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National Development Strategy

By Ken King

Investment

In economic science investment is usually defined as capital expenditure on physical assets (machinery, factory buildings, roads, bridges, and so on), and on stocks. Except for education and training, and good governance, investment is the most basic factor in economic development. It is a precondition of economic growth.
It goes without saying that both local and foreign investment can play important roles in any country's development. It is perhaps true to state, however, that in poor, underdeveloped countries such as Guyana, foreign investment is almost invariably of the greater significance. And this for several reasons.

First, because developing countries are usually abysmally poor they simply do not have enough local financial resources to spend on the multitude of developmental needs that require investment. Second, foreign investors often bring to a developing country new money from abroad. This, it is frequently argued, positively influences the exchange rate, balance of payments and so on. Third, foreign investors almost always introduce new techniques and technologies to the developing country. Fourth, because they are generally better trained and more experienced than their counterparts in developing countries, foreign investors are usually more effective managers and marketing specialists. And, fifth, because of either vertical or horizontal linkages, foreign investors sometimes have assured or captive markets for their products. This would be especially important for Guyana which, because of the relatively small size of its internal markets, must perforce export most of whatever it produces.

The NDS stresses that it must never be assumed that private foreign investors are hot with desire to invest in Guyana. It emphasizes that they are normally unemotional and hard-headed men and women who invariably undertake investment appraisals, before committing their financial resources, in order to assess whether investments in a proposed project would show a satisfactory rate of return. Indeed the appraisals often include an examination of other projects in other countries in order to ascertain which would give the greatest return on the capital invested over any given period of time. An essential aspect of these calculations is an appraisal of any risk factor that may be involved.
The NDS posits several constraints to investment in Guyana. It asserts 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 goes on to state that "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." This was written about eighteen months ago. Since then the government has made few, if any, negative statements in regard to private investment. Indeed, a review of the newspapers of the period since the publication of the NDS has disclosed that the government has repeatedly stressed that the private sector is the country's engine of growth, and has promised to work closely with its members. It cannot be too strongly emphasized, however, that if such avowals are not to be interpreted as mere rhetoric, it would be necessary for the government to formulate and implement policies which demonstrate an understanding and appreciation of the needs and requirements of the private sector.

There can be little doubt, however, that the most fundamental constraint to investment in Guyana are the regular disputes and uprisings which seem to accompany all our national elections. The stark truth is that the returns on the capital invested must be extremely high for potential investors to want to risk their financial resources in a country which is routinely subjected to mayhem. In this, as in most developmental matters, political stability is all.

The NDS lists a number of more prosaic, but important, constraints to investment in Guyana. It points out that there is no "clear investment strategy and statement of principles, which provide comparable treatment to all investors in all sectors," and stresses that such a strategy should be formulated, publicised and implemented. Since the NDS was written the government has indeed laid in Parliament what it has called an "Investment Code".

Unfortunately, this document does not address all the investment issues that are raised in the NDS, and is not as comprehensive as it ought to be.

The NDS is of the opinion that the Government has, certainly unwittingly tended to inhibit local investment. It has done so because it routinely issues bonds which are risk-free and which carry rates of interest that are not unattractive. Not unnaturally, commercial banks buy these bonds. It is claimed that as a result not only are the available financial resources for private investment reduced, but the cost of borrowing money from the banks significantly increased.

As the National Development Strategy (NDS) advises "a reduction in the rate of issuance of Government bonds would favour private investment as it would lower the crowding out effect in financial markets that such bonds tend to have."

The NDS also suggests that the approval process for investment should be simplified and made transparent; and that there should be a reduction of the range of variation in the consumption taxes and customs duties.

Indeed, a study that was conducted by the NDS of the existing tax structure provides concrete examples of the high degree of variability in the current rates that are applied to consumption taxes and customs duties. More important, it appears from the study that the rate variations have neither rhyme nor reason: in a number of cases, very similar products have very different rates, often at extremes of zero and thirty percent.

The NDS recommends that agricultural land leases should be made tradeable, and advocates the abolition of the current regulations which restrict the charging of land rents. There is little doubt that our current land tenure system and our methods of land distribution and allocation are inefficient and inequitable. Indeed, one independent foreign advisor has stated that our current practices give rise to "patterns of tenure insecurity". It is claimed that the recently established Lands Commission is intended to alleviate some of the problems that seem to be part and parcel of the system. However, although it is much too early to pronounce on its effectiveness, it is worrying that the Commission derives the financial resources for its administration from the land rents it now collects. It is more than possible, therefore, that this dependency might act as a disincentive to the speedy conversion of leasehold to freehold tenure, and to the expeditious liberalization of the land system. It is small wonder therefore that the NDS states that the "land situation has become extraordinarily confused and completely untransparent. 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."

Efficiency in matters such as land allocation, and the rapid approval of applications to establish industries and businesses, and to exploit our natural resources would perhaps attract more investment than the current 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 such a non-transparent way.

In addition to all this there must be investment promotion. Guyana cannot sit idly by and hope that investors would rush to the country. Accordingly, the NDS proposes that the key elements of an investment promotion policy should 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 approval, 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.

In next week's article in this NDS series, the details of a proposed investment policy would be presented. Such a policy would include information on Guyana, the economic opportunities that exist in the country, the incentives that are available to investors, a proposed tax regime, and the procedures which should be followed by persons seeking to invest here. Specific suggestions for the establishment of a truly one-stop agency would be put forward. Above all, the necessity for a proactive, well-conceived investment promotion strategy on investment would be stressed.