CHAPTER 4

MACRO−ECONOMIC STRATEGIES

AND THE

MANAGEMENT OF THE ECONOMY

4.I THE STATE OF THE ECONOMY

4.I.1 After more than a decade of economic decline, an Economic Recovery Programme (ERP) was introduced into Guyana in 1989. Since 1991, when the Programme began to take effect, the Gross Domestic Product has grown significantly in each year, with the exception of 1998 when Guyana experienced a downturn in production because of a combination of factors which will be discussed later.

4.I.2 The fundamental objectives of the ERP, which is still, to a great extent, being pursued in our country, are to establish internal and external equilibrium, to promote greater efficiency in resource use, and to attain greater international competitiveness. These are regarded as the preconditions for sustainable economic growth.

4.I.3 These objectives are to be achieved by shifting resources from the production of non−tradeables to that of tradeables; by greater reliance on competitive processes, and on pricing and marketing mechanisms; by the liberalization of external trade; by reducing the role of the public sector, and concomitantly, by encouraging the private sector to assume functions which were previously undertaken by the state.

4.I.4 Although stabilization, i.e. the reduction of current account deficits, lies at the heart of the Economic Recovery Programme, its ultimate objective is to restore economic growth.

4.I.5 It was anticipated that, at least in its early stages, the ERP would adversely affect the social and economic well−being of many persons in our society. Accordingly, the Social Impact Amelioration Programme (SIMAP) was established, in order to cushion the ill effects of this Structural Adjustment Programme.

4.I.6 Some aspects of the performance of the country’s economy from 1991 to 1999, are presented below:

− In 1991 Guyana’s *external debt* stood at US$1.855 billion. This rose to US$1.967 billion in 1992, and to US$2.05 billion in 1995. Since then the debt burden has declined to US$1.20 billion at the end of 1999.

− In the same period the country’s *domestic public deb* t rose from G$12,669.9 million in 1991 to G$18,794.7 million in 1992; and then very steeply to G$37,678.0 million in 1996. In December 1999 it stood at G$49,852.4 million.

− In 1991 there was a deficit in the balance of visible trade of US$40.7 million. This rose to US$61.0 million in 1992. However, between 1993 and 1996 the trade gap narrowed substantially to US$20.2 million. It rose steeply to US$54.2 million in 1998, but by the end of 1999, it was down to US$25.2 million.

− The exchange rate of the Guyana dollar to the US dollar in 1991 was 122.75. In 1992 it was 125.00; and in 1998 it was 165.25. At the end of 1999 it had depreciated still further to 180.00.

− Since 1990, the inflation rate in Guyana has been significantly contained. In that year it was over 100 percent; by 1991 it had fallen to 26.1 percent; it was reduced to 8.1 percent in 1995, to 4.5 percent in 1996, and to 4.1 percent in 1997. It was 4.8 percent in 1998. By December 1999, however, it had risen to 7.4 percent.

− The rates of growth in real terms of the Gross Domestic Product for the period 1991 to 1999 were as follows:

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Percent	5.9	7.7	8.3	8.5	5.1	7.9	6.2	−1.3	3.0

4.I.7 This list of economic indicators is, of course, not exhaustive. It is sufficiently long, however, to indicate that, not only has a significant measure of fiscal and monetary stability been achieved in the country, but there had been noteworthy increases in the rates of economic growth between 1991 and 1997. Moreover, inflation rates have been contained at single digit levels, a remarkable attainment when it is remembered that in 1990 inflation was recorded at over 100 percent. Real interest rates have also dropped to manageable proportions; the budgetary deficit was reduced up to 1997, to levels that could be financed internally and externally without difficulty; a comfortable amount of foreign exchange reserves has been secured; and the exchange rate, though depreciating, displayed a certain degree of stability up to 1997. Indeed, throughout the period 1991 to 1997, Guyana has managed to meet the targets that were established by the Bretton Woods institutions. As a result, a significant amount of debt relief has been obtained.

4.I.8 **It should also be noted that total social sector spending as a proportion of current expenditure declined from 16.5 percent in 1989 to 8.5 percent in 1992 and then increased at an annual average rate of 20 percent for the period 1993 to 1999.**

4.I.9 **There can be little doubt, therefore, that not only did the economy perform well between 1991 and 1997 at the macroeconomic level, but that the social sector, particularly education and health, benefited significantly from its positive performance.**

4.I.10 **However, since 1997, the economy has shown signs of weakening. For example, there was negative growth in GDP in 1998, and the increase in 1999 was very modest; there has been a sharp depreciation in the value of the Guyana dollar; and there was an increase in the foreign trade deficit in 1998, its reduction in 1999 being due almost entirely to a decrease in imports rather to an increase in export earnings.**

4.I.11 Moreover, despite these undoubted improvements to 1997, a closer examination of all the available statistics would reveal that the country’s economy *is still extremely fragile, and still remains vulnerable to the slightest of internal and external shocks*.

4.I.12 The decreases in the rates of growth of GDP in 1995, 1997, 1998 and 1999 are a reflection of the extreme brittleness of our economy, for they were the result, first, of under−production by the Omai gold mines in 1995 because of a shut−down of operations to reconstruct a spill−over pond; second, of low productivity in 1997 in the agricultural sector because of the effects of El Nino, and in the forestry sector because of the Asian crisis; and third, in 1998 and 1999 both because of social, political, and industrial unrest in the country, and an unfavourable external environment.

4.I.13 **The basic problem is that Guyana's economy is too narrowly based and is not sufficiently diversified. Moreover, the country relies almost exclusively, for its economic development, on the production and export of raw materials.** Very little value is added to that of the raw materials before they are exported, and the manufacturing sector is still, in many respects, embryonic.

4.I.14 There are other underlying weaknesses in the economy, which remains rooted to a great extent, in the 19th century. We still, by and large, depend upon the commodities which we produced and exported in the colonial era. We still, more or less, utilise the same technologies. And we still, to a great extent, experience the same infrastructural and utility deficiencies. In short, the economy has not been modernised.

4.I.15 Moreover, even the growth in GDP which has occurred since 1991, has not been widespread enough to have had a positive effect in many parts of the general economy. It has not been developmental. It has taken place in relatively small economic enclaves, and has positively affected only a relatively few of the country's population. As a consequence, one out of every three persons in Guyana exists below the poverty line, and is therefore unable to put together a sufficiency of resources to provide himself or herself with the very basics of life. Moreover, approximately 50 percent of the workforce in this country has no jobs, although only 9.1 percent of them acknowledges that they are seeking employment.

4.I.16 In addition, there seems to have been little or no attempt to integrate poverty alleviation measures into the mainstream of macroeconomic policies. Very few fiscal incentives, for example, have been directed specifically to poverty−stricken areas and groups; and not enough attention seems to have been paid to the specific problems of job creation. Reliance for the alleviation of poverty has been placed almost entirely on SIMAP, and non−governmental organisations which have simply been overwhelmed by the magnitude of the task, and have not therefore responded as effectively as it was hoped.

4.I.17 Much progress has been made, however, on the construction of social infrastructure. For example, many more schools have been built and a significant amount repaired and refurbished. Furthermore, a number of health centres and hospitals, including particularly the Georgetown Public Hospital, has been extensively rebuilt and more effectively equipped. Indeed, expenditure in the social sector has risen almost exponentially between 1991 and 1999.

4.I.18 Perhaps the underlying cause of our developmental woes, however, has been our failure to attract more significant amounts of investment to our country. We cannot diversify our economy, we cannot produce more goods and services, we cannot attain even a modicum of equity in our development, at both the individual and regional levels, unless there is more investment in Guyana. This is one of the major problems which shall be addressed in this National Development Strategy.

4.I.19 In the latter half of 1999, Public Servants received a significant rise in their emoluments. This they deserved, for their wages and salaries were abysmally low. However, it should be obvious that the gradual but persistent reduction in the budgetary deficit which had taken place during the preceding decade would be curtailed to some extent, unless steps are taken immediately to increase the revenue base and to improve the efficiency of revenue collection. The options for decreasing expenditure are few.

4.II ISSUES AND CONSTRAINTS

4.II.1 The macroeconomic constraints which hamper the smooth and rapid development of Guyana's economy are many and varied. Some are caused by occurrences in the external sector; most exist because of our country's own short−comings and deficiencies. Whatever the source of our problems, collectively they hinder our competitiveness, inhibit investment and capital formation, and adversely affect our capability to manage and administer the country's affairs effectively and efficiently.

4.II.2 Globalisation

4.II.2.1 In the context of this National Development Strategy, the term 'globalisation' is used to describe the closer integration of the national economies of the world, particularly through trade, and capital and financial flows. In a sense Guyana is already globalised. Because of the small size of our local markets, and because of the economies of scale that are inherent in many of the production processes which we employ, we are often forced to produce more than we can nationally consume, and must therefore export our surpluses. Moreover, it is of course essential that we earn a sufficiency of foreign exchange to purchase those goods and services that are vital to our development, but are not produced locally. It is evident, therefore, that we have no choice but to trade. In other words, there is no alternative but to take part in the process of globalisation.

4.II.2.2 What seems to be the cause of concern in this regard, however, is the high probability that Guyana's exports would be unable to compete in the open market, if the preferential access and relatively high prices which they now enjoy were removed. Although the indications are that for the next eight years or so our access to these areas would be maintained, it is almost certain that the prices offered for our commodities would be reduced. Indeed, there are already clear signs that this process of price reduction has already begun. So much so, that although we produced and exported a significantly greater amount of sugar and rice in 1999 than we did in 1998, we earned less foreign exchange.

4.II.2.3 Surely the imperative is to make those industries, on which so much of our economy depends, as highly competitive as possible. There is not much to be gained in idle lamentation over the removal of preferences and the reduction of prices. We should use the period between now and their removal to endeavour to rationalise production in our existing export industries by increasing the productivity of the land and labour used in the various processes, by adding as much value as possible to the raw materials which we now export and, at the same time, by diversifying our economy. Above all, we must modernise, not only by utilising the best available and relevant technology in our current production, but by adding completely new types of products to our existing export mix. In addition, in order to gain the time to improve our competitiveness, we must arm our Foreign Ministry with sufficient expertise to assist countries such as Guyana in obtaining the most favourable terms in the new dispensation.

4.II.2.4 This is not to deny that the process of globalisation poses new threats to human security, particularly in poor, vulnerable countries such as ours. Many people in the developing world fear for their jobs and for their environment. Many are afraid of cultural dominance by the developed world. The situation calls for strong, democratic governance, and modernised institutions. Above all, it cries out for policies and strategies which would enable and prepare the citizens of our countries, at every level of national life, to seize the advantages of global markets and competition, while ensuring that the process of globalisation does not unravel the social fabric of our societies. In addition, we must strive in international fora and with our colleagues in CARICOM to negotiate arrangements which would not only yield us a longer period in which to adjust to the new dispensation, but would also ensure that we do our business on a level playing field.

4.II.2.5 Domestic policies too have a great deal to do with the competitiveness of our exports. First, any level of import tariffs, no matter how small, tends to weaken the international competitiveness of exporting sectors, if the tariffs are imposed on goods and commodities that are inputs to our exports, because they raise the costs of production. In this regard, the progress in recent years in reducing average tariff levels represents a positive trend. Nevertheless, customs levies still exist, and the fact that they adversely affect the exporting sectors to some degree should be recognised, and reconciled with the necessity of collecting more revenue.

4.II.2.6 Second, exports from Guyana are made more costly than necessary by the inadequate state of transport infrastructure, and by the currently restrictive policies for commercial aviation. Although these constraints are not macroeconomic in nature, they are flagged here because of the importance of the competitiveness of our exports.

4.II.2.7 Third, the difficulties that domestic firms experience in obtaining credit and, sometimes, in getting foreign exchange, place them at a disadvantage vis−a−vis their competitors in other countries, and point to the need for continuing improvements in the domestic banking system. The very high levels of excess liquidity, which the banks have accumulated in the face of urgent needs for working capital by businesses, is a clear symptom that the system of financial intermediation is still deficient in some important respects. The downward trends in real interest rates are a welcome sign but do not fully address this concern. The automatic approval of dollar loans, and the introduction of measures which oblige domestic banks to engage in interbank trading in foreign exchange, are steps which should be urgently taken.

4.II.2.8 Elsewhere in this document we emphasise the necessity to enhance our competitiveness through the reform of our institutions, through the provision of fiscal incentives for export and for marketing, and through the improvement of the quality of our infrastructure. Indeed, the whole thrust of this strategy is to improve our competitiveness through increases in productivity. Such an approach would have been necessary even if we did not have to operate in a globalised world, for Guyana’s economy is extremely vulnerable to the external environment. This may be illustrated by the fact that the country’s exports and imports exceed 100 percent of GDP. In other words, the slightest changes in the terms of trade can seriously affect the country’s development. We must therefore be either competitive, or perish.

4.II.2.9 The other aspects of globalisation, i.e. capital and financial flows, ought not adversely to affect Guyana’s economic development *at this stage*. On the contrary, they ought positively to assist in the process. What is important in this regard, however, is the need to have in place a Public Service capable of formulating policies to ensure that these capital and financial flows are not accompanied by unnecessary conditionalities and doubtful practices which restrict our degrees of freedom in policy prescription, and our capacity to defend ourselves against the depravities of international speculators. In this context, it might perhaps be worthy of note that most of those Asian emerging economies, which were in deep crisis some months ago, have displayed remarkably little interest in capital control, in their successful attempts to overcome their financial difficulties. On the contrary, they concentrated their efforts on strengthening their financial systems.

4.II.3 Capital Formation

4.II.3.1 Except for education and training to improve the quality of the labour force, capital formation is the most basic factor in the process of economic development. It is therefore incumbent on any Government of Guyana to avoid doing or saying anything, whether intentionally or not, which might discourage the process.

4.II.3.2 In this regard, perhaps the most fundamental constraint is that of perception. It appears that many local and foreign investors still remain unconvinced of the total commitment of the Government to the principles and practices of the free market. It is essential, therefore, that this perception be removed, and that steps be taken to ensure that this or any other government’s dedication to a dominant role of the private sector, and to the necessity for private investment, be made abundantly clear. Without confidence in a government, capital flight occurs and the wealth of the country is undermined. Without confidence, skilled human beings emigrate and the country’s major resource is woefully depleted.

4.II.3.3 Moreover, no person or group in Guyana should make pronouncements which, wittingly or unwittingly, may cause potential investors to shy away from risking their financial resources in our country.

4.II.3.4 Above all, a clear investment strategy and statement of principles, which provide comparable treatment to investors in all sectors, should be formulated, publicised and implemented. Moreover, the approval process for investments should be simplified and made transparent. Of equal priority is the reduction of the range of variations in the consumption taxes and customs duties, so that differing products and sectors are treated more equitably.

4.II.3.5 Other measures, which are quite important in this respect, include making agricultural land leases tradeable, removing regulations that restrict land rents, and privatising State−owned enterprises. This last measure would also open the door to the participation of strategic investors in the recapitalisation of major industries.

4.II.3.6 A reduction in the rate of issuance of Government bonds would also favour private investment as it would lower the "crowding−out" effect in financial markets that such bonds tend to have.

4.II.3.7 Thus, the constraint to greater levels of capital formation can be seen to have the following dimensions: a) a psychological one of confidence, b) a financial one related to the effectiveness of domestic financial intermediaries, c) a fiscal one related to Government’s behaviour in the financial marketplace, d) a regulatory one in respect of investment and tax codes and investment approval processes, and e) an institutional one in terms of land tenure and the ownership of productive assets. All these aspects of this constraint are susceptible to improvement through sound policy decisions and policy implementation.

4.II.4 Trade

4.II.4.1 One of the prerequisites of a market economy is to have in place an adequate set of incentives or relative prices —for both private and public agents— so that the production, distribution, investment and consumption of goods and services can be as socially efficient as possible. In a small economy open to world markets, incentives for firms exporting or competing with imports are often the key to achieving a path of sustainable development, because the expansion of domestic demand cannot by itself alone be expected to provide the basis for sustained growth. For these reasons, issues concerning the level of protection (this term is used in this chapter to include indirect measures of protection) of domestic producers vis−a−vis the rest of the world are important. Protection levels that are too high encourage inefficiency and the mismanagement of resources, while protection levels that are very low or negative might discourage social and economically profitable activities.

4.II.4.2 **In discussing the current trade structure, its contribution to the economy and its future development, it is necessary to bear in mind the possibilities of developing new markets for existing goods and new exportable goods**. Given that Guyana is well endowed with natural resources (timber, gold and other minerals, fish and shrimp, etc.), appropriate measures should be employed to encourage their exploitation along sustainable lines. It is also important to remember that sectors which are currently sheltered by international quota agreements will probably see the benefits of such agreements reduced in less than a decade. The diversification of exports is therefore an essential goal for the medium term.

4.II.4.3 The existing skewness in tariff structure, caused by an alarming pattern of exemptions, can create especially important distortions in a trade−based economy such as that of Guyana. Because it taxes final goods and inputs at different rates, it discourages efficiency in the overall economy. In particular, it plays against the development of efficient import−substitution processes that are necessary for the country’s development. A producer of a final good will benefit from having a higher level of protection for the output than for inputs, but a local producer of capital goods or intermediate inputs will find himself in a disadvantageous position. Consequently, the substitution of efficiently produced local articles for imported intermediate goods would require a longer term to be achieved, thus retarding development. Moreover, since the producer of final goods finds it cheap to use imported intermediate and capital goods, the demand for labour is also reduced.

4.II.4.4 Our tariff structure also has a bias against agricultural exports. This is of particular significance because the agricultural sector is a potentially important source of foreign trade expansion for Guyana. A local producer of exportable agricultural goods often pays high prices for inputs because of the tariff structure, thus losing competitiveness vis−a−vis exporters in countries that have a lower tariff structure. In addition, the higher tariff rate that is currently in place for agricultural goods weakens incentives to improve productivity.

4.II.5 Monetary Policy and Management

4.II.5.1 In regard to monetary policy the question is how to rise above the technicalities of monetary programming and put forth some new guiding principles that are simple yet compelling. One such principle could be a loosening of the monetary targets, on two grounds: i) the economy has declined recently and needs stimulus, not monetary stringency; and ii) a review of the behaviour of monetary aggregates since 1992 shows that they have declined in relation to nominal GDP, although in the course of economic development they should increase as financial deepening proceeds. It would appear that the accords with the IMF have not given due recognition to the requirement of increasing the degree of monetization of an economy as it develops.

4.II.5.2 Another principle could be the abandonment of the practice of floating bonds for the purpose of "liquidity sterilization." It is illogical. The bonds are issued because the government deficit has given rise to inflationary pressures, and yet the burden of interest payments on them contributes either to a worsening of the deficit, or to making even more daunting the needed improvements in revenue collection. In place of the sterilization bonds it seems that it would be advisable to return for a five−year period to the instrument of reserve requirements for monetary management (under looser overall monetary guidelines). The goal should be to reduce the government deficit to less than 3 percent of GDP within those five years, so that by the end of that period neither the sterilization bonds nor high reserve ratios would be needed.

4.II.5.3 Of course higher reserve ratios for the banking system would mean that savers and investors would have to pay the cost of inflation control, through higher margins of financial intermediation. It should be clear, however, that someone has to pay that cost, and that in the long run the goal would be that taxpayers in general would shoulder the burden, through more vigorous revenue collection. Actually, it would mostly be particular groups of taxpayers: businesses who do not currently pay their taxes, and agriculture, which in general is virtually untaxed. And in any case, it is submitted that although of tremendous importance, inflation control is not the most pressing priority at the moment, but rather a reactivation of the economy, with more employment creation.

4.II.5.4 The existence of a liquidity overhang in the financial system is one of the major issues facing the financial sector. Added to the fact that the presence of a high level of excess liquidity implies less lending to support potentially high−yielding private investment, it has major implications for price and exchange rate developments. Excess liquidity, if not effectively sterilised, can result in substantial pressures being placed directly on domestic prices. It can also exert pressure in the foreign market resulting in a larger−than−desirable depreciation of the domestic currency.

4.II.5.5 Financial instruments that are available to the investing public consist mainly of treasury bills. Financial reforms in Guyana since mid−1988 have resulted in a shift from a system of monetary control by using interest rate ceilings, quantitative credit quotas, and reserve requirements, to one based on the use of indirect instruments, predominantly in the form of the primary sale of treasury bills.

4.II.5.6 The market−based environment requires a new approach to monetary management. Accordingly, new and increasing demands will continue to be placed not only on policy makers but also on market participants, especially commercial banks and other financial intermediaries. While the Bank of Guyana has already taken some initial steps for organisational restructuring and capacity building, much more is required. For financial intermediaries in general, and commercial banks in particular, the need for organisational restructuring and capacity building is also critical.

4.II.6 Exchange Rate Management

4.II.6.1 Spreads between the buying and selling rate for bank and non−bank dealers in foreign exchange have continued to be relatively small and stable. This suggests a reasonable degree of market competitiveness. However, reports of queuing of import orders in some periods indicate that noncompetitive behaviour sometimes exists.

4.II.6.2 A related concern is that there is still a notable reluctance on the part of banks to buy and sell foreign exchange among themselves. This problem, and the queuing for foreign exchange, will have to be solved, and the mandatory surrenders of foreign exchange eliminated, before the exchange system can be termed to be completely liberalised. There are unsubstantiated reports, however, that certain banks, for one reason or another, export almost all the foreign exchange they receive, thus contributing to the shortage of currency and the depreciation of the Guyana dollar.

4.II.7 The Exchange Rate

4.II.7.1 The recent depreciation of the Guyana dollar creates especially difficult circumstances for low−income families. However, if appropriate policies are followed the changes in the exchange rate can have favourable consequences for the competitiveness of Guyana's producers in the context of world markets. Therefore there exists a potential for greater increases in production and employment in the future than would have occurred in the absence of the depreciation. Nevertheless dealing with the negative short−term effects must remain a priority for economic policy.

4.II.7.2 In this situation, policy should be guided by the following three aims:

− to ensure that the depreciations do not degenerate into a continuing spiral of inflation and further depreciations which feed each other. Under that kind of scenario, inflation would erase the gains in competitiveness and would impose even higher economic costs on consumers;

− to strengthen the social safety net for low−income households, to offset some of the near−term economic pain for families who already are in conditions of poverty; and

− to ensure that the potential gains in production and employment are in fact realised, so that in the medium term the benefits to Guyana would be greater than the near−term losses.

4.II.7.3 To achieve the first objective of avoiding a spiral of inflation and depreciation, it is essential to reduce the fiscal deficit. Under any conditions, the surest and most sustainable way to attain stability in the exchange rate, and lower domestic inflation rates at the same time, *is to reduce the deficit in government spending and keep it at low levels*. An additional benefit of that policy would be the lower interest rates which would result from the fact that government would compete less with the private sector for access to funds on financial markets, as its deficit is reduced. Lower interest rates in turn stimulate growth, by promoting fixed investments and the acquisition of working capital for production.

4.II.7.4 In contrast, the policy of using high rates to attempt to stabilise the exchange rate has not been sustainable, has had negative effects on investment, and has been prejudicial to the expansion of production. It has not been sustainable because in the long run Guyana depends on exports to generate both more employment and more foreign exchange earnings. Any policy that inhibits export development undermines the exchange rate eventually. In its defence, it can be argued that the high lending rates, and the prevailing high margins of financial intermediation, have saved Guyana from the bank failures which have occurred in many other developing countries. Moreover, interest rates have to rise in the immediate aftermath of a significant depreciation, since domestic inflation will increase as a consequence of the rise in the cost of imports, and low or negative real interest rates are not conducive to the mobilisation of savings. These points must be acknowledged but, after the short−term effects of the depreciation have passed, it will be important to put policy on a path of effecting gradual reductions in real interest rates. The recently announced reduction in required bank reserves marks a step in that direction, but more still needs to be done.

4.II.7.5 Achieving the second objective of widening the social safety net requires expanding SIMAP and related programmes. This is a short−term measure. Of greater importance is the formulation of policies which would lead to greater job creation and more intensive economic activities in depressed areas. The attainment of this objective can also be promoted through innovative social policies, such as we have outlined in the Chapters on Housing and on Land in this NDS.

4.II.7.6 Obviously, there can be a contradiction between the goals of reducing the fiscal deficit and expanding the social safety net. However, this contradiction can be avoided by appropriate policies such as the following:

− in the fist place, it is anticipated that there will be a modest reduction in external interest payments, as a result of fulfilling the conditions for debt relief under the HIPIC conditions. These fiscal savings can be devoted in part to supporting the basic needs of low−income families;

− secondly, tax administration can be improved considerably, thus generating significantly more revenues. This issue is discussed at length below;

− thirdly, it will be important to continue to effect gradual reductions in government staffing. The current rate of expenditure on government salaries, as a share of GDP, is high by the standards of developing countries. However, such reductions should be made in a humane way. This matter is also examined more thoroughly in other parts of this NDS.

4.II.7.7 To achieve the third objective of encouraging businesses to take advantage of their enhanced competitiveness on international markets, and to expand production and employment correspondingly, it is essential that the existing bureaucratic barriers to investment approval, and access to land, be reduced. These barriers to development discourage both domestic and foreign investment and are inimical to the nation’s growth prospects. In the short run, there is a great danger that they could prevent the economy from increasing its export production. These issues are also reviewed below.

4.II.8 The System of Taxation

4.II.8.1 A tax system that is fair, equitable and efficient is one of the cornerstones of any policy of good governance. The broad issues in tax administration are twofold. First, many taxpayers, including many businesses of a respectable size, are left completely out of the tax network. And second, there are no systems in place for tax enforcement; indeed, not even for tax collection in the usual sense of the term. So much so that one international advisor on tax administration in Guyana has characterised our existing tax collection system as "a charitable operation," referring to the practice of tax payments being sent in only by those who desire to do so, and to the fact that there is no follow−up mechanism in place for those who default.

4.II.8.2 The reforms that have been proposed in the context of the new Revenue Authority include the universal promulgation of a unique taxpayer identification number, computerised procedures for assessing the degree of compliance, procedures for follow−up in cases of failure to file tax returns, procedures for audits, higher penalties for lack of compliance, and procedures for the filing of grievances on the part of taxpayers. The planned reforms also include much higher salaries for personnel in the Revenue Administration, extensive staff training and, at the same time, easier procedures for dismissal of personnel in cases in which fraud or other abuse of authority has occurred. If fully implemented, these reforms should result in considerable improvements in tax administration.

4.II.8.3 In the area of customs duties, a major problem is that customs agents routinely and arbitrarily revalue invoices for shipments of imports. This exercise of discretionary power is a clear invitation to abuse. In cases of doubt about the correctness of invoices, the accepted international procedure is to communicate with the exporting countries in order to verify whether the values stated on the invoices are correct. In this day of instantaneous communications via faxes and e−mail, there really is no excuse for not using this methodology. Regulations should therefore be implemented which allow only proper evidence from the exporting country to be used as a basis for altering the valuation on the invoice. Such a step would remove the question of valuation from the domain of negotiation between the importer and customs agent. In addition, the prescribed penalties for fraudulent invoicing should be enforced when the international evidence proves that it has occurred. Easily accessible and swiftly administered grievance procedures should also be established for citizens who pay customs duties.

4.II.8.4 A computerised system for the registration and the tracking of all containers and other shipments that arrive, which also includes the value of the invoice and the amount of customs duty paid in each case (and any actions taken to verify the invoiced value), would go a long way to reducing corruption in customs administration.

4.II.8.5 A further deterrent to abuses on the part of customs agents would be a regulation, fully enforced, which establishes a maximum span of time for the release of shipments from the control of customs. Currently, under−the−table payments are reportedly made not only to attain reductions in the amount of duty paid but also to obtain releases of the shipments.

4.II.9 Customs Duties and Consumption Taxes

4.II.9.1 Consumption taxes, customs duties, and other kinds of taxes have been characterised by progressively falling rates during the decade of the 1990s. This has been a welcome development, as many of the rates have been quite high by international standards. Nevertheless, a not insignificant number of them continues to be very high, e.g. the 50 percent consumption tax on certain types of fuel; consumption tax rates on numerous other items that are still set at 30 percent; and the corporate income tax rate of 45 percent.

4.II.9.2 The problem with high rates is that they encourage evasion; and, to the extent that they are enforced, they discourage investment and production. As has been repeatedly emphasized in this document, because it is a small economy, Guyana’s future prosperity depends largely on its being able to increase its exports. Therefore, requiring exporters to pay high taxes on inputs and incomes is, in many respects, the economic equivalent of deliberately causing a self−inflicted wound. Moreover, since the rates are high, they tend to propitiate a policy stance of granting exemptions and tax holidays. The result is a tax structure that is not only highly non−uniform but that is also subject to frequent modifications at the discretion of Ministers.

4.II.9.3 This kind of inconsistent tax structure suffers in turn from two basic problems. First, it very often creates economic inefficiency and is therefore inimical to growth. And second, because it is not transparent, it is potentially subject to abuses, since the exemptions and tax holidays are granted by subjective government decisions.

4.II.9.4 A study by the NDS of the existing structure provides concrete examples of the high degree of variability in the current rates that are applied to consumption taxes and customs duties. The former vary mostly from zero to 30 percent, with a few items still at 40 percent and 50 percent. Rather than reduce the burden of this tax by bringing down the whole structure uniformly, many rates have been dropped to zero while many others remain at the very high levels of 30 percent or more. Moreover, in a number of cases, very similar products have very different rates, often at extremes of zero and 30 percent. In other words, the rate variations appear to have neither rhyme nor reason. As well as inhibiting efficient economic decisions, as noted above, this pattern of taxation undermines confidence in government's objectivity in administering economic policy.

4.II.9.5 One sinister aspect of the present system of customs duties is that the current rates, which vary generally from zero to 25 percent, with some going as high as 40 percent, encourage negotiations between importer and customs officer as to which duty category is applicable. In addition, they represent onerous taxes for many items, including food.

4.II.9.6 Another problem with the structure of the consumption tax is that it levies both intermediate and capital goods, often at high rates. A guiding principle in regard to consumption or sales taxes is that they should tax final consumption, and not intermediates that are used in production. Taxing the latter raises the cost of production for export as well as domestic sales, thus undermining the country's international competitiveness.

4.II.9.7 Another unusual aspect of the current system is that taxes on specific items may be remitted by Ministerial order, without the approval of Parliament. This feature introduces an element of discretionality that is highly undesirable, for it undermines the transparency of the system and creates uncertainty about its nature in the future. It also provides incentives to business people to direct their energies towards lobbying for the remission of taxes rather than concentrating on increasing the productivity of their operations. The normal practice in the field of taxation is for the legislative assembly to have sole authority to modify the tax regime. For purposes of promoting economic efficiency, it is important that the regime be stable over time (except for programmed and uniform reductions to comply with international agreements) as well as being uniform over categories of goods.

4.II.10 Company Taxes

4.II.10.1 Corporate income tax rates have remained very high by international standards, in spite of many recommendations over the years to reduce them. In response to the concerns raised about these high rates, the same policy that has been applied to consumption taxes and customs duties has been adopted: some industries have been exempted for periods of up to ten years, thereby creating strong non−uniformities in the system. The difficulties inherent in such actions is compounded by the fact that, again, the decision to grant the exemptions is wholly discretionary.

4.II.10.2 A careful study would have to be carried out of the corporate income tax system to determine its true revenue potential. However, it could be reasonably hypothesised, on the basis of the experience of other countries, that the amount of revenues which are currently being generated from the corporate income tax system could be collected under a uniform rate of no more than 25 percent, (instead of 45 percent), if all businesses were registered and if no tax holidays were granted. A lower rate would, among other things, encourage companies to declare earnings instead of classifying them as cash reserves, or investments under loose definitions of the term, or other kinds of business expenditures.

4.II.10.3 If tax holidays are felt to be necessary to encourage foreign investment, they should be applied to all forms of productive enterprises, domestic as well as foreign, and should be of a much shorter duration than ten years. However, an argument can be made that foreign investors would be equally impressed with a low corporate tax rate and low customs duties and consumption taxes if all of them were applied impartially. Ireland, for example, has had notable successes in attracting investment with a 12.5 percent corporate tax rate.

4.II.11 New Approaches for the Sources of Government Revenue

4.II.11.1 The main sources of government revenue are consumption taxes, personal income taxes (including withholding taxes), company taxes, and import duties, in that order. At present, property taxes and land rents generate very small amounts of revenue. Indeed, the travel tax yields larger revenue flows than the property tax.

4.II.11.2 Some of the possible directions in which the tax system could be restructured have already been indicated. One way would be to lower the company tax rate while simultaneously broadening the coverage of companies registered to pay that tax. Another way would be to reduce drastically the use of tax holidays in a context of lower rates. These steps, which are not mutually exclusive, would lead to greater fairness and transparency in the tax system, without sacrificing revenues.

4.II.11.3 Consumption tax rates should be made more uniform also. As in the case of customs duties, eliminating the exemptions should permit a lowering of the higher rates. However, before too much energy is spent in tinkering with a fundamentally flawed consumption tax, efforts should be directed at converting the consumption tax into a value added tax. The experience of Trinidad, Barbados and other countries has shown that, properly administered, a value added tax can yield considerably more revenue than a consumption tax at the same rate, thus giving scope for a reduction of rates. Moreover, a value added tax is basically self−auditing, in that the tax forms supplied by various businesses constitute mutual checks on their veracity.

4.II.11.4 In the long run, the main pillars of a revenue system should be: import duties, value added taxes, and income taxes (personal and corporate). Special levies and excises such as travel taxes and the tax on automobile purchases will always play a role, but their contribution is relatively less important. Consideration should be given to the elimination or considerable reduction of the very minor export taxes, as they contribute almost nothing in revenue and encourage evasion. In this kind of overall scheme, natural resource royalties can begin to play their proper role of regulating the use of the resources. For example, significant annual licensing fees should be imposed on in−shore trawlers, to reduce the over−exploitation of stocks of shrimp and seabob in that zone, but no such fees, or much lower ones, should be required for ships outfitted to fish in the waters of the deep slope. Likewise, timber stumpage fees need to be scaled to the value of the standing timber, while the royalty rates on mining activities need to be made competitive. Import duties are not desirable from a viewpoint of economic efficiency but their ease of administration makes it difficult to eliminate them. However, the policy goal should be a low duty rate.

4.II.11.5 It can also be argued that *in the longer run* relatively less emphasis should be placed on income taxes as a revenue source, by reducing their rates. Income taxes in Guyana appear to be inherently unfair, since persons in the informal economy, and almost the entire agricultural sector, indeed almost all in the self−employed category, do not pay them. The obstacles to making an income tax system truly universal are formidable. It would therefore be advisable gradually to de−emphasise their role in the revenue system, to the extent that revenue requirements can be satisfied through greater emphasis on other sources. However, while their rates are being lowered their coverage should be broadened as much as possible, for the sake of both fairness and revenue collection. Lower rates will encourage greater participation in the system.

4.II.12 Policies for Promoting Investment

4.II.12.1 The third policy objective in the post−depreciation period is vigorously to promote investments in order to take advantage of Guyana’s enhanced international competitiveness. The key elements of an investment promotion policy would include the following:

a) a consistent macroeconomic policy. This means, above all, control over the fiscal deficit;

b) uniform and low rates of taxes and duties, efficiently administered in a transparent way;

c) one−stop and rapid approvals of investments and concessions for exploitation of natural resources. The only criteria for approval should be compliance with regulations concerning the environment, sustainability, minimum wages, and occupational safety. While the one−stop concept has been endorsed, it has not been put into practice effectively;

d) a market system for access to land, for factory sites and for agricultural operations, that does not depend on government approvals.; and

e) a well−designed programme to market Guyana's economic potential, which is considerable, to investors in other countries. Such a programme should present and explain the preceding four elements of policy.

4.II.12.2 The land situation has become extraordinarily confused and completely non−transparent. There are many experiences of potential investors, mostly domestic, but including a significant number of foreigners and expatriate Guyanese waiting years for approval of an application for access to land. A start has been made at converting leaseholds to freehold, which would enable potential investors to purchase the land they desire, but to date only tiny steps have been taken in that direction. Government has also agreed in principle that long−term land leases should be transferable, that is, that any leaseholder should be able to sell his lease to any other individual, at a price negotiated between the two of them, without seeking government approval. The only requirement would be to register the transaction. Among other benefits, this form of lease, which has been implemented in Trinidad, enables leaseholds to be used as collateral for bank financing. However, this policy has not yet been fully implemented. Putting it in practice would also facilitate ready access to land on the part of investors.

4.II.12.3 Implementing policies of this nature for investment promotion would perhaps have greater possibilities of attracting investments than the approach of granting tax holidays on a discretionary basis, in the context of the very uneven system of taxes and duties that is administered in a non−transparent way, and against the backdrop of a land allocation process that is thoroughly bureaucratised and suspect.

4.II.13 Export Promotion

4.II.13.1 In the near term, as we have emphasised throughout this National Development Strategy, investments, new technology and innovation will be essential if Guyana is to diversify its economy and experience high growth rates. Joint ventures that are well executed, in addition to providing new markets, may also provide access to these key ingredients to local companies. Government should, as we have already argued, therefore review its incentive regime for the private sector and strengthen institutions that support this sector. However, the success of sustaining private investments, in particular export oriented entities will, in part, depend on (i) access to markets; (ii) improvement in quality standards; and (iii) maintaining regular supplies of goods and services.

4.II.14 Access to Markets

4.II.14.1 To improve the access of local products to international markets, government and the Private Sector Commission should consider the following:−

− adopt a cost sharing formula to recruit experts to advertise Guyana's products abroad, and

− share costs to send private sector delegations to participate in international trade fairs.

4.II.15 Improving Quality Standards

4.II.15.1 One of the major constraints facing the private sector is maintaining high standards for products that are earmarked for the external market. The provisions of the World Trade Organisation (WTO) in terms of packaging and other set standards, further complicate the issue. It is important that exporters not only strive to improve the quality of their products, but also to ensure that products conform to the standards of the WTO.

4.II.16 Ensuring regular supplies of goods to the market

4.II.16.1 Several reasons have been given for the inability of the local private sector to meet their orders regularly, either in the Caribbean or elsewhere. While poor shipping facilities and poor road networks in the interior may contribute to this, the lack of proper planning by suppliers and the absence of private sector institutions to ensure that members meet their obligations are largely to be blamed. Measures should be taken to ensure that these *lacunae* are filled.

4.II.17 Export Promotion Zones

4.II.17.1 As we have often stressed in this document, Guyana’s economy must in future be essentially export−oriented. To this end a number of fiscal measures has been proposed to provide incentives to exporters and to enhance the competitiveness of our exports. An additional mechanism, which has been successfully employed in many countries, is the establishment of Export Promotion Zones (EPZs).

4.II.17.2 The importance of having Export Promotion Zones in Guyana cannot be overemphasised. Such zones can become a source of dynamism for the entire economy in terms of efficient production, economic diversification, expansion of employment, provision of much needed foreign exchange, investment and technological transfer.

4.II.17.3 One of the outstanding characteristics of an EPZ is its ability to provide large amounts of employment opportunities for the labour force. To the extent that goods and services produced in the EPZ are labour−intensive, which they usually are, the relatively lower wages prevailing in Guyana would constitute an important advantage over other competitors in world markets, although we will have to ensure that the productivity of our labour is somewhat enhanced.

4.II.17.4 It should also be emphasised that EPZs usually provide an important income source for low−income families. Moreover, they can become a most significant additional income source for a family, thus improving living standards. Also, though a fraction of intermediate inputs is imported, an important share of exports from an EPZ is usually based on domestic products. In addition, although non−tradeable components can be very significant (electricity, construction materials, machinery maintenance, etc.), local producers can also supply several tradeable components more efficiently if their domestic production is sufficiently competitive and international transportation costs are high. Furthermore, an important aspect of EPZs is their ability to attract investment not only from abroad but also from domestic sources. Although it can be argued that there is some diversion of investment from domestic projects towards EPZ activities, it is also very likely that an important source of funds corresponds to a reduction in capital flight and rent−seeking activities or, at worst, a contraction in socially less profitable investment projects.

4.II.17.5 Another aspect of investment in EPZs is their contribution to human capital accumulation. A successful firm in an EPZ requires qualified personnel in production and, probably more important, marketing activities. Labour force training, as well as developing managerial capacities, is therefore key to the success of an EPZ. These factors in turn have important spillover effects on the rest of the economy.

4.II.17.6 One usually overlooked advantage of EPZs is their role in bringing in and transferring technology to the rest of the economy. The establishment of a firm that will compete directly in foreign markets requires a high degree of specialisation and quality control. There can therefore be significant effects on efficiency and overall welfare. Moreover, when using domestic intermediate inputs, the requirement of quality goods delivered in a timely manner imposes a competitive discipline on the rest of the economy.

4.II.17.7 In setting up an EPZ, two considerations should guide the project: the fostering of dynamic comparative advantages and the requirements for private sector development. By *dynamic* comparative advantage is meant the development of industries that are not yet in production but could arise from the working of the EPZ. In Guyana, although the advantages of developing forestry industries (such as sawn wood or plywood) for EPZs would be apparent in view of the country’s abundant forests, it is likely that wood derivatives such as doors or furniture or parquet flooring may represent a better long−run investment strategy. In a similar manner, the processing of diamonds and gold could become an important source of value added. In addition, clothing assembly plants are a possible area for investment.

4.II.17.8 It must be understood from the outset that an EPZ should be a private sector business area. The attractiveness of an EPZ for the private sector would be based, in great part, on the fact that firms are allowed to develop in an environment that, being free of Government intervention, can guarantee investment returns and the required flexibility to adjust to world market conditions.

4.II.17.9 It is necessary, however, in establishing an EPZ that Government define which exporting activities are to be developed in such zones; set the basic regulatory framework for EPZ activities (e.g., labour regulations and protection, legal responsibilities, installment fees, etc.); establish the locations, in consultation with the private sector, on which EPZs would operate; provide adequate infrastructure for the EPZs to be successful, especially adequate deepwater harbour facilities; provide the land for the EPZs very cheaply or at no cost; and establish the criteria for the selection of enterprises for the EPZs. These criteria should emphasise employment, and the net export earnings generated per unit of investment.

4.II.18 Privatisation through broad−based ownership strategies

4.II.18.1 A number of state−owned enterprises in Guyana still remain to be privatised. In order to involve more Guyanese both in the privatisation process, and to encourage them to participate more in the ownership and development of the country’s economy, such privatisation, wherever possible, should be founded on broad−based ownership strategies. Similar requirements in other parts of the world have led to the development of voucher−based mass privatisation programmes in Central Asia, Eastern Europe, and in the former Soviet Union; to non−voucher variations that pool equity that is distributed to citizens in countries as diverse as Bolivia and Zambia; and to discounted public offerings to elicit worker participation in privatisation, or to achieve a wide ownership of privatised firms, in many other countries. These three basic techniques for achieving broad−based ownership: voucher – based programmes, collective investment programmes, and public offerings, offer social advantages over more traditional privatisation methods. They also contribute to the development of capital markets.

4.II.18.2 Unlike traditional privatisation methods, broad−based ownership schemes allow governments to address concerns about the distribution of wealth. Redistribution can be accompanied by issuing vouchers (the number or value of which may vary with the recipients age or years of work), by offering discounts on shares, or by limiting participation in collective investment schemes to low−income groups.

4.II.18.3 Moreover, public offerings of enterprise shares have been used by many developing countries in order to achieve widespread share ownership. To be successful, public offerings require a well−functioning and absorptive domestic capital market.

4.II.18.4 Guyana should explore the possibilities of adopting one, or a combination, of these broad−based ownership strategies as the means of privatising its remaining state−owned enterprises.

4.II.19 Stock Exchange

4.II.19.1 It is desirable that a Stock Exchange be established in Guyana as early as possible, for a number of reasons. First, it is one of the general objectives of this National Development Strategy to create an environment in which all citizens are given the opportunity to participate in all of the country's development activities, but especially in governance and as stakeholders in the firms and businesses of as wide a cross−section of the economy as possible. Second, if the proposals for collective investment which have been put forward in earlier sections of this chapter are to bear fruit, suitable mechanisms must be put in place to facilitate both the buying and the selling of the shares of the country's privatised entities. And third, it is essential that, in the new entrepreneurial Guyana which it is hoped this National Development Strategy will assist in creating, institutions be established which would help in the process of involving all citizens, no matter how limited their means, in the ownership of enterprises.

4.II.19.2 Since 1991, studies have been made in Guyana in regard to the feasibility of establishing a stock market in the country. Although these studies have been generally positive, a major constraint has been identified, i.e. the relatively few companies in Guyana which may seek to have their stocks listed, and indeed, the small number of firms with such a capability.

4.II.19.3 It may therefore be necessary either to follow a stage by stage approach to the establishment of a stock exchange in Guyana, or to link an embryonic Guyanese exchange with those which currently exist in other Caribbean countries. It might even be more fruitful to combine these approaches, i.e. go slowly in the founding of a Guyanese stock market but, while doing so, establish the strongest links with other Caricom exchanges. It is important, however, to appreciate that very few Stock Exchanges in developing countries have begun with a critical mass of stock listed companies. On the contrary, most Stock Exchanges in developing countries began with relatively small markets which ultimately developed a momentum of their own, both on the part of investors and on the part of registered businesses.

4.II.19.4 The Securities Industries Act should therefore be revisited. It should more specifically outline the regulatory framework within which the Stock Exchange would operate, and lay down the procedures to be followed in establishing a Stock Exchange Commission (SEC). The role of the SEC would be to ensure efficient markets in terms of seeking greater disclosure of information about publicly traded companies, as well as avoiding abuses such as price rigging and inside trading. The SEC should not only overview the activities of the market, but should also license the brokers on the exchange. The structure of the market should also be developed in the law.

4.II.20 Micro−credit

4.II.20.1 If we are to reduce our rate of unemployment; if we are to diversify our economy not only in terms of producing a greater variety of goods and services but also in creating and nurturing a completely new class of entrepreneur; and if we are to reduce our dependance on external investment for the absorption of our burgeoning labour force; then one of the mechanisms which might be employed is the provision of micro−credit for the establishment of micro−enterprises.

4.II.20.2 In Guyana there is an increasing number of people for whom micro−enterprises can be a source of income and employment, particularly in the prevailing circumstances in which no other options appear to be available. These citizens include those who produce a diversity of goods in makeshift shops, or engage in small trading and retailing activities, or undertake small−scale farming. In urban areas, a growing percentage of the working population is engaged in micro−enterprise activity while, in rural settings, many families combine small−scale trading with small−scale farming. Unfortunately, for several reasons, but mainly because of the absence of collateral and the reluctance and inability of the commercial banking system to cope with small debtors, credit remains unavailable to most of these citizens, especially from the established and formal banks. As a result, many of those who wish to participate in such ventures are too discouraged to do so, and the operations of those who risk such engagement remain small. In general, the small−scale entrepreneur in this country is by no means financially self−sufficient. Indeed, many who are engaged in such activities in Guyana remain below the poverty line, in spite of their best endeavours.

4.II.20.3 Fortunately, over the past two decades or so, new techniques for giving micro−credit have evolved in several parts of the developing world. These new processes have shattered the conventional wisdom which has held that micro−enterprises were too risky and too costly for any financial agency to service profitability. Indeed, on the contrary, it has been found that lending organisations are more able to reduce their risks not by analysing loans more thoroughly or requiring more collateral, but by giving clients strong motivations to repay e.g. either through peer group lending, or through the promise of ongoing, − and increasing – access to credit for borrowers who repay on time. Moreover, lenders have found ways to slash their administrative costs through simplified and decentralised loan application, approval and collection processes. And finally, lending agencies have found that borrowers are often willing and able to pay interest rates that cover the higher costs associated with providing credit in small amounts, merely to gain access to credit that would either have been denied them or would otherwise have cost them far more through the informal system, or would even have been unsustainable.

4.II.20.4 Micro−credit should be one of the main weapons in our attack on poverty, and in our general quest for equitable economic development.

4.II.21 Restructuring ‘distress’ companies

4.II.21.1 It is clear that measures will have to be taken to reduce the economy’s vulnerability to the vagaries of international price changes. In the short−term to medium term, there is an obvious need to restructure ‘distress’ companies.

4.II.21.2 Of immediate attention is the restoration of the economy’s productive capacity. At present several companies are (i) on the verge of receivership; (ii) under the yoke of heavy debt burden; or (iii) lack working capital as a result of high interest rates and bad management practices. In addition, despite the decline in treasury bill rates to single digits, prime lending rates remain alarmingly high, making it difficult for several firms to service their loans. It is therefore crucial that we find sources of financing at lower interest rates, for private companies that are prepared to restructure their operations; pay their debt including arrears to local commercial banks; and undergo fundamental training exercises to improve their management practices. Such an exercise can begin immediately while the private sector considers proposals for the establishment of a development bank.

4.II.21.3 As part of implementing this strategy, the following should be considered:−

- the Private Sector Commission should be assisted to restructure and seek loans for ‘distress’ companies through the provision of experts;
- assistance should be sought from multilateral and bilateral donor agencies for training and workshops in modern management practices for private sector companies; and
-

reviews to reduce the debt−servicing burden of participating ‘distress’ companies should be undertaken.

4.III THE OBJECTIVES

4.III.1 At the beginning of the 1990s the objective of our macro−economic strategy was necessarily stabilisation and structural adjustment. However, the successes of our efforts throughout that period now demand that the aims of our policy be significantly extended.

4.III.2 The successes to which we refer include, among other things, bringing inflation under control; freeing up prices throughout the economy, including interest rates and the price of foreign exchange; privatising state−owned assets to make them more productive; increasing fiscal revenues; reducing the fiscal deficit; lowering customs duties on average; generating adequate levels of foreign exchange reserves; substantially reducing the external debt; and strengthening, in some measures, the country’s financial institutions. And although, as has been pointed out, problems still remain in several of these areas, the broad picture is quite different from that which obtained in 1989. For that reason, the priorities of macroeconomic policy should now embrace, to an even greater extent, the growth process itself, and should address questions of how to promote growth, how to ensure its sustainability, and how to make certain that its benefits are as widely distributed as possible.

4.III.3 Specifically, the objectives of macroeconomic policy for the next ten years are as follows:

− promote high growth rates of output and employment;

− ensure that inflation remains at relatively low levels;

− ensure that the population‘s basic needs are met and that the growth process contributes to a reduction of poverty; and

− ensure that the growth path is sustainable in fiscal, environmental and institutional terms.

4.III.4 In order to satisfy these objectives, it will be necessary to meet a number of subsidiary objectives, or more specific macroeconomic criteria, the most important of which include:

− adopting policies that encourage exports and improvements in the international competitiveness of Guyana’s producing sectors and firms;

− increasing the rate of external and internal investment;

− improving the solidity and efficiency of the system of financial intermediation, in order to promote both savings and investment and safeguard the system’s integrity;

− giving priority in expenditure policy to the basic social needs of health, education, and poverty alleviation; and also to social infrastructure such as potable water and sewerage systems;

− ensuring a broader tax base, a more uniform rate structure within each type of tax, a reduction of the reliance on indirect taxes, greater revenues from user fees, and improved tax collection methods; and

− promoting 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.

4.IV THE STRATEGY

4.IV.1 Monetary

4.IV.1.1 The volume of bond emissions for the purpose of liquidity sterilisation will be reduced. This will be done, first, because these bonds ultimately aggravate the problem of fiscal indebtedness; and second, because it is now clear that it is essential that the economy be placed on a path of more rapid growth. Moreover, the current reliance on the issuance of treasury bills will, obviously, increase the deficits of future governments in the years to come.

4.IV.1.2 At the same time, debt instruments will be issued for much longer terms.

4.IV.1.3 These two elements of the strategy will reduce the pressure in financial markets that has tended to keep interest rates relatively high.

4.IV.1.4 Although the monetary targets will be revised to reflect the higher growth expectations, care will always be taken to safeguard the monetary stability that has been achieved. This is of the utmost importance.

4.IV.1.5 The government will build up its deposits in the Bank of Guyana and redeem a share of the treasury bills held by commercial banks.

4.IV.1.6 The liberalisation of the exchange market will be completed by, for example, eliminating the mandatory requirements for surrender of part of foreign exchange receipts and developing measures to strengthen the domestic interbank market in foreign exchange. In this regard, the Bank of Guyana will promote a market−maker and help it to launch the interbank market on a collateral basis. If this is not considered feasible at this stage, the Bank of Guyana itself will establish and operate the interbank market on a collateralised basis until it is well−grounded.

4.IV.1.7 Improvements will be made in the clearing and payment systems in Guyana. To this end, a greater degree of competition and the use of electronic transfers will be promoted. In addition, the accounting framework for the clearing process will be strengthened.

4.IV.2 Fiscal

4.IV.2.1 There will be a comprehensive reform of the tax system in Guyana. The new system will come into effect on 1 January, 2001.

4.IV.2.2 Because the country has committed itself to reducing the Common External Tariff, its tax base needs to be broadened even to maintain current levels of revenues. This will require among other things, a move from the consumption tax to a value added tax (VAT) regime. Under a VAT, the final consumer pays the tax, regardless of whether it is a good or service that is purchased. As has been emphasised, one of the advantages of a VAT is that it has a larger component of self−enforcement than other tax systems, and it permits easy cross−checking since both the purchaser and the seller of intermediate goods and social services file their receipts with the tax authorities.

4.IV.2.3 There will be a single rate of 15 percent for the VAT, which will be levied on a price that is inclusive of custom duties and excises. However, there will be a zero rate on hospitals, medical and dental care (including medicines), education (including prescribed text books and equipment), non−profit organisations, locally produced food, and local cultural activities.

4.IV.2.4 The purchase tax now collected by the IRD will be incorporated into the import duty.

4.IV.2.5 The remaining months of the year 2000 will be utilised for training revenue officers in the collection of the VAT and in apprising the public of its mechanisms, and of the advantages to the country.

4.1V.2.6 There will be accelerated allowances for capital depreciation, as are laid down in the In−Aid−of−Industry Act.

4.IV.2.7 No import duty will be levied on developmental machinery and equipment and on raw materials that are imported by registered manufactures.

4.IV.2.8 In order to encourage exports, and to make them more competitive there will be no export tax.

4.IV.2.9 In addition, allowances will be granted to companies in Guyana which export all or a proportion of their products, provided that such products are not sold to CARICOM countries. The allowances, which will be a percentage of export profits, will be as follows:−

Percentage of export sales to total sales	Percentage of export profits deductible as export allowance
under 10 percent	Nil
11 to 30 percent	25
31 to 50 percent	35
51 to 70 percent	65
over 70 percent	85

All exemptions of dividends for the withholding tax will be removed.

4.IV.2.10 Cost−recovery systems will be introduced and enforced both as a mechanism for increasing revenues, and also as a tool of redistribution. Higher income households will be charged for certain health services which are now provided free; and educational subsidies will be targeted more effectively on low−income households. In addition, user charges will include road tolls, drainage and irrigation fees, and tariffs on water that are calculated through metering. These cost recovery schemes are discussed more fully in the sectoral chapters.

4.IV.2.11 Because the current import tariff regime is still somewhat non−uniform, especially when the rebates are taken into account, further simplifications will be made in the import tariff schedule. There will be four categories of goods for the purpose of applying tariffs: capital goods, intermediate goods for production, ordinary consumer goods, and luxury goods. Capital and intermediate goods will be exempt. There will be a 15 percent rate for consumer goods and a 25 percent rate for luxury goods.

4.IV.2.12 Corporate taxes for non−commercial companies will be reduced to 30 percent.

4.IV.2.13 Corporate taxes for commercial companies will be reduced to 40 percent.

4.IV.2.14 The annual licensing fees for motor vehicles will be significantly increased.

4.IV.2.15 A special tax regime will be developed for the export items that will be produced in the Export Promotion Zones.

4.IV.2.16 The royalty and licensing regimes for forestry, fisheries and mining will be revised as indicated in the sectoral chapters devoted to these subjects. Overall, more revenues would be generated thereby.

4.IV.2.17 All residents will be permitted to have foreign currency accounts in local banks.

4.IV.2.18 All discretionary powers in respect of all types of taxes will be removed.

4.IV.2.19 In future, tax holidays will not be granted on an individual basis, but will be applied to all forms of productive enterprises, both domestic and foreign, and will be for a maximum duration of five years.

4.IV.2.20 The thresholds for the payment of personal income tax will be considerably increased over time with a view to reducing their role in the revenue system, and thereby assisting in the evolution of a more equitable tax system in Guyana.

4.IV.2.21 Prior to the establishment of the Private Sector Development Bank, an arrangement will be worked out with the Private Sector whereby distressed businesses will be granted loans at lower interest rates to restructure and to repay their debts, together with the necessary technical assistance.

4.IV.2.22 In addition, assistance will be sought from multilateral and bilateral donor agencies for the training of private sector companies in modern management practices.

4.IV.2.23 As described in the Chapters on housing, land, and poverty alleviation, specific tax incentives and access to land at relatively low costs will be granted to financiers who invest in low−income housing and in activities that are designed to alleviate poverty either through providing significant job opportunities, or through establishing businesses and other economic ventures in identified geographic locations in Guyana. In particular, incentives will be given for the establishment of businesses and other developmental activities in the Rupununi and in the Intermediate Savannas, in depressed bauxite regions, in depressed urban areas, and in the coastal rural districts with high rates of poverty, for example in *parts* of regions 2. 3. 4. 5 and 6.

4.IV.2.24 Private sector and other non−governmental organisations, as well as ordinary commercial banks will be encouraged, by way of tax incentives, to establish micro−credit facilities for the purpose of assisting in the attack on poverty in Guyana.

4.IV.3 Investment

4.IV.3.1 An *investment policy* paper will be finalised and presented to Parliament as a White Paper. It will be structured in the manner presented below, and will provide the basic information adumbrated in the following paragraphs.

Information on Guyana

4.IV.3.2 Geographical location; size of country; physical, climatic and land−use zones; population and racial mix; economic indicators over the last decade or so. The fact that we are the only English speaking country in South America with a relatively high rate of literacy will be stressed; as will be the preferential linkages which we possess with CARICOM and the European Community. The range and composition of the country’s natural resources will be described.

Economic Opportunities

4.IV.3.3 An outline of current economic activity will be presented, together with the existing range of exports. The need to diversify our economy, in an environmentally sound manner, will be emphasised.

4.IV.3.4 Opportunities for investment will include:−

− *mining*: gold, diamonds, bauxite, petroleum, other minerals;

− *forestry*: extraction, sawmilling, plywood and particle board manufacture, furniture of all types, parquet flooring, wooden implements and toys, prefabricated wooden houses, etc;

− *agriculture*: sugar, rice, vegetables, root crops, orchard crops, herbs and spices, oil palm;

− *horticulture***:** various types of fruit and flowers;

− *fisheries*: fresh and salt water fish and shrimp; acquaculture;

− *agro−industries*: processing, canning and bottling of agricultural products, including rice, sugar and various non−traditional crops;

− *manufacturing*: jewellery and ornaments based on gold, diamonds and semi−precious stones; building materials based on silica, stone, and clay; textiles; ceramics and tiles based on local kaolin;

− *tourism*: accommodation both in the towns and in the hinterland; recreational facilities in the interior; transport facilities; restaurants, tours, craft shops. etc.;

− *infrastructure development*: private sector involvement in road and bridge building, and public utilities establishment through BOT and BOO arrangements will be described and emphasized;

− *Export promotion zones*: the presence of two export promotion zones in Guyana will be emphasized, the total exemption from duties and taxes for those who operate in these zones will be stressed, and the types of activities permitted in these areas will be described.

4.IV.3.5 It will be stressed that this list is not exhaustive but only indicative, and that Guyana would welcome expressions of interest in other areas.

Incentives

4.IV.3.6 A detailed list of the incentives that have been described elsewhere in this chapter will be presented.

Tax System

4.IV.3.7 The tax regime which has also been outlined in earlier parts of this chapter will also be presented in the White paper on the country's investment policy.

Investment Procedures

4.IV.3.8 Reference will be made in the Investment Policy paper to the existence of an *Investment Agency* which will have been established for dealing with potential investors, and for expediting the decision−making process in regard to investment in Guyana. The mechanisms which this Agency will follow, and the delegated authority which it will possess, as detailed later in this chapter, will be fully described in the White Paper.

4.IV.3.9 In addition to the publication and dissemination of a White paper on investment in Guyana, an adequate amount of financial resources will be set aside in each annual budget for the marketing of Guyana. Investment in our country is of such crucial importance that it cannot be left only to the Public Service. Accordingly, an advertising firm with a proven track record in presenting an attractive image of both state and private enterprises will be chosen to assist in the formulation of a strategy designed to sell Guyana to international financiers.

4.IV.3.10 Moreover, within the framework of the "sell Guyana" strategy, joint Private Sector/Government/ Civil Society/Political Parties/missions will be mounted to selected countries to apprise potential investors of the investment opportunities that are available in Guyana, of the receptive nature of the government and people of Guyana in regard to investment, and of the incentives and tax structure which has been formulated to facilitate such investment. Strenuous efforts will be made to include members of the political opposition parties in such missions, no matter which political party is in office.

4.IV.3.11 In addition, the Ministry of Foreign Affairs will be restructured in order that its overseas missions would be in a position continuously not only to supply data on the investment opportunities available in Guyana, and on the fiscal environment prevailing in the country, but also to promote Guyana. In other words, our overseas missions, as well as the Ministry of Foreign Affairs itself must, in addition to providing information on our country, be enthusiastic advocates of Guyana.

4.IV.3.12 This new orientation might well require a different type of foreign officer, and a Foreign Ministry in which the promotion of trade and investment is considered to be one of its main functions.

4.IV.3.13 A one−stop Investment Agency will be established. This Agency will be the sole government authority for receiving and approving proposals for investment in Guyana. The responsibility for the operations of the Investment Agency will reside in the Ministry of Finance.

4.IV.3.14 The functions of the Agency will be as follows:

(i) collect, compile, and disseminate to potential investors all relevant data on the possibilities and conditions for investment in Guyana. This information will include**,** *inter alia*, descriptions of the types of economic and social activities in which investment will be encouraged in the country; the fiscal incentives which will be available both across−the−board, and for investment in specific geographical areas or for specific sectors; the prevailing system of taxation; and the location of available sites for investment;

(ii) prepare a list of the requirements for investment in Guyana, either of a general nature, or for specific sectors and projects, as the law requires;

(iii) receive applications and investment proposals from perspective investors. These will be accompanied by official documents, completed by the investors, embodying the relevant requirements for investment in

Guyana;

(iv) decide, within a period specified in the law, whether the application for investment is approved or not; and

(v) inform the Minister of Finance and, through him, relevant ministries and central government institutions, on a regular basis, of the applications received, their status, and of the reasons either for their approval or rejection.

4.IV.3.15 The authority to approve investment applications for various developmental activities and for different sectors of the economy will have been delegated to the Minister of Finance by the several line Ministries. The Minister of Finance will in turn delegate approval authority for a selected number and levels of activity, to the Director of the Investment Authority.

4.IV.3.16 Such delegation of authority from other Ministries to the Ministry of Finance, and from the Minister of Finance to the Head of the Investment Agency, would have been much facilitated by the total removal of the prevailing discretionary powers, and by the specificity of both requirements and incentives.

4.IV.3.17 The Investment Agency will be staffed by Guyanese of the highest probity, integrity and competence. In addition to including a core of high−level administrators, economists, financial specialists and managers, the organisation will be bolstered by high−level members of the Ministries of Forestry, Mining, Agriculture, Manufacturing and Trade and Regional Development whose duty it would be to liaise with their ministries, and to ensure that their technical policies are being taken into account.

4.IV.3.18 The Investment Agency will rely heavily on computerised data and computer systems to enable them not only to access relevant information from various sections of the Public Service, and indeed from several countries of the world, but also to process investment applications as quickly as possible.

4.IV.4 The Restructuring of the Private Sector

4.IV.4.1 A comprehensive strategy for the restructuring of the private sector will be implemented. Although this strategy will focus on the rehabilitation of those companies which now find themselves in financial difficulties, it will not be confined to them.

4.IV.4.2 Approaches will be made to and agreements entered into with the International Financial Institutions and bi−lateral donors for technical assistance in restructuring those companies which indicate that they wish to utilise such facilities; and, utilising the same funding services, workshops, seminars, and training courses will be mounted to apprise members of the private sector on modern practices in management.

4.IV.4.3 Government will seek sources of financing to enable those companies in distress, but whose undertakings have passed the most rigorous feasibility tests, to obtain credit at relatively low interest rates, for specific periods of time. These concessions will be made conditional on the companies’ acceptance of recommendations to improve their management practices and to restructure their organisations.

4.IV.5 Export Promotion

4.IV.5.1 In order to conserve human and financial resources, and to profit from the synergies which exist between export promotion and investment, the pro−active measures *re* investment which have been put forward in this chapter will also be followed in regard to promotion. Indeed, wherever possible, joint missions and joint publicity campaigns will be mounted.

4.IV.5.2 Moreover, in addition to the fiscal incentives which will be provided to encourage potential financiers to invest in export−oriented businesses and activities, and to the rewards which will be granted to those who successfully export significant proportions of their products, there will be established two Export Promotion Zones, one to be located on the left Bank of the Berbice River, in the vicinity of the deep water facility, and another to be located on the left Bank of the Demerara River, south of the proposed deep water harbour.

4.IV.5.3 Subject to environmental considerations, there will be no restrictions on the types of industries that might be undertaken in the EPZs. However, in the first instance, the following will be encourage: textiles and garment making; leather craft; ceramics; non−metallic minerals manufacture of articles based on clay, kaolin and silica; jewellery manufacture (gold, diamonds and semi−precious stones); glass manufacture; production of building materials e.g. clay bricks, tiles; manufacturing of packing materials; manufacture and production of wooden products: finished furniture, furniture parts, pre−fabricated buildings, house parts (doors, windows, panels, parquet flooring), clothes pins, toothpicks, etc.); processing, canning and bottling of agricultural products, the manufacture of chemical products; and optical goods.

4.IV.5.4 In particular, the provision of various types of electronic services will be encouraged in the EPZs, as will be electronic products.

4.IV.5.5 The operators of firms within the EPZs will not be subject to any taxes, but will be able to obtain incentives which include the duty−free entry of capital goods and raw materials; tax holidays on corporate profits; tax holidays on dividends; and free repatriation of capital and dividends among many others.

4.IV.6 Privatisation

4.IV.6.1 The privatisation of the remaining state−owned enterprises will be undertaken apace.

4.IV.6.2 The standard formula for such privatisation will include (i) the selection of a strategic partner with a sufficiency of finances to recapitalise the enterprise, and with adequate marketing connections and influence to enhance the sale of the products of the public corporation. Of equal importance will be the management structure that is proposed by the strategic partner, and a plan for the social and economic development of the corporation. These will have to include acceptable provisions for social and other benefits to local employees. The strategic investor will not normally have more than 51 percent of the equity; (ii) provision for the workers of the enterprise to hold at least 20 percent of the shares; (iii) provision for the government to hold another 20 percent; and (iv) provision for the Guyanese public to purchase the remaining proportion of the equity.

4.IV.6.3 It should be emphasised that this is the standard formula which we propose should be followed. However, there may be particular instances in which, in the interests of the country's overall development, other arrangements might be followed.

4.IV.6.4 A "claw−back" clause to the effect that if the new firm or company does not honour the work−plan that has been agreed upon, and does not adhere to the "social contract" *re* workers in the agreement for a period of at least five years after the signing of the agreement, the government will have the right to take back the corporation. In other words, an investor will not, for example, be permitted to buy a corporation as a business enterprise, and then dispose of its assets, and either run−down the business or cease operations, within a specified time.

4.IV.7 Stock Exchange

4.IV.7.1 The aim is to have a full fledged, autonomous Stock Exchange in Guyana by the year 2003. Indeed, the amended legislation for securities trading and its regulation will be immediately introduced. As has been already pointed out, the main objective of establishing a Stock Exchange in Guyana is to involve the ordinary Guyanese citizen in the ownership of the country's assets and businesses, and to attract small investors who, until now, have invested only in bank deposits and savings bonds. Perhaps an equally important objective, given the current state of our economy, is that of involving overseas financiers in our development. In other words, the existence of a stock exchange would assist in raising the volume of investment in the country.

4.IV.7.2 Until the Guyana Stock Exchange becomes fully operational, arrangements will be made for a rudimentary organisation to meet perhaps for two hours, once a week, to buy and sell the shares of registered firms.

4.IV.7.3 Ultimately, what is required is a CARICOM Stock Market. This can come about, however, only after there exists in the various CARICOM countries, national Stock Exchanges with a minimum amount of registered companies and trading activities.

4.IV.8 Micro−enterprises

4.IV.8.1 To a large extent, an essential aspect of this National Development Strategy hinges upon the creation of a new entrepreneurial class, and on the evolution of a number of small manufactures, small−business persons, and small−scale farmers who collectively will assist both in increasing production and productivity, and in diversifying the economy. To this end, the resources that are available to the Institute of Private Sector Development (IPED), which has been successful in facilitating credit, training and support to micro−enterprises, will be increased.

4.IV.8.2 However, in order to enhance the competitiveness of the micro−enterprise financing agencies in Guyana, the establishment of other such organisations by NGOs and semi−governmental organisations will be encouraged in the rural, urban, and hinterland areas. These entities, in addition to providing credit and mobilising local savings, will train micro−entrepreneurs in all relevant aspects of business management.

4.IV.8.3 NGOs will be encouraged, until they become entirely self−financing, to blend grants and soft loans with funds borrowed from banks including the Private Sector Bank, from which most of the original financial resources would flow. The ultimate objective will be gradually to eliminate subsidies from the lending operations.

4.IV.8.4 Savings mobilisation, particularly among the urban, rural and interior areas of the country, will be an important aspect of the micro−credit scheme. In order to achieve this objective, a number of savings institutions will be established in all regions. Every effort will be made to ensure that the spread between lending and savings rates is such that these institutions are able to be profitable, while offering loans at interest rates that are competitive, and providing savers with generally positive real rates of return on their deposits.