

ECONOMIC DEVELOPMENT IN GUYANA

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“At this stage in its economic history, it may be said that Guyana has righted a ship that was listing badly” (National Development Strategy)

INTRODUCTION

Guyana is one of the poorest countries in the Americas. With a dual colonial past of British and Dutch empire, the country has a rich, albeit tense, ethnic mix. Having gained independence from the British crown in 1966 the country headed for two decades of economic mismanagement and impoverishment. In 1988 it became apparent to its leaders that the country had to change course. With assistance from the IMF and the World Bank, as well as from the Inter-American Development Bank and bilateral donors, the country set itself onto a market-oriented development path. The results have been startling. With very high investment — both private sector and public sector — economic growth has been very rapid. Indeed, in the 1990s Guyana has been South America’s fastest growing economy. Price liberalization, deregulation, privatization and stabilization efforts have been part and parcel of this remarkable growth surge. A second generation of reforms — including further trade liberalization, reform of the public sector, reviving the privatization process, improving access to credit for small entrepreneurs, and trade and investment promotion — has begun, and this paper was developed to provide some suggestions as to how these might be implemented.

The rest of this paper covers the “Guyana Context,” which is a brief discussion of the economic, social and political history of the country in the post-columbian past leading up to the recent economic reform of the late 1980s and early 1990s. This is followed by a discussion of “the Next Stage of Reform,” including a policy reform framework. The paper finishes with a general framework for reform implementation strategy.

THE GUYANA CONTEXT

The Early Years

Guyana’s economic history until recently has been one of exploitation by class against class and ethnic group against ethnic group. Under Dutch domination, Amerindians were exploited through a forced labor economy. This was later changed when Africans were imported as slave laborers. Indeed, Amerindians were in the employ of the European slave owners and helped to round up runaways and later to quash slave revolts. East Indians were later imported as indentured laborers to supplement or replace Africans. After slavery was outlawed and the indentured laborer contracts were invalidated Africans and East Indians competed for the lower rungs of the economic ladder and Amerindians were increasingly marginalized. Animosity among these ethnic groups could not help but become fierce.³

The planters continued their dominance of the Guyanese economy even after the demise of slavery and indentured servitude. However, after the collapse of sugar prices and the loss of preferential treatment for the country’s sugar exports to the British market, the many plantations were consolidated into just a few. The introduction of technology allowed the sector to be reduced still further to merely a few plantations

with mills. By the beginning of this century many of the plantations had been sold to Afro-Guyanese to become villages or were abandoned altogether.

Freedom was not immediately followed up with full political reform and economic modernization. Full adult suffrage for all ethnic groups was not universal until 1953. Shortly after this the British crown negated the country's elected, representative government and imposed its own legislative and executive councils. In the pre-1960s era the country's economy was essentially based on a few plantations, subsistence agriculture, and natural resource extraction. Human capital development was limited, although the country's social indicators were similar to or better than in many other countries in the regions.

Full independence from Britain came only in 1966, when the country embarked on a policy of "cooperative socialism." This path led to ruin as the two pillars of the economy, sugar and bauxite, collapsed after their nationalization. Continued mismanagement of the economy saw expansionary demand policies throughout the 1970s and most of the 1980s, leading to inflation, low investment, low production, increasing debt, emigration and pauperization of the remaining population. During this period of "cooperative socialism" the economic and social infrastructure of the country fell into ever worsening disrepair. The country's educational and health indicators fell from among the higher levels within the Caribbean to among the lowest, and miserable poverty became pervasive.

Post-Independence

The 1980 Constitution states that the country is in transition from capitalism to socialism. While it has been stated that this clause in the constitution is outdated because it is now recognized that socialism is not the path to follow, in fact, it was never quite accurate. Guyana never was truly a market-based, capitalist country. Under colonial rule, the market society — with free and fair competition and production based on private ownership and geared toward profit maximization — was never prevalent in Guyana.

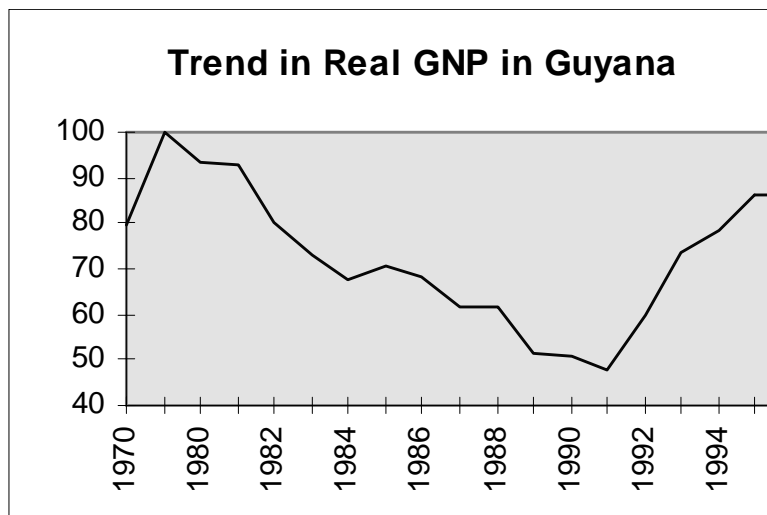
Although located in South America, Guyana's history has more in common with much of Africa. Guyana's history of exploitation by European powers and the importation of indentured servants and other laborers from East India, as well as the development of plantation systems and natural resource extraction, parallels much of East Africa, and somewhat less West Africa. The Ujamaa or African Socialism of Nyerere and Nkrumah parallel the "cooperative socialism" of Guyana.⁴ Independence came for these countries and for Guyana at about the time that development economics as a field of study was perhaps at its most vacuous and its policy recommendations most deleterious. The concepts of state ownership, inward-looking industrialization, and severe regulation of pricing and competition were the received wisdom of the day. In 1966, Guyana was not embarking on a path that was obviously wrong-headed. Two decades would pass before it was fully recognized that this development paradigm was fruitless.

There is much to be learned from the successful reforms in Africa, and to a lesser extent from South America. That is not to say that the experiences in other countries offer us no opportunities to learn, but that more useful and relevant lessons can be had from the Ghana and Uganda — Uganda is often referred to as the Chile of Africa — experiences than from those of Taiwan or Korea. We also feel that Chile, although with quite a different set of historical factors, would be an excellent place from which lessons about economic and institutional reform can be learned. For instance, the U.S. debate on social security reform has even involved considerable discussion about just how relevant the rather radical reforms that have taken place in Chile would be for the United States. Of course, the economic and institutional reforms of other English-

speaking Caribbean countries can serve as useful examples, however, despite their similarities, we feel that the radical changes that have taken place and which are yet to take place in Guyana make reform in neighboring Caribbean countries see rather lackluster.

The Early Reform Era

Continuing economic decline in Guyana became almost unbearable — as real incomes had fallen to less than 50 percent of their 1975 level — and in 1988 the authorities began the Economic Recovery Program (ERP) of broad macroeconomic and structural reforms. The World Bank with IDA funds and the IMF did not only support the ERP, in fact, these institutions actually designed the program. The ERP sought to: correct many prices, dismantle state economic controls, and establish the basis for a market-oriented economy. Fiscal balances were improved. Price controls were abandoned. The exchange rate and interest rates were liberalized. Trade was reformed: quantitative restrictions were removed and tariffs were reduced.



Economic decline seemed to have been arrested, but then continued until GNP reached its nadir in 1991. By the 1990s, Guyana was a star performer, with growth rates exceeding six percent in some years. Poverty, though still a problem at 40 percent of the population, declined rapidly and there is new hope in the country. At the same time, economic reform and improved performance were complemented with open elections in 1992. Clearly, the role of export prices has also been important for Guyana's recovery. With the worldwide economic dislocations of 1998 the prices for the country's exports have declined and income growth just about halted. Nonetheless, some sources say that the country's response to these changes has been stellar and that it is on the brink of economic takeoff.

Guyana looks South and East. Trade diversification for Guyana does not mean merely producing new products for the same old trading partners. Guyana has been looking south, to Brazil, Argentina, and Chile, and is considering joining MERCOSUR. Trade with Brazil looks particularly attractive, but will require new infrastructure, new marketing, even new products. Guyana has also been looking East, to West Africa. Having recently sold rice and other agricultural products to Ghana and neighboring countries, Guyana is diversifying its market, if not always its products.

The Next Stage of Reform

While stabilization targets had been attained and the painful impoverishment process seemed to have been arrested, there was a need to undertake measures to consolidate the progress and start second-generation reforms.

Continued economic growth in and of itself usually can be counted on to reduce poverty. Economic history has shown two things: without growth there will be no reduction in poverty and rapid economic growth usually, but not always, leads to declining poverty. Economic theory and empirical evidence have shown that policies that encourage the proportional use of resources, for instance labor-intensive production and hence labor-intensive growth, will both accelerate overall economic growth while creating more formal sector and better paying jobs.

Guyana has been enjoying rapid growth, but this growth has come from high rates of investment, both public and private, rather than from increasing productivity. Indeed, Guyana's Incremental Capital-Output Ratio (ICOR) of 7 - 8, is more than double that of the United States and those of other rapidly growing countries in the developing world. Perhaps, in part, this is because much of the country's investment in infrastructure has been a matter of rehabilitation rather than new capacity installation. Also, much of the country's investment has been geared towards natural resource exploitation and the generation of rents rather than production of goods and services and the creation of broader incomes.

Guyana is unlikely to be able to continue its high rates of investment. Unless greater productivity of investment can be attained economic growth will slow. Job creation will wane. Salaries will stagnate and poverty reduction will become ever more difficult to attain.

One approach to the growth and poverty reduction problem first is to acknowledge that this need not be seen as a dilemma. The two, when done properly, can be reinforcing. Policies that "get the prices right" especially relative factor costs, will be necessary to lead the country to a more labor-intensive growth path and to sustain current growth rates. Policies such as the tax treatment of natural resource extraction, labor market laws, income and consumption taxation, and investment sector policies all affect the type of growth that can be expected.

World Bank (1994) proposes an agenda for extending economic opportunities to the country's poor based on:⁵

- Maintaining the economic and incentive framework under the Economic Recovery Program;
- Promoting rapid economic growth through increased private sector investment;⁶
- Resuming the privatization process;
- Diversifying exports;⁷
- Initiating joint government-private sector efforts to carry out market research;
- Enhancing access to export markets by small businesses, small farmers and employment intensive enterprises.

This approach to encouraging economic growth and transition in a country such as Guyana can be successfully fused with specific emphasis given to three broad areas of concern: policies to spur general economic growth;

policies focuses on labor intensive technologies; and policies and specific actions geared toward increasing the assets available to the poor, whether these be financial or human resources.

Policies that encourage outward or export orientation encourage domestic industries to compete in the global market place can encourage the use of modern methodologies, advanced management techniques, and a movement to more dynamic markets than the Guyanese consumption market. Policies that encourage domestic import substitution, such as high or disperse, tariff rates, will discourage exports, keep the country's industries wed to inappropriate technologies and face continuing lackluster demand.

Trade policies must be based upon a coherent trade expansion strategy, one that takes into account the losses the country is likely to encounter due to the expiration of the various trade preferences it now enjoys. Trade promotion must include elimination of all anti-trade and especially anti-export biases found in the system of taxation, finance and international exchange. Efforts to modernize customs operations can reduce corruption, lower the costs of doing business in the country, send an appropriate signal to domestic and foreign investors, and generate greater revenues for the government.

Tax policy can focus greater revenue efforts from rent-based sectors, such as mining, while holding the line on taxation of economic activities that are labor-demanding. Appropriate tax policies along with good public investment programs, stable property rights, official transparency, and productivity-enhancing rather than productivity-sapping policies can lead to greater domestic as well as foreign investment.

Labor market policies should encourage free and fair transactions, availability of information, establishment of basic rights of workers, protection for children. Policies should not discourage the creation of permanent or long-term employment by imposing too high a burden in terms of payroll taxes, required benefits, and inappropriate work rules. They should also not discourage employment by not allowing firms to hire and fire staff, as their business needs demand.

There is an urgent need to increase the level of human capital in the country. At the technical levels, Guyana is severely restricted. This retards the country's growth by holding back innovation and productivity. There is a thirst for better educated Guyanese, both in the private and public sectors. At the same time, general education skills need to be enhanced to enable Guyana to move to more sophisticated industry and services. Plantation farming and minerals extraction are industries of the past that for the most part have been able to progress without sophistication among Guyanese workers. However, with the loss of preferential trade treatment, increased competition from the global economy, and the low employment generating aspects of the rent-based extraction industry, more labor-using employment with a future will only be able to come about if the country is able to supply better human resources to the market.

Reducing bureaucracy, enhancing transparency, reducing graft, and making government services more efficient can lead to lower costs throughout the Guyana economy. It will reduce a source of instability in transactions, hence making the country more attractive as a place to invest and operate. Improved public services can result from streamlined, more efficient public sector apparatus.

To assist small and micro entrepreneurs to become established, thrive, and more actively contribute to the broader economy, facilitate the structural reform, and reduce poverty, there must be a specific microenterprise strategy for the country and the government to follow. This strategy should address the three most basic fundamentals necessary to achieving this goal. First, there is a need to remove the impediments, especially policy, legal, or institutional, that hinder the creation of new enterprises, restrict their expansion, and shut out certain

groups, such as women and Amerindians. Second, organizations that seek to provide technical assistance, training, and financial capital (both working and fixed) to entrepreneurs, should receive greater support from government, the private sector, or international donors. Third, small enterprises need assistance in their transition toward becoming formal sector participants and contributors to the national economy, through policy and institutional support and continued support to institutions that provide training, technical assistance, and financing.

It is clear that economic policies aimed at unleashing the forces of the market and raising the assets of the poor are essential to economic growth and poverty reduction, but that institutional development, both of the private sector and the public sector, must play a pivotal role in Guyana's future economic development.

Institutional Aspects of Reform

Even if we “get the prices (or policies) right,” unless the institutional framework and implementation capacity are in place, economic development will not be achieved. Nonetheless, it is still important to get the prices right, that is, in order to foster continued economic growth and rising incomes, especially for the poor, good economic policies are prerequisite. Good policy is a necessary but not sufficient condition in the quest for economic and social development. Along with human capital development and the intangibles associated with cultural characteristics and advances, these will be the building blocks of expanding the Economic Opportunities for the Urban and Rural Poor of Guyana.⁸

At the same time, it is important to remember that a market economy is not installed in a society as easily and expeditiously as a new urban traffic system or even a new tax code. No matter how well conceived a reform plan is designed from a strictly technical point of view, its implementation should take into account the human and cultural characteristics that prevail in that society. The antagonisms that remain among ethnic groups in Guyana will have to be addressed in formulating new policy directions.

Under state-centered development paradigms, consumers, workers, government officials, and citizens in general become passive spectators instead of active agents of public policy and most forms of lower level, day-to-day decisions affecting their lives. Individual choice is severely constrained and, as a result, individual initiative does not develop as it should to meet the multiple challenges of a free market economy.

The attitude of Guyanese of all ethnic backgrounds with respect to innovation and private sector, profit-oriented solutions to real problems must change. The government never could solve these problems adequately in the past, and with liberalization and restructuring will be even less inclined in the future to address many problems that were within its domain. People will need to learn to look to government for the solution of a more narrowly defined set of problems, while they need to be empowered to find their own solutions for most of their needs.

As a country implements the economic, legal and institutional changes for a transition to a market-oriented economy, it is necessary to implement a strategy that can foster a new mentality, consistent with the forms of behavior required in a new economic system. Even though Guyanese may reject socialism because of its obvious economic failure, its colonial background plus the propaganda and lack of opportunities for individual development under socialism have left a legacy of doubts, prejudice and distrust of institutions. Even if the macroeconomic environment is the right one, workers and entrepreneurs, small and large, must trust the new conditions and be optimistic about taking the risks necessary for economic development. The investments necessary for economic growth and equity must first come from inside, to demonstrate the actual potential of the Guyana economy.

The transition from socialism to a market economy is more complex than the reverse transition — there is no relevant manifesto — and must be complemented with the concomitant public education component.⁹ In the transition to socialism, the process is characterized by a reduction of the institutional complexity of society, as competition is stifled, enterprises tend to become monopolies, decision-making processes become highly centralized and entire sectors of economic activity are eliminated, especially commerce, financial intermediation and services. The transition from socialism to a market economy is one characterized by increasing institutional complexity that comes in at least four basic forms: 1) monopolies disappear and are replaced by innumerable competitive enterprises; 2) centralization and is replaced by multiple economic decision-making agents; 3) free trade, financial intermediation and all kinds of productive services flourish, providing more options to buyers and sellers; and 4) free markets develop with free prices, providing new alternatives to workers, savers, investors, and entrepreneurs. The government is no longer the buffer of all kinds of economic and social risks, nor the only decision maker when it comes to the optimal allocation of the country's resources. As centralization of allocative powers is replaced by the multiplicity of individual decision makers that will now allocate their resources looking for their own advantage, and not the state's, a new mentality and attitude is required, along with the cognitive development or specific skills required to succeed and prosper in a competitive individualized world.

As countries move to become more democratic, the paradigm donors and counterparts have been following needs to be revised. We have been learning from research carried out by others as well as undertaking our own investigations into effective policy reform.¹⁰ Effective policy reform has two characteristics. The first is that reform should move the country toward an improved position, i.e., the reform should be a sustainable improvement over the prior situation. The second is that the reform must transcend the rhetoric and actually be implemented. This second aspect is particularly delicate. Although devising policy reform initiatives is rather straightforward, from a technical point of view, bringing them to fruition requires strategic planning and implementation follow-through.

Policy reform implementation can only come about when constituencies are identified, targeted, committed, and mobilized, when support can be counted on, when leadership can carry the reform through, when the institutional capacity to actually implement technical reforms is installed and mobilized. The recommended reforms therefore must be able to generate support, although we cannot by any means rely on the quality of the reform package to carry the day. The support to the reform program must be carefully engineered and include a crafted public education program.

Policy reform should not be seen as a one-time or turnkey activity. Policies can be reformed one year, improved upon the next and further enhanced in the future. For reform processes to take root they need to be indigenous. There should be technical capability to design reforms, target those reforms to the needs of the country, identify stakeholders and generate support. This is why the DevTech Systems approach defines the primary role of the resident advisors as coaches to the Guyanese counterparts and not as authors of technical studies.

Foreign experts can be helpful in consulting on such reform programs. They can be even more helpful in the development of indigenous capacity to undertake analysis and to develop implementation strategies, but the political, social, cultural, and institutional aspects of policy reform are critical.

Implementation Strategy

Guyana requires an economic development strategy that expands opportunities for the rural and urban poor and which is based on the continued transition from “cooperative socialism” to a market-oriented development path.

Such a strategy should, *inter alia*, be based on policy reform, institutional strengthening, public information, and direct assistance to raise the assets of the poor. Each of these requires its own set of actions.

- Continued **policy discussion** among Government leaders is essential to the reform process. The same is true with private-sector leaders, whose personal interests are not always coincident with the national interest. Dialogue should be held with officials, legislators, representatives of the private sector from IPED, the Chambers of Commerce, the Guyana Export Promotion Council, the Guyana Manufacturers' Association, and others.
- Stimulating **debate in civil society** about policy is one way for development assistance to influence policy reform. Such debate should be supported by specific **public information strategies** that will help to foment the changes in attitudes needed to create a society based on productivity and consumer sovereignty versus rent-seeking and state-dependency.
- Improvements in the **delivery of services** to support the financing and operations of **small and microenterprises** are critical. This can help facilitate the channeling of capital to those entrepreneurs who, until recently, have had only limited access to formal sector credit, but who could potentially make the most productive use of this credit. This could enhance growth, job creation, and reduce poverty.
- There is a need to encourage changes in public sector attitudes, structure and incentives in ways that will be consistent with concepts of State Modernization or **Reinventing Government**. Market-oriented economic transition usually includes deregulation of the private sector. Osborne and Gaebler discuss the need to **deregulate the public sector** and create **mission-driven institutions**.
- Activities to **strengthen** policy analysis **institutions** and to strengthen the hand of those reform-minded individuals, inside and outside of government, should help to bolster the ability to attain reforms.
- It has been shown that where domestic political factors have started a reform movement, **well-trained economists and civil servants** are crucial for its success. We need only to look at such examples as Chile, Uganda, Ghana, and Colombia. Without a technical cadre to design and implement reforms, programs, whether homegrown or imposed from abroad, will only be able to go half the distance.
- A strategic management framework for policy implementation must accompany policy analysis. This will include SWOT (Strength, Weakness, Opportunity and Threats) stakeholders and force field analysis, interest mapping and coalition building.

Guyana cannot afford to not reform, with its loss of trade preferences and its continuing poverty the country must move ahead and join the global, competitive economy. At the same time, reform is not inevitable. The road ahead is not easy. It is not marked by a set of technical guidelines that show unequivocally that if certain steps are taken then specific outcomes will result. Nor should anyone expect that merely because a certain policy package or initiatives will be obviously beneficial to the nation that the implied changes will be readily accepted by society or by powerful groups within society. Dialogue, analysis, education, and sometimes compensation will all be important components of a successful reform program.

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NOTES

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² The authors would like to thank Joe Thomas, Neil McMullen, Anthony Gonzales, and Lual Deng for their comments and observations. Of course, all remaining errors and opinions are attributable only to the authors.

³ See Carberry's paper for a summary of Guyana's economic and political history.

⁴ Indeed, during the 1970s there were many exchanges between Guyanese and Tanzanians, with visits taking place among the two countries.

⁵ World Bank (1984) presents the Poverty Profile for Guyana as well as a number of recommendations to reduce poverty. Many of these recommendations are related to social sector reform rather than to the reduction of poverty through a specific growth process. Nonetheless, a number of recommendations are also made in this regard, and we feel that our approach is in complete concordance, with perhaps the limited exception that this project will not target general rural development and agriculture.

⁶ As has already been mentioned, high levels of investment have been achieved in Guyana and the economy has responded. Given the prognosis for future investment levels, we believe the focus should be more on raising productivity while still encouraging investment.

⁷ Traditional exports should not be discouraged; however, due to their favored treatment and the fact that this treatment is soon to expire, we believe that the country must now start moving rapidly toward greater diversity in its export base.

⁸ A recent *Wall Street Journal* article (Baley, 1998) discusses the optimism among Americans and the role this optimism plays in our economic life.

⁹ This asymmetric behavior is sometimes referred to as "hysteresis" since the path to getting somewhere is often not the same as the path that would have to be taken to get back to the same place.

¹⁰ See, for instance, Sanguinety, Jorge A. (1998) and Gallagher, Mark (1998).

