NATIONAL DEVELOPMENT STRATEGY
(2001-2010)

A POLICY FRAMEWORK

ERADICATING POVERTY AND UNIFYING GUYANA

A CIVIL SOCIETY DOCUMENT

ANNEX 28

FINANCIAL SECTOR POLICY

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The Annexes to the National Development Strategy: An Explanatory Note

In June 2000, the National Development Strategy (NDS) of Guyana was formally presented to the President of Guyana and the Leader of the Opposition in the form of a core document, a 348 page distillation of the main elements of the analysis of the Guyana situation and the resulting strategy for action drawn from material prepared by 24 sectoral committees of the National Development Strategy Committee (NDSC). While Chapter 1 of the core document provides an outline of the origins of the NDS and the methodology of its preparation, the purpose of the present note is to explain the Annexes to the core document.

The Annexes are edited versions of the original drafts that the sectoral committees prepared, using a format that facilitated systematic thinking, though at the cost of some repetition. They are therefore longer than the corresponding Chapters of the core document, and also differ from them in other ways:

1. While the Annexes were individually edited in terms of their content, in the core document, disagreements or dissonances between Chapters were removed; for example, if the Chapter on the Private Sector proposed a strategy for Education that was in contradiction with a strategy proposed in the Chapter on Education, the two were rationalised.

2. While the core document was updated with the most recent data where possible, the Annexes generally retain their original data; for recent economic and social statistics, the attention of readers is particularly drawn to the recently completed *1999 Guyana Survey of Living Conditions.* In addition, again because of differences in when they were prepared, what was a Bill at the time of the original draft may have become an Act by the time the core document was being edited. This type of difference may be footnoted in the Annexes.

3. The treatment of the Annexes as historical documents occasionally produced another kind of difference, the main example of which is the Annex on Energy which was written before the privatisation of the Guyana Electricity Corporation, and whose strategy was largely preempted by that privatisation; while the edited Annex deliberately relied on the original material, new material was developed for the core document. These differences may also be footnoted.

It is worth noting that the updates found in the core document usually demonstrate the soundness and continued applicability of assessments made on the basis of earlier data or other information.

There are fewer Annexes than there are Chapters in the core document. For various reasons, some sectoral committee drafts were finalised in the same format as the Chapters of the core document, and there would therefore be little difference between the Chapter and the corresponding Annex. (Examples of this are the Macro-Economic Strategies and the Management of the economy; Sugar; Urban Development; Land; Housing; and The Family). The core document also includes Chapters for which there were no corresponding sectoral committee drafts; the first three Chapters of the core document (Origins and Methodology, National Objectives and Governance) are examples.

For those sectors where there are both separate Annexes and core document Chapters, the titles and numbering of the two correspond except in two cases: one, the corresponding Annex for the Chapter on Manufacturing is titled Manufacturing and Technology and includes material on Science and Technology that the core document had placed elsewhere; and two, the corresponding Annex for Chapter 4, Macro-Economic Policy, is Annex 4, Financial Sector Policy, because the material prepared for the Financial Sector Policy Annex was incorporated into the Chapter on Macro-Economic Policy.

The National Development Strategy was published in summarised form (the core document) for the practical reason that few people would have the time to read the over 700 pages represented by the Annexes. Yet the Annexes have a clear value. They include background information and assessments that were too detailed for inclusion in the core document, but which trace the process that shaped the strategy. Above all, they preserve for us and for posterity the earlier thinking, and the full range of thinking, of the women and men whose work provided the foundation of the NDS. In doing so, they honour the labour which the sectoral committees put into distilling their own work and life experience and the views of the public they consulted in the process. It is this foundational material that is now being published, making the National Development Strategy of Guyana available in both summary and extended forms.

TABLE OF CONTENTS

PAGE

LIST OF ACRONYMS

ANTEG	Association of Non-Traditional Exporters of Guyana
CARICOM	Caribbean Community
CET	Common External Tariff
D&I	Drainage and Irrigation
EPDS	External Payment Deposit Scheme
EPZ	Export Processing Zone
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
GOINVEST	Guyana Office for Investment
GUYSUCO	Guyana Sugar Corporation
NARI	National Agricultural Research Institute
NGO	Non Governmental Organisation
PSO	Private Sector Organisation
R&D	Research and Development
VAT	Value-added Tax

LIST OF TABLES

PAGE

ANNEX 28

THE PRIVATE SECTOR

Introduction

The role of the private sector within the national economic framework has been identified as integral to our country's development process over the medium to long-run planning horizon. In the last seven or eight years, Guyana has experienced a historic process of restructuring its economy, moving away from an overly centralised approach that brought about sustained economic decline, towards an open, market-oriented framework that has already given rise to an economic revival. Under the new approach, the Government retains a strong commitment to social justice but now expresses that commitment through more focused programmes of basic services and more selective instruments of economic policy. This approach is more likely to be effective in the long run and it assigns the fundamental role of the engine of growth to the private sector.

In this context, this Annex in effect provides specificity to the new framework in regard to the respective roles of Government and the private sector, and describes a number of measures that will help unleash the economic potential of the private sector.

I. Basic Features Of The Sector

A. The Economic Setting

The development of the Guyanese economy has been influenced by both geographic features and Government policies. In terms of land area, Guyana is the largest member of CARICOM and shares borders with Venezuela, Suriname and Brazil. Guyana historically utilised tariffs and non-tariff barriers and a significant measure of Government intervention to promote industrialisation. These geographic and legislative factors have shaped the evolution of Guyana's economic landscape. The resource-based nature of the economy is reflected in the traditional export of primary commodities, and the weak manufacturing sector is related to its small and tariff-protected domestic markets. While much of Guyana is virtually uninhabited, and its population is largely concentrated along the narrow coastal plain, the population-land ratio is an important feature in its economic development.

Guyana has been recognised as a resource-abundant nation. Sugar and rice have been and continue to be dominant outputs. Next in importance come fisheries, timber, mining and quarrying. Shrimp, plywood, gold, bauxite and diamonds are examples of major outputs, in addition to the principal crops.

Non-traditional crops (those other than rice and sugar) are of increasing importance. Over the years, Guyana has produced a wide range of other crops and will continue to do so in the foreseeable future. Annex 12 describes the principal non-traditional crops.

Over 75 percent of Guyana's land area is forested, and the value of forest products has grown very rapidly in recent years. Selected forestry products are described in Table 28-1. Not all the forms into which these products are transformed, e.g., plywood and millwork, are shown in the table.

Table 28-1
Production of Selected Forest Products in Guyana, 1994-1998

Products	Unit	1994	1995	1996	1997	1998
Logs	M^3	389,641	425,490	416,334	521,529	386,673
Roundwood	M^3	14,474	18,326	22,016	17,220	19,454
Chainsaw Lumber*	M^3	29,832	41,823	38,255	32,378	23,638
Splitwood	M^3	2,793	2,960	2,542	2,156	1,607
Fuelwood						
Charcoal	Kg	1,717,687	1,516,092	1,098,242	596,483	460,864
Firewood	Cords	8,278	6,450	6,323	2,685	2,888
Sawmill Products	M^3	47,170	58,962	58,962	56,604	n/a
Plywood	M^3	57,240	96,258	98,055	67,223	76,059

*legal declared chainsaw/lumber products
Source: Guyana Forestry Commission

Excluding sugar and rice milling and mineral refining, manufacturing is characterised as comprising light industries. The names of some selected light industries are shown in Table 28-2.

Table 28-2
Manufacturing Subsectors, 1999

Textiles & Apparel	Agro Business
Printing & Packaging	Construction & Engineering
Chemicals & Pharmaceuticals	Minerals and Related Products
Forestry and Wood Products	Related Services

Source: GMA, November 1999

Except for wooden products, alcohol and alcoholic beverages, Guyana’s manufacturing industries produce for the small domestic market and often operate inefficient plants. Except in the forest-based industries, rum production, copra products, and stockfeed, there are virtually no inter-sectoral linkages, as most raw materials are imported. See Annex 17 for a more complete treatment of the manufacturing sector.

B. The Industrial Structure of the Economy

In describing the industrial structure of the Guyanese economy, economic activities can be classified into three broadly defined groups:

1. The primary sector, which includes agriculture, fishing, forestry, mining and quarrying.

2. The secondary sector, which includes manufacturing, engineering and construction.

3. The tertiary sector, which includes transportation and communication, commerce, business services, rentals, finance and Government services.

In a typical industrialised nation, the relative shares of total production exhibit structural changes in response to increases in national income. The growth of the secondary sector is expected to rise as value is added in furthering the stages of production. The share in the tertiary sector will increase at the expense of a continuing decline in the primary sector's share. These trends, typical of the experience of economies that have passed through the industrialisation process, are dissimilar to the evolution of Guyana's economic landscape. Here, the manufacturing sector remained relatively constant in its level of real GDP for the period 1988-1992, beginning to show increases in only 1993-95; and there has been a consistently upward trend of the primary sector since the end of the 1980s.

In 1994, the production shares of the primary, secondary and tertiary sectors were respectively 66, 9 and 25 percent at current factor prices. In other words, the primary sector is unusually dominant. Its performance is reflected in the contribution of a few land-based products: sugar, rice, bauxite, gold and timber. Excessive dependence on these products should not be encouraged in this era of globalisation, due to the uncertain and fluctuating nature of their markets in the long run. However, Guyana has undeniable advantages in some of them.

II. Policies of the Sector

A. Past Evolution of Policies

1. <u>Overview</u>

The modern evolution of Guyana's development can be classified into three distinct time phases: 1966-1970; 1970-1988; and 1988 to the present.

In the first phase, the development strategy followed an open, market-oriented approach. The aim was to attract and retain foreign capital to broaden the manufacturing sector. During this period, the export of land-based commodities continued. There was no systematic attempt to promote industrialisation. Foreign ownership in all sectors of the economy was predominant.

In an attempt to exert greater Government control over the economy, Guyana was declared a socialist Republic in 1970. The second phase can thus be classified as the period of socialist administration. During this period, Guyana's development path was subject to State control and ownership of all the major economic activities, including the financial and transportation services. An import substitution strategy behind high tariff barriers and a controlled exchange rate was also pursued. A regime provided to encourage investment offered generous fiscal incentives, and Government further provided infrastructure and institutional arrangements for the establishment of industries.

In its Economic Development Plan (1972-1976), the socialist administration emphasised the role of industrialisation via import substitution policies. The objectives stated in the Economic Plan for the manufacturing sector were as follows:

a. increased output of the sector both through the expansion of goods currently manufactured and the production of import replacements;

b. diversification;

c. creation of employment opportunities;

d. promotion of equitable distribution of industries on a regional basis;

e. intense utilisation of indigenous materials;

f. promotion of local manpower development, particularly management, technical and professional skills;

g. a focus on projects which possessed high forward linkages.

Unfortunately, the development plans failed to achieve their objectives. The strategy did not initiate new and diversified industries. These failures reflected inappropriate Government policies for the period (1970-1985) and are explained in detail in the following sub-sections.

2. State Ownership

The Government's virtual control of the economy in the 1970s resulted in the proliferation of public enterprises and the miniaturisation of private activity. This situation led to the gradual deterioration of the socio-physical infrastructure and the increased incidence of institutional, managerial and organisational bottlenecks within the public sector. Weak management and overstaffing characterised State enterprises.

State-owned enterprises often operated below optimal capacity and the increased costs of operation were subsidised either by Government advances or guaranteed credit from the local banking system. In effect, subsidies created an unfair advantage over private firms which produced similar commodities.

This policy of State ownership and control induced an uncertain investment climate which led to the crowding out of private sector investment, local and foreign.

3. Foreign Exchange Management Policy

The foreign exchange rate was set at artificial levels under the socialist administration, which in the end discouraged Guyana’s strongest sector, that of exports. There was no meaningful co-ordination of financial and trade activities. First, Guyana's trade authorities in 1970 either prohibited or centralised the importation of a number of foreign commodities. While these measures were intended to protect the balance of payments, they were also seen as a broader economic strategy aimed at encouraging but also exerting some degree of control over local production, without due regard for the competitiveness of those industries which would grow up under such a regime. Second, the Bank of Guyana, in an attempt to ensure strict accountability for foreign earnings, instituted measures for the repatriation of export earnings. Third, the commercial banks were severely restricted in their approval of payments in foreign currency. The result of this measure was a serious build-up in commercial debt arrears as importers found it increasingly difficult to pay for foreign inputs. An External Payment Deposit Scheme (EPDS) was introduced by the Bank of Guyana in 1978 with the express aim of assisting the systematic elimination of commercial arrears. Importers were requested to deposit the local dollar equivalent of the value of imports in the Bank of Guyana, well in advance of when foreign exchange became available.

By 1979, however, arrears were again accumulating and the banking system was unable to provide foreign exchange for the payment of even routine imports. As this situation continued into the 1980s, the commercial banks' authority to approve foreign payments was withdrawn and import licences were granted only on the following priority basis:

- raw materials for the manufacturing of essential items;
- raw materials for manufacturers in the export market;
- equipment and raw materials for sawmillers;
- commodities for hatcheries;
- spare parts;
- petroleum products;
- importation by international organisations and members of the diplomatic corps;
- pharmaceuticals.

As the foreign exchange situation became aggravated in 1983, even those facilities that were being approved were subject to the availability of foreign currency. Implicit in this was the fact that, in many cases, there were delays in the acquisition of imports with the attendant deleterious effect on production.

The raw material inputs to manufacturing were mostly imported, and financed by foreign exchange generated mainly from the exports of sugar, bauxite and rice. The manufacturing sector started as a net user of foreign exchange and remains so to this day. The decline of the sugar, bauxite and rice industries during the 1970s and 1980s led to the virtual collapse of the local manufacturing sector over those two decades.

In the ensuing years, the Bank of Guyana declared a resounding "No" to numerous requests for foreign exchange. This state of affairs induced the development of an illegal market for foreign currency. This parallel economy operated effectively by offering higher purchasing prices for currency and subverted the flow of foreign currencies into the institutionalised banking system. Furthermore, the underground economy facilitated local manufacturers in obtaining foreign currency to purchase inputs, though at relatively high prices that many of them could not afford at the time. The EPDS has never liquidated the foreign debt which it contracted. This continues to be an impediment to new borrowing opportunities.

4. Exchange Rate Policy

During the decade of the 1980s, the local currency was devalued on numerous occasions. The devaluation measures were aimed at:

a. reducing the financial losses of the exporting corporations and hence encouraging exports;

b. reducing the deficit of the public sector as a whole by increasing trade taxes;

c. reducing the need for borrowing from the banking system by the exporting corporations, and

d. reducing the corporations' financial dependence on Central Government.

These devaluation measures did not help domestic producers because they were insufficient to keep the exchange rate from becoming overvalued; in effect, they were always "too little and too late".

5. Pricing Policy

In the early 1980s, controlled prices were introduced on a wide range of commodities to minimise the rate of price inflation. The market prices of these goods underestimated the true social cost of inputs. This divergence between controlled prices and the opportunity costs of inputs exerted a negative impact on the profits and growth of the manufacturing sector. As a consequence, resources were reallocated from the manufacturing sector to the service sector. The instrument of price controls was being used in a futile attempt to counteract the inflationary effects of Government deficits.

6. Consumption Tax Policy

A consumption tax was placed on both imported inputs and manufactured goods for the domestic markets in order to increase Government revenues. Measured in terms of world prices, this consumption tax policy reduced the international competitiveness of manufactured exports. Manufacturers also faced unfair competition from the parallel economy into which goods entered illegally. These unfair trade practices also prompted many firms to switch their real resources from the secondary to the tertiary sector.

In the mid-1980s, numerous policy measures were introduced to try to improve the performance of the economy. For example, the Export Development Fund was created to relax the foreign exchange constraints to production; a zero-rated consumption tax was extended to some inputs utilised in the manufacture of goods earmarked for exports, and the Export Promotion Council was established to assist local manufacturers.

Other policy measures included the closing down of uneconomic enterprises and the removal of some price controls and subsidies. Most of these palliative measures, however, failed to exert significant positive impact on the manufacturing sector because the exchange rate remained overvalued and the overall economic framework did not change; the sector's growth rate and contribution to GDP therefore continued to decline.

B. Description of Current Policies

In mid-1988, market-oriented measures were introduced under the Economic Recovery Programme (ERP). These measures involved a fundamental reorientation of Government's economic policies from excessive State control to a market-oriented economy and became operational in the early 1990s. The impact of these structural changes on the private sector was largely positive but with some mixed aspects. The ERP is a necessary but not sufficient framework for stimulating the private sector to provide for increased industrial output. While it establishes a market-oriented economy, a set of fine-tuned policies is required to induce accelerated performance in industry and private services. The rapid economic growth that has been recorded over the last four years, on the basis of the agricultural and extractive sectors, must be sustained by nurturing the participation of the private sector in manufacturing and trade-related services. Over the past two decades, private sector activities were mostly restricted to agriculture, small scale enterprises, wood-based industries and more recently, gold production. There has been a renewed interest in creating an enabling environment to facilitate private sector expansion by adding value through further processing of primary products. This view stems in part from the evidence that the manufacturing sector plays a relatively marginal role in national income generation throughout the Caribbean.[1]

The principal changes in policy in recent years have included a freer foreign exchange regime, decontrol of almost all prices, reductions of tariffs and non-tariff barriers, privatisation of some State enterprises, a new framework of monetary and fiscal management, and implementation of a framework for private banking. The changes have also been substantial in some resource-based sectors, as virtually all rice mills have been privatised, rice prices have been decontrolled, and the facilities of a Government fishing enterprise have been sold or leased out. The agency that approved and promoted investments, which had proven to be cumbersome and ineffective in practice, was closed, and a new office opened for that purpose. Some refinements in the tax structure have been instituted and efforts have been made to strengthen tax collection.

[1] Country Department III, Trade, Finance, Industry and Energy Division, Latin America and the Caribbean Region, Caribbean Countries: Policies for Private Sector Development, the World Bank, Washington, D. C., April 29, 1994.

Nevertheless, there has remained a degree of uncertainty in the eyes of the private sector about Government economic policy. Majority opinion in the sector would call for greater efficiency in Government procedures involving approvals and licences of all types, more decisiveness in privatisation, and greater attention to infrastructure needs. Government must proactively facilitate approvals and licences. Policy is moving to respond to these concerns, and this National Development Strategy comprehensively defines the new approaches necessary in all areas related to the private sector.

III. Issues and Constraints[2]

A. Issues

The principal issues and constraints facing the private sector arise from the legacy of two decades of a declining economy and the absence to date of a definitive national policy on private sector development. Currently, Guyana has no comprehensive national private sector policy aimed at stimulating investments, industrial performance and commercial development. Past attempts at development planning for Guyana met with difficulties for one reason or the other and were subsequently abandoned, in large part for lack of an appropriate conceptual framework. In formulating such a policy, decision makers must incorporate independent analysis of the issues and constraints facing the manufacturing sector. For simplicity in analysis, this section provides a summary of the key issues and constraints.

1. <u>Industrial Development</u>

As an earlier section outlined, over the past decades Guyana's development has continued to focus on the export of a few primary commodities: sugar, rice, shrimp, bauxite and more recently, gold, diamonds and timber production. Manufacturing, which represents the further processing of primary goods, can provide important linkages (both backward and forward) with the other economic sectors of the economy, in particular, those of the raw material base and the commerce sectors. In the absence of increased domestic value-added content, the economy has embarked on a narrow growth path subject to the vagaries of international markets for primary products.

While the economy needs greater diversification, Guyana's greatest comparative advantage in industry lies in those subsectors linked to its vast natural resource endowment: wood products, agro-processing, and the further processing of gold and diamonds. Internationally, these smaller economies that are most successful are those which have developed specialised expertise in selected areas of manufacturing, focusing on export markets. Thus, Guyana needs to strike a judicious balance between diversification and strengthening its capacity in areas of obvious advantage.

At the national level, a long-term policy should focus on renewed co-operation between the Government and the private sector with respect to industrial space, location(s), support

[2] See also Appendix, pg. 25

services, and technical assistance. The policy should also address other important elements such as training, infrastructural services, long-term financing and research and development.

The success of a sustainable, viable and efficient manufacturing sector depends in good measure on the availability of skilled labour, capacity for research and development, and the availability of adequate infrastructure, including electricity, roads, ports and airports (Annex 17).

2. Markets and Marketing

In many manufacturing industries, specialisation is limited by the size of the domestic market. With an estimated population of less than 800,000, Guyana’s domestic market is too small to accommodate output levels of plant at which unit cost is minimised. With firms producing only for this market, its structure is oligopolistic for many products.

Guyana’s exports are mostly earmarked for CARICOM markets. As a result, only limited inroads have been made into the North American and other foreign markets. While the intra-regional market (CARICOM) is crucial for many small and medium-sized manufacturers, finding new extra-regional markets (North American and other foreign markets) is essential to overcoming the problems of scale inefficiency.

Other than procuring new markets, export goods must compete with foreign products of international standard and quality. A majority of Guyana manufacturers operate obsolete and depreciated plants. Consequently, their output is of substandard quality. The potential for high-quality products necessary to compete in export markets exists in only a small group of manufacturing industries such as furniture and other wood products, garments, industrial diamonds, alcohol and alcoholic beverages, and non-traditional agricultural products.

Increasingly, the quality question has an environmental dimension. Processed primary products, such as wood products and shrimp, now need certification that the resource base for their raw material inputs is managed in a sustainable manner or without unnecessary environmental damage, in order to penetrate many of the most profitable markets abroad.

In addition to the need for improvement in the quality and standards of products, the information base is inadequate with respect to external markets and market niche structures. Timely information is needed on price, quality, packaging, frequency of delivery and distribution patterns.

3. Foreign Investment

The process of approval of foreign investments is still time-consuming and there is too large a discretionary element on such decisions as which taxes may be zeroed out and other incentives. Standard agreements for key sectors are not available. The process is biased in favour of the processing of primary products and other manufacturing, and knowledge-based enterprises, for example, may not receive the same treatment. The responsibility for investment promotion has been mixed with that of investment approval, when conceptually the two activities should be separated. A related issue is that foreign investors do not have rights to full repatriation of profits, nor to maintain cash for operating purposes in offshore accounts. Above all, a clear and simplified investment code needs to be published and widely distributed.

4. Company Registration

The existing rules for start-up of companies are too onerous, thus effectively discriminating against small firms that are potentially important sources of employment growth.

5. Financial Support

Guyanese firms must rationalise their productive capacities and prepare to compete with efficient foreign firms. This re-tooling of productive lines requires access to industrial financial assistance. However, the procurement of such financial support is a complex, time-consuming and costly process. In many instances, commercial banks are risk-averse to micro-enterprises. The time lag involved in processing investment loans is approximately six months or longer. Such a lengthy process often induces entrepreneurs to either abandon projects or seek funding from outside the financial intermediaries. Consequently, the commercial banking system accumulates excess liquidity which is under-utilised, and yet at the same time real interest rates are high. Financial intermediaries sometimes prefer to issue commercial loans for consumption purposes, more often to invest in low risk Treasury bills. Industrial micro-enterprises are seldom considered for overdrafts or soft loans.

This situation could be improved for many Guyanese firms by better access to U.S. dollar loans. However, while such loans are now available in principle, in practice each one has to be approved by the Central Bank or the Ministry of Finance, a process that is cumbersome and makes the loans in effect less accessible in many cases.

6. Research and Development

R&D is almost non-existent in the manufacturing sector. Expenditure has been and continues to be concentrated in the traditional agricultural sector under the aegis of NARI; there is no equivalent R&D institute in the manufacturing sector. A dynamic R&D programme is mandatory if manufacturers are to develop efficient production techniques, and quality control and packaging methodologies. However, R&D efforts have to be selective in an economy the size of Guyana's, the possibility of a joint venture between a foreign university and UG, to do part of the work in Guyana while supporting UG's development, should therefore be explored.

7. Qualified Labour Force

Another long-term issue that requires immediate attention is the constant upgrading of both the educational system and the human resources to match the increasing needs of the manufacturing sector. A common theme reiterated by manufacturers is the failure to retain skilled labourers who have been trained at the employers' expense. Once employees have acquired technical skills on the job, they often either migrate or initiate their own business ventures. Furthermore, graduates from the Government Technical Institute are not adequately trained to assume technical positions. Under these circumstances, firms experience increased production costs in upgrading the skills of new staff.

The Government has emphasised the correlation between the development needs of the economy and the provision of quality education in order to ensure sustainable, efficient and high-quality performance, and policies in this area are set out in Annexes 18 and 27.

8. The Tax System

Although the tax system has seen improvements in recent years, it is still uneven, with an irregular pattern of exemptions from consumption taxes and import tariffs. The consumption tax, by being applied to imported raw materials and intermediate goods as well as final products, produces a cascading effect that effectively penalises the manufacturer of the final product. In this regard, a value-added tax (VAT) would be much preferred in terms of its incentives for production. The high end of the range of income taxes, at 45 percent, is above the corresponding rate for almost all other countries in the region. Tax collection is also a concern inasmuch as it continues to emphasise a relatively small number of larger enterprises, letting the smaller ones escape from the net. The customs clearance system is still unacceptably slow.

9. Property Rights

The mixed legacy of traditions in regard to land tenure, in combination with the antiquated state of the property registries, often results in entrepreneurs being unable to acquire the property rights that they need in order to justify investing in a project. This circumstance impedes the development of many kinds of activities; aquaculture is an outstanding example (see Annex 13).

10. The Legal System

There is a lack of adequate legal procedures for the enforcement of contracts. This lacuna introduces additional (and unnecessary) uncertainty into normal business relationships. The legal system has badly deteriorated over the last two and a half decades, suffering a flight of its best talent to more attractive situations abroad, a deterioration of physical facilities and libraries, and a general demoralisation of staff. The Governments of the 1970s and 1980s made a deliberate effort to subordinate the judicial system to the executive, a policy that in and of itself brought about a massive emigration of persons with relevant skills and abilities. This loss affects all sectors in society, including the private business sector. Restoration of the legal system is one of the most urgent national priorities.

B. Constraints

In sum, the private sector has the potential to grow significantly, although constrained by a number of factors which have compromised its efficiency. These include:

1. Inadequate and deteriorated infrastructure (e.g., electricity, water, road, port and communication facilities).

2. Outdated and inappropriate technology.

3. Scarcity of skilled personnel.

4. Poor marketing capacity.

5. The lack of a fully-articulated policy framework aimed directly at developing a sustainable and economically viable manufacturing sector.

Other major constraints include:

- The slowness of the bureaucracy in approving investments, licensing firms and taking other necessary actions. Sometimes this slowness is accompanied by arbitrary judgements. Import licensing has not been entirely done away with.

- Inadequate air and sea transport systems. Existing policy has put a cap on the number of commercial airline seats available domestically and has not encouraged competition in providing the vital international air service. Similarly, port facilities are very inadequate, in terms of depth of harbour, bulk-handling facilities and unloading capacities, for an export-oriented economy. (These constraints are reviewed in Annex 8.)

- Outdated legislation for quality assurance and product grading. This legislation needs to be updated as a measure to improve performance in both domestic and foreign markets.

- Unregulated business activity, which serves to undermine legitimate business development while making no contribution to national revenue. Efforts should be made to address this problem through reforms in the revenue sector. Issues of corruption should also be addressed in order to promote fairness, which will itself reinforce good business practices.

- Less-than-cost dumping and substandard or defective goods in the Guyana market. The National Bureau of Standards and other agencies should promote quality standards to control this problem. The Ministry of Trade should also engage in intelligence gathering in order to be able to judge fairly whether products are being dumped at less than fair prices.

- Inadequate drainage and irrigation facilities. The two leading agricultural crops, rice and sugar, are produced on a coastal belt 80 miles long and 20 miles wide. This area is one to one and a half metres below sea level and requires continuous protection from the saline water by an integrated network of irrigation and drainage canals. Thus, insufficient expenditure on D&I is an important constraint that has affected productivity improvement in the agricultural sector. This constraint is dealt with in other Annexes, but is sufficiently important to private sector development to be worth reiterating here.

IV. Sectoral Objectives

A. Overall Objectives

The broad national objectives for the private sector are:

1) That the sector continue to play a leading role in the growth of the economy, as it did in the decade of the 1990s, thereby contributing fundamentally to the transformation of our economy and living standards, and

2) That the sector be the major engine of employment creation, thereby assisting materially in the reduction of poverty in our society.

These objectives are posited out of conviction that only the private sector can play these roles adequately, and that the development of the private sector in this sense is critical to the attainment of our national aspirations for substantially improved living conditions. The achievement of these objectives requires the development and implementation of a complete policy framework for the private sector, along the lines that are set out in the succeeding section.

The more operational sub-objectives in regard to the policy framework for the private sector are:

3) Improving the legal framework for private productive activities, including better enforcement of contractual provisions, simpler company registration procedures, and more secure property rights.

4) Improving the taxation system so that its disincentives to production are minimised and the inefficiencies associated with variations in total taxation rates across subsectors are eliminated.

5) Improving the efficiency of governmental services and procedures such as those relating to investment approval, licensing and approval of certain classes of financial transactions.

6) Improving the nation's productive infrastructure.
7) Improving the educational and training system.

8) Improving the nation's capacity for industrial research and development.

9) Continuing the programme of privatisation of the country's productive capacity.

Prior to discussion of the policies for achieving these objectives some strategic orientations are reviewed below.

B. Strategic Considerations

Recent realignments of world trade as evidenced by the World Trade Organisation and the upcoming Free Trade Area of the Americas demonstrate that Guyana will have to pay serious attention to issues of quality standards, intellectual and property rights, availability of appropriate skills, and reciprocal trade arrangements.

As discussed above, our current reliance on a few major export products exposes us to significant economic risks, especially in the international marketplace. The shutdown of Omai Gold Mines Limited for part of 1994, and its consequences for the economy, illustrate the dangers inherent in this over-dependence on a limited number of products and the need for economic diversification. Annex 27 sets out the concept of an Export Processing Zone which would assist the country to substantially move towards diversification.

The logical places for diversification to start are those industries linked to our resource base, and those in which we previously had a strong base. The former category includes gold refining and working, industrial diamond processing, non-traditional agriculture, aquaculture[3], and forest products such as millwork and veneers. The latter category includes textiles and, to a lesser extent, metal working. These types of industry should form the core of our export processing zone for the next ten years.

In addition to appropriate diversification, the second strategic concept is that of export orientation. This orientation becomes essential for us because of the small size of our home market and the corresponding difficulty that firms have in reaching the minimum efficient size for production on the basis of sales to this market alone. The intense competitiveness of world markets for manufacturers is acknowledged, but it must also be recognised that under the CET Guyana has a natural overseas outlet in the form of the CARICOM market. Production for sales on that market (of, e.g., textiles) could be a useful preparatory step to mounting a strategy for penetrating more distant markets.

The third strategic concept is that Guyana's diversification should be based on light industries and selected services, with the obvious exceptions of mineral refining, some wood

[3] In respect to aquaculture, and fish processing in general, it may be observed that not all the activities of an export processing zone necessarily have to take place in the same locality. For ease of administering the zone and enforcing its rules, it is helpful to have most of the activities at one site, but exceptions may be made in obvious cases such as fisheries products for which timely cold storage and transport are essential considerations.

processing and sugar milling. The industries listed under economic diversification (e.g., millwork, jewellery, simple metal working, textiles and food processing) hold the promise of creating considerable amounts of domestic value added even though their development could benefit from foreign investment and technology. Recent investor interest in the gold-working sector and in processed fruits confirms this potential. Ecotourism, aquaculture and knowledge-based industries should not be overlooked in the quest to identify sectors with important growth potential. Within the service sector, international trading activities would be expected to grow in importance as our country's export base expands, more especially when the road to Lethem is completed and a deeper-draught port is available, to facilitate entrepot trade from the Brazilian savannah. As these developments are pursued, every effort should be made to take account of the economic, social and cultural rights of indigenous communities.

V. The Strategy

A. Role of the Government

Although the private sector is expected to be the main productive force in the economy and the predominant source of employment creation, the Central Government will play a major role in the implementation of this Strategy as facilitator. The Government will continue to provide the infrastructural support to the sector along with an appropriate policy and legal framework.

Since education and training are crucial to maintaining an economically viable and sustainable manufacturing sector with a high level of efficiency, the Government will focus constantly on upgrading the human resources of the economy and will contribute to and encourage the private sector's involvement in manufacturing research and development activities. Through its Consulates abroad, the Government will provide marketing access support to the sector as well as the mounting of trade fairs abroad.

Government will also to upgrade the provision of other basic social services, especially health and potable water, but also housing and other essential amenities. The deteriorated state of the health and educational systems is one of the main impediments to attracting Guyanese professionals who have successfully established themselves abroad. Improvements in these services are essential not only to the well-being of the present population but to the recapture of some of our lost human capital.

In its role as a facilitator, the State will provide the necessary supportive networking of institutions and the institutional framework to aid, promote and foster economic development. Examples of supportive networks include the maintenance of law and order, training systems, and the other basic services mentioned above. The overall administration is weak throughout the public sector and requires complete overhaul, e.g. the Customs Department. More resources are required for this process and the State will involve the private sector in developing mechanisms to deal with shortcomings.

The State will encourage industrialisation via the provision of industrial estates, support services, including investment promotion and marketing, and technical assistance. The State will interface with the private sector in the following areas:

- Information sharing re negotiations at the international trade level and with international and multilateral donor agencies.

- Expeditious communication of information on matters relating to the availability of developmental aids and technical assistance from foreign missions and donor agencies for the private sector.

- Full involvement of the private sector as a partner in national decision-making. This is essential to the strengthening of the democratic process, and also affords Government the opportunity of drawing on resources of the private sector, e.g. management.

B. Components of the Policy Framework for the Private Sector

1. <u>A Simplified, More Equitable Tax Regime</u>

Although the private sector recognises that consumption taxes and import tariffs are crucial to the fiscal equilibrium of Government, the sector's planning for production and investment needs to be facilitated by more uniform and relatively low rates. As long as the consumption tax is necessary (see below), economic and business efficiency would be promoted by establishing a single rate, universally applicable without any exemptions whatsoever, except for items vital to life itself such as selected medicines. The same argument is advanced in respect of the structure of import tariffs: a low but non-zero minimum rate would be preferable to a combination of higher rates and zeroed-out rates.[4]

The recommendations this National Development Strategy makes for a mining fiscal code point in the same direction of simplicity and relative uniformity. Such an approach removes the burden of uncertainty from potential investors and makes it less likely that the success of their project would be dependent on their skills in negotiating with the Government. It also makes incentives for resource allocation more uniform across sectors, thereby allowing the market to play a greater role in nurturing industries, guaranteeing enhanced growth prospects for the economy.

In relation to taxes, the upper end of the range of income taxes will be reduced, perhaps in two steps, to approximately 35 percent; this should improve tax collection.

In addition, steps to broaden the tax base will be continued to permit a fairer sharing of the tax burden.

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[4] The practice of zeroing out tariffs has resulted in an average collected tariff rate of only 4.5 percent, vs. total merchandise imports. In contrast, the unweighted mean tariff for most other developing countries in the hemisphere ranges from 11 percent to 20 percent. (See World Bank, Guyana: From Economic Recovery to Sustained Growth, Washington, D.C., 1993, p.47).

2. The Adoption of a Value-added Tax

This section examines the merits of a proposed value-added tax (VAT) to replace the current consumption tax. VAT is simply a tax levied on the value of goods and services at each stage of the production-distribution chain. It is the responsibility of the vendor to record and submit the taxes, on an incremental basis, to the Central Government. The incremental amount is the residual over and above the amount collected after each taxpayer receives his/her refunds for taxes already paid. The amount of taxes collected is equivalent to $t(y-x)$ dollars, where y and x respectively represent sales volume and input costs, and t denotes the VAT rate. In other countries, the VAT system has been instrumental in widening the tax base and reducing tax evasion. The eventual introduction of VAT in Guyana could provide additional revenue to reduce the fiscal deficit and promote industrialisation. While a VAT cannot be introduced immediately, the preparatory steps, including an educational campaign, will be commenced as quickly as possible.

a. Equity and Efficiency

In considering the adoption of a VAT system, the issues of equity and efficiency in resource allocation are the foremost considerations. The question of equity is related to the distributional impact of the tax on consumers of different income levels. Efficiency is concerned with the impact on production, consumption and resource allocation. Like the consumption tax, the VAT is regressive. It is borne by consumers who spend a high proportion of their income on basic goods and services. However, its regressivity can be mitigated by granting exemptions to necessities or offering lower rates. With the exception of those exemptions, a VAT is applied to all goods and services, including imports. The system ensures that VAT is paid on imports even if the border price excludes it. The tax is collected at a later stage when each taxpayer substantiates the amount due with receipts on input costs for refunds. Hence VAT is considered relatively neutral in the sense of minimising price distortion, and it avoids the cascading effect of the accumulation of taxes paid at each stage in the industrial processing chain.

b. Administration

The collection of VAT is made at each stage of the production and distribution chain and down to the consumer level. Each taxpayer has a built-in incentive to ensure that the payment of taxes is recorded accurately for the purpose of tax refunds. The amount of refunds for purchased inputs is computed upon the submission of tax receipts. The system is self-reinforcing. This incentive to insure that the amount is correctly recorded will minimise the extent of tax evasion in Guyana.

c. A Useful Preparatory Step

A logical way to prepare for the introduction of the VAT is to initiate a programme of allowing tax rebates to traders who sell inputs to registered manufacturers. By itself this measure would reduce the cascading effect and its administration would foreshadow that of the VAT.

Given the human resources required to administer a fully-fledged VAT system, a simplified system may first be introduced, to be enhanced in later phases.

3. Export Processing Zones

In recent years, export processing zones (EPZs) have become popular in promoting industrialisation in the Caribbean and Central American countries, including Jamaica, Barbados, the Dominican Republic and Honduras. Under EPZs, firms cater exclusively for external markets on condition that all taxes on inputs and outputs are waived including duty on imported inputs. It is essential that in Guyana, such zones be located within close reach of deep water harbours, since transportation cost is one of the disadvantages we must overcome to be competitive. The creation of two EPZs, one each in Berbice and Demerara, is a major pillar of this National Development Strategy, appropriate legislation which anticipates any negative aspects will be considered.

a. Static Gains

The immediate short-term benefits from EPZs are job opportunities and foreign exchange earnings. Over the past two decades, these direct gains have been quite impressive for some of the Caribbean countries. In the Dominican Republic, for example, employment in the EPZs increased from 500 in 1970 to 165,000 in 1993. Annex 27 has emphasised the employment benefits of EPZs, and Annex 17 also considers them vital.

b. Dynamic Gains

In their attempt to satisfy external markets, firms continuously require the services of the primary and tertiary sectors. It is expected that firms will continue to be attracted to exploring the possibilities of utilising indigenous materials in their export-oriented activities. The creation of EPZs could contribute to dynamic gains through linkages to mining, forestry, fisheries and agriculture.

With Guyana's very high external debt, the Government will encourage foreign firms to invest in building EPZs in Guyana under agreements to build, operate and transfer. Under this investment scheme, the foreign company would operate the enterprises for a specified time period until all costs are recovered or a percentage of profit is made. This type of venture has been adopted in the Philippines and was successful in saving considerable amounts of foreign exchange for the country.

4. Savings and Capital Formation

The necessary steps will be taken to accelerate the rates of savings and capital formation. One of the main methods by which economic development proceeds is through the gradual but definite accumulation of both the nation's physical stock and its intangible capital stock.

Intangible capital stock includes technical and academic skills and scientific tradition that are conducive to economic progress or economic development. These intangible assets enhance the productivity of the physical capital. In this regard, the more vigorous educational and training policies set out in Annexes 18 and 27 are absolutely vital to the private sector's expansion and to the entire country's prosperity.

Savings are essential for growth of both kinds of capital stock. One of the factors that most influences the national rate of saving is a stable, clear and growth-oriented framework of economic policies in which productive investment opportunities can be perceived. Savings are, above all, a statement of confidence in the future. The policy framework will be designed to foster such a sense of confidence. Another factor conducive to saving will be strengthened financial intermediation, with sound bank management and attractive real interest rates for depositors.

Foreign savings also are vital to the investment process, and in this regard, the procedures for reviewing and approving foreign investments will be improved. A true one-stop investment approval office will be created, with emphasis on much faster approval of applications, and efforts at investment promotion will be carried out by a separate entity that includes leading representatives of both public and private sectors. Perhaps most importantly, as emphasised above, a clear foreign investment code will be published, along the lines recommended in the National Development Strategy for the mining sector.

5. Monetary and Banking Reforms

The banking sector has improved its capacity very significantly in the last four years; in effect, a private banking sector in the proper sense of the term has been created. Notwithstanding this advance, further monetary and financial reforms will be made to address questions of access to credit for investment and production, especially on the part of small and medium-sized firms whose competitiveness in export markets is considerably hampered by the difficulties of access to financing. Indeed, foreign investors who wish to operate in the small Guyanese market have a competitive edge over local investors because of their ability to access capital at a relatively lower rate in foreign capital markets.

Attention will be paid to reducing Government borrowing on the domestic financial market, which serves to drive up interest rates and offer banks a relatively risk-free option (T-bills) to commercial lending. By the same token, measures will be taken to make foreign exchange more freely available (at the going quotation) through the banking system and to ease the restriction on access to loans in US dollars. The latter will no longer require approval from the Ministry of Finance, now that this class of loans has been authorized in principle.

6. The Procedural and Regulatory Framework

A central thrust of this National Development Strategy is making Government more efficient in the provision of public services. This is crucial for the development of the private sector. Efficiency in this context refers not only to cost-effectiveness but to the timeliness and reliability of the proffered services.

Increased efficiency of the procedures for registration of new companies, will have a direct bearing on the prospects of micro-enterprises, and in turn, on the rate of reduction of poverty. These procedures will be drastically simplified and speeded up, and personal and business taxes will be merged for smaller firms. As pointed out in Annex 27, improvements of that nature in Peru have been responsible for dramatic increases in the number of new companies registered.

This spirit will also be applied to investment approvals and all other areas of interaction between the public and private sectors. Within Government, decision-making will be made more quickly, delegating many more matters to the levels of the responsible officials rather than reviewing them at Cabinet level. It is necessary to inculcate a vision of Government as a system that functions according to prescribed rules and procedures, and not a structure driven from on top by the decisions of a few persons.

7. <u>Research and Development</u>

A frequent explanation for high production costs in the agricultural sector is the lack of R&D in cropping techniques that could improve productivity. The National Agricultural Research Institute (NARI) and Guyana Sugar Corporation (GUYSUCO) are respectively responsible for research on crops (other than sugar) and sugar products. Over the past few years, NARI's capacity to develop new varieties has been constrained by insufficient expenditure on R&D.

In order to support Research and Development, legislation governing patents, copyrights and intellectual property rights will be introduced.

8. <u>Land Tenure Security</u>

In the past, a major disincentive to investors has been the inability to obtain secure title to land. This has occurred basically for three reasons: a) the reluctance of Government to grant long-term leases or freehold; b) the consequently limited nature of the land market, and c) the woeful state of the property registries, where many records are in disarray. The policies set out in Chapter 29 of the National Development Strategy in regard to land tenure mark a very important step forward in this area. Long-term, freely- tradable land leases will improve the collateral value of land and otherwise encourage investments for increasing its productivity. The acceleration of freehold titling and the relaxation of restrictions on land rentals will have similarly beneficial effects.

Another aspect of the question of property rights concerns long-term concessions for the use of natural resources (timber, minerals) - how they are awarded and managed, and their transferability. In this regard, the policies established in the National Development Strategy in relation to forestry and mining will be a vital part of the framework for the private sector.

9. <u>The Judicial System</u>

As a matter of national priority, a large-scale programme is being launched to strengthen the integrity, independence and capabilities of our legal system. This once-strong system has deteriorated to the point of being one of the weakest in the Caribbean, but Government is committed to reversing its decline. This is essential for the security of contracts, without which a market economy cannot function well, and of course, it is vital for the general well-being of our society.

10. The Privatisation Programme

The privatisation programme will be moved forward, both to ensure improved management and capitalisation of the enterprises concerned and to restore the general confidence of the private sector in economic policy. In this regard, the privatisation of the bauxite mines is of a very high priority. These measures will confer very substantial economic benefits on the privatised entities and do more than anything else to convince international donors and investors that our economic policy is now decisive, clear, and oriented to the private sector as regards production.

C. Summary: The New Roles of the State, the Private Sector and Civil Society

In any economy, it is the Government's responsibility to articulate a vision of national development, foster a consensus around it, and formulate policies and programmes to address issues that the economy is not dealing with through its own momentum. At the same time, world-wide 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. A central challenge of a development strategy, therefore, 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.

The following outline of Government functions is consistent with the philosophy of the National Development Strategy, with a review of international experience in all regions of the world:

1. Establishing a regulatory and policy framework covering primarily the areas of finance, trade, taxation, investment, the environment and public health and safety. The purpose of such a framework is to establish clear and balanced rules of the game which protect the legitimate interests of consumers, workers, retirees and children, and depositors, investors and producers, while assuring maximum economic opportunities for all and safeguarding the environment.

2. Defining legal jurisdictions and property rights in an unambiguous fashion, to facilitate production, investment and conflict resolution.

3. Ensuring the provision of specified public goods, such as national defence, education and health services.

4. Assuring the availability, directly or indirectly, of such basic physical infrastructure as transport facilities and potable water supplies.

5. Developing special programmes to assist poor households, both to meet their immediate basic needs and to improve their own income-earning capacities.

6. Carrying out the functions of taxation, budgeting and programme implementation for the above purposes.

7. Establishing and strengthening the country's judicial and electoral systems.

8. Continuously endeavouring to improve the quality of public administration at all levels.

9. Participating as a partner in a selected few production activities, normally as a transition measure.

These are examples of areas in which the community or nation may decide to act jointly, as a collectivity, through the agency of Government. The remaining areas of consumer choice, production, investment, trade and finance are normally carried out on the basis of decisions by individuals or small agglomerations of individuals (corporations, co-operatives, associations, etc.), and therefore are most appropriately left to the private sector defined in its broadest sense, including non-profit organisations and associations. Lack of clarity in the definition of the Government's roles and policies in these areas can undermine incentives to invest and produce and therefore limit the country's economic development. Clear and stable rules of the game are essential ingredients of an economic development strategy, along with an unambiguous commitment that production, finance and commerce are activities in the domain of the private sector.

Finally, one of the key strategic considerations for the private sector is the need to deepen and strengthen the Private Sector Organisations (PSOs), along with other NGOs and elements of civil society that articulate and promote private sector agendas at policy level.

In a strengthened community of NGOs, the non-governmental sector can play increasingly valuable roles and help in many areas, including poverty alleviation, health care, improving the situation of women, working with Amerindian communities, and reducing the incidence of environmental problems.

More attention should be paid to women's businesses and women in business. The tradition of men assuming the major roles in businesses and women bearing the brunt of household duties has in actual fact been changing to the point where women, by choice or otherwise, are single parents, heads of households and breadwinners for their families. However, the types of jobs that are available to women are either in ancillary positions or positions that do not allow for real decision-making or authority in running a business. One of the strategic considerations in this matter could involve a system of education reflecting a new thinking in gender issues. This would allow women to take a deeper interest in controlling their own destinies and allow them to become more assertive in the business place.

It should not be overlooked that the private business community can also make important social contributions. Given sufficient access to land, it can construct more housing to ease the national shortage in that area. Under contract, with Government oversight, it can provide a greater volume of health care services. It can become an important provider of educational services when the new educational policies described in Annex 18 are implemented. Under the guidance of the Tripartite Council recommended in Annex 27, it can provide relevant kinds of vocational training. These examples, important as they are, illustrate only a part of the private sector's potential in the social area, and this potential must be continuously borne in mind continuously as policies are reviewed and redefined over the years.

VI. Legislative Changes

The policy framework for the private sector presented in this Annex will require a number of modifications to the existing body of legislation in order to facilitate its full implementation. In summary form, those modifications will include the following:

1. Revision of the Companies Act to ease the registration requirements for new firms to reflect different compliance standards for small, medium and large companies and lessen the burden of stamp duty.

2. New legislation for NGOs and other not-for-profit organisations making provision for their registration, compliance and exemption from taxes.

3. A new tax regime to put into effect measures outlined in this Annex, including:

   - The introduction of a value-added tax
   - Widening the tax net
   - Lowering of rates of taxation
   - Reduction in the cost of revenue collection
   - Reduction to the taxpayer in the cost of compliance
   - Better allocation of economic resources
   - Closing of tax loopholes

4. Legislation to lay the foundation for Export Processing Zones, with close access to deep water harbours.

5. A new investment code for both foreign and domestic investors, including all relevant tax provisions.

6. An overall revision of the legislation for GOINVEST, making it an autonomous body while separating the investment promotion function from that of approval of applications. The revised approval process should incorporate deadlines with automaticity, e.g., requests of specified kinds not acted upon within two weeks are automatically approved.

7. A restatement of export licensing requirements which simplifies them, including the provision of automatic granting of such licences upon presentation of proof that income taxes have been paid.

8. Legislation establishing rules for patents, copyrights and intellectual property rights.

APPENDIX

Issues and Constraints Identified in a Landmark 1991 Report

Some of the key issues and constraints of the sector were very well identified in a landmark report by Clovis Beauregard in 1991, and it is fair to say that most of the concerns he identified are still issues, at least in part. Because the report gives a recent historical perspective, and also because its insights were acute, several of its principal findings are worth citing here.

Beauregard's tasks were to:

"a) Inquire into the problems (including bureaucratic procedures) which are inhibiting the Guyana private sector in its effort to expand, assume a more dynamic and dominant role in the economy and make its full contribution to the national objective of sustained economic growth, development and national prosperity.

"b) Make recommendations for dealing with these problems and all matters incidental thereto. . . . "

His findings included the following:

"It was noted that much valuable time was lost in obtaining necessary documentation and/or permission from the relevant government agencies in order to conduct business. The failure of certain government agencies to acknowledge controversial and other correspondence was also noted.

"It was also stated that matters previously dealt with at the level of Permanent Secretaries were now being referred to Cabinet for decision, causing even further delays. . . .

"Lack of managerial capabilities: The view was expressed that deficiencies in this very important field were a direct result of the brain-drain plaguing Guyana. It was noted that the private sector agencies themselves often lacked the necessary expertise.

"As a consequence, with respect to human resource development, there was a widespread call for the establishment of an entrepreneurial training centre that would be managed by the private sector. . . .[5]

"It was the general view that the 'punitive taxes' and 'high interest rates' were among the major deterrents to the growth of the manufacturing sector. . . .

"Private sector representatives pointed out that Government revenues from income taxes need not suffer as a result of a lowering of taxes if efforts are made to extend the tax net to include the various entrepreneurs and businesses operating outside the formal economic sector. In fact, it was strongly emphasized by certain important groupings that it was grossly unfair to expect a 'handful' of companies to bear the brunt of taxation while scores were allowed to act with impunity.

"The Guyana Small Business Association . . . . suggested that in order to trigger such voluntary movement into the formal economic sector, taxes would have to be viewed by small businesses as not punitive, and hence would have to be reduced.

". . . a strong case was made for the introduction, as a replacement tax [for the consumption tax] of a value-added tax (VAT) on general consumer expenditure, business transactions and on imports.

". . . because of the unreliable power supply, private sector companies often have to pay workers a full day's wages even when they are not producing; in addition, they are often unable to meet production deadlines. An

[5] A recommendation for a tripartite council that would govern training programmes was formulated independently and expressed in Chapter 27 of the National Development Strategy, also Annex 27.

irregular electricity supply, including voltage fluctuations, had damaged the machinery of companies and caused spoilage of food products, resulting in severe losses.

"As far as transport is concerned, it was said that difficulties in this field were hampering the export of organic products.

". . . the Association of Non-Traditional Exporters of Guyana (ANTEG) identified inadequate cargo transportation (shipping and air-cargo services), the lack of storage facilities, the unavailability of proper packaging materials and excessive bureaucratic procedures, as the major constraints facing exporters of primary agricultural products.

"It was said that unlike other Caribbean countries, Guyana had no pre-cooling and cooling facilities to be used for the export of primary agricultural products. This situation, combined with high freight costs and unreliable air cargo services, caused these local products to be 'uncompetitive' in overseas markets.

"General reflection: . . . Priority will be given more and more to the market and private enterprise, which will thereby increase considerably the role and responsibilities of the private sector. Henceforth the rules of the game will be:

– Competence in management
– Increased productivity and production of goods and services through largely export-oriented investments
– Quality
– Competitiveness . . . . "