualifies for five to ten year renewable income tax and duty concessions. Full depreciation of new machinery in two years is available. Companies that do not qualify under any of the above incentive legislation, but have the potential of creating employment or foreign exchange earnings also qualify for duty exemptions.

Recommendations: There may be good reasons for Guyana to want to follow the examples of Trinidad and Tobago and Jamaica of enacting a scattering of incentive laws for individual industries. There are advantages, however, for one framework incentive law which contains sub-sections for special incentives and qualifications for specific sectors. One can argue that one comprehensive investment law that contains all of the Government's commitments and guarantees and incentives will produce a more positive impact about the investment climate for any foreign investor than separate laws restricted to individual industries.

A framework incentive law should be composed of two parts: one general part applying to all private investors in which the Government clearly states its commitments and guarantees applicable to all private investors, and a second part composed of sections in which incentives are offered to specific sectors or activities that the Government wants to encourage.

2. Purpose and Objectives of Fiscal Incentives

An incentive law should clearly state its purpose and objectives. Paraguay's Law No. 60/90 of December 1990 states in Article 1 that "the purpose of this Law is to encourage and increase the capital investments of domestic and foreign origin. To this end, fiscal incentives shall be granted to the physical and legal persons established in the country and whose investments are performed in accordance with the economic and social policies of the National Government."

Recommendation: It should be stated that the objectives of the new investment law are to stimulate and attract domestic and foreign investment, particularly in the priority areas outlined in this law. The stated purpose of this law should be to define the rules, the conditions, the obligations, and the priority activities for private investment to qualify for specific incentives.

3. Government Commitment and Guarantees

To enhance private sector confidence to invest in Guyana, the Government should spell out in the investment law an unequivocal commitment to the development of a private enterprise economy and to free market economic policies with the private sector clearly recognized as "the engine for economic growth."

The Government should commit itself in this law to some basic guarantees to all private domestic and foreign investors with regard to the freedom to invest and to operate in the country, to protection of private property, recourse to the legal system, and to other important freedoms of doing business without facing injustice or discrimination.

The following should be stated in the law:

- The Government guarantees private investors the right to adopt any form of business organization allowed by the laws and to organize and carry out their activities freely as they deem convenient so long as they do not violate any existing laws.

- The Government guarantees private investors the right to freely organize their production or services without interference by the Government.

- The Government guarantees private companies the freedom to distribute all or any portion of their profits to shareholders, after all income taxes have been paid, and for all shareholders to freely receive the distributed profits.

- The Government guarantees foreign investors and companies freedom to remit royalties, dividends, profits, and other financial payments, after payment of all due taxes, and freedom to repatriate their capital, and have access to foreign exchange to make remittances promptly.

- The Government guarantees private companies and individuals protection of intellectual property rights, including copyrights, patents, trademarks, and corporate and trade names.

- The Government guarantees all private investors and companies non-discriminatory treatment and does not differentiate in matters relating to ownership, public tender offerings, access to foreign exchange, import tariffs and related taxes, non-tariff trade restrictions, and pricing.

- Government-owned companies should pay taxes and duties on the same basis as private companies in order to avoid discrimination and unfair treatment of private companies. At the same time, public companies competing against private companies should be free to set prices and free to seek low cost supply sources like private firms. In the event any activity is carried out by both a Government-owned and a private firm or Government-owned firms compete for bids against private firms, the same treatment and conditions should be applied to both.

- The Government guarantees foreign investors and foreign companies national treatment in Guyana, that is, treatment equal to that of domestic companies in regard to establishment, acquisitions, ownership, authorizations, registration, expansions, management, conduct, operations, marketing, importing, exporting, transfer and disposition of goods and assets. Any laws contrary to this principle should be changed.

- The Government guarantees the right to private property. No private property should be expropriated directly or indirectly, except for public works infrastructure projects. Examples of indirect expropriation are the loss of assets or income through confiscatory rates of taxation, compulsory sale of all or part of private assets, forced change of management, freezing of bank accounts, remittance blockage, or interference or nullification of public bid awards without legal recourse.

- Expropriation for public works infrastructure projects will only be carried out without discrimination against any particular private enterprise and under due process of law. The level of compensation will be the current fair market value as determined by an appraiser selected and agreed to by both the Government and the private enterprise.

- Compensation will be paid promptly and fully. The Bank of Guyana should guarantee free convertibility of the proceeds from the expropriated asset in the national currency of the previous owners. The official market rate of exchange on the date of expropriation should be used for the conversion. Compensation should include accrued interest from the date of expropriation to the date of compensation.

4. Fiscal Treatment of Capital Goods Used for Investments

a) Accelerated Depreciation

Guyana permits accelerated depreciation allowances from taxable income for some machinery and equipment for some priority sectors, such as the manufacturing sector.

Recommendation: As an incentive for stimulating private investment, consideration should be given to offering accelerated depreciation to all of the priority sectors benefiting from other fiscal incentives and to apply accelerated depreciation to investments in all industrial structures, plants, and machinery in the priority sectors. Singling out specific products and specific sub-sectors within the priority sectors for these benefits is hard to administer, difficult to justify, and discriminatory against investors in priority sectors left out. Regulatory and administrative reforms should be introduced to streamline and simplify the process, make it automatic and non-discretionary.

b) Exemption/Reduction of Duties and Consumption Tax on Imports

Guyana offers exemption from or reduction of duty and consumption tax on imports of some defined capital goods used in the production process by some priority sectors. Most Latin American and Caribbean countries exempt these types of imports from import duties and other import taxes in their customs code. Alternatively some apply an across-the-board standard for exempting all capital goods used in the production process for priority sectors in their incentive laws. In these cases, the lowest tariff rate, usually 5%, is applied to imports of machinery and equipment and total exemption granted to such imports by investors in priority sectors.

Recommendations: Guyana should consider establishing a zero import tariff in its customs code for all imports of machinery and equipment, except for those where equivalent products, comparable in quality and price, are produced domestically. A zero import tariff should also be introduced for imports of specialized vehicles used in the forestry, mining, and tourist sectors. Guyana should avoid, however, violating any trade commitments made as member of CARICOM. Guyana should harmonize its import regime with the common tariff regime adopted by CARICOM.

Exemption from import duties, consumption tax, and other charges should be granted to imports of materials and components used in the assembly or production for re-export by companies located in free trade zones or estates. The same treatment should be accorded to companies producing exclusively for export that are located outside such zones or estates. Companies that export only a part of their production should be eligible for reimbursement of duties, consumption tax, and other charges paid on imports in proportion of the f.o.b. invoice value of the exports to the f.o.b. invoice value of total sales.

Exemption from duties, consumption tax, and other charges should be granted on imports of building materials and furnishings of hotels and resorts and on imports of materials and components used by private investors in developing infrastructure.

5. Tax Incentives to Stimulate Private Investments

Investments designed to assemble imported components and add value mostly by employing local labor to finish products for export should qualify for tax incentives, regardless whether the investments are located in free trade zones, in designated export processing zones, industrial estates, or anywhere else in the country. These investments are usually labor intensive and thus generate significant employment. Investments in setting up these operations and the process of importation, assembly, and exporting also generate jobs, incomes, and government revenue. The Government can additionally provide incentives for private investor groups to develop industrial parks or export processing zones for private domestic and foreign companies attracted with generous fiscal incentives to produce exclusively for export.

Trinidad and Tobago granted export companies and those operating in free trade zones total exemption for ten years from corporate income tax, capital gains tax, withholding, and value added tax. Jamaica, similarly, grants companies in export free zones a tax holiday for up to ten years, and other exporting companies up to five years. The Dominican Republic offers firms located in the free trade zones exemption from all taxes, duties, charges, and fees affecting production and exports for 25 years. Honduras's Decree Law 37-87 created Industrial Processing Zones with companies there enjoying a 20-year exemption from income taxes, a 10-year exemption from all municipal and other local taxes, and permanent exemption from payment of duties, surcharges, consular fees, consumption, production, and sales taxes. Guatemala's Incentives Law for the "Maquila" (Assembly) Industry offers a 10-year tax holiday.

Recommendation: Investments in all assembly operations for re-export, regardless where they are located in Guyana, should be eligible for a 15-year exemption from all income taxes, withholding tax, consumption and similar taxes, and duties and other import fees.

The development of exports will be most vital for the future economic development of Guyana, particularly in view of the threatened loss of protected preferential markets in the EU, Canada, and the U.S. The Government of Guyana should, therefore, accord top policy priority to the stimulation of private investment for development of exports. The prime importance of developing exports by all sectors of the economy dictate across-the-board incentives for new investments in export operations, rather than the sectoral, discriminatory approach currently in force.

Recommendation: All income, profits, and dividends generated from exports resulting from new investments or expansion of an existing production facility should be exempt from all income and withholding taxes during the initial ten years of exporting. Income from new investments or expansion of an existing operation in the tourist industry should also be exempt from income and withholding taxes for ten years. Royalty payments by the mining industry should not be exempt.

6. Special Cases

a) Incentives to Train the Work Force

Future economic development and success with export diversification and competition against imports in an increasingly open trading environment will depend, among other factors, on the use of modern, increasingly sophisticated machinery and employment of a work force that is trained to effectively operate and maintain such machinery.

Companies in many countries spend time and money to train and upgrade their work force to be able to operate modern machinery and equipment. A well-trained work force is more productive, which lowers the unit operating costs for a company, enabling it to generate higher profit rates, lower its prices, and pay workers better wages.

The acute training needs are well recognized in Guyana and discussions have been held how to improve worker training and how to employ the education system in this effort and how to enlist the private sector to play a role. Proposals include a payroll tax paid by employers and used by the educational system to enhance technical training. The private sector is already burdened by very high tax rates: 45% income tax for commercial firms, 35% income tax for other firms, 15% dividend withholding tax for non-resident companies, 5%-50% consumption tax, and import duties of up to 50%. A preferable alternative would be to provide the private sector an incentive to train the work force.

Recommendation: Consideration should be given to allowing a company to deduct from taxable income an amount up to the equivalent of 2% of its total annual payroll spent on training its own permanent work force to upgrade the skills of these workers with the objective of raising their productivity and thus enhancing the competitiveness of the company. To be eligible for this tax deduction, a company must present proof in the form of invoices of fees paid to training experts or for sending its workers to work-related training seminars, classes or workshops.

b) Incentives to Develop Infrastructure

The need to develop and improve the infrastructure sectors has been cited as critical for stimulating and attracting private investment in export development and in other industries. The Government has indicated that it does not have the financial resources to adequately and speedily develop and improve the infrastructure sectors. Other investments may be stymied or delayed because of failure to provide the required infrastructure. Consideration should, therefore, be given to provide generous incentives for private investors willing to help develop the country's infrastructure.

There are basically two ways for private investments to participate in the development of infrastructure:

- responding to Government bid offers or opportunities open for private development and
- developing infrastructure as part of a major investment in forestry, mining, tourism, etc.

Recommendations: Both types of private investment in infrastructure sectors should qualify for duty and tax free importation of machinery and equipment essential for the investment. Some tax concessions should also be considered.

A developer of a major investment project who cannot wait for the Government to introduce the infrastructure necessary to realize his investment should be allowed to deduct from taxable income all infrastructure expenditures related to this investment in the same way as an investor in agriculture is allowed to write-off his expenditures in developing or improving land for crop cultivation. These deductible costs should include the cost of access road construction, installation of an irrigation system, purchase of an electric generator, installation of a telecommunication system and connecting it to the public telephone system.

c) Development of the Hinterland

Guyana's vast inland areas remain largely unpopulated and undeveloped. They are rich in potential natural resources that could prove to be the main source for Guyana's future export growth. Capital, however, has not been employed to develop these resources. Some countries, in a similar situation, have formed a special development agency for the hinterland with the task to develop policy recommendations designed to attract more private investment into these hinterland areas.

Recommendations: The Government should consider consultations with private domestic and foreign investor groups to explore what it would take to attract private investment on a larger scale to develop potential investment opportunities in the hinterland. Possibly a public - private sector commission could be formed with the specific task to recommend workable strategies for attracting private investment to the hinterland. The strategies being used in other countries, such as Brazil, Venezuela, and Chile, to attract private investment to their unpopulated, resource-rich areas can be studied and implemented, if deemed desirable.

Private investors willing to invest in developing the hinterland should, in most cases, obtain at least as generous incentives as investors located in the more developed and populated areas of the country. A main reason is that investments in the hinterland carry additional risks of transport delays, higher transport costs, higher wage costs, natural disasters, supply problems, poor communication, equipment break-downs, and other problems.

C. Administration of Incentives

There are several options for administering an investment incentive law:

a) An Investment Commission can be created with representation from all public entities that have some authority for approving private investment activities, such as the Ministries of Finance, Trade, Public Works, Agriculture, Labor, Customs, the Central Bank, Go-Invest and possible representation also from some of the Public Sector Commissions.

b) An Investment Commission can be created that is composed of a small group of public administrators from and reporting to the Ministry of Finance or Ministry of Trade, Tourism, and Industry. The Commission would be required to consult with other Ministries and public entities relevant to a specific investor seeking approval for incentives. Thus, for example, the Minister of Public Works would be consulted before incentives are granted for a specific investment in infrastructure.

c) An Investment Commission can be created that is operating independently of all Ministries with power granted by the Investment Law to make the final decision in granting investment incentives following closely the provisions and procedures detailed in the Investment Incentive Law or Code. This Commission would report to the President or Prime Minister or to a new Cabinet rank official in charge of all aspects of investment promotion, that is, incentive approvals, investment promotion, export promotion, a trade and investment information office, and a One-Stop Shop for Investors. The Commission would be obligated to consult with relevant Ministries and other entities relevant to the specific investor applying for incentives.

d) There would be no Investment Commission. Instead, the individual Ministries would be empowered to process approvals for incentives for investments in their area of responsibility. An incentive application by a company in the tourist industry, for example, would be processed by the Ministry of Trade, Tourism, and Industry.

A separate Investment Commission for Foreign Investment can be created or, alternatively, no such separate Commission need be formed if foreign investment is to be granted national treatment equal to domestic investment. In this case, any new foreign investment may only be required to be registered with the Central Bank or the Ministry of Finance or a One Stop Shop for Investors.

The first of the four options, an Investment Commission composed of various Ministries and other public entities, has the advantage that all national interests in private investments participate in the process of approving incentives. The disadvantage is that the approval process may become overly bureaucratic, slow, and unwieldy if such a large, diverse group has to be convened, has to examine and verify documents, and reach decisions. It may have difficulties reaching a unanimous decision. Meetings may not be held frequently enough or an effective quorum may not be present to reach a decision or responsibility for securing and analyzing needed additional data may become diffused.

The second alternative, giving responsibility for evaluating new investment incentive applications to a small expert group under one Ministry makes the process more efficient. If that one Minister, however, has final incentive approval authority, he wields considerable influence over all new investments in the country. The Ministry's portfolio responsibility for a specific sector could end up influencing and skewing the decision making process. His group in charge of evaluating and recommending incentive approvals would tend to reflect the special interests of that Ministry. If this approach is chosen, at least the final incentive approval authority should be given to a Committee with broad representation, such as in the first option.

The third option, creation of an independent group, would be best able to avoid biases and discretionary power inherent in specific Ministries. The group needs to be required, however, to seek advice and work closely with relevant Ministries in evaluating information submitted with the applications and before making a final decision. Properly staffed, such a group brings a high level of efficiency and professionalism to the administration of an incentive law. To minimize the potential for political pressures by special interest groups or exposure to attempts at corruption, it would be necessary to create some oversight mechanism plus periodic change of the top administrator. Aside from its reporting responsibility to the President or Prime Minister, this Commission could also report periodically about its activities to the Parliament or this could be done in a broader context of reporting about the general success in attracting and stimulating private investment.

The fourth option, giving each Minister power to administer and approve investment incentives in his economic sector, could be the most effective, because each Ministry could be expected to want to promote private investments in its area of responsibility. The negative aspect of this option is that it leaves each Minister with considerable discretionary, non-transparent powers of approving incentives for specific investments. Arbitrary decision making could be curtailed only partly by establishing a transparent approval process in the law. Criteria for approving incentives might be applied unevenly by the different Ministries if there is little coordination or consultation among them.

Private sector organizations may be consulted, but should not participate in the evaluation and approval process of incentive applications. The private sector would inject biases and self-interest considerations that would tend to interfere with decisions in the best national interest.

There are, for example, some private sector groups strongly opposed to foreign investment regardless of whether it can develop export growth and other benefits for the country.

Recommendations: The best results will be attained with whatever option is chosen if the process for application approval is efficient, transparent, and dictated by established rules in the law rather than by discretionary powers of the approval authority. This can be achieved under any of the options. It probably can be best attained by forming a small independent group of trained economists and technical experts, some with private sector experience, able to evaluate investment incentive applications from different business sectors.

The evaluation and approval function can be combined in one Investment Incentive Approval Authority and be part of a larger comprehensive Private Investment Center in charge also of an Investment Promotion Agency, a An Export Promotion Agency, a Trade and Investment Information Office, and a One-Stop Shop for Investors with the umbrella Private Investment Center under the responsibility of the President or Prime Minister. Alternatively, the group evaluating incentive applications could submit their recommendations for final approval to an Investment Commission composed of various Ministries. The evaluation and approval function would be separated in this case.

D. Process of Granting Incentives

The entire process of approving investment incentives should be simplified, speeded up, made transparent, standardized, and less bureaucratic. The Investment Commission should follow exactly the provisions of the law in evaluating and determining the eligibility of applications for incentives.

Applications for exemption from duties, fees, and the consumption tax on imports of machinery or components need, of course, to include proof that all production is being exported. The information submitted must be initially verified, but some of it later occasionally and repeatedly spot-checked for continued validity. A developer who builds an access road or purchases an electric generator for his investment project must submit proof of purchase to qualify for a deduction from taxable income.

To approve incentives, the Commission should not seek detailed information about future production programs, feasibility studies, capital sources, transportation of equipment, projected cash flow, bank record, or dates when materials will be ordered. These procedures are valid for a policy objective of discouraging and restricting private investment, but not for stimulating and competing to attract private investment.

One single, simple, standard application form can be developed for all companies in all sectors applying for incentives for new investments. Peru’s Framework Law for Private Investment Article 21 requires all entities to approve and issue “a single text of administrative procedures," containing (a) the administrative procedure to be followed, (b) "a clear description of all requirements necessary to complete each administrative procedure," (c) classification of each procedure whether approval is automatic according to the law or whether it requires an evaluation by the authorities, (d) the cases requiring payment of duties and the amount of duties, (e) the address of the office where applications are to be sent, (f) the competent authority in charge of approving each procedure, and (g) the authority with jurisdiction to rule over any objections to the proceedings or decisions.

Article 22 of the Peruvian law requires an annual updating of the single text of administrative procedures and its publication in the official gazette to make the administrative process as predictable, as transparent, and as free from arbitrariness as possible. Article 23 points out that "the parties concerned shall only be required to fulfill the administrative procedures included in the single text. Consequently, no additional information, documentation or payment not expressly indicated therein shall be required under the responsibility of the processing official."

Article 24 of the Peruvian law states that "the requests filed ....shall be deemed approved on the date the corresponding request or form is filed, provided the requirements are fully satisfied and all documents required under the single text of administrative procedures for each case duly submitted. A copy of the request or form filed by the party concerned containing the official receipt seal shall suffice as evidence of the automatic approval of the request."

Article 29 states that "all documents, requests or information submitted to the entities referred to in Article 22 for administrative procedures shall be regarded as affidavits and must be countersigned by the party concerned or its representative, who shall be answerable for the truthfulness of the information and the authenticity of the documents filed; otherwise, they shall be held guilty of any of the offenses against public trust typified in Title XIX of the Criminal Code and possibly also subject to a subsequent administrative inspection."

Article 30 points out that "the entities referred to in Article 22 shall only charge the fees indicated on the "single text of administrative procedures" to perform any administrative procedures. Such fees shall only be charged when such procedures are requested by the party concerned and to the extent the entity is required to provide a service inherent in such procedure. The amount of any such fees shall not exceed the actual cost of the service, which must be duly substantiated by the administrative department of the competent entity, and shall be answerable therefor."

Article 34 states that "the public administration entities must establish only one office for the processing of documents, through which the parties concerned shall perform all procedures and obtain information required for any administrative procedures."

Article 36 states that "any public officials and employees failing to fulfill the provisions contained in Article 23 shall be held liable for infringement of discipline rules punishable ...." This article refers to the decrees that specify the penalties as well as the procedures for filing complaints before the internal control body or the Attorney General.

The Peruvian regulations have established a process for approving private investment incentives clearly designed to develop an efficient, automatic, transparent approval system to enhance private domestic and foreign investor confidence to invest.

Recommendations: The Government of Guyana should study the procedures for approving incentive applications under the Peruvian law and consider adopting those that are feasible and relevant for Guyana's objectives and strategies, because these procedures inspire confidence among private investors.

The incentive approval authority should develop a single, simple, standard form to be used for applying for investment incentives in accordance with the Investment Code. Only information directly relevant to qualify for incentives will be requested. The form will be available to any investor and will be published in the Official Gazette, with a stated commitment that no other requirements will have to be met to qualify for incentives apart from what is requested in the application form.

The conditions to be met in order to qualify need to be made sufficient clear in the law to enable each private domestic and foreign investor undertaking a new investment or expanding an existing one to determine whether or not his investment is eligible for incentives. If he decides to apply, he will need to follow the procedures and supply the information and documentation established in the application form and fill out all parts of the form that apply to his specific type of investment.

Verification and inspection of the information submitted should then take place within a pre-announced period of time, say three weeks, at the end of which a final decision will be transmitted to the applicant. Misrepresentation of submitted information should trigger substantial fines to act as incentive for truthfulness. A One-Stop Shop for Investors should be available to assist private investors to fill out correctly the incentive application and to submit supporting documentation.

Failure to issue a ruling within the specified time period should result in automatic approval of the incentive application. A negative ruling will include a detailed explanation for such a decision and the applicant will have recourse to challenge the ruling before a different public entity.

A simplified, transparent, systematic approach to the incentive approval process would significantly contribute to the confidence of private companies to invest in Guyana. The Government's investment promotion agency would be able to make a good case for companies to invest in Guyana.

E. Summary of Proposed Investment Law Provisions

A. Government Guarantees

- Right to freely organize company and business activities.
- Right to freely organize production and services.
- Freedom to distribute profits and receive dividends.
- Freedom to remit abroad royalties, profits, dividends and repatriate capital, with access to foreign exchange.
- Effective protection of intellectual property rights (copyrights, patents, trademarks, corporate and trade names.
- Non-discriminatory treatment regarding ownership, bid awards, taxation, tariffs, pricing, access to investment sectors, markets, and foreign exchange.
- Equal treatment of private and public companies regarding payment of taxes, duties, access to credit and markets.
- National treatment of foreign investment and changes in laws and regulations that are discriminatory.
- Right to private property.
- Expropriation only for infrastructure projects and compensation paid fully and promptly, including interest from date of expropriation until date of compensation.

B. Fiscal Incentives

- Accelerated depreciation for new investments in structures, plants, machinery, and equipment for all priority sectors eligible for other fiscal incentives.
- Zero duty in the customs code on all imports of machinery and equipment with no domestic equivalent of comparable quality or price.
- Exemption from all duties, consumption tax, and other charges on imports of machinery and equipment for assembly for re-export in export processing zones or exclusively for export anywhere in the country.
- Exemption in proportion of f.o.b. invoice value of exports to f.o.b. invoice value of total sales for companies which export only part of their production.
- Exemption from duties, consumption tax, and other charges on imports of machinery, equipment, building materials and furnishings for the construction of hotels and resorts.
- Exemption from duties, consumption tax, and other charges on imports of machinery and equipment for infrastructure development by private investors.
- 15-year exemption from all income taxes, withholding tax, and other taxes, duties and fees on profits from new investments in assembly operations for re-export, regardless where the plant is located in Guyana.
- 10-year exemption from all income and withholding taxes on profits from exports by a new investment or from new hotel or resort construction.

- Deduction from taxable income an amount equivalent to up to 2% of total annual payroll spent on training a company's own work force to upgrade skills and improve efficiency.
- Investments in hinterland areas to qualify for all fiscal incentives accorded to other priority sectors.

C. Administration of Incentives

- Administration by an Investment Commission consulting with, but independent of the Ministries, and reporting to the President or the Prime Minister is probably the best among several feasible alternatives.
- Investment Incentive Approval Authority can also be a division within a Private Investment Center that includes also an Investment Promotion Agency, An Export Promotion Agency, a Trade and Investment Information Office, and a One Stop Shop for Investors and for Exporters.
- A single, simple, standard form for applying for investment incentives can be developed for all qualifying priority sectors.
- Only information directly relevant for qualifying for fiscal incentives under the Investment Law should be requested.
- Verification and inspection of the information submitted should take place within a pre-announced time frame of no more than three weeks.
- Failure to reach a decision within the specified time from acceptance of a correctly filled out and documented application should result in automatic approval of the incentive application.

VI. RECOMMENDATIONS FOR IMPLEMENTING AN INVESTMENT STRATEGY

Effective and productive investment strategies succeed as much for their relevance and impact with regards to the investment climate and the business environment of a given country, as well as for their effective and proper implementation as part of an overall economic development strategy led by the government, and supported by the private sector. An investment strategy must have an organic linkage to, and flow from, a country's general strategic development objectives, all of which should be the result of a relatively high degree of national consensus, credibility, legitimacy, predictability, and stability. The implementation strategy then becomes the mechanism through which the country puts into motion its development tools.

Under the policy and institutional framework of the National Development Strategy3, Guyana has outlined a series of broad national development objectives. These are:

- Rapid growth of incomes of the population in general
- Poverty alleviation/reduction (rapid growth of the incomes of the poor)
- Satisfaction of basic social needs and economic needs
- Sustaining a democratic and fully participatory society

Likewise, the achievement of these broad development goals has been placed within a framework of policy conditions and principles for the development process, specifically that it be:

- Environmentally sustainable;
- Fiscally sustainable; and,
- Institutionally sustainable.

The linkage between the National Development Strategy, both in terms of its objectives and principles, with the development of this Investment Strategy is really centered on the issue of how to best secure stable economic growth and dynamism for Guyana, which would result in an improved macroeconomic performance and an improved economic welfare for the population of Guyana. The centrality of private investment to the formula of private sector-centered economic development is critical, as it is both the philosophical and entrepreneurial foundation upon which the notion of a market economy is built, as well as of the notion of the private sector as "the engine of growth".

To the degree that government, the private sector, and the rest of civil society reach a consensus on this centrality, then to that degree there can be a high degree of expected success for private investment strategies fulfilling their promises. To the degree that such consensus is not achieved, or is achieved with limited commitment, then there can be little expectation from an

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3 National Development Strategy: Shared Development Through a Participatory Approach. Volume I: A Synthesis of the Strategy, Chapter 2: National Development Objectives. Guyana: Ministry of Finance, 1996.

investment strategy. At the end of the day, as with most issues pertaining to economic development, the success of an investment strategy will depend on the level of policy and institutional strength (and therefore, credibility, stability, and predictability) which it commands in the domestic political and economic arena as well as in the external environment, thus leading to greater or lesser flows of investment into productive and profitable activities.

The role of credible and aggressive leadership, individual and institutional, in this matter cannot be overemphasized. But such leadership must be incorporative and not imposing, consensus-oriented and not authority-centered, and must reflect a proper balance of public and private sector needs and resources. It is because of this that this Report places so much philosophical and practical emphasis on public-private sector collaboration: Guyana's investment initiatives will be competing in a regional and international environment in which its competitors do benefit from this public-private "collusion" in support of advancing private investment. To the degree that Guyana's initiatives are founded on a similar "collusion", then to that degree we shall see tangible improvements in its private investment performance.

This section of the Report disaggregates parts of the Investment Strategy discussed in Chapter VII into a framework for implementation both in terms of the "phasing and sequencing" of policies, legislation, and institutions supporting investment, as well as the specific, operational mechanisms for the actual administration of the Investment Strategy.

The following table details both phasing and sequencing options for the implementation recommendations, as well as for the mechanisms for the administration of the Investment Strategy itself. The principal headings for this implementation framework are:

- The policy arena; referring to the public and private sector policy framework within which the strategy must be implemented, as well as to the policy commitment which is required for an effective performance;

- The legislation arena; referring to the body of laws and regulations which will form the "rule of law" core essence of the strategy; and,

- The institutional arena; referring to the organizational requirements for the effective performance of the strategy.

All these are intricately linked and co-dependent on the other and do not really afford themselves a priority sequencing format. As such, it behooves government, and the private sector, to carefully assess the implications and requirements for the effective implementation of the strategy with all these (pre)requisites in mind. In the final analysis, effective implementation will be the result of a firm and decisive government commitment to provide the proper and adequate policy and resource conditions which will enable this Investment Strategy to initiate and implement its components.

IMPLEMENTATION FRAMEWORK
FOR INVESTMENT STRATEGY COMPONENTS

IMPLEMENTATION AREAS	**IMMEDIATE 1-2 YEARS**	**MEDIUM-TERM 3-4 YEARS**
POLICIES		
Macroeconomic stability - trade and exchange rate - monetary - fiscal - credit and financial	- Continuation of ERP and stabilization policies, as well as institutionalization of government policies - Stronger public-private sector synergy and commitment to economic reform - Restructuring of productive sectors to improve efficiency and increase productivity - Improved institutional environment, especially in terms of public sector operations and reform of the public sector - Sectoral rehabilitation and improved institutional support system	- Improved international competitiveness, especially in new export areas - Revitalized sectors (esp. manufacturing), and new sectoral developments (tourism and other services) - Improved human resource conditions - Stable market-oriented regime for national economic development
Government as private investment "facilitator"	- Cementing policy framework in support of private investment, including use of marketing and promotion - Continued policy of privatization and 'opening' up productive sectors to private investment, domestic and foreign - Increased participation of private sector in national investment process - Institutionalization of investment reform initiatives, especially in removal of constraints to investment, as well as phase-out and removal of discriminatory policies and regulations - Improved performance of Guyana in attracting investment, foreign and domestic	- Consolidation of a stable and predictable 'business-enhancing' environment, favorable to domestic and foreign private investment - Improved competitiveness of Guyana as a site for investment and increased investment performance at national and sectoral levels

IMPLEMENTATION AREAS	IMMEDIATE 1-2 YEARS	MEDIUM-TERM 3-4 YEARS
Public-Private Sector "Partnerships"	- Strengthening of private sector institutions and their advocacy role vis-á-vis the government - Private sector institutionalized participation in government-led investment initiatives - Private sector assistance to government in process of stimulating private investment - Private sector influence in government public policy process, especially as it pertains to economic development, investment, fiscal measures, etc. - Private sector involvement and support to government economic reform program: investment, trade liberalization, trade negotiations, etc.	- Institutionalized private-public sector collaboration in areas pertaining to economic development: trade, investment, fiscal policies, etc. - Joint public-private sector institution(s) working to promote investment in Guyana
LEGISLATION		
Regulatory reform process	- Government policy commitment to advance recommendations of NDS and other reports re: reform process for tax regime, Companies Act, export processing legislation, licensing requirements (export, investment, patents, standards), financial and credit system, capital markets, infrastructure and utilities, civil service, land tenure, etc.	- Competitive legislative and regulatory reforms, above political partisanship and focusing on private sector and market factors
Fiscal Incentives Regime	- Policy commitment to establishing a fiscal incentives regime to attract private investment - Government negotiations to establish fiscal incentive and taxation scheme to attract private investment as part of negotiations with IMF regarding completion of ERP and ESAF -	- Competitive fiscal incentive system which supports private investment and export development and competitiveness in "lead" sectors
Investment Code & Law	- Continued government and private sector policy commitments to advancing Guyana's investment competitiveness via legal and regulatory processes - One comprehensive framework "omnibus" law for private investment, with both global and sectoral applications	- Permanent investment law with revisions and "upgrading" as private investment flows develop and show and investment "learning curve" for Guyana - Stability and permanence of incentives regime, regardless of political developments, elections, governments, etc., thus demonstrating to the private sector -- domestic and foreign -- the high degree of predictability and credibility which exists in Guyana with regards to private investment

IMPLEMENTATION AREAS	IMMEDIATE 1-2 YEARS	MEDIUM-TERM 3-4 YEARS
INSTITUTIONS		
Administration of incentives	- Cost-Benefit assessment of the institutional options presented in the 1997 Investment Strategy Report, with developed consensus amongst private and public sector - Firm and final decision by government regarding the institutional mechanism(s) and structure(s) for incentives administration and decisions	- Stable, credible, legitimate, and predictable institutional mechanism(s) and structure(s) for the administration of an incentives regime - Rationalization of investment incentives process - Improved efficiency and effectiveness of Guyana's private investment performance
Investment promotion (and export development)	- Firm and final decision by government regarding the institutional form of investment and export development initiatives - Government and private sector commitment to advance a joint effort for the development of an institutional framework and process - Mechanisms for government and private sector commitment and support to the effective institutionalization of this process - Proper allocation of resources (human and financial) for advancing the tasks of aggressive promotion abroad of private investments and exports, including domestic and foreign business liaisons, and of identifying new investment opportunities in Guyana for private investment	- Effective agency(ies) in support of private investment, responsible for promotion and marketing, implementation and administration of investment regime and of specific investment agreements and "packages", and for linkage to overall national economic development strategy. - Multi-sector focus, as per cost-benefit analyses of Guyana's "lead" and competitive sectors
Private sector initiatives	- Consolidation of private sector efforts to work with government on investment and trade matters - Effective participation in process for the preparation of government's Investment Strategy - Commitment of resources and institutional support and collaboration to government's Investment Strategy	- Effective private sector participation and "stakeholder" status in national investment strategy efforts (policy direction, administration and institution, resources) - Joint public-private sector investment and export development institution

APPENDICES

APPENDIX A

SECTOR SPECIFIC INVESTMENT OPPORTUNITIES AND CONSTRAINTS

Traditionally, Guyana's economy has centered around a limited range of raw material exports - sugar, bauxite, and rice. More recently gold has become an important export and significant sector in the economy. Similarly, forestry and to a lesser extent wood products have emerged as a dynamic sector in the economy. To further diversity the production and export base, the Government of Guyana (GOG) has been encouraging the development of the manufacturing sector (including agro-processing) and tourism. There is considerable potential in both Guyana's traditional exports and the more recent non-traditional exports. An important plank of Guyana's development strategy would have to be to improve the efficiency and competitiveness of its traditional exports simultaneously promoting the competitiveness of its non traditional activities to maintain and expand market share in international markets.

Guyana's traditional exports, notably sugar and rice, depend on preferential trading arrangements with the European Union receiving above world market prices. To survive in the medium/long term important changes will have to be implemented for these industries to be competitive at international prices.

The presence of natural resources - minerals and forests -- is attractive to private investors, but to attract and sustain private investment, Guyana would need to implement key policy and institutional changes to remove the constraints facing specific industries to encourage private investment and maximize their export.

A. AGRICULTURE

A.1 INTRODUCTION

Agriculture is the most important sector of Guyana's economy. In the period 1993-96 agriculture was estimated to contribute an average 30% of GDP[iv]. In addition, agriculture contributed approximately 29% to employment and is a vital source of foreign exchange. The sector's main subsectors are: sugar, rice, fishing, fruits and vegetables with sugar and rice being the two leading agricultural commodities. Fruits and vegetables are the principal non-traditional agricultural crops and their further development is intended to diversify Guyana's agricultural base.

A.2 SUGAR

(a) Recent Performance

Sugar is produced by the parastatal Guyana Sugar Corporation (GUYSUCO), under private administration (Booker Tate Management contract). GUYSUCO consists of eight milling/planting units, and harvests approximately 105,000 acres. GUYSUCO also buys cane from 1,900 small farmers, who produce on 10,000 acres.

The Bank of Guyana (1996) report estimated that real value added in the agricultural sector grew by 28% largely as a result of the performance of sugar and rice. Value added growth by the sugar industry was estimated at 10.4%. This performance reflected a 10.2% increase in sugar production to 280,066 tonnes. In Table 1 there is a noticeable increase in sugar production from 246,528 tonnes in 1993 to 280,066 tonnes in 1996. The Bank of Guyana (1996) report attributed the favourable performance of the sugar industry in 1996 to an increase in the acreage harvested, a rise in farm productivity levels to 30.2 tonnes per acre as compared to 28.5 tonnes per acre in 1995 and an improvement in factory productivity.

Table VI.1: Selected Production Indicators - Sugar and Rice

Commodity	**1993**	**1994**	**1995**	**1996**
Sugar (tonnes)	246,528	256,670	253,870	280,066
Rice (tonnes)	210,236	233,435	315,301	334,575

Source: Bank of Guyana (1996, p 10)

(b) **Constraints**

The revitalization of the sugar industry since 1992 does provide empirical evidence to be optimistic about the industry's future. The recent experiences of the European Union's Special Performance Sugar (SPS) Agreement, to cover mainly the Portuguese market, represents another positive development in the industry. However, notwithstanding these developments, there is cause for concern about the industry's medium/long-term development. Principally, the concern surrounds the future of preferential arrangements for sugar in the EU market. The creation of the World Trade Organization (WTO) and the establishment of rules and 'norms' in the multilateral trading system will seriously challenge the trade preferences provided by ACP producers in the EU market. It is anticipated that after the expiration of the Lome Convention that preferences will be removed and ACP producers will have to be competitive at world market prices. This represents the single most important challenge facing the sugar industry.

(i) Cost of Production

Under the existing preferential arrangements, Guyana's access to the EU market is guaranteed through the sugar protocol, under which Guyana enjoys an annual quota of 163,000 tonnes. The price in the EU market is a function of the internal EU sugar price established through the Common Agricultural Policy (CAP). As mentioned earlier, additional access was provided to the

EU market in 1995 through the SPS Agreement with a price of US$544 per ton, a premium of approximately US$280 per ton over the world price in 1995[v]. The US market is also important to Guyana and Guyana enjoyed a quota of approximately 21, 000 tons in 1996. Sugar is also sold at above world market prices.

In these circumstances, there are no competitive market pressures for the industry to ensure that costs of production are at or below world market prices. World Bank (1997) estimates indicated that the average cost of producing sugar in Guyana was US$0.19 per pound in 1996. The National Development Strategy (NDS) reviewed price forecasts for the industry in the year 2000 and established a mean forecast of US$0.13 per pound. GUYSUCO has developed a five year strategic plan and has identified improving the international competitiveness of the industry as the principal objective and has set a target of reducing costs of production to US$0.13 per pound by the end of the plan period. Angel (1996) on the basis of domestic resource cost (DRC) analysis concluded that it is profitable for Guyana to export sugar to the EU and US markets. However, in the absence of preferential trading arrangements and given real price projections for the US and World sugar markets, Guyana is uncompetitive on the world markets. Of course, this assumes the cost structure does not improve by the year 2000.

GUYSUCO estimates indicate that improvements in the costs of production centre around reducing field costs via increased field yields. At present the average cost of production of US$0.19 per pound is composed of field costs of US$0.11 per pound; administrative costs of US$0.05 per pound and factory costs of US$0.03 per pound[vi].

To achieve lower unit costs the strategic plan has indicated that yields must increase from 32 tonnes of cane per acre to 37 tonnes of cane per acre. This is to be achieved by first, adopting a labour-intensive cutting system with a mechanical loading system which will significantly reduce costs. Secondly, transportation costs from the field to the factory will be reduced. Finally, new field practices that are productivity enhancing will be introduced. Therefore, GUYSUCO under the present ownership structure (92% owned by the Government) with a Booker Tate management contract has developed a strategic plan to create an internationally competitive sugar industry.

At present, Guyana is the most competitive sugar producer in the Caribbean Community (CARICOM). GUYSUCO estimates that the average costs of production in 1996 in Jamaica were US$0.26 per pound, in Belize US$0.28, in Barbados US$0.30 per pound, in Trinidad US$0.31 per pound and in St Kitts/Nevis US$0.40 per pound. The superior cost competitiveness of the Guyanese sugar industry is attractive to private investors, but the industry needs to achieve international competitiveness in the medium term, to encourage private investment.

(ii) Factory Inefficiency

A serious constraint to the increased competitiveness of the sugar industry is the dilapidated state of the sugar factories which is resulting in a lot of efficiencies. The NDS (1996; p 33-7) estimates the age of the equipment in the sugar factories to be as old as seventy years.

GUYSUCO in its five year strategic plan has identified the rehabilitation and development of two sugar factories as a priority in the medium-term development of the industry. GUYSUCO has a cash reserve of US$15M for its capital programme and will use loan capital to completely finance the capital programme. The full implementation of the capital programme to rehabilitate the sugar factories is a necessary condition for improving the competitiveness of the industry and making it attractive to private investment.

(iii) Shortage of Skilled Personnel

The NDS (1996) has clearly indicated that there is a shortage of managerial and technical skills in every major area of activity. GUYSUCO has implemented an aggressive recruitment drive but there are vital skilled personnel that are still required.

(iv) Quality Improvement

The achievement of international competitiveness also requires that there are improvements in cane quality via the introduction of sucrose enhancement. The NDS (1996 p. 33-17) indicated sucrose enhancement (or "chemical ripening") technology is projected for all GUYSUCO estates from 1996 onwards. "The projection for the strategy, therefore, incorporates cane quality parameters (pol % cane and first expressed juice purity) which have been predicated to show improvements on the basis of all Berbice estates using cane ripening chemicals in and after first crop 1996 and with full adoption in Demerara in second crop 1996. The widespread introduction of sucrose enhancement technology aligns GUYSUCO with the sugar industries of Hawaii, Southern Africa and Jamaica, where such technology is long established practice".

(c) **Prospects**

The outlook for the local sugar industry is quite favourable if certain improvements are made to ensure that the industry is competitive at world market prices. GUYSUCO has developed a five year strategic plan aimed at achieving international competitiveness. A core element of the plan is reducing costs of production from US$0.19 per pound to US$0.13 per pound or forecasted world market prices. It is essential that this is achieved prior to the removal of preferential trading arrangements in the EU. Improvements in the competitiveness of the industry will also require higher levels of skilled personnel, the rehabilitation and development of sugar factories and improvements in cane quality. If these adjustments are made then the sugar industry will become internationally competitive and will have good long-term prospects.

A.3 RICE

(a) Recent Performance

Rice is Guyana's second major agricultural commodity after sugar. Domestic consumption demands are met by the local industry and rice has also emerged as an important source of export earnings and employment. The NDS (1996) indicates that recent data on employment is not available but the last agricultural census in 1978 indicated that just over half of Guyana's farmers were growing paddy, an estimated 12,000 households.

The Bank of Guyana (1996) report estimated that in 1996 value added in the rice industry grew by 6.2%, reflecting a 6.1% increase in gross output to 334,575 tonnes. The data in Table 1 indicates that there was a substantial increase in rice production from 210,236 tonnes in 1993 to 334, 515 tonnes in 1996. The noticeable increase in output is attributable to an increase (2,3%) in the acreage harvested and a modest improvement in paddy yields from an average of 24 bags per acre in 1994 to 26 bags per acre in 1996.

(b) Constraints

Angel (1996) argued that rice production in the past was constrained by the lack of properly maintained drainage and irrigation systems in some areas, the state of land tenure which deterred investment by producers in these irrigation systems, poor price and exchange rate policies which taxed the sector, and constraints on credit and the availability of machinery. The NDS (1996) has identified the critical contemporary constraints facing the sector as a weak regulatory framework for the private sector, uncertainty surrounding preferential trading arrangements, limited milling capacity, land tenure and field productivity.

(i) Regulatory Arrangements

The privatization of the rice industry was not adequately complemented by appropriate regulatory arrangements to ensure that the local industry met internationally acceptable quality standards. The NDS (1996) indicates that failure to do so has put Guyana's reputation as a rice exporter at risk. This has resulted from the following problems:

- exporters enter into contracts when they are not always able to fulfill the contracts;
- inconsistent quality of rice exports;
- quality and quantity of exports inconsistent with contracts;
- grading of rice and paddy in Guyana is not recognized internationally, resulting in grading at the destination that can delay payment to exporters and deter potential importers.

To overcome these problems the Guyana Rice Development Board in collaboration with the rice producers must develop a set of regulations and standards relating to rice quality, contractual procedures etc to ensure that the industry meets acceptable international standards. The NDS

(1996) indicated that the Rice Act (1994) introduced stiff penalties for reneging on contracts and these must be enforced. Furthermore, standard contract forms must be developed with consistent specifications on rice qualities to ensure that standards are met.

To ensure that rice is produced at an internationally acceptable quality there should be improvements in grading services. The provision of tax concessions for rice processing and packaging equipment could assist millers in upgrading equipment. To complement the tax concessions millers must have access to credit to be able to purchase the equipment.

(ii) <u>Limited Milling Capacity</u>

Lack of adequate investment in the milling sector is resulting in deteriorating milling facilities without the necessary improvements in equipment, particularly the availability of dryers. This is especially concerning since the growing markets in CARICOM and potential markets in Latin America, for example, Colombia, are mainly for parboiled rice.

The required investments in drying and storage area facilities are constrained by limited access to credit. The high nominal lending rates of 19% or more make the cost of loan capital prohibitively expensive for most millers. The NDS (1996 p. 26-9) indicates that the "smaller mills find it difficult to access credit to upgrade their mills as the cost of upgrading exceeds the value of existing equipment, which is therefore not accepted as collateral". In addition, the existing equipment was invariably purchased by borrowing which is still being repaid which further reduces its acceptability as collateral.

Removing the collateral problems faced by rice producers is important for the survival and achievement of international competitiveness by the rice industry. Two important options exist to overcome the basic collateral constraints:

- Commercial banks lending to "groups" of farmers would allow the pooling or “bundling” of assets that can combined effectively guarantee each individual loan.

- Improvements in the land tenure system that permit the conversion of existing leaseholders to long-term transferable leases would increase farmers collateral.

Reducing the cost of credit requires low lending rates which is fully addressed in the discussion on macroeconomic policies.

Milling activities are adversely affected by the frequent electricity outages and in the variations in the electricity supply. This has lead to increased inefficiency, higher costs of production and damage to rice milling equipment.

(iii) Preferential Markets and Competitiveness

Guyana sells a significant quantity of its rice under preferential trading arrangements in the EU markets. In 1995, approximately 93% of Guyana's exported rice went to the EU, either directly or via the European Overseas Territories of Montserrat, Curacao and Aruba. Guyana's rice in its "cargo" form receives a higher price than the world market price for rice. Guyana's remaining rice exports are to CARICOM countries.

Angel (1996) indicated that costs of production of a typical small or medium farm are approximately US$395/mt, and US$337/mt for a large farm, including a 25% mark up for producer profits. These costs can be compared to the USA (US$256/mt), US$186/mt in Thailand and US$167/mt in Vietnam. In addition, Angel (1996) converted current cif world rice prices to fob Guyana, a deduction of US$75/mt was made for shipping, leaving a net world price for 1995 of US$203/mt. It is clear that to achieve international competitiveness and ensure the survival of the industry after the expiration of the preferential arrangements there will have to be significant reductions in the costs of production[vii].

To achieve lower per unit costs of production will require that yields per acre increase, so that unit costs per bag will fall. In addition, it would mean that there are reductions in transport costs and improvements in quality, so that Guyana's rice fetches prices that are at the upper end of the market.

The NDS (1996) argued that to lower the current level of costs of production (US$337/mt) average yields would have to increase in the medium-term (2-3 years) from 25 bags per acre to 33 bags per acre. Correspondingly, the costs of production per metric tonne would fall to approximately US$248 for large farms and US$291 for small and medium-sized farms. In addition, costs of production could be further reduced if a deep water port is developed.

Local estimates[viii] indicate that shipping in larger ships will reduce international transport costs by approximately US$35/mt. Consequently, a deep water port would reduce costs to an fob price of around US$237/mt. In these circumstances, large farms would become far more competitive but there would still be a problem for small and medium-sized farms.

(iv) Land Tenure

Notwithstanding the fact that there has been a large increase in land under rice cultivation there still remain serious constraints to the transfer of lands eg transfer of leases are not permitted, sub leasing is not permitted and applying for leases is time consuming. These constraints have restricted the ability of rice producers to rapidly expand production to maximize the benefits offered by the relatively "high" prices offered under the preferential trading arrangements.

The NDS (1996 p.26-10) argued that "time delays in the processing of lease approvals and extensions; short term leases without renewable options; the prevention of the transfer of leasehold land into freehold: these factors all contribute to the lack of security of tenure experienced by rice farmers occupying state lands." Lack of security of tenure reduces the ability of farmers to obtain credit and more importantly farmers will be unwilling to make long-term investments in the land. Therefore, to improve productivity and achieve international competitiveness security of tenure must be achieved.

The problem of land tenure is an economy wide constraint to economic development and is applicable to a wide range of economic activities.

(c) **Prospects**

Despite the fact that Guyana's rice industry is presently not competitive at world market prices the future of the industry could be positive provided that certain adjustments are made. The principal concern centers around achieving international competitiveness via reductions in the costs of production. This will require that the following targets for the industry are met in the medium/long term (3-5 yrs):

- An appropriate regulatory framework to ensure international standards are met.
- Improved and expanded rice milling facilities.
- Reliable electricity supply.
- Security of land tenure.
- Large increases in yields via technological improvements including high-yielding varieties.
- Improvements in the quality of the product.
- Development of a deep water port.

Despite these changes, concern remains over the future of the small and medium sized farms. The above targets if met will primarily improve the competitiveness of the large farms. The achievement of the above targets in a 4-5 year time period will guarantee the competitiveness of the industry beyond the existence of the preferential trading arrangements.

The prospects for the industry at the global level are quite encouraging. Angel (1996) argued that over the next ten years world production is expected to increase by 1.5% per annum. It is expected that the US share of the rice market will fall from 20% in 1990 to 12% in 2005. Increased exports are expected from Thailand, Brazil, India, Pakistan and China, with little or no growth in exports from Vietnam and Burma.

Rice production is not expected to match demand increases in Central America, the Caribbean and most of South America, except Brazil, leading to increased imports into the Region.   This is of considerable importance to Guyana given the country's proximity to these markets. As mentioned earlier, this will require improvements in milling capacities to meet the projected increased demand for parboiled rice in these markets.

Despite the increases in demand, supply is expected to respond adequately to mitigate any strong upward movement in prices. Angel (1996) pointed out that World Bank estimates for real milled rice prices are for US$236/mt in 2000 and US$233/mt in 2005 compared with US$237/mt in 1995.

In summary, rice can be an attractive target sector for private investment provided critical changes are made in the medium/long-term to improve international competitiveness.

B. NON-TRADITIONAL AGRICULTURE ("OTHER" AGRICULTURE)

B.1 RECENT PERFORMANCE

Non traditional or "Other" Agriculture in Guyana relates to the sub-sector that excludes rice, sugar, forestry and fishing. A wide range of commodities are produced by the sub-sector for domestic consumption and export. Data available in the NDS (1996) and from the New Guyana Marketing Corporation[ix] indicate that the major non-traditional crops can be classified as follows:

Ground provisions:	Cassava, sweet potato, yam, plantain, tannias/dasheen.
Vegetables and Greens:	Tomato, pumpkin, peppers, egg plant, cucumber, bora, squash.
Fruits:	Bananas, mangoes, pineapple, watermelon.
Spices:	Ginger, tumeric, hot pepper.
Seasonings:	Thyme, basil.
Citrus:	Lime, grapefruit, orange.

Non traditional agriculture is usually small and medium sized farms that use a low level of technology and are labour-intensive. The New Guyana Marketing Corporation estimates that the output of most non-traditional crops has increased by approximately 20% in the 1990s. Guyana is now self sufficient in vegetables and fruits.

B.2 CONSTRAINTS

Recently, the export volumes of non-traditional crops have increased through the initiatives of small traders rather than through the operations of organized enterprises. The non-traditional crops offer considerable export potential and can assist in diversifying Guyana's export base and agricultural sector. However, some important constraints need to be overcome:

(a) Land and Infrastructure

The administration of state lands is inefficient and not entirely transparent. There is no clear identification of which lands fall under the jurisdiction of the Lands and Surveys Department, Geology and Mines Commission and Forestry Commission. In addition, a lot of lands utilized by non-traditional crops are severely affected by poor access and decaying infrastructure. At present, the drainage and irrigation infrastructure is more appropriate for sugar or rice and not for some non-traditional crops.

The Government of Guyana (GOG) must strengthen the Lands and Surveys Department with technical staff and equipment to improve the distribution of state lands. This would imply improvements in surveying capability. The establishment of a comprehensive land use policy and the coordination of land use with other land management agencies would greatly assist in improving the efficiency in the distribution of state lands.

(b) Extension Services, Research and Development

Extension services and research and development in agriculture are conducted by the Ministry of Agriculture, State Agencies, and regional and international agencies. Coordination difficulties resulting from limited financing and staff shortages result in research not related to specific crops or farmers needs.

The extension services of the Ministry of Agriculture are adversely affected by staff shortages, lack of transportation and low salaries. The NDS (1996) estimates that as a result of these constraints the 1994 Extension Services Programme could only achieve 50% of its targetted regional visits and 30% of its in service training.

To improve extension services and research and development efforts the key issue is attracting the required skilled personnel to provide these services. This will mean improvements in salary and working conditions. The issue of salary increases for essential technical personnel is a matter under review by GOG.

To encourage research and development in the private sector a tax credit may be provided to farmers to reduce their tax liabilities if they spend at least 5% of their total expenses per annum on research and development. Given the present status of farms in Guyana this will probably only be accessed by some large farms. Small and medium sized farms are invariably not engaged in research and development. Therefore, a lot of the responsibility for providing support services in Agricultural Research and Development will still fall to GOG.

(c) **Credit and Investment**

Given the range of constraints facing agriculture - poor extension services, poor infrastructure, land tenure insecurities, lack of collateral etc - there is great reluctance on the part of financial institutions to lend to agriculture, particularly small and medium sized farms. The further expansion of non-traditional crops will require increased access to credit. However, in the present environment this will probably only be available to large established farms.

However, there have been domestic policy responses that are encouraging for farmers. The facilities offered by the IPED initiative has provided some assistance. Greater access to credit will require further development in the financial system with commercial banks or other financial institutions eg credit unions developing special lines of credit for agriculture. This will require that farmers present well prepared 'bankable' projects for financing.

(d) **Transportation**

The poor state of the roads and the lack of adequate access roads has increased the costs associated with internal transportation. Damage to crops and delays in delivery for local markets and shipping are frequent problems associated with the poor road infrastructure. Poor transportation facilities are an important factor explaining the wide spread between ex-farm and retail prices.

Exporters are seriously affected by poor port facilities, limited cargo space and the frequent need for transhipment of goods via Trinidad. Improvements in the port infrastructure, particularly a deep water harbour to permit the entry of larger ships is an economy-wide constraint that affects all exporters.

(e) **Marketing**

The New Guyana Marketing Corporation (NGMC) estimates that 20-30% of the farmers (notably exporters) use the NGMC. The other 70-80% are independent national farmers. In addition, the NGMC estimates that approximately 30% of the trade in non-traditional crops is unofficial trade that is not officially recorded as exports. In many instances, farmers are not aware of input suppliers and local and export market opportunities. An agency such as the NGMC should be developed to be fully aware of market opportunities and inform farmers on a timely basis. The agency can also help farmers in accessing inputs and credit. These services could be provided on a cost recovery basis to farmers to reduce the pressure on Government's finances and ensure sustainability.

B.3 PROSPECTS

Angel (1996) in examining the potential of non traditional agricultural exports computed DRCs for pineapple. The analysis pointed out that Guyana could develop a comparative advantage but the exchange rate would need to move closer to its "equilibrium" level[x]. In addition, there would have to be improvements in production practices and handling.

Angel (1996) concluded that Caribbean pineapple exports, in general, will not be price competitive with exports from Central America but niche markets could be developed for special varieties such as the Montserrat varieties as exist in Guyana. Therefore, the industry offered potential but the specific constraints must be addressed.

The case of pineapple illustrates the prospects for non-traditional crops. Guyana probably enjoys a comparative advantage in a select group of non-traditional crops and these must be emphasized in any national effort to promote non-traditional exports. Further analysis of the competitiveness of Guyana's non-traditional crops must be done to identify the possible activities with export potential. GOG would need via an agency eg NGMC to provide specialized marketing and other support services to farmers to encourage the expansion of non-traditional crops. At present, the sub-sector is experiencing haphazard development in the absence of clear policy initiatives and assistance from GOG to encourage farmers to further diversify and expand production. Therefore, the prospects in the medium-term are largely conditional upon the implementation of the policies and programmes to address the constraints inhibiting the expansion of non-traditional crops.

C. MINING

C.1 INTRODUCTION

Generally, the global mining community sees Guyana as bauxite as it sees South America as gold and Botswana as diamonds. However, recently that perception has been changing as Guyana's bauxite industry has been declining and there has been significant growth in the gold industry[xi]. At present, the bauxite industry is state owned and managed whereas, gold and diamond mining is in the private sector. Historically, gold and diamond mining was small, and there was no large mining operation until 1993 with the coming onstream of the OMAI mine. River drudging and placer mining have remained individual entrepreneurial activities. The state has attempted to control gold mining through title concessions, and the collection of lease fees, royalties and taxes. The state provides limited technical support to the sector.

C.2 MINING POLICIES

Bauxite is a state monopoly and hence is not covered in the 1989 Mining Act. The Act supersedes the 1903 Mining Ordinance. However, the land grants given under the 1903 Ordinance are still valid. The Act deals with base metals, precious metals, industrial minerals, and dimension stones. The ownership of minerals, or subsoil wealth in Guyana like much of the world, rests with the state. GOG owns as much as 93% of the potential mining lands.

The Mining Act designated the Minister responsible for mining and the Guyana Geology and Mines Commission (GGMC) to enforce the act. The Guyana Natural Resources Agency (GNRA) is responsible for planning development of energy, minerals and forestry resources.

In 1997, the Government announced the main features of the Government's Policy For Exploration and Development of Minerals and Petroleum Resources of Guyana. The Draft Mineral Policy established standard fiscal regimes and agreements. The concessions, leases, royalties and time periods for approval are specified in the policy.

In the draft policy Guyana allows three types of mining: (a) large scale, (b) medium-scale, and (c) small scale enterprises. Small scale is defined as 1,500 feet by 800 feet for pork knocker and 1 mile by 1 mile for river dredging. Medium-scaled prospecting covers an area between 150 to

1,200 acres; and large -scale is defined as an area between 1,200 acres to 20 square miles.

The draft Mineral Policy defines the processes for the approval of leases, licenses etc for each type of mining operation. At each stage of the process a different license is granted. The following are the stages as one proceeds towards a mining operation:

- Geological/Geophysical/Geochemical Surveys: a widescale looks to learn about the geology of the area and so identify attractive properties for the next stage of investigation.

- Prospecting: determining grade and quantity of reserves if any in a target property.

- Mining.

In the Draft Mineral Policy there is no separation of prospecting and mining at the small-scale. The intended claim holder has up to two months to file his claim(s) which should then be verified. At the medium-scale level economic mining can be pursued from the point at which the property for prospecting is granted (prospecting permit). This allows the holder to start earning if possible while the prospecting programme is ongoing, at the end of which a formal mining programme is to be presented based on identified reserves.

At the large scale level, no mining is allowed until prospecting is completed and a mining license applied for and granted on the basis of a mining plan for the proven reserves. Prospecting licenses are granted for a period of three years under the condition that annual programmes for prospecting must be submitted, approved and implemented. The period of prospecting can be extended if an application is submitted.

Geophysical broad-based airborne appraisals and geochemical surveys have traditionally been conducted by the GGMC with the assistance of aid programmes of the UN and other agencies. In 1994, Golden Star resources was granted the first commercial survey license, the second to BHP in June 1996 and shortly thereafter the third to Xanuteba of Brazil. Under the commercial licenses the private company has first access to the deposits that have been identified and those not taken up are sold by auction.

The commercial licenses last for two years, 50% of the area granted being relinquished at the end of the first year. Approximately 15% of the original area may be applied for and retained as prospecting licenses at the end of the second year. All data obtained are submitted to the GGMC.

Generally, export licenses to export gold are only granted to the large-scale exporters eg OMAI. All other operators are required to sell gold directly to the Gold Board. Recently, the Government instructed the Gold Board to license 8-10 private operators to export gold and they can buy gold from any supplier.

The Draft Mineral Policy established a standard fiscal regime for the mining sector. The main features of the standard fiscal regime for large scale mining and prospecting enterprises are the following.

- Royalty; 5% of production or of gross revenues
- Income Tax: 35%
- Depreciation: 20% straight line
- Duty and consumption tax concessions: Zero rating of duties and consumption tax on all equipment, process materials and spares to be used during and in the course of surveys, prospecting and mining, by the license holder and his contractors; except food and beverages. Fuel attracts 10% cif consumption tax.
- Withholding tax set at 6.25% of dividends.

The existing regime of the royalty payments - 5% for gold, 3% for dividends, plus 2% in lieu of income tax is applied to small and medium-scale operations. It should be noted that GOG has been zero rating duties and taxes on more and more of production plant, equipment and materials and will continue to do so as far as budgetary requirements allow.

Small and medium scale properties can be held only by national but there are no restrictions on the holding of large scale properties. Large scale enterprises may be entirely foreign-owned, by locals or in any joint venture arrangement.

As mentioned earlier, the bauxite industry is state-owned. In 1971, the Demerara Bauxite Company was nationalized and renamed Guyana Bauxite Company. Reynolds was nationalized in 1975 and renamed Berbice Mining Enterprise (BERMINE). GUYMINE was dissolved in 1992 and was replaced by LINMINE and BERMINE. The Aroaima Bauxite Company came on stream in 1990 and is a 50/50 joint venture between GOG and Reynolds International. Note, LINMINE and BERMINE are controlled by the Bauxite Industry Development Co Ltd (BIDCO), a state owned holding company.

C.3 RECENT PERFORMANCE

In 1996, the mining sector grew by 15.2% compared to a decline of 11.4% in 1995 and growth is forecasted at 16.8% for 1997. The Bank of Guyana (1996) report attributed the improved performance to higher output in bauxite and the recovery of gold production.

In 1996, bauxite products, excluding refractory (RASC) and aluminous A grades (AAC) recorded increased production largely as a result of favourable external markets. Metal grade (MAZ) continued to demonstrate a strong performance increasing by 27.5 % to 2,165,876 tonnes.

Chemical grade (CGB) also exhibited strong growth increasing by 31.2% to 132,257 tonnes. In contrast, RASC output declined by 19.3% in 1996.

Gold output continued on an upward trend increasing by an estimated 37.1% or from 289,514 ounces in 1995 to 396,860 ounces in 1996. The substantial increase was largely due to the resumption of production at OMAI and higher declaration by traditional miners. Output at OMAI increased by 29.4% to 254,950 ounces. Declarations to the Gold Board, a reliable indicator of production by the traditional miners increased by 53.5% to 141,910 ounces.

C.4 CONSTRAINTS (SECTORAL LEVEL)

The Study will now attempt to identify the principal constraints facing the mining sector focusing exclusively on gold and bauxite. There are general constraints that are equally applicable to bauxite and gold and constraints to each sub-sector. The sectoral level constraints are the following:

(i) Access to Investment Financing

The cost of prospecting for minerals is high. Miners acquire mining licenses that are not accepted as collateral by local commercial banks. The lack of collateral is a serious constraint to small and medium scale exporters but not to large companies. Another difficulty is that miners cannot access capital on the basis of mining rights. This is possible in some countries where the mineral reserves can be reasonably quantified.

(ii) Land Titling

Under the Mining Act all minerals are vested in the state. The NDS (1996 p. 32-34) pointed out that in relation "to the demarcation of Amerindian Lands, under the current laws of Guyana different enterprises could have rights to different minerals within the same land unit. It is envisaged that this provision could potentially cause problems".

To improve the security of titles it is imperative that there is a tighter set of regulations for the Act with respect to the granting of mining titles. A related issue concerns the uses to which concessions can be put. In some instances, different kinds of minerals are discovered and are still exploited. Alternatively, concessionaires are disappointed with the quality or quantity of deposits and decide that the forestry on the land is more valuable than the minerals. Regulations concerning these issues must be tightened up. It is recommended in the NDS (1996) that in the case where the concessionaire wishes to transfer all or part of a concession to a non-mining use, this should be permitted if a new place is negotiated with the new concessionaire and a transfer fee is paid to GGMC.

(iii) Availability of Labour

The mining sector is faced with shortages of local geologists, engineers and drillers among others. A limited number of graduates are leaving the University of Guyana in these fields and very few scholarships are being offered. In these circumstances, some mining companies, have begun to recruit personnel with mining-related skills from overseas. The NDS (1996) indicated that GGMC will collaborate with the University of Guyana in designing a programme for centres of excellence in geology and mining. The institutions will seek contributions from mining companies to finance chaired positions, salary supplements for the faculty in the centre, and research activities for faculty and graduate students.

(iv) Access to Services

The underdeveloped nature of the infrastructure e.g roads and essential services (including education and health) is a serious impediment to investment. It requires companies to make significant investments in infrastructural development which benefit the entire community but companies are not offered fiscal incentives to reduce the costs of these investments. The poor access to essential services also adds to companies costs as adequate provision must be made for these services if required.

Fiscal incentives offered to investment in mining in the hinterland must be extended to include infrastructural investments undertaken as part of the total investment. Therefore, this means that related infrastructural development will be defined as part of the investment and granted fiscal incentives.

C.5 CONSTRAINTS: GOLD INDUSTRY

The specific constraints facing the gold industry centre around royalty rates, the fiscal regime for mining and environmental concerns.

(i) Royalties

The royalty rate of 5%[xii] imposed by Guyana is higher than in most countries and combined with a corporate tax rate of 35% places Guyana at the top end of the international scale for taxation on gold mining. The data in Table 2 indicates that only Guatemala and Honduras have higher royalty rates on metals in the Latin American and Caribbean Region. Belize also charges a 5% royalty rate in metals.

TABLE VI.2: MINING INVESTMENT PARAMETERS IN SELECTED COUNTRIES			
Country	**Limit To Foreign Ownership**	**Royalty (%) Metals**	**% Company Income Tax**
Argentina	100	0 to 3%	30
Brazil	87	0 to 2%	35
Chile	100	None	35
Colombia	100	0 to 4%	37.5
Ecuador	100	3	25
Guyana	70-95	5	35
Peru	100	None	30
Surinam	N.A	3	39.6
Uruguay	100	2 to 5%	30
Venezuela	100	1 to 3%	30
Belize	N.A	5	45
Canada	100	None	45
Costa Rica	100	2	30
Jamaica	100	Varies 5 plus	33.3
Guatemala	100	6	25
Honduras	100	10	40.5
Mexico	100	None	35
USA	100	None	39

Source Compiled by Dr Fred Bernard, Boulder, Colorado, USA, June, 1994

To improve the attractiveness of the gold industry to the investor, particularly with the competition from other Latin American locations, the royalty rate should be reduced to 2%. The NDS (1996) also recommends such a new royalty rate. In addition, it is recommended that an additional half percent to royalty be added to exploitations on Amerindian lands to be paid into an Amerindian Development Fund to mitigate any adverse social effects on Amerindian communities from mining.

(ii) Fiscal Regime For Mining

In addition to the royalty rate and company tax Guyana also imposes a 2% turnover tax[xiii]. Price Waterhouse (1996) argued that with a gross royalty, a turnover tax and an income tax, investors are likely to view the tax system as unattractive, as two of the taxes are not based on profit. The data in Table 3 compares Guyana's fiscal regime with selected Latin American countries and illustrates the relative unattractiveness of Guyana's regime with a high company tax and turnover tax. Price Waterhouse (1996) recommends that the income tax should serve as a credit against the turnover tax, rather than using the turnover tax serve as a credit against the income tax.

Guyana's fiscal regime for mining permits public authorities to acquire part of the equity in the mineral enterprise as "free" or concessional terms. The concept of "free" equity should be removed from the regime.

Guyana imposes a withholding tax of 15% on dividends that are paid by a Guyanese enterprise to a foreign shareholder. The Price Waterhouse (1996) study examined the fiscal regime in 14 countries including Guyana, Brazil, Chile, Bolivia, Argentina, Peru and Venezuela. The withholding tax in the 14 countries vary from 0 to 20%. Chile's 20% withholding tax is somewhat of an aberration, since the rate has been established as an integral part of the country's 15% income tax rate, such that the total Chilean tax on pre-tax profits that are distributed to a foreign shareholder is 35%. With the exception of Chile, Guyana's dividend withholding tax rate is at the high end of the range of rates. The NDS (1996) correctly recommended that the withholding tax on repatriated dividends could be reduced to 6.25%[xiv] note, this has been included in the Draft Mineral Policy.

TABLE VI.3: SUMMARY OF PRINCIPAL FEATURES OF SELECTED TAX REGIMES IN LATIN AMERICA					
National Income Tax	**Guyana**	**Brazil**	**Chile**	**Bolivia**	Argentina
Tax Rate	35%	30-56% (inc social contribution)	15% plus 20% in distribution	25%	30%
Minimum Rate	2% of turnover	-	-	2-5% of net assets	2% of net assets
Depreciation: Mine Building Mine Equipment Processing Building Processing Equipment	 20% s.l 20% s.l 20% s.l 20% s.l	 4% s.l 20% s.l 4% s.l 20% s.l	 12.5% s.l 33.3% s.l 12.5% s.l 33.3% s.l	 accordance with AP (i.e over estimated life of asset)	 Write off over 3 years at 60%; 20%; 20%.
Loss Carry Forward	Indefinite	Indefinite	Indefinite	Indefinite	5 years
Reproduction Dev	20% s.l	20% s.l	16.7% s.l	100%	Units of production
Reproduction Exp	20% s.l	20% s.l	16.7% s.l	100%	Units of production
On-going Exploration	20% s.l	20% s.l	16.7% s.l	100%	100%

Source: Price Waterhouse (1996)

In mining, exploration costs are high and increased tax deductions should be allowed for exploration expenses. This would reduce the risk and costs associated with exploration and provide additional incentive to this type of activity.

(iii) Environmental Concerns

Mining does have a negative impact on the environment and clear rules and guidelines must be established. However, this is a matter that the Environmental Protection Agency (EPA) will have to provide policy guidance on.

C.6 CONSTRAINTS: BAUXITE INDUSTRY

The industry-specific constraints facing bauxite revolve around the problems or constraints confronting LINMINE (Linden) and BERMINE (Berbice). Therefore, the Study will identify the principal constraints to the operations at each of these facilities.

(a) BERMINE

BERMINE is primarily a MAZ producer but since 1992 has restarted its RASC production. BERMINE is handicapped by the volume limitation it has on its export sales and relatedly the limitations on the size of barges it can use on the river. Improvements in the transportation facilities would reduce costs and improve market prospects in the export market. The NDS (1996) suggested that the transportation problem could be addressed by reviewing alternative methods of overseas loading and shipment, possibly in conjunction with ABC, out of the Berbice River.

The mining facilities are burdened by an antiquated infrastructure and plant breakdowns are frequent. There is an ongoing rehabilitation exercise but there is a severe shortage of funds to continue the activity. Efforts have been made to find a foreign buyer via privatization but no viable proposals have been submitted to GOG. Funding a joint venture partner for BERMINE to improve marketing arrangements provide financial resources for plant and equipment modernization and management strengthening is the only clear solution to BERMINE's problems.

(b) LINMINE

The most fundamental problem facing LINMINE is that its costs of production are significantly higher than the price of its product resulting in significant net losses that have to be financed by GOG[xv]. LINMINE is burdened by delapidated infrastructure and excessive labour costs. Plant breakdowns occur regularly with only one or sometimes two of the three rotary kilns at LINMINE operating. Angel (1996) estimated that LINMINE had 2,000 employees but only 800 were considered necessary. In addition, its costs were inflated by non-core activities such as a hospital for its workers and the surrounding community. This is a direct consequence of the poor infrastructure and essential services in the hinterland.

Angel (1996) estimated that costs of production for RASC at LINMINE were approximately US$181. Because of its higher prices, RASC is used only in the highest quality refractories. Otherwise, Chinese and Brazilian bauxite is used. Costs of production in China are significantly lower as the bauxite is much closer to the surface and can be mined manually. In contrast, in Guyana the overburden is very high. Costs of production in China for shaft kiln bauxite is estimated at US$44 per ton, round kiln at US$46 per ton, and rotary kiln at US$52 per ton. Production costs in Brazil are also lower than in Guyana. In 1992, costs were estimated at US$90 - US$110 per ton Angel (1996). Angel (1996) computed DRCs that demonstrated a severe lack of competitive advantage with the operations at LINMINE. A study done by the Adam Smith Institute in 1995 demonstrated that LINMINE's costs could be significantly reduced if ancillary services were "unbundled" (either privatized or closed down). Angel (1996) argued that even with these cost savings the DRCs still demonstrated a lack of comparative advantage at LINMINE.

C.7 PROSPECTS: GOLD

The gold industry can further develop into a dynamic mineral export if certain key policy adjustments are made to encourage its expansion. First, the fiscal regime must be adjusted to reduce royalty rates (2%), decrease withholding taxes (6.25%) and remove the provision for "free" equity. Second, all restrictions on foreign participation must be removed irrespective of the scale of the operation. Small and medium-scale operators should be encouraged to form joint ventures/partnerships with foreign partners to improve their access to technology, marketing and strengthen management capabilities. Third, a comprehensive clearly articulated Mineral Policy must be established that specifies time periods for approval of licenses and provides clear guidelines for the regulation of the industry[xvi]. Fourth, the security of land tenure must be improved and the present restrictions on leaseholds should be removed. Fifth, the present arrangements for the purchase and export of gold by private operators must be encouraged and the monopoly enjoyed by the Gold Board removed. The monopoly should be replaced by a system of licensed buyers. The buyers will be responsible for remitting the royalties to GOG. Buyers will have to invoice all purchases and sales of gold and will be closely supervised by the GGMC.

Finally, the conduct of geophysical broad-based airborne appraisals and geochemical surveys by private companies with the unwanted sites sold by auction must be encouraged and institutionalized. This will significantly improve the geological data on the industry and greatly assist private investors.

The medium/long term prospects for the industry look favourable. The NDS (1996) made projections (1996-2000) for the industry:

- Prospecting permits from medium scale gold miners will increase at 15% annually.

- Existing miners will increase production by 5% annually.

- Large scale prospecting licenses for gold will increase y 10% annually.

Based on the foregoing, gold production is projected to increase from 410,000 ounces in 1996 to 1,237,000 ounces by 2000. No significant developments, particularly in price, are anticipated in the forecast period.

C.8 PROSPECTS: BAUXITE

The prospects for the global industry are reasonably encouraging in the medium/long-term. In addition to the grades of bauxite to produce aluminium, the metallurgical grades, two other important types of bauxite exist: refractory grade bauxite, used mostly in the manufacture of refractories for the steel industry; and chemical grade bauxite. The price of metallurgical grade bauxite is clearly correlated to the price of aluminium, while the price of refractory grade bauxite to a large extent reflects changes in steel production.

Angel (1996) argued that the long-term forecast for aluminium prices indicates an upward trend because weak prices in the 1990s deterred investment in new production capacity. Angel presented World Banks estimates that showed supply struggling to keep pace with demand stocks of aluminium will be reduced and prices will rise.

The refractory grade bauxite found in Guyana - RASC commands a higher price on the world market than that of its competitors from Brazil[xvii] and China due to its higher quality. The future of RASC bauxite appears to be secure and Angel (1996) pointed out that a recent study estimated that 84% of the RASC market share is secure and will not switch to alternative uses.

The difficulty is that Guyana's industry does not have the ability to derive the benefits from favourable external markets. Angel (1996) DRC analysis clearly illustrated that LINMINE is not competitive at world market prices. The "unbundling" of ancillary services to reduce costs of production would not result in LINMINE achieving international competitiveness. The only possible solution for the difficulties of the bauxite industry appear to be privatization either through foreign-ownership or a joint venture. The difficulty has been attracting a buyer with a viable business proposal for the industry.

D. FORESTRY

D.1 INTRODUCTION

Approximately 94% of Guyana is forested. Of the 18 million hectares of forest land, 13.5 million are considered commercially viable for logging. State forests encompass roughly 9 million hectares. Table 4 illustrates the ownership and administrative responsibility of the total forest area.

TABLE VI.4: TOTAL FOREST AREA BY OWNERSHIP AND JURISDICTION				
OWNERSHIP	**JURISDICTION**	**AREA**		**% OF TOTAL FOREST AREA**
		Square Miles	**Km^2**	
Publicly owned state forests owned by GOG	Guyana Forestry Commission (GFC)	32,500	84,200	50.0
Forests on state lands owned by the GOG	Dept of Lands & Surveys (Min of Agriculture)	27,100	70,800	41.7
Commercially owned forests on Amerindian lands	Villages Councils	5,400	14,000	8.3
Privately owned forests on private lands	Individuals or corporate entities	Negligible		0.0
All Forests		65,000	169,000	100.0

Source: Guyana Forestry Commission

Under the prevailing regulations, an entrepreneur may obtain three types of forest concessions: a State Forest Permission (SFP), a Wood Cutting Lease (WCL), or a Timber Sales Agreement (TSA).

- SFPs are issued for areas less than 20,000 acres (8,100 hectares) and only for one calendar year with an option for renewal.
- WCLs are issued for areas between 20,000 and 60,000 acres (8,100 h.a to 24,200 h.a) for periods ranging from 3 to 10 years with an option of renewal. Holders of WCLs are expected to undertake management level and operational level forest inventories and to submit management plans. Annual acreage fees are charged.

The forestry sector is comprised of mainly logging and sawmilling operations. Enterprises operating in the forestry sector can be divided into two groups:

- Low capital, labour-intensive activities of small entrepreneurs who sell logs to sawmillers.

- Medium to large scale capital intensive operations of integrated firms, with their own sawmills etc.

In terms of species, Guyana is in the advantageous position of containing significant stands of Greenheart, a timber species that grows only in the Guyana Shield Region of South America and has unique properties that make it ideal for marine uses[xviii].

The forestry and wood products sector makes an important contribution to the domestic economy. The NDS (1996) estimated total employment in the sector at 20,000 persons and the contribution to GDP is estimated at 4-5% of GDP.

D.2 RECENT PERFORMANCE

In 1996, forestry output reached 526,725 cubic metres representing a 2.2% decline compared with an increase of 14.7% in 1995. The Bank of Guyana (1996) report attributed the decline to adverse weather conditions in the interior regions during the second quarter. In terms of the specific products, greenheart registered the strongest growth of 17.7% to reach 116,161 cubic metres. Timber exports increased by 10.9% in 1996 to reach US$51 million. Barama's exports accounted for 79% of total timber exports in 1996. In addition, export earnings from Barama increased from US$38.4 mm in 1995 to US$41.3 mm in 1996.

D.3 CONSTRAINTS

The forestry sector has strong export potential and if the necessary changes are made it can emerge as a dynamic export sector. The greatest potential of the sector lies not in the production of the logs but in the downstream wood processing activities. To derive the potential benefits there are some constraints facing the sector that must be removed to improve the efficiency and international competitiveness of the sector.

(a) Outdated Harvest Practices

At present, outmoded harvest practices that recover an insufficient number of timber species in frequent entries to a particular forest site are adversely affecting the economic and environmental sustainability of the forest sector. Guyana only has a limited number of marketable species, such as greenheart and a few other well-known species, and as these become less accessible large forestry operations will not survive using the outmoded harvest practices. The NDS (1996) argued that modern harvest practices that involve scientific planning and larger economies of scale will have to be introduced. Consequently, the volumes extracted per acre will be more consistent with the regeneration needs of each forest type while reducing logging costs. The adoption of modern harvesting practices will involve the harvesting of more species and increased volumes from each entry into a forest site with more attention to careful felling and extraction. In addition, the modern harvesting practices will use much larger rest periods(estimated at 25 to 40 years) before harvesting again on a specific section of a forest site.

(b) Low Level of Efficiency

Royalties and logging costs have remained relatively low while timber has been accessible, and this has allowed many firms to prosper while operating at low levels of efficiency and relatively low production.

The log royalty in Guyana for greenheart and other premium species is US$0.78 per cubic metre, in contrast to royalties as high as US$76 in Malaysia and US$25 and higher in Honduras. A special export levy is assessed on greenheart but it equals less than US$0.04. Together with the royalty these fees comprise 0.2% of forest product export value. Another important fee for revenue collection is a 2% export marketing fee[xix]. The data presented in Tables 5 and 6 demonstrates that Guyana's royalty rates are significantly lower than its competitors and the revenue (from taxes and forest fees) from forestry is also much lower in Guyana (with the exception of Kenya).

TABLE VI.5: INTERNATIONAL LOG ROYALTY RATES		
COUNTRY	**ROYALTY (US$ CUBIC M**ETRE) [456]	
1983 Data	**Low**	**High**
Sabah, Malaysia (Export)	26.40	76.00
Sabah, Malaysia (Domestic)	6.30	9.70
Sarawak, Malaysia	2.20	7.70
Nigeria	9.00	22.50
Liberia	-	4.50
1988 Data		
Trinidad	3.00	4.50
Peru	0.01	0.20
Ecuador	-	0.40
1994 Data		
Indonesia	-	22.00
1995 Data		
Suriname[7]	<.01	4.68
Venezuela		2.00

[4] Figures are exclusive of other taxes and fees (export taxes, regeneration fees etc).

[5] US$ values are given in numerical terms (unadjusted for inflation).

[6] Low and high values generally signify price differences between species.

[7] Low figures based on the tax law and exchange rate in effect April 1995. High figure based on a royalty of 5.5% of the value of undressed timber, stipulated in a foreign investment contract currently under negotiation, and an average 1995 log price of US$85/cubic metre.

	<1.00	
Nicaragua[8]	1.10	1.60
TABLE VI.5: INTERNATIONAL LOG ROYALTY RATES CONT'D		
COUNTRY	**ROYALTY (US$/CUBIC METRE)**	
1995 Data	**Low**	**High**
Honduras[9]	25.00	-
Bolivia[10]	-	5.68
Guyana[8]	0.24	0.78

Source: Flaming, L; Cassells, P & Godoy, R (1995). "An Economic Analysis of the Timber Industry In Guyana" (p. 5-6)

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8 Figures reflect the stumpage tax for pine and broadleaf species. Additionally, the Ministry of Finance collects the auction price of concessions. Only two auctions have been held as of August 1995; no price data was obtained.

9 Based on the average auction price for concessions on public lands. An administrative fee of 40 lemperas is paid for timber extracted on private land (US$4.40/cubic metre).

10 Based on the royalty rate for mahogany (B27/cubic metre) and the 1995 exchange rate (B 4.75/US$). Royalty rates are periodically adjusted for inflation.

TABLE VI.6: TAXES AND FOREST FEES AS A PERCENTAGE OF EXPORT VALUE		
COUNTRY	**PERCENTAGE OF EXPORT REVENUES CAPTURED BY GOVERNMENT**	
	Low	High
AFRICA		
Ivory Coast	11.0	24.5
Liberia	19.7	21.0
Congo	6.5	16.5
Kenya	1.5	3.0
Cameroon	9.0	19.8
ASIA		
Indonesia	15.0	28.0
Malaysia: Sabah	26.0	59.0
Malaysia: Sarawak	11.9	18.3
Guyana	2.2	2.2

Source: Fleming, L; Cassells, D & Godooy, R (1995). "An Economic Analysis of the Timber Industry in Guyana" (pp.6).

Notes: Low and high figures reflect variations in revenue captured during the 1981-90 period. Figures for Guyana include the export levy, log royalty and export marketing fee.

The empirical evidence provides strong justification for a substantial increase in forest fees. The NDS (1996) correctly recommended that there should be a five-fold increase in real revenues per acre of forest concession by the year 2000. Simultaneously, there should be provision for an investment credit that can be offset against as much as 30% of the forest fees, for investment in wood processing industries.

(c) Marketing Arrangements

Guyana faces a difficult technical and marketing challenge due to the heterogeneity of Guyana's forests, and the fact that most of the timber species are dense, heavy hardwoods, as opposed to the low and medium density timbers that dominate the tropical timber trade.

In these circumstances, effective marketing is absolutely essential to the sustainability of the industry. The marketing strategy would have to focus on specialized niches under cooperative arrangements that require close contact between buyers and sellers. To meet the challenge of marketing Guyana will have to develop a log export policy. The policy will improve the marketing capabilities of Guyana's forestry sector so that a wider range of species, particularly the hardwoods will be harvested. The volume and type of log species exported varies considerably from year to year. Recently, the uncertainty and difficulties surrounding the approvals by GFC on a case-by-case basis have not served to promote Guyana as an exporter. A policy is required for the systematic management and development of the industry.

The NDS (1996; pp 30-26) recommended that the policy will provide for a temporary increase in the export tax in logs from the present 2% of fob value to 15% of fob value. The surcharge will be phased out over a period of ten years. The proceeds from the surcharge will be used to cover the monitoring and inspection services by qualified individuals and finance training and research programmes.

(d) Shortage of Skilled Persons

Generally, it is argued that there is a shortage of skills at the GFC and this negatively affects the management and administration of the sector. The need for training has also been identified in the timber industry itself. The NDS (1996 p 30-15) stated that the "training needs of the GFC relate mainly to its major functions as guardian and manager of the forest estate." The training needs of the forest products industry are in the areas of business management, forest harvesting, manufacturing and marketing.

To meet the training needs of the industry GOG must develop a training strategy that emphasizes "on-the-job" training to provide technical and vocational skills required by the industry and GFC. The NDS (1996; pp 30-34) identified the priority areas for training to include tree identification, forest engineering, forest inventory, heavy equipment operation, saw doctoring, millweighting and timber use. Initially, multilateral and bilateral donors and GOG will finance the programmes but eventually it would have to be partially financed by GOG with partial cost recovery via payment of tuition etc.

(e) Lack of Investment Financing

The long term investment financing required for investments in forest harvesting, manufacturing and marketing is not available in the local financial sector. The non existence of established equity markets and the presence of short, non exclusive and non tradable leases is a serious constraint to local enterprises using their cutting rights to attract joint venture capital. Working capital and export financing are difficult to obtain from local commercial banks and with high lending rates (around 19%) short-term financing is relatively expensive.

To overcome the problem of long term investment financing the encouragement of foreign investment that brings finance, technology, marketing and management is absolutely essential to the long-term future of the industry. It is imperative that foreign investors also adopt environmentally friendly harvesting and other practices to minimize and damage to the environment and ultimately safeguard the sustainability of the industry.

The NDS (1996; pp 30-33) recommended that a capital lending programme might be established at the GNCB as a 'Fund for Sustainable Forestry Development'. It is vital that the commercial banks develop a scheme for long term investment financing with a special window being created at one or more of the commercial banks to assist in meeting the needs of the industry.

(f) Bureaucratic Delays and Inefficiencies

At present there are considerable delays in the granting of concessions. The procedures for granting concessions are not felt to be transparent and competitive bidding practices must be introduced to increase the revenue generated per concession.

The GFC will need to establish a clear policy framework for the granting of concessions that will principally address the location and size of new forest management concessions, the length of tenure, and issue of transferability. At present, the investor decides where and what size concession to apply for. The NDS (1996; pp 30-31) recommended some clear, well defined principles that should be included in a policy framework for concessions of production forests:

- Prior definition of blocks of forest eligible for natural forest management concessions .
- Some form of phased competitive bidding for the rights to these blocks.
- Establishment of blocks of different sizes to provide opportunities for investors of different scales.
- All the new concessions must be a minimum of 80 years in length, and a maximum of 100 years. Eliminating all shorter permits and concessions, would encourage the regeneration of forests by investors and assist investors in attracting long term investment financing.
- Clear establishment of property rights such as exclusivity and transferability.
- Clear establishment of obligations and performance bands for concessions.
- The development of regulations that allow for transfer of forest concessions to mineral concessions with provision for payment of a fixed transfer fee to the state, and allowing for the forest concessionaire to negotiate a transfer price, to recover investment costs, with the mineral concessionaire.
- Development of a standard agreement so that all potential and actual concessionaires will

face the same conditions in regard to fiscal provisions and forest management requirements.

D.4 PROSPECTS

The medium/long term prospects of the forestry industry are directly related to the range and quality of policy and institutional changes that are made to improve the efficiency, competitiveness and marketing of the industry. In addition, the "true" potential, particularly export potential, of the industry is not in logs but rather in wood products.

Guyana must adopt policy changes that reduce costs of production (increase efficiency), modernize harvest practices, increase the range and level of skilled persons, improve access to long term investment financing and improve the transparency of concessions for forest production to ensure the medium/ long term viability of the industry. Most importantly, the GFC must be removed from the sales and marketing of forest products. To penetrate export markets and maintain and/or increase market share Guyana with its wide variety of species will require a specialized marketing programme aimed at niche markets.

This is absolutely vital bearing in mind that Guyana's forestry resources do not include a large proportion of quality species. In short, the prospects are encouraging but critical policy and institutional changes must be made to ensure that the industry survives and prospers.

Guyana can further expand its market share in the CARICOM market and in the neighbouring market in Latin America. It must be remembered in developing new markets that Guyana is a small producer catering to niche markets. Note, tropical timber is 10% of world trade in timber. Guyana is part of the tropical timber market and is not in the list of the first twenty countries involved in the tropical timber trade.

E. MANUFACTURING AND AGRO-PROCESSING

E.1 INTRODUCTION

In an effort to diversify the production and export base of the economy and reduce the dependence on raw material exports GOG has been placing increasing emphasis on developing non-traditional exports, particularly manufactured (including agro-processing) exports. In 1996, the sector accounted for approximately 50,000 or almost 19% of the employed labour force and approximately 26% of GDP[xx]. If, gold, sugar, bauxite and processed wood and garments are treated as manufactured products and processed food, they account for 52% of export earnings.[xxi] A broad classification of the sub-sectors in the non-traditional manufacturing sector includes:

- Forestry and Wood
- Fabricated Metals
- Textiles and Garments

- Leather and Leather Products
- Forestry and Wood
- Chemical and Chemical-Related
- Paper and Paper Products
- Food and Food Processing
- Beverages (alcoholic and non-alcoholic)
- Livestock Related

The data in Table IV.7 provides details on the key products by subsectors, number of entities in the subsector, approximate employment, level of local value added, and key export markets. The principal characteristics of the sector that can be derived from the data are the following:

- There are many players in each product group.
- The local value added is generally high.
- Many entities are exporting to CARICOM markets.
- The entities are generally small since 1,360 of them employ only 30,000 persons.

Manufactured exports from Guyana benefit from duty-free access to foreign markets under preferential trading arrangements, such as the Caribbean Basin Initiative (CBI), the Lome Convention (European Union), CARIBCAN (Canada) and free trade agreements and Venezuela and Colombia[xxii].

To encourage investment and exports GOG offers a range of fiscal incentives to the manufacturing sector. These activities include:

- Duty and consumption tax exemptions on a wide range of machinery and equipment.

- Duty and consumption tax exemptions on most materials by registered manufacturers.

- Accelerated allowances for capital expenditure. Under the In-Aid-Of-Industry-Act a company or person who incurs capital expenditure is entitled to claim an accelerated depreciation allowance which starts with a 40% allowance and 20% per annum thereafter.

TABLE VI.7: GUYANA - VITAL STATISTICS IN THE MANUFACTURING SECTOR						
CATEGORY	**PRODUCTS**	**JOBS**	**# OF ENTITIES**	**MAIN SOURCE OF INPUTS**	**EXPORT MARKET**	**VALUE ADDED**
Fabricated Metals	Grass and via castings pumps, etc	2,000	50	Import	CARICOM USA	Low
Textile and Garments	Garments for all accessories	5,000				
Leather and Leather Products	Bags, shoes, belts, accessories	1,000	20	Local and Imported	CARICOM	High
Minerals (metallic/Non-metallic)	Bauxite, gold and diamond, jewelry	8,000	120	Local	Europe, USA and CARICOM	High
Forestry and Wood	Sawn lumber, furniture, veneers, poles, piles, plywood	2,000	200	Local	World	High
Chemical and Chemical Related	PVC Pipefittings, Pharmaceuticals domestic and industrial gases	2,000	30	Imported	CARICOM North America	Low
Paper and Paper Products	Packaging materials, newspaper	1,000	10	Imported	CARICOM	Low
Food and Food Processing	Jams, jellies, cereals, curry powder, sugar, etc	3,000	35	Local and Imported	CARICOM North America	High
Beverages (alcoholic and non-alcoholic)	Soft drinks, rum, beers, malta, stout	2,500	10	Imported	Europe North America CARICOM	High
Livestock Related	Beef, milk	5,000	1,0001	Local		High
Others	Refrigerators, stoves, detergent, cigarettes, cleansers	500	10	Imported	CARICOM	Low
TOTAL		50,000	1,560			

Source: Hamilton & Associates (1997; p. 7-2)

- Plant and Machinery
  - Initial Allowance (40%)
  - Annual Allowance (20%)

- Industrial Building and Structures
  - Initial Allowance (10%)
  - Annual Allowance (5%)

- Export Allowance: Companies registered in Guyana which are engaged in manufacturing or processing of non-traditional products or agricultural produce are allowed to benefit from an allowance. The allowance will apply, provided such products, are not sold to CARICOM countries either by themselves or through their agents. The allowance is granted on a percentage of export profits and varies from 25% to a maximum of 75%.

GOG is actively encouraging investments in the target areas identified in Table VI.7. At the Governmental level, GOG provides support to the industry through the following channels: First, the Ministry of Trade, Tourism and Industry is the responsible body for the manufacturing sector for policy formulation, implementation and monitoring. Second, specific aspects of the Ministry's sectoral responsibility, such as the one-stop investment promotion function and trade promotion function, are vested in the Guyana Office for Invest Promotion (GOINVEST) and the Guyana Export Promotion Council (GEPC) established in 1993 and 1984, respectively. Finally the Ministry of Finance through its fiscal policy profoundly affects the development of the sector.

E.2 RECENT PERFORMANCE

In 1996 the performance of the manufacturing sector displayed modest improvements, reflecting increased regional and domestic demand. There were output increases in stoves, beverages, (alcoholic and non-alcoholic) and pharmaceuticals. The data in Table VI.8 indicates that the sector experienced declines in some products in 1995 - textiles, pharmaceuticals, garments, alcoholic beverages and refrigerators. In these circumstances, the sector's gains in 1996 represent an improved performance.

TABLE VI8: SELECTED PRODUCTION INDICATORS - MANUFACTURING			
COMMODITY	**1994**	**1995**	**1996**
Alcoholic Beverages ('000 litres)	35,454	32,257	34,926
Semi Alcoholic Beverages ('000 litres)	1,390	1,150	1,549
Non Alcoholic Beverages ('000 cases)	3,449	3,986	4,253
Garments ('000 dozens)	376	354	300
Liquid Pharmaceuticals ('000 litres)	228	198	222
Stoves (units)	1,455	4,458	5,000
Refrigerators (units)	5,458	4,446	4,500
Textiles ('000 metres)	629	323	388

Source: Bank of Guyana (1996; p.12)

E.3 CONSTRAINTS

Although the manufacturing sector does offer scope for expansion in the future, there are some critical constraints that must be overcome to ensure that the sector realizes its potential, particularly its export potential.

(a) International Competitiveness

In an era of trade liberalization, with the progressive reduction in the CARICOM Common External Tariff (CET) and the dismantling of quantitative restrictions (Qrs), the manufacturing sector cannot survive depending on protected national and regional markets. The sector must achieve international competitiveness and be able to compete in open, competitive markets in the medium/long term. The NDS (1996; p. 34-29 and 34-30) presented data that raises serious questions about the competitiveness of Guyana's manufacturing sector. The data in

Table VI.9 indicates that Guyana is a relatively high cost producer compared to some of its competitors, notably Jamaica. Table VI.9 points to the fact that in two of the three manufactured items listed therein, costs of production are lower in Jamaica and in all four items they are higher in Guyana than Mexico (Latin American producer) and the Phillipines (Asian producer). The obvious question is why are Guyana's costs relatively so high?

TABLE VI.9 UNIT COSTS FOR SELECTED MANUFACTURED PRODUCTS IN SELECTED COUNTRIES (1994)				
PRODUCT	**JAMAICA**	**MEXICO**	**PHILLIPINES**	**GUYANA**
Cotton-Dress Shirt (in US$)	1.14	0.98	0.73	1,12
Bottled Beer (in US$/300 ml)	0.17	0.16	0.14	0.21
Unsmoked Bacon (in US$kg - Streaky)	1.94	1.78	1.59	2.40
Plywood - 1/2" (in US$ - AQ/BS)		3.60	n.e	5.2

Source: NDS (1996; p.34-29)

Table VI.10 presents data on key cost elements in the manufacturing sector.

TABLE VI.10: KEY CAST ELEMENTS IN GUYANA'S MANUFACTURING SECTOR				
COST	**JAMAICA**	**ST LUCIA**	**GRENADA**	**GUYANA**
Cost of Energy (US$/per kWH)	0.08	0.07	0.09	0.18
Semi-skilled wage rates (US$/per day)	6.10	7.03	5.96	5.34
Transport Cost (US$/20' container to Miami)	900	1,240	1,4991	2,200
Transaction Cost[1]	High	Low	Low	Very High

Source: NDS (1996; p. 34-30)

Notes: 1. Transaction costs include time spent in paperwork with the Government. This is a subjective cost indicator and must be so interpreted.

The data in Table VI.10 clearly indicates that Guyana has a labour cost advantage over its CARICOM competitors. Notably transportation costs are significantly higher from Guyana and this could affect Guyana's export competitiveness.

Guyana's relatively high unit costs of production identified in Table VI.10 are obviously due to non-labour related costs. Taxation, particularly consumption taxes, could be inducing increased costs of production. However, a lot of manufacturers receive tax and duty-free concessions on inputs. It is more likely that Guyana's relatively high unit costs are the result of small-scale plants producing low volumes that do not reap significant economies of scale. Plant size in Mexico and the Phillipines are probably much larger and benefit from economies of scale. In addition, a lot of the firms in Guyana's manufacturing sector need retooling and are using obsolete technologies which contribute to increased costs[xxiii].

Technological upgrading can be achieved by forging strategic alliances or joint ventures with foreign firms from the CARICOM Region or the rest of the world. The introduction of near 'best practice' technologies and the associated training to improve skills would greatly enhance the competitiveness of Guyana's manufacturing sector. This would require that private companies are willing to seek foreign partners and the process is facilitated by GOG.

Alternatively, manufacturers can retool by upgrading their own technologies and implementing their own internal restructuring plans. However, local manufacturers argue that access to investment financing is a serious constraint. In addition to the high lending rates collateral is also a serious impediment. Revaluation of assets to increase collateral results in higher property tax valuation and higher property taxes further affecting profitability. Government and/or the financial institutions can establish a special window of long term financing aimed specifically at retooling in the manufacturing sector. Capital allowances and/or investment tax credits can encourage new investments in manufacturing and should be included in a package of fiscal incentives. However, it is the financing of new investments that appears to be the principal constraint to retooling in the manufacturing sector.

(b) Fiscal Incentives

At present, Guyana offers a package of incentives to the manufacturing sector to encourage investment and exports. To achieve international competitiveness, improve efficiency and expand the manufacturing sector fiscal incentives can play an important role. A simple, transparent system of fiscal incentives that is efficiently administered in a non-discriminatory manner can make a positive contribution to the economy as a whole.

To achieve international competitiveness manufacturers must purchase capital equipment and inputs at international prices not distorted by domestic tax policies. Therefore, the granting of duty and tax concessions are vital to the manufacturing sector. At present, a list of items that are eligible for full and partial duty and consumption tax exemptions are prepared and the

Minster of Finance (for revenue considerations) adds items as determined necessary for the development of the sector. The revenue losses from the grant of duty and tax exemptions must be recouped but the present arrangements require increased transparency.

By adding products to a list of eligible goods the arrangements are too 'ad hoc' and not all capital and intermediate inputs will be captured. Alternatively, a list of registered exporters can be developed and circulated to all relevant Government departments, particularly customs, permitting registered exporters duty free access. However, the difficulty here is that one does not want to provide tax and duty exemption to output that is sold in the domestic market because that provides an equal incentive to produce for the local and export market. This situation arises in the case of firms that are not 100% exporters which is clearly the case of many firms in Guyana. Another alternative is to operate a duty drawback scheme where manufacturers receive rebates for tax and duty paid on inputs used directly in export production. In addition, rebates can be subject to significant delays and unduly place manufacturers under financial strain. A final alternative, is to implement a value-added tax system and zero-rate the inputs into manufacturing. This option has been adopted by Belize, Trinidad and Tobago, Barbados and to some extent Jamaica. A VAT requires improvements in tax administration and this might be beyond Guyana at this stage, given the shortage of skilled persons in the Government. Therefore, Guyana needs to carefully evaluate the options for granting tax and duty exemptions to improve efficiency and transparency. This matter will be discussed more fully in other sections of the Study.

Rather than seeking to expand the manufacturing sector via a scheme of fiscal incentives GOG could opt for the development of Export Processing Zones (EPZs). Mauritius diversified its economy, reducing its dependence on sugar, by promoting manufacturing in EPZs. Jamaica has had some success in developing garment exports and offshore information processing activities at EPZs in Kingston and Montego Bay. The NDS (1996; p. 34-28) strongly endorses the establishment of EPZs as the institutional arrangement for promoting the expansion of manufacturing (including agro-processing).

(c) Financing

Pre-shipment and post-shipment financing are vital to the survival of a manufacturing sector. As mentioned earlier, post-shipment financing (long-term investment financing) difficulties are constraining the retooling and expansion of the manufacturing sector. Pre-shipment financing facilities for manufacturers are not readily available[xxiv] in Guyana and manufacturers use overdraft facilities at commercial banks to meet short term financing needs. Presently, the short term interest rates are significantly adding to manufacturers' costs. Manufacturers indicate that commercial banks either do not understand or are not willing to accommodate the financing needs of manufacturers[xxv]. The manufacturers indicate that a clear example of this is that commercial banks will not discount letters of credit. To address the financing problem faced by manufacturers some manufacturers are proposing that a merchant bank be established. The establishment of a merchant bank could be a medium/long term solution to the problem. In the short run, the manufacturers (through the GMA), GOG and the commercial banks need to have a frank discussion of the problem and arrive at possible solutions. Export credit facilities should be established and GOG through the Bank of Guyana could play a lead role in this area[xxvi].

E.4 PROSPECTS

In an era of trade liberalization the prospects for Guyana's manufacturing really depend on the ability of manufacturers to become internationally competitive to be able to compete in liberalized, or open markets. Guyana's appears to have good export potential in a range of manufactured products including wood products, food and food processing, textiles and garments and paper and paper products. The available date indicates Guyana is a relatively high-cost producer, not withstanding its relatively low wages, compared to its regional and international competitors. Unless Guyana can reduce its costs of production and achieve international competitiveness manufacturing will find it increasingly difficult to survive in the medium/long term in a liberalized economy.

F. TOURISM

INTRODUCTION

In an effort to diversify the productive and export base of Guyana's economy GOG has attempted to encourage the development of the tourism industry. In this regard, Guyana has attempted to locate itself in the global market as an 'eco-tourism' destination in contrast to a "sun, sand and sea" location. At present, an explicit tourism policy does not exist but the NDS (1996; p. 37-3) identified policy decisions that have been instituted to give guidance to the tourism industry. These are as follows:

> Removal of the visa requirement for the major tourist generating markets in Japan, North America, Western Europe, Scandinavian and Commonwealth countries ,as of 1993.
>
> The introduction of a 10% room tax on all establishment with a capacity of fifteen (15) or more rooms. The NDS (1996; p. 37-4) indicated that the funds from this tax are channelled back into the industry.
>
> A tourism incentive package that granted duty free concessions to a number of items was prepared for the sector in 1995.
>
> GOG decided to commission the Organization of American States (OAS) to develop an Integrated National Eco-Tourism Plan, of which a Management Plan for Kaieteur National Park is a component.
>
> The promotion of 1996 as "Visit Guyana Year" with the aim of attracting 250,000 visitors to Guyana.

To encourage an increase in the number of rooms and improvements in existing plant and other facilities, GOG offers a package of incentives for which companies are eligible once in a period of five years. This comprises mainly duty free and consumption tax concessions for basic furnishings, plant, equipment and building materials. In Appendix I the items that are eligible for concessions are limited to 25% of the value of the investment. Any of the eligible items that are locally manufactured and available would not be entitled to the exemption from duties and taxes if imported. In addition, a waiver of consumption tax would be granted on eligible locally manufactured items.

Qualifying criteria have been established for registered companies to receive the package of incentives. The criteria includes preparation of a Project Profile or a Business Plan, an environmental impact assessment of the project, evidence of title or interest in land, tax and NIS compliance (if applicable) and an audited financial statement where applicable.

F.2 RECENT PERFORMANCE

The macroeconomic data are not disaggravated enough to indicate the sector's contribution to GDP, employment and foreign exchange earning. The date in Table VI.11 indicates that tourist arrivals increased from 74, 881 arrivals in 1992 to 112,751 arrivals in 1994.

TABLE VI.11: VISITOR ARRIVALS BY COUNTRY OF ORIGIN (1992-94)

COUNTRY	1992	1993	1994	% SHARE (1994)
USA	34,566	57,269	42,143	37.4
Canada	13,976	N.A	17,668	15.7
Europe	6,763	7,892	8,104	7.2
Caribbean	14,427	19,514	21,916	19.4
South America	5,149	20,553	20,904	18.5
Other	N.A	1,899	2,016	1.8
TOTAL	74,881	107,127	112,751	100

Source: ***Caribbean Tourism Organization***

In 1993/94 a Visitor Survey of Guyana was conducted by the CTO in cooperation with the Guyana Statistical Bureau and the Ministry of Trade, Tourism and Industry. The survey showed that the main distinguishing features of the Guyana visitor profile is a relatively high proportion of business visitors and persons visiting friends and relatives. The US market was the principal market for returning Guyanese. It was estimated that of the total of 112,757 non-Guyanese who visited in 1994 the overwhelming majority were Guyanese who acquired another nationality, returning to visit family; business persons; international volunteers and members of NGOs; and visitors on official business. It was estimated that of the arriving foreigners no more than 2,000 came primarily for tourism.

F.3 CONSTRAINTS

Tourism is still a pioneering industry in Guyana that has been growing without any significant policy assistance and institutional support. However, GOG is committed to the development of the sector and the Tourism Division of the Ministry of Trade, Tourism and Industry has been strengthened for this purpose. The further development of tourism will require that the constraints faced by the industry are overcome.

(a) A Tourism Policy

The future development of the industry must be guided by a tourism policy which clearly establishes objectives, policies and implementation arrangements. The policy would need to identify the tourism product(s) to be developed in Guyana, the policies to be implemented e.g fiscal incentives that would facilitate the development of the industry and the supporting institutional arrangements eg Board of Tourism that would have to be put in place to support the industry's development. The articulation of a well defined tourism policy is essential to encourage increased private sector participation in the industry. At present, there are no clear investment guidelines for tourism and this has influenced private investors to be reluctant to enter the industry.

(b) Land Use and the Environment

At present, there are no effective mechanisms for the allocation of land to various users, which has resulted in land conflicts which negatively affect the desired image of eco-tourism. For example, in potential eco-tourist sites unchecked mining and unsustainable forestry practices can damage the environment and reduce the attractiveness or "green" image of the area. The establishment of the Environmental Protection Agency will hopefully ameliorate these difficulties.

(c) Fiscal Incentives

As mentioned earlier GOG offers a package of fiscal incentives to encourage the expansion of the manufacturing sector. Most CARICOM countries had introduced Hotel Aids Ordinances in the 1960s providing tax and duty relief to investors for periods of 10-15 years. All equipment, materials etc imported for the building of a hotel were accorded tax and duty free treatment and firms paid no income taxes during the period of tax holiday. In contrast, Guyana offers tax and duty concessions on a limited range of commodities which is intended to provide concessions for basic furnishings, plant, equipment and building materials for a period of 5 years. To encourage investment activity in tourism the package and administration of the fiscal incentives should be improved.

First, fiscal incentives must be established which provide duty and tax concessions on all imported furnishings, plant, equipment and building materials required for establishing an accommodation unit. Second, there should be no restriction on the value of the concessions as presently exists to 25% of the value of the investment. Third, there should be capital allowances after the five year period to encourage new investment in plant and equipment to maintain the quality of the accommodation units. Finally, for hotels to remain cost competitive and achieve profitability it is vital that recurrent costs are contained. Studies of the Caribbean hotel industry point to food and beverage costs being the principal recurrent costs for hotels. Therefore, it is essential that taxes e.g consumption taxes are not high in these products as it will result in high room rates affecting the attractiveness of the industry. Barbados recently, introduced a VAT replacing a welter of indirect taxes and one of the identified benefits was the reduced taxes on commodities vital to tourism.

Guyana will need to analyse the extent to which taxation is influencing the competitiveness of its hotel industry to determine whether tax reform is needed.

Investors complain that the approval process for the granting of fiscal incentives is non-transparent, discriminatory and characterized by lengthy bureaucratic delays. A simple, transparent process must be developed and this is dealt with in another section of the study.

Tourism development is not simply about the establishment of accommodation units. Essential to the development of a quality tourist product is the parallel development of a range of ancillary services. In the case of eco-tourism, site development is critical to the attractiveness of the tourist product e.g national parks, nature camps etc. To encourage site development the coverage of the fiscal incentives to tourism will have to be extended to include eco-tourism sites. The incentives should be offered to investors whether there are or have built accommodation units.

(d) Air Access to Guyana and the Interior

There are only a few airlines that serve Guyana and these only go to limited destinations. The increased air access will probably require more hotel rooms to convince airlines that load factors will be adequate. Hence, it is vital new investments come onstream in the industry. Upgrading facilities at Cheddi Jagan International is also vital to encouraging American and European airlines.

Guyana's eco-tourism products or sites are in the interior. However, the current Guyana Airways Corporation (GAC) service to the interior is totally inadequate. The number of locations served by GAC and the frequency of flights are not adequate for the development of the industry. Notwithstanding this, Government regulations restrict the number of commercial seats available on domestic flights. Government needs to remove the restrictions and encourage increased internal flights. The Ogle Airport Development can greatly assist in improving flight arrangements and or access and should be encouraged. This would require

Ogle Airport being designated a port of entry by Government.

F.4 PROSPECTS

(e) Infrastructure

To develop a quality tourism product Guyana will need to complete significant infrastructural development. Infrastructure such as airport facilities, road systems, water, reliable electricity and medical facilities have to be improved to attract tourists. GOG has key infrastructural projects in its Public Sector Investment Programme (PSIP). These must be implemented in a timely fashion to meet the country's infrastructure needs.

(f) Marketing

Marketing is a vital ingredient in establishing a quality tourist product. It usually involves promotional efforts by national institutions, marketing agencies/consultation in target markets, advertising, cooperation with airlines in promoting the destination and a range of integrated activities designed to sell the product to its target markets. Guyana, at present, has no image in the world travel market. Guyana will need to put in place institutional arrangements for putting in place a strategic marketing plan to be implemented in the long term to build an image for Guyana in the international market. The creation of a National Board of Tourism with a strong marketing function should be an immediate priority which will require GOG making a commitment to apply significant human and financial resources to the development of the industry. There would be an important role for the private sector including providing financial resources.

Tourism is one of the most rapidly expanding exports in the global economy and with the Caribbean's strong reputation in the market, Guyana is well placed to become a key regional player with its unique eco-tourism product. However, the industry is still a relative 'infant' and significant policy and institutional improvements will have to be made to make Guyana an attractive tourist destination. The future prospects of the tourism industry are directly related to Guyana's ability to remove the constraints facing the industry. Attracting private investment in tourism is the principal mechanism for expanding the industry and should be a priority goal of policy in the medium term.

G. SUMMARY OF RECOMMENDATIONS

SECTOR	CONSTRAINT	POLICY RECOMMENDATIONS

A. AGRICULTURE A.1Sugar	i Costs of Production	Increased field yields in new field practices and lower transport costs.
	ii Factory of Inefficiency	Rehabilitation and development of two sugar factories.
	iii Shortage of Skilled Personnel	Increased training programmes.
	iv Quality Improvement	Sucrose enhancement (or Chemical Ripening)
A.2Rice	i Regulatory Arrangements	New set of regulations and standards relating to rice quality, contractual procedures etc to ensure industry meets international standards.
	ii Limited Milling Capacity	Removing collateral constraints faced by farmers via lending to "groups" of farmers and improvements in the land tenure system.
	iii Preferential Markets and Competitiveness	Increased yields per acre to reduce unit costs to match world market prices.
		Reduction in transport costs via larger ships with development of a deep water harbour.
	iv Land Tenure	Transfer of leasehold land into freehold.
		Granting of short-term leases with renewable options.

B NON TRADITIONAL AGRICULTURE	i Land and Infrastructure ii. Extension Services, Research and Development iii Credit and Investment iv Transportation v Marketing	Strengthen Lands and Surveys. Department with technical staff and equipment. Attracting skilled personnel via salary increases and improved working conditions. Special lines of credit via credit unions or development finance institutions. Improved internal transports via infrastructural development. Improved port facilities and development of a deep water harbour. Improved market intelligence and export marketing services at the NGMC.

C. MINING C.1 Mining	(i) Access to Investment Finance	Collateral constraints for small and medium-scale miners can be overcome by joint ventures or use of mining rights to access capital.
	ii Land Titling	
	iii Availability of Labour	Tighter set of regulations to administer Mining Act.
	iv Access to Services	GGMC in collaboration with University of Guyana design a programme for centres of excellence of geology and mining. Partial financing provided by private sector.
C.2 Gold	i. Royalties	Provision of fiscal incentives to companies investing in services and infrastructure in the hinterland.
	ii Fiscal Regimes for Mining	Reduce royalty rate to 2%. Income tax services a credit against the turnover tax. Reduce withholding tax to 6.25%.
C.3 Bauxite	i. BERMINE	Remove the concept of "free" equity from the regime.
	ii LINMINE	Improvements in the transportation facilities by reviewing alternative methods of overseas loading and shipment. Finding a joint venture or foreign partner for privatization. Finding a joint venture partner or foreign partner for privatization.

D FORESTRY	i Outdated Harvest Practices	Modern harvest practices using much larger rest periods (25 to 40 years).
	ii Low Level of Efficiency	Substantial increase forest fees to discourage inefficient producers .
	iii Marketing Arrangements	An investment tax credit to offset 30% of the forest fees, for investment in wood processing.
		Specialized marketing for a variety of species focusing on niche markets.
	iv Shortage of Skilled Persons	Temporary increase in the export tax on logs from 2% of fob value to 15% of fob value. Proceeds to cover monitoring, inspection, research and development.
	v Lack of Investment Financing	Training strategy that emphasizes "on-the-job" training to increase technical and vocational skills by the industry and GFC. Cooperation of the private sector is essential.
		Encouragement of foreign investment.
	vi Bureaucratic Delays and Inefficiencies	Establishment at GNCB of a 'Fund for Sustainable Forestry Development'.
		GFC must develop a clear policy framework for the granting of concessions.

E. MANUFACTURING AND AGRO-PROCESSING	i International Competitiveness	Retooling and upgrading of technology. Special windows at local financial institution(s) for long-term investment financing for retooling.
	ii Fiscal Incentives	Simple, transparent and efficiently administered system of fiscal incentives. Tax and duty relief on capital equipment and intermediate inputs for all registered exporters. Examine the possibility of establishing EPZs.
	iii Financing	Improved pre-shipment financing facilities at the commercial banks. Export credit facilities should be establishment at GOG.

F TOURISM	i A Tourism Policy	A comprehensive tourism policy which clearly establishes objectives, policies and implementation arrangements.
	ii Land Use and The Environment	Environmental Protection Agency will provide protection against unchecked mining and unsustainable forestry practices in potential 'eco-tourism' sites.
	iii Fiscal Incentives	Standard Package of Fiscal Incentives to Tourism Industry. Tax and duty concessions in all equipment, building materials, basic furnishings etc for accommodation for a period of 5 years. Tax and duty concessions extended to cover development of 'eco-tourism' sites.
	iv Air Access	Increased airlift into Guyana. Encourage and facilitate Ogle Airport Development to improve air links.
	v Infrastructure	Implement PSIP in a timely fashion to improve infrastructure.
	vi Marketing	Establish a National Board of Tourism with a strong marketing function.

ELIGIBLE ITEMS FOR CONCESSIONS FOR HOTEL INDUSTRY

1. Television and Video Recorders
2. Microwave Ovens
3 Refrigerators
4. Freezer
5. Gas and Electrical Stoves
6. Dishwasher
7. Washing Machines and Dryers
8. Air Condition Units
9. Electrical Lamps
10. Beds
11. Ceiling Fans
12. Toilet Equipment and Fittings
13. Bath Tubs and Fittings
14. Solar and Electrical Water Heating Systems
15. Elevators
16. Ice Makers
17. Building Materials

For interior locations, the following items, in addition to the above would be accorded concessions:

1. Transportation Equipment (4x4 vehicle)
2. Electricity Generators
3. Communication Equipment - Radio sets
4. Boats and Engines, Life Jackets
5. Chemical Portable Toilet
6. Water Bikes
7. Camping Equipment

H. INFRASTRUCTURE SECTORS

Most private investors in Guyana complain that the inadequacy and deterioration of the infrastructure acts as a major impediment to investments, to efficient operations, and to the competitiveness and diversification of exports. The Ministry of Public Works indicated that it lacks sufficient funding to carry out a substantial program for improvements in all infrastructure sectors. Many other developing countries have found themselves in a similar situation. More and more governments have invited private companies to invest in and to operate infrastructure projects under diverse long-term contracts that allow the private companies to recover their investments. The advantages of attracting private investment into infrastructure projects are

- better, more effective management,
- savings in public sector budgetary expenditures,
- avoidance of further external and internal public sector indebtedness,
- total or partial project cost recovery from improved collection of user fees,
- improved fee collection, reduction of illegal user practices, elimination of transmission leaks, losses, and other inefficiencies in the system,
- lower costs and user fees resulting from efficiency measures,
- high technical standards for rehabilitation, upgrading, capacity expansion,
- contractual commitments to meet investment commitments, regulatory terms, project completion dates, and quality and environmental standards.

Negative aspects from private sector investments in infrastructure projects usually arise from

- poor structuring of bid tender offerings and bid terms,
- local politics interfering in the bid process,
- discrimination against foreign investors,
- discretionary, non-transparent decisions and contract negotiations
- failure to insist on financial and technical pre-qualification standards for bidding,
- inadequate or non-transparent legal and regulatory framework.

If a private company performs negatively in infrastructure projects, the problems usually can be found with a poorly designed process for selecting private investors for the projects, for specifying their contract commitments, or for monitoring and enforcing compliance with regulations and contract commitments.

There is a large potential for private investments in infrastructure projects in Guyana, specifically in

- air transport and airport services
- highways and bridges

- port operations and ferry services
- electric power sector
- waterworks, sewerage and solid waste collection and treatment.

Constraints to increased private investments in infrastructure projects are

- public sector administrative hurdles, including a discretionary, non-transparent decision making process,
- dis-economies of scale due to a small consumer base,
- absence or greatly inadequate user fees for infrastructure services,
- availability of long-term concessionary loans from international financial institutions at extremely low interest rates,
- inadequate legal and regulatory framework.

The following sectorial evaluation indicates a strong need for private investment in infrastructure and how it can get involved.

1. Air Transport and Airport Services

Air transport – efficient, reliable, regular – is a key element for investment and economic development of the vast, potentially resource rich hinterland of Guyana and for the transport of perishable, non-traditional agricultural and seafood exports. Air transport in Guyana also supports the development of tourism, forestry, and mining activities.

International airlines stopped servicing Guyana in the early 1980's apparently due to restrictions on profit repatriation and a general Government anti-foreign investment policy. The state-owned Guyana Airways Corporation has failed to provide adequate service, while BWIA is largely confined to passenger service. Some private charter operations have partly filled a void in domestic and foreign freight service. Airports outside the capital city have generally not been maintained adequately or been shut down.

Efforts to develop a secondary airport at Ogle into a primary, efficient privately owned and operated airport servicing Georgetown have encountered obstacles from Government approval authorities. According to the National Development Strategy Report, "the public service bureaucracy impedes the operations of civil aviation as it relates to the decision making and implementation process for air transport operations and licensing. The number of commercial seats on domestic flights is restricted, and potential private participation in management of aerodromes is being curtailed." (vol. V, p. 38-22).
"Dependence on budgetary allocation by the government is not conducive to the development of (air transport)." (vol. V, p. 38-25).

Recommendations: The Government should develop and implement a program for withdrawal from all air transport and from most airport services, because the private sector can operate both better than the public sector.

All Latin American and Caribbean countries, except Guyana and Cuba, have privatized or dissolved their state owned national airlines, because they have found that the public sector can operate them more efficiently and profitably. The private sector often has access to the financial resources necessary for maintaining a reliable air transport service.

The Government should analyze several options how to withdraw from air transport: The dissolution of GAC would create unemployment temporarily until new local and foreign carriers replace GAC and rehire GAC employees. Dissolution would have a positive impact on the Government budget by eliminating direct subsidies to cover the loss operations of GAC.

Privatization of GAC by selling its stock locally may prove difficult and not bring in much revenue, because the loss operation does not make GAC stock attractive to local shareholders. It would not solve operating problems and capital requirements.

A negotiated sale of GAC to a local investor group or to an existing private domestic small airline would keep the assets under local ownership. It might improve management and operations of a merged GAC with an existing small local air transport company. It would probably not bring the needed additional capital to upgrade, improve, expand, and make GAC profitable. It could end up being dissolved.

Another option would be to invite competitive public tender bids for GAC and to accept the best offer regardless whether it comes from a domestic or foreign air transport company. This option would result in a higher price for the Government than a negotiated sale. The winner would presumably want to merge GAC into its own operation or make it a profitable stand-alone operation.

Dissolution or sale of GAC to a private investor should be accompanied with an “open sky” policy of inviting additional foreign carriers to service Guyana under acceptable conditions in order for competition to induce BWIA to improve its services. Investments and competition should also be encouraged in internal air transport by facilitating the process of obtaining operating licenses and by encouraging private investments to help open up and to improve local airport services.

The appropriate Ministries and agencies should encourage and facilitate the proposed private investment to develop the Ogle Aerodrome to a full-fledged municipal airport, allowing the extension and addition of necessary runways and airport structures and licenses to operate freight and passenger service in competition with the existing international airport. Competition will spur on both airports to provide better and cheaper service benefiting businesses and the public. A monopoly does not have such an incentive. The Government should encourage, rather than obstruct, private investment that wants to build and develop airports elsewhere in the country.

Investors should be allowed to depreciate at standard rates their installations and equipment employed in air transport or in airport services and to import airplanes, parts, and airport equipment exempt from duties.

The diverse services at airports should be transferred to private operators under competitive, transparent BOT, concession, or management contracts. A BOT or BTL (build-transfer-lease) contract would be the preferred approach where new investments are required to expand or upgrade equipment and installations. In these cases, the private investor would make the investment and then either own and operate it for a contractually agreed period of time or transfer ownership to the Government immediately after completing the investment and then leasing the operation for a period of time. In either case, the investor would be allowed to collect fees for various airport services and his operating period would be long enough to recover his investment with a mutually acceptable estimated but not guaranteed rate of return. Profitable operations will generate tax revenues that will offset and exceed revenue loss from duty exemption and depreciation allowances on capital equipment.

Wherever economics justify it, several different investors should be awarded the operations of a specific type of airport service in the country to encourage competition to perform reliable, price effective services. Future contract renewal can be an incentive to maintain reliable, low-price services. Efficient air transport and airport services promote tourism.

The Government should gradually phase down its budgetary allocations for maintenance of airport services by substituting public for private investments. Contract terms with private investors should require minimum investments designed to improve and expand airport services.

Government entities should be organized to promote, to encourage, and to facilitate private domestic and foreign investments, without discrimination, in air transport and in airport services. Laws and regulations should be revised to make such policy effective and enforceable. Provisions to that effect, including tax and duty incentives, should be incorporated in a new Investment Code.

2. Highways and Bridges

Highways and bridges will also be a key factor in the future economic development and the opening of the hinterland of Guyana. Paved highways currently exist only along the coast and the lower part of main rivers linking these areas to Georgetown and New Amsterdam. Completion of a north-south highway through the length of Guyana to Lethem, connecting with a Brazilian highway from Manaus through Roraima State, would open new areas in the interior for private investment and create opportunities for trade with northern

Brazil passing through Georgetown. Private investments in forestry, mining, and tourism, in particular would be stimulated by road construction in the interior of Guyana.

According to the National Development Strategy Report, “total neglect of the main road network during the past two decades led to deterioration of most roads. The collapse of the road infrastructure has made it imperative that a major rehabilitation program be undertaken.” (vol. V, p. 38-6). Funding has been provided on long-term, highly concessionary terms to rehabilitate some highways and bridges. According to the NDS, two local suppliers of quarry materials have exploited their dominant position by charging as much for local supplies as the imported alternatives. Leasing and opening up new quarries are designed to end this oligopoly.

Construction of bridges is also essential for an expanding, efficiently functioning road network. Bridge construction, however, is expensive and beyond the Government’s current and near-term future budgetary capabilities. External funding, supplier credits, and private investment participation appear necessary to remove these bottlenecks to economic development.

Foreign loans and grants and general budget allocations provide the funding for road construction and maintenance. Also vehicle license fees are partly supporting the cost of road maintenance. The Government has an on-going rehabilitation program of roads mostly in the coastal areas where the bulk of traffic is concentrated. The NDS concludes, however, that “the magnitude of the investment needed in the road transport subsector is overwhelming. Due to limited resources, the Government is unable to undertake any massive investment. There is scope for private investment in other modes of transport, namely in railways and bridges, and to a lesser extent in road transport also.”

“Private sector investment should be encouraged to supplement the Government’s effort through concessioning the construction and operation of new transport infrastructure, with participation of both domestic and foreign investors. The arrangements should allow for private investors to build and operate infrastructure facilities, to recoup their investment and make reasonable profits.” (vol. V, p. 38-33 and 34).

The main problem of the highway and bridge sector is adequate funding for expansion, rehabilitation, and maintenance of the highway network and bridges. The Government has several options for financing road and bridge construction and maintenance:

- postponing for later funding those road and bridge projects that would not generate an estimated high economic and social rate of return;
- diverting budget revenues from other uses to capital spending for highways and bridges;
- raising new taxes, such as a gasoline and diesel tax, and earmarking them for expenditures on road and bridge construction and maintenance;
- continued requests for external loans from international financial institutions; and

- strong promotional efforts to attract private investment for road and bridge construction and maintenance under flexible, innovative contract terms.

Recommendations:

The Government should consider all of these options to help remove bottlenecks in the road transport system which are impeding and discouraging potential private investments for developing the country. External loans, even at highly concessionary interest rates, with a grace period and long re-payment period, add, however, to the country's future re-payment burden. Also, a relatively large external debt reduces the country's credit worthiness for new borrowing. A gasoline and diesel tax can bring in substantial revenues for financing road construction. In Britain and other European countries, the gasoline tax accounts for up to 75% of the total pump price.

The main involvement of the private sector has been private domestic and foreign construction companies rehabilitating some roads and bridges. They are being paid out of budget allocations and from long-term foreign loan disbursements to the Government.

Guyanese Governments have a poor record of maintaining highways, city roads, and bridges. These have been allowed to deteriorate and very large capital expenditures are now needed to rehabilitate the deteriorated road systems and bridges. Private companies can do a better job of maintaining the road system. Private companies should be invited to bid for concessions to manage and to operate, during a defined, possibly renewable, term, maintenance, improvement, widening, or expansion of specific highways and bridges. The contracts of the winning bidders should clearly specify the work to be done.

In the case of a major road or bridge investment, private domestic and foreign companies should be invited to bid competitively for a long-term BOT contract. The winning private investor will be obligated to make the necessary specified investments to build, expand or rehabilitate a major highway or bridge. The contract period needs to be sufficiently long for the operator to recover his investment and to realize a reasonable profit. The contracts should provide for tax-free depreciation and duty-free importation of road equipment.

Only where traffic is sufficiently heavy can the investor or the concessionaire recover part of his investment and an adequate rate of return from charging tolls. The Government should supplement the shortfall by a subsidy financed from a gasoline and diesel tax or other budgetary revenue. A subsidy to cover part of the cost of road rehabilitation under improved management would seem to be a better alternative than (a) postponing the road rehabilitation or (b) financing all of the rehabilitation from the Government budget or (c) concessionary foreign loans that increase the future debt burden for the Government.

Getting the private sector increasingly involved with investments, maintenance, and operation will result in a more reliable improved road network and bridges, and tasks better performed than the Government was able to do, provided contract terms include clearly defined investment and work obligations and adequate incentives to carry out the agreed tasks.

3. Maritime Transport

The efficient functioning of the sea ports is the most important part of the infrastructure sector for the Guyanese economy, because most exports and imports pass through the sea ports. The reliability and the costs of moving cargo through the ports play a key role in determining the competitiveness of Guyanese exports and the prospects for new export development and for penetrating additional markets.

Most wharves and shipping terminals for overseas traffic are privately owned, while the smaller wharves and landing facilities for ferry and river service are Government-owned. Draught limitations allow vessels of only up to 25,000 dwt to dock at Georgetown and up to 45,000 dwt at the Berbice River channel. Regular costly dredging at the mouth of the main rivers is required to keep river channels navigable for ocean going vessels. Shallow draught can prove to be a serious limitation for large bulk cargo shipments of traditional export commodities and for large vessels stopping and discharging cargo at a Guyana port en route to major markets. Currently, most Guyanese exports and imports have to be transshipped onto large vessels at foreign transshipment ports, which adds to port charges and transport time.

Port services in Guyana have been allowed to deteriorate and become obsolete and high cost. The NDS Report points to

- "lack of mechanisms for financing a full service deepwater harbor,"
- "the unavailability of adequate financial resources to acquire the requisite equipment to boost or maintain an efficient and reliable maritime transport service,"
- "lack of the requisite autonomy at the departmental level to set realistic fares and tariffs concerning the facilitation of commercially viable port and ferry services," and
- high "maintenance costs to keep pilot and ferry vessels in service because of the relatively old age of the vessels." (vol. V, p. 38-24 to 25). The ages of the ferry boats range from 34 to 81 years.

The NDS Report recommends developing a deepwater port to handle vessels of up to 60,000 dwt; improve cost recovery for port operations and ferry services; and upgrade the port terminals. The Report calls for the establishment of a maritime transport policy, including the creating of a National Port Authority, aimed at improving maritime transport services for exporters and importers and to privatize the ferry services. The establishment of an export processing zone and the road link with northern Brazil will generate a new potential of foreign trade growth which could be realized only by developing a deep-water port capable of accommodating container vessels larger than 45,000 dwt.

Recommendations: There should be a clear delineation of policy making and execution versus investments and operation of port facilities. The former should be the responsibility of Government and the latter the domain of the domestic and foreign private sector.

The Ministry of Public Works should develop a comprehensive maritime policy that includes a plan for phasing out Government investment and ownership in vessels and port installations. A National Port Authority should be created and charged with responsibility of executing Government maritime policies and enforcing compliance with these policies.

The Government should establish clear guidelines and regulations for the safety of navigation, for meeting acceptable environmental standards, and for promoting and facilitating private investments in ferry services, wharves, terminals, and other port installations. The Government should encourage competition by allowing more than one private operation of a given maritime activity wherever feasible, but regulate fees and port charges in the best interest of users and investors where competition cannot be encouraged.

Existing Government-owned port facilities or vessels should be auctioned off to the private sector or leased if sale is not feasible. In fact, most Government owned vessels are so old and obsolete that they should be taken out of service and the private sector invited to replace them with newer, more serviceable vessels. Investments in dredging operations, in ferry services, in new port terminals, or maintenance of existing ones should be offered to private companies for competitive bids to operate under long-term 15-30 year, renewable contracts.

The winning company should be able to collect port charges or ferry charges from users for its services sufficient to recover its investments with a reasonable rate of return. The contracts should specify clearly the investment and work obligations and also the rights of the contractor as well as Government guarantees and incentives. Normal tax-free depreciation and duty-free importation of capital equipment should be permitted in these contracts.

A task force should be formed at the Georgetown port, composed of representatives of the Ministry of Public Works, the new Port Authority, the private operating companies, private port user companies (exporters and importers), and Georgetown business leaders. The objective of this task force should be to draw up a detailed work program, with manpower assignment, reviews and monitoring of results, to implement recommendations how to make the port operation more efficient. These programs should include how to

- expedite cargo handling and customs clearance,
- improve the customs administration,
- reduce excessive bureaucratic documentation and cumbersome procedures and thus speed up the process and time for cargo and vessels passing through the port,
- introduce procedures for regular reviews and inspections of port management and operational practices,

- implement regular inspections, maintenance, repairs, replacement of equipment,
- undertake minor infrastructure and port traffic improvements, and
- prepare the port for moving efficiently cargo to and from northern Brazil once the connecting highway is completed, and
- promote the port for export and import trade with northern Brazil.

4. Electric Power Sector

Electric power generation is another infrastructure sector critical for the efficient economic development of Guyana. Commercial electric power generation, transmission, and distribution are carried out by the state monopoly, the Guyana Electricity Corporation (GEC). Lack of funding, inefficiencies, and alleged poor management practices have resulted in serious deterioration of power supplies resulting in frequent power black-outs and costly acquisitions of diesel-powered generators by private sector power users and others dependent on reliable, continuous power supplies.

The NDS Report concluded that "lack of a reliable supply of electric power has been holding back the development of our economy. Power costs are unduly high because many industries are forced to generate their own electricity and equipment is damaged by erratic voltage, and potential investors are discouraged by the situation. In addition, small enterprises, potentially the most important source of new employment, are discouraged from starting up because of the high cost of generating their own power." (vol. V, p. 39-8).

"Energy development requires substantial capital investment, and acquiring such financing is a major task. The National Energy Policy suggests several financing options that include short-term borrowing by the Government, 100 percent direct foreign investment, and joint venture schemes between foreign investors and Guyanese companies." (vol. V. p. 39-11).

According to the NDS Report, options for the near and medium term are a new turnkey plant for electricity generation based on fossil fuels and upgrading the transmission and distribution system and, for the long term, development of the hydro-power potential. The NDS Report recommends, transferring GEC to private management and equity control, active encouragement of private investments in all energy sectors, and an electricity tariff structure that is equivalent to marginal cost pricing.

Recommendations: There should be a clear delineation of responsibilities for the power sector. The Government should assume full responsibility for policy formulation and execution and the private sector for investments and operation. The Government should remove itself from ownership and management of power generation, transmission, and distribution, because the private sector has proven in many countries that it can do these functions better than the Government. State-owned equity left in the power company means that this public money is not available for improving health and education.

The Government should establish a power policy that encourages and sets the terms for private investments and operation of the power sector. Encouragement should involve inviting private domestic and foreign investors to bid, not only for the existing GAC. A separate bid tender could be offered for private investments in a second and perhaps even third power generation plant that would supply power to an improved privatized GAC transmission system. The level of demand justifies additional generating capacity, if displacement of existing diesel-powered units operated by consumers is taken into account.

The Government's power policy should have the following objectives:

- power sector privatization,
- management and operating improvements in the power sector,
- large private investments to improve and upgrade the transmission and distribution system,
- large private investments to replace and expand power generating capacity,
- permanently reliable electricity supply,
- tariff reductions to consumers by passing on cost savings from reduction of transmission losses and enforcement of utility bill collection, and
- displacement of most diesel-powered, user-owned power generators by reliable, cheaper electricity from the privately owned power company.

The Government's Power Commission should study the regulatory regimes governing private power monopolies in other countries to help formulate its own policy framework for power operations by private companies. Based on these studies, the tariff rate structure should be reviewed and reformed to encourage energy conservation, but also to allow for an adequate return for private investors. The private operator should have the right to cut off power supplies to any user not paying his electricity bill and to impose fines for tampering with electricity meters.

A key policy objective should be permanently reliable power supplies vital for stimuating private investment throughout the economy and for displacing diesel-powered generators used by companies and other users. A consequent reduction in consumption and imports of diesel would save the country considerable foreign exchange outlays which can be used to reduce the burdensome external debt.

Public debate has centered on options for privatizing GAC. A management contract for a private operator would not solve the most critical problem, namely the need for major investments to replace and modernize obsolete, worn-out transmission lines and generating capacity, which are responsible for the unreliable electricity distribution.

Selling shares of GAC to the general public would not bring sufficient revenue for needed investments nor assure an efficient management and operation. How much would the public be willing to pay for shares in a company that is losing money?

Government retention of part of the shares of GAC reduces the proceeds for the Government from privatizing GAC. It leaves the Government with an obligation as equity partner to come up with its share in new investments. If the private partner finances all new investments, then the equity participation of the Government will be diluted correspondingly. The Government does not need retaining equity participation in order to be able to supervise and enforce compliance with established regulations and contracts governing the power sector. Supervision and enforcement of compliance with Government rules and regulations is normally the task of the regulatory body, the Government Power Commission.

Future private investments in new power generation capacity can be undertaken with BOT contracts. The private investor would recover his investment, operating expenses, and a reasonable rate of return from the sale of electricity during the life of the contract. A contract can be renewed, extended or renegotiated with an existing private investor often in conjunction with a new investment commitment for capacity expansion.

In some countries, the Government guarantees the investor ready, unlimited access to foreign exchange for profit remittances and capital repatriation. Governments even provide guarantees against future devaluations of the currency. Alternatively, the investor is allowed to increase the local selling price for delivered electricity to recover any loss from devaluation.

5. Waterworks, Sewerage, and Solid Waste Collection and Treatment

Deterioration and improper management of public waterworks, sewerage systems, and solid waste collection and disposal pose a serious potential health hazard for the population of Guyana. The NDS Report points out that "nowhere is the deterioration of the infrastructure for managing sewage and solid waste disposal more evident than in Georgetown. Furthermore, runoff from agricultural activities discharges sediment and inputs, such as fertilizers and pesticides, into rivers and coastal waters, and is presumed to enter the defective water supply systems during flooding. Industrial activities in the coastal zone discharge untreated waste water into water courses. There is no monitoring of these impacts." (vol. III, p. 18-19).

Proper disposal of sewage and solid waste is the main problem. Georgetown's main sewerage system, dating back to 1924 and 1929, has a capacity for serving only one-third of the population of the city. It has one old waste incinerator which operates at only 10 percent of capacity. Most of the solid waste is dumped in public areas or vacant lots or collected and placed in shallow landfills that are inadequately covered with thin layers of earth.

The NDS Report concludes that "current sewage disposal practices appear to cause fecal contamination of drinking water sources. Pollution of surface and ground water also has serious impacts on fisheries resources in coastal and marine waters, which then enters the food chain." "Only limited water quality monitoring is done for drinking water sources." (vol. III, p. 18-22).

The NDS Report recommends that the "improvement in solid waste management can be combined with introduction of collection fees or privatization of the service through contracting it out ..... while the public sector will maintain an overall supervisory role and will be responsible for seeing that adequate waste disposal sites are available." "As with other public services, an inadequacy of operating budgets has also troubled the water and sewerage sector. Yet there is abundant scope for recovering costs in this sector through the application of the appropriate charges. The prevailing picture is one of low water tariffs and low collection rates across the board for all uses of water. The water rate is as low as US$0.60 for some consumers. Since the proceeds are deposited in the general revenue account ....(there is no) incentive for financial self sufficiency ....(and) no interest in undertaking proper billings or strengthening collecting performance." (vol. III, p. 18-45 and 46).

Recommendations: The Government should develop a comprehensive plan for attracting private investment to participate and to play the key role in the rehabilitation, expansion, and upgrading of waterworks, wastewater collection and treatment, and solid waste disposal. Other governments have adopted this approach successfully and saved substantial tax revenues for other uses or minimized further indebtedness. In some cases, private investors have been able to lower tariffs for water users dramatically by

- reducing substantial leakage in the water system,
- eliminating illegal connections, tempering with water meters, and non-payment of water bills,
- improving preventive maintenance, thereby increasing water capacity in the system for sales volume expansion, and
- reducing overstuffing in the administration.

A system for competitive, transparent bidding among private investors for long-term BOT contracts should be considered by the Guyanese Government for private investments to expand and to rehabilitate waterworks. Usually such contracts call for the transfer of the investment to public ownership after a defined period of time or they allow the Government the option to call for new bids and to transfer the operation to the winning private company. A regulatory framework needs to be in place that specifies the obligations of the private investor to the community in exchange for establishing a tariff structure that allows the investor to recover his investment together with a reasonable rate of return.

Similar arrangements are feasible for attracting private investments to build and to operate wastewater treatment plants and solid waste collection, landfills, recycling, or burning for electricity generation that meet acceptable environmental standards. Fees for solid waste collection can be combined with the water bill or even the electricity bill to ensure universal collection.

6. An Infrastructure Investment Center

Some countries consider private investment in the infrastructure sectors so critical for the country's economic development that they have undertaken special efforts to create institutions, agencies, laws, regulations, and incentives designed to attract private investments to the infrastructure sectors. Special incentives and government guarantees are granted by some governments to foreign and domestic investors in power generation. These guarantees go so far in some cases as to guarantee a minimum rate of return to the investor or guarantee against the risk of payment interruption by the public utility. Foreign investors in power plants are at times able to negotiate a take-or-pay arrangement with the public utility or elect the foreign currency in which the fees are to be paid.

Some governments undertake special promotion efforts or set up special agencies for attracting private investments in the infrastructure sectors. The Government of the Philippines, for example, considers private investments in infrastructure so vital for the economy that it has created an autonomous BOT Center responsible directly to the Office of the Presidency rather than to any Ministry. Under BOT contractual arrangements sufficient new private investment was attracted to eliminate permanently frequent prolonged power black-outs in less then four years.

The BOT Center in the Philippines is staffed by professionals trained by a consulting firm to provide technical assistance and training to government officials in municipalities and other government agencies dealing with investments in infrastructure projects. The BOT Center professional staff developed promotional brochures designed to attract private investment into infrastructure projects. The BOT Center has organized trade missions abroad promoting a list of infrastructure projects to foreign investors in the U.S., Canada, Europe, and Japan. The professional staff at the BOT Center, with help from consultants, developed manuals for government officials about structuring competitive tenders, appraising bid responses, negotiating contracts, and monitoring private investments in infrastructure projects.

BOT Center professionals train officials in municipalities and other Government agencies and work with them on tender offerings and winning bid selection. They teach how to calculate and establish acceptable rates of return for private investors in infrastructure projects and how to set rate structures. Estimates of rates of return, sales volume, cost structure, size of investments, and other data are needed to determine the length of contract needed for recovery of investment with a reasonable rate of return. The BOT Center professionals also help private investors prepare environmental impact studies and how to prepare bid responses.

The Government of Guyana should consider setting up an Investment Infrastructure Center in the Ministry of Public Works specifically for developing innovative ways to attract private investment into infrastructure projects. The experience in other countries with similar initiatives should be studied and considered in setting up a unit of this kind.

APPENDIX B

CONSULTANTS' WORK PLAN

WORKPLAN
GUYANA INVESTMENT STRATEGY/CODE PROJECT

Consultant Team: Dr. Siegfried Marks, Team Leader (SM)
Dr. Arnold McIntyre (AM)
Dr. David E. Lewis (DEL)

START-UP: Mon July 14 - Sat July 26 for Core Team (SM,DEL,AM (6 workdays)

DATES	ACTIVITIES/OUTPUTS
Mon 7/14 - Sat 7/26 - 6 workdays off-site each	- Background research & analysis

PHASE I: July 27 - August 17, 1997 on-site for Core Team
(SM-18 workdays, DEL-17, AM-15)

DATES	ACTIVITIES/OUTPUTS
Sun 7/27 - 1 travel day	Arrival in Guyana from home base

Mon 7/28 - Tues 7/29
 	
- 2 workdays
 	
NOTE: AM out on Mon 7/28 (1 non-billable day)
	- Initial discussions on methodology for research (Team, BEEP)
	- Interview plan for data collection
	- Review of documents, bibliographies, pending materials
	- Finalize main focus of work on each section of project:
	    - analysis of macroeconomic factors affecting investment
	    - investment processes, including incentives and concessions, approvals, etc., as well as programs, mechanisms and institutions involved in investment
	    - sectoral reviews and "targetting" and comparative investment analyses
	    - comparative tax regime evaluation/analysis and impact on investment regime
	    - land development regulatory and institutional policies
	- Prepare outline of Comprehensive Investment Strategy Report
	- Finalize work program and implementation schedule with BEEP and USAID for "clearance"

Wed 7/30 - Th 7/31 - 2 workdays	- Start on-site meetings and interviews, and continue review of documents and research
Fri 8/01 - Sat 8/02 - 2 workdays	- Team review and evaluation of 1st week work and accomplishments/drawbacks - Review calendar and implementation schedule; adjustments to ToR and timetable...
Mon 8/04 - Sat 8/09 - 6 workdays **NOTE:** DEL out on Tu 8/05 (1 non-billable workday); AM out on Th 8/07-Fri 8/07 (2 non-billable workdays)	- Continuation of meetings, interviews, and review of documents and research - Debriefing meeting with GoG Coordinating Committee, BEEP, and USAID (TBD) - Review work to date
Mon 8/11 - Sat 8/16 - 6 workdays	- Preparation of internal preliminary outlines of Report and design of Consultation Forums for Phase II-B - Completion of meetings, interviews, collection of materials - Finalize dates for Phase II - Debriefing meeting with GoG Coordinating Committee, BEEP, and USAID (TBD)

Sun 8/17 - 1 travel day	Travel to home base

End Products: - Detailed Work Plan and meeting/consultation plan
- Internal preliminary outlines of Report and Consultation Forums
- Recommendations for modifications to TOR

PHASE II-A: Mon. Aug. 18 - Fri. Sept. 23 off-site for Core Team
(SM-23 workdays, DEL/AM-18)

DATES	ACTIVITIES/OUTPUTS
Mon 8/18 - Fri 9/05 - 15 workdays off-site for Core Team	- Writing of Ist Draft Investment Strategy Report sections by each Consultant, and develop materials for Consultation Forum presentations of Phase II-B. Includes fluid exchanges of draft texts among Consultants.
Sat 9/06 - Tues 9/09	- Consultants circulate texts of Ist Draft Investment Strategy sections among themselves via courier (hard copy + 3.5 diskette).
Wed 9/10 - Fri 9/12 - 3 workdays off-site for Core team	- Review and revision of each section of Ist Draft Investment Strategy Report by each Consultant
Sat 9/13 - Mon 9/15	- Consultants circulate back to each other revisions on each section of Ist Draft Investment Strategy
Tues 9/16 - Sat 9/20 - 5 workdays off-site for Team Leader	- **Team Leader** edits all sections into one version of Ist Draft Investment Strategy Report and writes Executive Summary **- Team Leader** submits Ist Draft Investment Strategy Report to BEEP and Consultant Team (including Lawyer) via courier (hard copy + 3.5” diskette). Report to be received at BEEP by Wed 9/24

End Product: - Ist Draft Investment Strategy Report wit Executive Summary

PHASE II-B: Fri. Sept. 26 - Sat. October 25 on-site for Core Team (11 workdays)

DATES	ACTIVITIES/OUTPUTS
Fri 9/26 - Fri 10/10	- BEEP circulates Ist Draft of Investment Strategy Report to counterparts in Guyana and to participants for Consultation Forum; elicits responses and feedback; and, shares available feedback with Consultant Team
Sun 10/12 - 1 travel day	- Consultant Team travels to Guyana
Mon 10/13 - 1 workday	- Preparation for Consultation Forums and discussions with GoG Coordinating Committee
Tues 10/14 - Wed 10/15 - 2 workdays	- Public & Private Sector Consultation Forums (one per day)
Th 10/16 - 1 workday	- Review of discussions , issues, and feedback from Consultation Forums - Preparation of 3rd Forum
Fri 10/17 - 1 workday	- Joint Private/Public Sector Consultation Forum
Sat 10/18 - Fri 10/24 - 6 workdays	- Additional feedback, analyses, discussions for Team and Guyana counterparts, as required. - Prepare Final version of Investment Strategy Report; delivery to BEEP on Friday, October 24.

Sat 10/25 - 1 travel day	- Travel home

End Product: - Final version of Investment Strategy Report

APPENDIX C

CONSULTANTS' WORK EXPERIENCE

Siegfried Marks

Dr. Siegfried Marks is a senior economist and consultant with many years of work experience with the public and the private sector on a wide range of projects in Latin America, the Caribbean, Middle East, Philippines, and countries of the former Soviet Union. He has worked for USAID, the World Bank, UNDP, IDB, ECLAC, governments, the private sector, and universities. His experience relates to trade and investment promotion, incentives legislation, trade liberalization, legal and regulatory reform, privatization, sector analysis, comparative cost analyses, evaluation of public institutions and private sector organizations. He has served as advisor to governments, to business associations, and multi-national companies. Last year, he developed a detailed proposal for a new private investment incentive law in Haiti and proposals to remove impediments to private investments in Egypt, Israel, Turkey, Morocco, and Tunisia. This year he developed recommendations to improve an agency of the government of the Philippines designed to attract private investment in infrastructure projects. Mr. Marks is the President of the Miami-based consulting firm, Sigmar International. Previously he was the Chief Economist for Latin America and the Caribbean with Exxon Corporation.

David E. Lewis

Dr. David E. Lewis is a senior economist and consultant with considerable experience in regional integration and business issues in the Caribbean and Central America. He has performed consulting projects for the Organization of Eastern Caribbean States (OECS), CARICOM Secretariat, UN-ECLAC, Latin American Economic System (SELA), OAS, Ernst & Young Ltd., North-South Center of the University of Miami, FLACSO (Dominican Republic), and others. He has published numerous articles on Caribbean economic issues. Dr. Lewis is the former Assistant Secretary of State and Director of the Caribbean Development Program of the Commonwealth of Puerto Rico; and also served as Advisor and Chief-of-Party to the USAID/OECS Caribbean Policy Project. Dr. Lewis is currently the Director of the Antigua-based ***Caribbean Policy Project Consultants***, and serves as Senior Consultant to Caribbean/Latin American Action (C/LAA) in Washington, DC, responsible for trade and investment development in the Caribbean and Central America.

Arnold McIntyre

Dr. Arnold McIntyre, a senior economist, has considerable work experience on Caribbean integration and other economic issues. He has worked for the Organization of Eastern Caribbean States as Chief of Trade and Economic Policy on trade policies and international trade agreements. As country economist with the Caribbean Development Bank in Barbados, he provided technical assistance for public sector investment programs and analysis about the macro-economic performance of Caribbean member states. Dr. McIntyre also served as research economist with the Central Bank of Barbados, analyzing exchange rate movements and export performance. He is currently Program Manager on Economic Integration and Trade Policy with the Caribbean Export Development Agency (CEDA) in Barbodos.

APPENDIX D

INTERVIEW AND MEETING LIST OF CONTACTS

Ministry of Finance

- Mr Winston Jordan, Director of the Budget Office/Advisor
- Mr Clyde Roopchand, Chief Planning Officer
- Mr Tarachand Balgobin, BEEP Coordinator and Head, Project Cycle Management Division
- Ms Olga Lutie, NDS Secretariat
- Ms Kathy Jackman, Planner, Enterprise Monitoring Unit
- Mr H. Forde, Comptroller of Customs & Excise
- Mr Kurshid Sattaur, Commissioner of Inland Revenue
- Mr Winston Brassington, Executive Secretary & Head, Privatisation Unit

Ministry of Trade, Tourism & Industry (MTTI)

- Hon. Michael Shree Chan, Minister
- Mr Neville Totaram, Permanent Secretary (Acting)
- Mr Paul Wharton, Deputy Director Industrial Development Division
- Mr Tarchan Ramgulam, Deputy Permanent Secretary & Director Industrial Development Division
- Ms Brigitte Morrisson
- Ms Sandra Baptiste, Consultant and Managing Director (Ag), GO-INVEST
- Mr Patrick Moottoo, Sr. Investment Officer GO-INVEST
- Ms Michelle Carter, Special Projects Officer, GO-INVEST
- Mr Abdul Gafoor, Investment Officer, GO-INVEST
- Ms Laxhmie Kallicharran, CEO (Ag), Guyana Export Promotion Council (GEPC)
- Mr Patrick Persaud, CEO PATMAR Industries, and Chairman, Guyana Export Promotion Council (GEPC)
- Dr. Chatterpaul Ramcharran, Director-Guyana National Bureau of Standards
- Mr Donald Sinclair, Chairman, Tourism Advisory Board

Bank of Guyana

- Dr. Gobind N. Ganga, Director of Research

Private Sector Organizations

- Private Sector Commission (PSC)
  Mr Yesu Persaud, Chairman (also of Demerara Distillers Ltd.)
  Mr Peter C. Tomlinson, Consultant Private Sector Centre Project
  Mr Clive Gobin, Membership Services Manager, Private Sector Centre
  Ms Amanda Austin, Private Sector Centre
- Tourism Association of Guyana (TAG)
  Ms Patricia Affonso, Manager Shanklands Rainforest Resort
- Guyana Manufacturers Association (GMA)
  Ms Inge Nathoo, Executive Secretary
  Mr Ronald Webster, President (Seals & Packaging Industries Ltd., Chairman)
  Mr Christopher L. Ram, Christopher L. Ram & Associates, Chartered Accountants
  Mr Nicholas Sellito, Chairman Agroprocessing Sub-group (Vice-President, Tropical Organic Produce Ltd.)
  Mr Seudatt Singh, Chairman Textiles & Apparel Sub-group (Director, IDS Holdings, Ltd.)
  Mr Mohabir Singh, Chairman Forestry & Wood Products Sub-group (Proprietor, Guyana Furniture Manufacturing Ltd.)
  Mr Ronald Bulkan, Director of Production, Precision Woodworking Ltd.
  Mr Ramesh Dookhoo, Coordinator GMA Sub-Sector Groups (Banks DIH Ltd.)
- Guyana Bankers Association (GBA)
  Mr. R.K. Sharma, Sr. Vice-President, Guyana Bank for Trade & Industry (GBTI)
- Aircraft Owners Association of Guyana
  Malcolm Chan-A-Sue, Executive Secretary (President, Torong Guyana, Eco-Tour Operators and Aviation Consultants)
  Capt. Tony Mecdeci
  Capt. Roy Jainandan, General Manager-Kayman Sankar Aviation Ltd.

Agriculture Sector

- New Guyana Marketing Corporation (NGMC):
  Mr. Chandarballi Bisheswar, Chairman
  Mrs. Roxanne Greenidge, General Manager & Board Member
  Mr Milton Dookhie, Board Member
  Mr Nizam Hussein, Deputy General Manager
  Mr Percival R.C. Boyce, Board Director, and Chairman of the Association of Non-Traditional Exporters of Guyana
- GUYSUCO:
  - Mr Vic Oodit, Chairman of Board
  - Dr Eastwood, CEO (Ag)
- Mr Charles Kennard, Chairman & CEO, Rice Development Board

Other productive sectors

- Guyana Forestry Commission
  Mr Clayton Hall, Commissioner (Ag.)
  Mr Chris Turnbull, Support Project Advisor (UK/ODA)
- Guyana Geology & Mines Commission
  Mr William Woolford, Deputy Commissioner
  Ms Karen Livan, Manager Geological Services
- Guyana Gold & Diamond Miners Association
  Mr Edward “Tony” Shields, Executive Secretary
  Mr Patrick G. Pereira, Chairman & CEO Pereira Mining Company Ltd.
  Mr Norman McLean, Manager, Corporate Development OMAI/CAMBIOR
    (also Vice-President of GMA)
  Mr Stanislaus Jardine, President
  Mr Cyrilda Jesus, Organising Secretary (also of DeJesus Mining Enterprises)
  Mr Malcolm Sears, Vice President

Other government agencies

- Hon. Anthony Xavier, Minister of Works & Communications
- Ministry of Foreign Affairs:
  Mr Gregory Downes, Foreign Affairs Officer
- Mrs. Evelyn Hamilton, Chief Planning Officer, Ministry of Education

IFI’s/Donors

- Mr John M. Gensheimer, Financial Specialist, IDB
- Mr Andrea Tamagnini, UNDP Deputy Resident Representative
- Ms Fatu Gbebema, Project Officer, UNDP
- Mr Colin Brazier, Deputy High Commissioner, British High Commission
- Dr Allan Bowker, High Commissioner, Canadian High Commission
- Ms Sherry Greaves, CIDA Director
- Mr Michael Wyllie, OAS Permanent Representative
- Mr Hugh Simon, Charge D’Affaires, US Embassy
- Mr Graham Webster, Economic/Commercial Officer & Vice-Consul, US Embassy
- Mr Patrick McDuffie, USAID Representative
- Mr Daniel H. Wallace, USAID Economic Development Advisor, BEEP Project Manager
- Mr Patterson Thompson, BEEP Deputy Chief-of-Party & Long-Term Advisor to MTTI

IFI's/Donors in Washington, DC

- Dr George Reid, Alternate Executive Director (Caribbean), IDB
- Mr Neville Beharie, Country Division II/Region 3, IDB
- Mr Gabriel Castillo, Guyana Country Economist, IDB
- Mr Dougal Martin, Suriname Country Economist, IDB
- Mr Ed Costello, Belize Country Economist, IDB
- Mr Steven B. Webb, Sr. Economist, LA/C Department, World Bank
- Mr Sanwai Booma, Guyana Country Economist, World Bank
- Ms Therese Turner-Huggins, Advisor to the Executive Director, IMF
- Mr Sam Itham, Guyana Country Economist, IMF
- Mr Ibraima Faal, Guyana Country Economist, IMF

Private Companies (By target sector)

- Omai Gold Mines Ltd.
    Norman McLean, Manager, Corporate Development
    Richard Pinkney, General Services Manager
    John Ramrayka, Accounting Superintendent
- Case Timbers Ltd.
    F. Hamley Case, Managing Director
- Laparkan Group Trading Co.
    Mr Glen Khan, Executive Chairman

APPENDIX E

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i. This does not mean that countries will not pursue individual policies that might discriminate in favour of exports or import competing goods. Rather that the regime of trade and exchange rate policies taken collectively does not result in a biased structure of economic incentives.

ii. Government officials indicate that import licenses remain on a narrow range of goods but there are no delays in the approval process and they are granted automatically.

iii. Interviews and discussions with local bankers and board members of commercial banks pointed to the high administrative costs as the principal reasons for the high interest spread.

iv. See Hamilton (1997; p. 5-3)

v. See Angel (1996; p.44)

vi. Estimates provided by GUYSUCO.

vii. Discussions with the Guyana Rice Development Board.

viii. Angel (1996) argued that despite the fact that the rice industry was experiencing growth and was generally profitable, the reasons for high domestic costs were as follows: First, port costs are relatively high. Second, relatively low yields. Third, internal transport costs are high the to poor roads. Finally, taxes, both on imports and consumption also increase domestic costs reducing competitiveness.

ix. The data was collected during meetings with officials from the New Guyana Marketing Corporation.

x. Angel (1996) did not establish an equilibrium exchange rate for Guyana neither was a methodology for computing an equilibrium exchange rate offered.

xi. Guyana's mining industry consists of bauxite, gold, diamonds and sand.

xii. For small mines, the GOG exempts them all from taxes, but instead collects an additional 2% royalty at the top (before the production cost is deducted), thus making small miners pay 7% in royalty, excessively high.

xiii. Annual sales of mineral products in excess of G$1,200,000 are subject to the 2% turnover tax, which is payable by all companies. If the taxpayer's income tax liability in a given year is less than his payments of turnover tax, the unapplied turnover tax can be carried forward to be applied to reduce income tax liabilities in subsequent years. Therefore, the turnover tax operates like a "minimum" corporate tax that is collected by GOG in years when there is no income tax liability for whatever reason.

xiv. The withholding tax rate of 6.25% is the rate applied in the case of OMAI and should be applied to all producers.

xv. LINMINE is exempt from import and consumption taxes, while BERMINE is not. Duty concessions would assist in reducing costs.

xvi. The establishment of a clear mineral policy will probably require revisions to the Mining Act and the introduction of regulations for the enforcement of the Act.

xvii. Brazilian bauxite production is threatened because unless the country amends its constitution and permits foreign ownership of mining operations, perhaps two or three of the five major companies may decide to withdraw production from Brazil.

xviii. For further details see Flaming, L and Cassells, D (1995). "An Economic Analysis of the Timber Industry in Guyana" (pp.4).

xix. Although the GFC can legally assess an export marketing fee equivalent to 5% of the fob price (based on 2% for contract monitoring, 1% for licensing and documentation, and 2% for marketing services), this fee generally does not exceed 2% because the marketing unit is now defunct.

xx. See Hamilton and Associates (1997 p. 7-3).

xxi. These exports were discussed earlier as part of Guyana's traditional exports and this section focuses on non traditional manufactured exports.

xxii. The preferential trading arrangements provide duty-free access for a limited range of manufactured exports. Typically, the arrangements exclude products in which the Region has a demonstrated comparative advantage eg clothing.

xxiii. In discussion with members of the manufacturing sub-groups of the Guyana Manufacturers' Association (GMA), the problems of obsolete technology and the need for retooling in the manufacturing sector was raised as a serious problem facing the sector.

xxiv. These problems of pre-shipment was discussed in meetings held with manufacturing groups and individual companies during the consultants visit to Guyana.

xxv. Only Demerara Banks offers export credit facilities.

xxvi. Export credit facilities are available at the Central Bank of Barbados and the Eastern Caribbean Central Bank (ECCB). Guyana can study both facilities in developing a scheme.