



GUYANA FORESTRY COMMISSION

1 Water Street, Kingston, P.O.Box 1017, Georgetown, Guyana
Tel Nos. 592-226-7271-4, 592-226-6407 Fax: 592-226-8956
Website: www.forestry.gov.gy

Guyana Forestry Commission's (GFC's) Management Response

to the

"Report on the Forensic Audit and Review of the Operations of the Guyana Forestry Commission"

These Comments are presented as far as is possible, by the Section and Reference Number as indicated in the Report on the Forensic Review and Audit of the GFC.

1. Executive Summary and Recommendations

In the Executive Summary, GFC notes that Section 1.3 conveys the incorrect picture that many GFC Board meetings may have been not held due to lack to a quorum. The reality is that only a maximum of two (2) meetings were re-scheduled for lack of a quorum during the period 2012-2015.

With respect to Section 1.8 of the Executive Summary, GFC advises that regarding the total log exports for the period 2007-2015, total log exports were 926,932 m³. Baishanlin and its JV partners (52,098 m³) therefore were responsible for 5.62 % of the total log exports during this period. This represents a very small percentage of total log exports.

GFC further notes that it has publicly stated that Guyana has sufficient installed capacity to process all of the logs harvested into lumber. However, the sector has also argued that the cost of production versus the lumber recovery for many species, and the scarcity of markets for the lesser used species (LUS) makes it infeasible for all species of logs to be processed. Regarding the last sentence of 1.8, Baishanlin may have promised to establish this wood processing plant in 2007. GFC notes, however, that the access to the land to establish the plant was only given around 2010.

In the Executive Summary, Section 1.19 speaks to an acquisition by Baishanlin of controlling interest in various logging companies; GFC notes however that one (1) acquisition occurred pre October, 2010 before the Act took effect, and there were no retroactive clauses contained in the said Act. Therefore the GFC did not have the authority to take this acquisition into account or to effect a penalty for the alleged breach of Forests Act. With respect to the other Companies, which entered into Joint Ventures (JV's) with Baishanlin or its associates, these JV requests were tendered before the Board which approved the said transfers and change of control as permissible by the said Act.

Notwithstanding the aforementioned authority stated above, the GFC Board and Management had continuously been expressing alarm on the poor production coming from allocated state forest concessions.

The Board and GFC Management then invited and met with concessionaires to ascertain the reasons for their underperforming. Thereafter the GFC was directed to assist them as far as possible to address the reasons given for underperforming, within the framework of the legislation and guidelines. These measures that were agreed on by the GFC Board, GFC Management and the Concessionaires included

the approvals of Joint Ventures and machinery rental agreements, following a GFC Board approved process.

The assertions in Sections 1.19 - 1.20 are incorrect. The relevant section speaks first and foremost to the grant of a forests Authorization to two or more persons. As suggested, the Act did not stipulate as a precondition that either applicant needed to be a pre-existing holder of a concession. Neither did it speak to the fact of whether an applicant would be disqualified from being considered if the joint application is for a concession already held by one of the applicants. In any event, the existing holder would have already qualified individually since he was previously granted the said concession which is now the subject matter of the joint venture.

The Baishanlin case is addressed in greater detail in various sections of this Management response. However, GFC notes that the Forests Act 2009 does not prohibit the granting of SFEP extensions; it prevents the renewal of the SFEP.

With respect to Recommendation 2.2, GFC notes that the practice in arriving at the two (2) previous log export policies was by a thorough consultation exercise with direct and indirect stakeholders.

GFC notes in Section 2.4, that a list of Baishanlin's achievement of its expected deliverables is shown in the Table 2 of this GFC Management report. There, it can be seen that the Company has not met the deliverable of a Wood processing plant, but has met all or most of the other expected deliverables. Additionally, the Company has requested an extension of two (2) years to complete the Wood processing plant and is expected to submit the relevant justification to the Ministry of Natural Resources for consideration of same.

2. Scope and Methodology

The date of resumption of the forensic audit at GFC following the Auditor's completion of audits at Marriot and NICIL should be 6th October, 2015 instead of 6th October, 2006. (Section 3.2)

3. Functioning of the Board of the Commission

The Board of Directors is responsible for oversight and policy direction for implementation by GFC management. It is therefore important that the Board be fully operational and functional to effectively discharge its mandate. To allow for continuity of the Commission's work members should be given longer than one year tenure and this phase be rotated so that equal opportunity for longer term tenure is applied consistently.

GFC is in agreement with this.

Whilst absenteeism of certain board members was identified as a source of concern, the Commission notes that its work did not suffer adversely as a result of this.

Also, absenteeism of Board members was not necessarily as a result of disinterest; rather it was in most cases due to members attending Government approved meetings locally/overseas, maternity leave, and in the specific case of persons living out of Georgetown-transportation difficulties.

Additionally, the Board had two (2) Sub-Committees which met as needed to deliberate on critical aspects of the Commission's work and made recommendations to the full Board.

However GFC agrees that the attendance of all members is important for complete decision making and follow ups.

The comment below relates to Sections 5.1.1 to 5.1.7.

The total number of meetings of the Board for the period 2012-2015 was 35 and not 36 as indicated in Table 1 of the Forensic Report.

It is also clarified that during this review period, not all of the Board Members' appointments were for the entire duration (2012-2015).

One Board member served for only the period 2012-2013 (Mr. Brian Greenidge); two (2) members for the 2014-15 period (Ms. Pearson, Mr. Urling); and one (1) member from 2013-2015 (Mr. George).

It is therefore incorrect to measure their attendance on the basis of the total number of Board Meetings held for the period 2012-2015; instead, it has to be assessed on the actual number of meetings that they were eligible to attend from the date of their respective appointments.

Further, in GFC's opinion, the number of times that meetings were not held due to a lack of a quorum (at most 2), was not significant. However, GFC acknowledges that this should only occur in very extreme circumstances.

GFC therefore disagrees that this evidence of an "unsatisfactory state of affairs" as the Board was still effective in its role and functioning, and was able to effectively deliver on its mandate.

In addition there is no provision in the Act for the appointment of a full time Chairman as recommended in the Forensic Audit Report.

GFC is a semi-autonomous Commission, with a Commissioner of Forests (CoF) as the Chief Executive Officer (CEO) as prescribed in the legislation. One of the major functions of the CoF is oversight of the GFC's administrative implementation of policy direction from the Board and Minister.

The CoF then reports regularly (usually on a monthly basis) to the Chairperson and other members of the Board on progress with this policy implementation, and the Board approved Annual Work Plan and Budget.

Additionally, the intention of all previous forest legislation including the current Forests Act 2009 is to keep the Chairman and the other members of the Board insulated from the administrative workings of the GFC.

This allows for the Chair and other members to provide an impartial and professional forum to which stakeholders can direct their concerns to, if they feel that the CoF and other GFC Staffs have not dealt with issues objectively.

Section 1.5 of the Forensic Report also states that "the Commission has been properly organized to discharge its responsibilities".

This is also supported by the findings of several international third party auditors over the last five (5) years which state that the GFC's systems are appropriate and functional. These documents can be publicly accessed on the GFC's website: www.forestry.gov.gy

GFC therefore, is of the opinion that the recommendation of a full time Chairman is fraught with danger, will cause an overlap of policy guidance and implementation, and lead to conflicts.

4. Divisions of the GFC

Each Division of the Commission has either an overall Manual of Procedures (MoP), and/or Standard Operating Procedures to ensure consistency in the execution of the Division's mandate. These MoPs

refer to other guidelines of the GFC which have all been developed collaboratively with local/international stakeholders using international best practices, adapted to the Guyana specific conditions.

Section 5.2.9 refers to ITTO, which is “International Tropical Timber Organization” instead of International Timber Trade Organization.

In Section 5.2.10, REED+ should instead be REDD+.

Section 5.2.12 currently includes the Herbarium under the Human Resources Division; the Herbarium is actually under the Forest Resources Management Division (Section 5.2.4.).

5. State Forest Concession

We recommend that Section 5.3.3 includes a very important but standard step in the process for the grant of a concession, namely: “All areas to be allocated are made known to interested stakeholders who are then invited to apply for their areas on interest.”

Section 5.3.5 should reflect the point of fact that previously issued concessions over 8,097 ha which are reallocated, are not required to go through the SFEP process since it is a reallocation. This Section should therefore read as follows to include the underlined text: “In relation to a forest area larger than 8,097 hectares, a concession can only be granted if the applicant is the holder of an exploratory permit, or if it is a reallocation of an existing concession; or if the applicant has satisfied compliance and other requirements to carry out forest conservation operations in the area concerned.

6. State Forest Exploratory Permit

Section 5.3.7 of the Forensic Report needs to be clarified noting the following:

Sections 9 (6) and (7) of Forests Act 2009 state that the GFC “may” invite the applicant to submit a bid; if more than one applicant qualifies, the GFC “may” grant the permit by negotiating with the qualified applicants; or by offering the exploratory permit to the public by competitive tender in accordance with the regulations. The GFC is therefore not legally compelled to collect a bid if there is only one applicant.

7. Ownership of Concessions and Key Challenges

The current concession allocation mix provides a fair spread of concession allocation among small, medium and large operators. In recent years, many forest concessions were issued to communities (indigenous, non-indigenous and mixed communities.) To date, a total of approximately 500,000 hectares have been issued to 73 community logging groups. These provide direct and indirect benefits to over 3000 residents of these communities.

Due to the fact that most of the accessible areas have already been issued out, small operators will face increasing challenges to gain access to forest resources without incurring substantial financial investments. In addition both large and small operators face other challenges such as changing market requirements, imported wood products and substitutes e.g Medium Density Fibreboard (MDF) and pine lumber, cost of financing, cost of production, availability of skilled labour, intrusion of mining activities within forest concessions, high cost of road construction, substantial investment in machinery cost. In view of these challenges and the fact that sustainable forest management is an important pillar to a green economy, consideration should be given for benefits such as duty free concessions, low cost financing etc. to be given to forest concessionaires through a legislative and structure regime. These recommendations have been made to the Tax Reform Committee.

Section 5.3.20: it is recommended to include here that a major challenge faced by forest concessionaires is the occurrence of unregulated mining in forest concessions.

8. Log Export

Prior to 2009 a flat rate of 2% Export Commission was charged on all species of logs exported based on the FOB value.

The first log export policy was introduced in 2009 as a mechanism to promote further value added activities and reduce the exports of logs. The policy provided for a graduated increase in the Export Commission charged for the export of logs and also included a higher percentage for certain key species.

This Policy was revised in 2012 and an increased level of Commission charged.

Log export at the moment is less than 35% of production which means in excess of 60% of production is available for local value added activities. In terms of volume, log export for 2014 was 138,502m³ whilst production of Logs was 406,433m³ representing 34% of total logs produced. This essentially means that the remaining 66% is available for local added value activities. For the main species used in local added value, Table 1 below summarizes the percentage of production that was exported for each year:

Table 1: Percentage of Production Exported as Logs (2009 and 2014)

Species	Percent of Log Production Exported in 2009	Percent of Log Production Exported in 2014
Purpleheart	88%	51%
Greenheart	13%	10%
Washiba	88%	3%
Shibadan	78%	15%

The Commission is however, cognizant of the need to reduce this levels. A draft proposal has been developed for the further revision of this policy and some of the provisions include a restriction or ban of certain key species and increase in the rate for other species. This proposal will be reviewed by the GFC Board.

For Guyana's particular case, the proposed Policy is envisaged to provide the following impacts:

- increase in local added value forest products manufacturing;
- more effectively supply domestic demand in housing, construction and utility sectors;
- protect species that may be are in limited supply in the forest whilst maximizing the value of the volumes harvested;
- creating more jobs in the forest sector;

- reducing the possibility of negative impact on the forest of Guyana and thus limit deforestation and forest degradation; encourage investment in manufacturing forest sector; and
- enhancing Guyana's forest product market.

9. Transfer Pricing

The Guyana Forestry Commission has been following closely the issue of possible transfer pricing and/or under-invoicing of timber products, particularly logs to one of the main destination – China. Directly attempting to establish links to management and ownership, falls outside of the jurisdiction of the GFC – especially since importing companies of Guyana's logs in China have no obligation to disclose to the GFC its shareholding, ownership and control documents and management structure. To this end, the GFC has taken a two-phased methodology for the investigation:

- ❖ The analysis of Guyana's current log export prices relative to current International tropical log export prices.
- ❖ A specific analysis of the actual prices reflected in the ports in China for Guyana's log species.

The following can be concluded from the analysis above:

1. There is no evidence of transfer pricing. Data from the Chinese authorities, Shipping Information from Companies that ship to China (from Guyana), together with GFC export prices (FOB), shows that CIF price for Guyana's logs fall within/or in close proximity with the declared price by the Chinese authorities. The GFC has noted that certain recent analysis has attempted to incorrectly compare FOB export prices with CIF import prices of Guyana's logs in China. Further, there has been an attempt to use wholesalers price (on-sellers) as though it were the FOB or CIF price. For example, the main source used in the local media to claim transfer pricing (based on the recent Volume 19 of the ITTO MIS Report), is taken from: ***Guangzhou Yuzhu International Timber Market Wholesale Prices*** (Page 15 of Report).
2. Information for the Chinese Authorities shows that Wholesaler markup on the CIF prices include Chinese taxes ranging from 13-20% based on size and type of product; additionally, there is a separate mark up for the product being sold on to buyers. This is typical of any Wholesaler market in China and elsewhere.
3. Price of logs in the export market are determined by species and diameter sizes. The size range of most of Guyana's species to China falls in the range below 50cm diameter at breast height (dbh). Comparing the prices of these small-medium diameter logs with logs that are in higher diameter ranges will lead to an incorrect comparison; it will also erroneously show a price disparity when in reality this does not exist.

The ITTO in its release in its Market Information Report Vol. 19 No. 11 for the period June 1 to 15, 2015 expresses validation of the GFC's conclusions and analysis above.

10. The Bai Shan Lin Case

Section 5.5.2 does not take account of the fact that prior to the 2009 Act, there was no requirement for the Joint Ventures (JV's) to be approved by the Commission. BSL acquired Haimokabra during this period.

Subsequent to the 2009 Forests Act, and with the approval of the GFC Board, BSL entered into JV's with the other 4 Companies.

Section 5.5.3 also does not take account of the fact that Baishanlin was the **sole** applicant who applied for the grant of this **publicly advertised** SFEP.

The GFC notes that the provision of audited financial statements for 5 years is only applicable if the Company was operational for 5 years or more.

If it was a requirement for a new company to submit 5 years of audited financial statements, then it means that no newly incorporated company in Guyana (regardless of previous forestry experience elsewhere) would qualify for the grant of an SFEP.

The Government/GFC did a due diligence on the Company and at that time was satisfied that it had the experience and adequate financial and other resources to undertake the stated operations.

The GFC notes that the Company was granted the lease with access to an initial 200 acres of the land around 2010. This land was essentially very low, water-logged land with no road access.

However, the GFC continuously reminded the Company that they needed to place emphasis on the completion of the Wood Processing Facility.

The GFC also notes that the Government/GFC did a due diligence on the capability of the affiliates overseas, as well as the source of financing, and was fairly satisfied that the Company had the capacity to deliver on its plans.

As rightly stated in Section 5.5.18, an exploratory permit as per Section 9 of the Forest Act expires on its third anniversary and prohibits a renewal of such permit. A renewal of the permit would invariably suggest a possible renewal of the said permit for a further three years or for a period deemed sufficient by the GFC. A renewal, when considering all other GFC renewal processes, requires an application to that effect along with the prescribed fees attached. No such application nor fees were provided, considered nor accepted by the Commission and in the absence of same, the extension although resembling a renewal is merely an extension. The Commission has derived no additional monetary or other benefit from the said extension for it to be deemed to be anything else.

As also stated, there was no provision of the Forests Act 2009 prohibiting the Commission from granting such an extension. Therefore, it cannot be assumed that the Commission was undertaking an illegality as suggested in the aforementioned audit.

It should be noted that Baishanlin et al benefitted from the careful consideration of the Board who considered their social and environmental constraints as well elucidated in the report.

Section 5.5.8 does not recognize that prior to BSL, there was the extension of other SFEP's-hence there was precedence which was also taken by the GFC Board in its consideration. Therefore the extension granted to Baishanlin followed precedence set with other SFEPs, and whilst a renewal is not in conformity with the Act, an extension does not raise specific nonconformance with the Act.

Further, Section 5.5.11 does not recognize that there is a distinction between the request for an extension of the SFEP; and an extension of time for the construction of the added value facility.

Additionally, the requirements for each of these separate and distinct processes is very different.

BSL applied for a further **extension of up to 1 year to complete the SFEP requirements.**

The requested **extension of 2 years** refers to the additional time requested to complete the **Wood Processing Facility**.

Hence it must be noted that the completion of the SFEP requirements and the completion of the Wood Processing Facility are two separate and distinct processes and one is not directly dependent or linked to the other.

Baishanlin's extended permit expired on 4 November 2015, but there was no Board in place to address the issue. Baishanlin then applied for a further **extension of up to 1 year to complete the SFEP requirements**.

In actuality, the two year additional time requested as referred to in this section of the report, relates to the additional time requested to complete the Wood Processing Facility.

The GFC therefore does not agree with the conclusion that the Company would have enjoyed the benefit of the grant of an exploratory permit covering a period of six consecutive years whereas the law allows for a maximum period of three years for such a permit.

The extension of two (2) years being requested is unrelated to the SFEP and instead linked to the processing facility. The report mixes up the two separate applications and associated requirement and processes.

Section 5.5.16 does not take note of the fact that Baishanlin **has not committed any breach** as referred to in this section regarding exceeding timelines for the state forest authorization.

The first Board approved extension was given up to **November 4 2015**.

Before this expiry date, BSL again applied for another extension. BSL has submitted some justification for this request but has been asked to provide some additional information before this request for extension can be addressed.

Section 5.5.20 also notes that the completion of ESIA and the forest inventory are pre-conditions for the completion of the forest management plan.

However, for the harvesting to commence to recover up to 25% operational cost as allowed by the Forests Act 2009, the company's requirement was to complete a 100% pre-harvest forest inventory. This was done and verified by GFC prior to the issuance of the approval for harvesting. The completion of the Forest Inventory is one pre-condition for an SFEP to be harvested to re-coup up to a certain percentage of their expenditure. This allowance was inserted at the insistence of the Parliamentary Sub Committee that finalized the revision leading to the 2009 ACT. The finalization of the ESIA is not a pre-condition.

For Section 5.5.33, GFC notes that BSL did satisfy the GFC Board that it had the ability/resources to undertake the SFEP process. BSL is actually in the process of finalizing all of the SFEP requirements.

Section 5.5.40 does not accurately represent the provisions of the Forest Act by implying that in the case of joint ventures, the holder has to give written notice to the Commission and surrender the authorization. The statement that: Any such transfer, sub-contacting or sub-letting arrangement is void, and the authorization is deemed revoked; is also taken out of context.

Prior to the Revised legislation of 2009, there was no requirement for GFC to approve of JV's. As such, Haimorakabra was acquired without the need for the Board approval. All the others: Sherwood, WAICO, Puruni and Kwebanna- went through the GFC Board approved process.

The granting of Baishanlin's SFEP was intended to support its value added investments. A comparison of actual achievement to date, compared to proposed targets was done for Baishanlin International Forest Development Inc. The proposed targets were extracted from the investment agreement/proposal; the actual status of achievements was obtained from GFC field visits and documentation (sawmill returns, removal permits etc.).

Based on this review, it is seen that BIFDI has met most of its commitments with the notable exception of the construction/operationalization of the Wood Processing Factory.

The Company and Officials from the China Development Bank have indicated to the GFC that additional financing may be released in early 2016 with the major focus being the construction/operationalization of the Wood Processing Facility.

Table 2 below give a summary of the findings:

The technical aspects (relating **primarily to timber harvesting**) of the Company's operations relating to levels of harvest, etc. are contained in the Forest Lease Agreement.

Table 2: Report on BSL's achievements compared to agreed investment.

<i>Investment Area</i>	<i>Investment Plans</i>	<i>Achievements</i>
Pre Harvest Activities, Site Preparation and Infrastructure	Conduct Pre harvest and Site Preparation Activities to enable forest harvesting.	Total primary roads built: 300km; Total secondary roads build: 200km; Total investment in infrastructure is: US\$8M Fully met as per Annual Plan requirements
Harvesting	Commence harvesting to a maximum of 100,000m ³ per annum when wood processing plant fully operational.	Total Investment in Machinery to date includes 350 units of machinery comprising of skidders, log loaders, logging trucks, excavators, bulldozers, compactors, dump trucks, tugs and barge, etc. at a total value of US\$40M. In 2014, total production volume was approx. 50,000m ³ (1/10 of total national production). This production was consistent with the GFC guidelines for SFM. Machinery requirements fully met Harvesting at acceptable level
Wood Processing Facility	Obtain relevant permission/approval	Lease for Wood Processing Facility secured. EPA Permit obtained.

	<p>necessary for the establishment of the Wood Processing Facility;</p> <p>Commence site work;</p> <p>Operationalizing of Wood Processing Plant</p>	<p>Initial site works and road access have commenced at Conception.</p> <p>Design of Factory Completed.</p> <p>Not Met. BSL has indicated that the China Development Bank is expected to release additional finances in the early 2016 to complete construction of wood processing factory by last quarter 2017. BSL is to provide evidence of this.</p>
<p>General:</p> <p>Financing Commitment</p> <p>Employment</p> <p>Others</p>	<p>Secure financing in the amount of US\$130M over 3 years commencing 2012</p> <p>Create employment for 150 persons over a 3 year period</p> <p>Create the necessary supporting infrastructure for logging and wood processing operation.</p>	<p>US\$72M invested to date</p> <p>151 persons employed of which 100 are Guyanese.</p> <p>Total investment in local employment to date is: US\$3.6M</p> <p>Total of 12 units have been built: working camps, and houses.</p> <p>Partially Met. BSL expects additional financial disbursement from China Development Bank in first quarter 2016.</p>

Baishanlin's investment profile to the Government includes an integrated wood processing facility at Linden. The input capacity for this factory is approximately 300,000 cubic meters of logs. The Company indicated that to accumulate and obtain a guaranteed supply of raw materials it wanted to invest in partnership arrangements with other forest companies in possession of concessions from the GFC. These include Sherwood Forest, Haimorkabra, WAICO, Puruni Woods and Kwebana Wood Products. These joint venture arrangements were approved by the GFC Board of Directors and in conformity with the Forest Act. In addition the company was granted two SFEP's to support their investment.

To date, however, little progress has been made in terms of complete and operationalizing the wood processing facility.

The GFC has also issued several reminders to the company to fulfil its obligation as represented to the Government. Currently the company has submitted a request for extension of two years to complete the wood processing facility.

It should be noted that joint ventures and other similar business arrangements were approved by the GFC Board based on a systematic mechanism to aid production and value added in the sector at the time. Because of the extremely low production of logs and lumber which impacted negatively on local construction, added value and export markets, the GFC Board convened meetings with stakeholders to identify reasons for this low productivity; and to agree on acceptable recommendations that were in keeping with GFC's legislation.

Arising out of these meetings, it was agreed to allow Board approved Joint Ventures in accordance with a clearly defined framework; and to approve the rental of machinery again in conformity with a defined procedure.

Following this, BSL entered into Board approved JV's with 4 existing Companies; there was no need to follow this procedure with Haimorakabra since the 1953 Act did not require Board approval.

Granting of Second SFEP 01/2013 to Baishanlin (BSL)

As noted above the granting of the second SFEP was aimed at further boosting and consolidating the raw materials requirement for the Wood Processing Facility. The criteria or requirements to support the application was duly reviewed and found to be acceptable before the issuance was made.

Approval to Harvest in State Forest Exploratory Permits

The Forest Act allows for the holder of an SFEP to harvest to the extent of recovering a maximum of 25% of its exploratory cost during the SFEP phase. Before approval is granted for this harvesting to commence the company must submit the cost incurred for examination and verification by GFC and the request to harvest to recoup such cost. 100 % pre harvest inventory must also be completed and submitted for approval by GFC. BSL submitted its cost information and pre harvest inventory data to GFC. These were verified and approval was granted for harvesting in 28 blocks to recoup its exploratory cost verified by GFC. It should be noted that the volume approved to be harvested was well within the annual allowable limit for the concession. The volumes extracted were monitored and examined for compliance with GFC harvesting and other forest management and monitoring guidelines.

Baishanlin acquisition of Controlling Interest in Logging Companies

Because of the extremely low production of logs and lumber which impacted negatively on local construction, added value and export markets, the GFC Board convened meetings with stakeholders to identify reasons for this low productivity; and to agree on acceptable recommendations that were in keeping with GFC's legislation.

Arising out of these meetings, it was agreed to allow Board approved Joint Ventures in accordance with a clearly defined framework; and to approve the rental of machinery again in conformity with a defined procedure.

Following this, BSL entered into Board approved JV's with 4 existing Companies; there was no need to follow this procedure with Haimorakabra since the 1953 Act did not require Board approval.

Baishanlin acquisition of Controlling Interest in Logging Companies – Sherwood Forest Inc.

In 2012 BSL acquired 100% shares in Sherwood Forest Inc. in keeping with the GFC Board approved guidelines.

Sherwood Forest Inc. completed its ESIA, Forest Inventory and Forest Management and submitted same for approval and subsequent granting of a Timber Sales Agreement.

In April 2015 the GFC Board at its statutory meeting approved for the granting or converting of Sherwood SFEP into a TSA. The TSA was issued on May 8th 2015.

Currently Baishanlin has requested an extension to complete its wood processing facility and also to continue working to fulfil the requirements of the SFEP's. These request are under consideration by the Ministry of Natural Resources. It must be noted also that the acquisition of shares or controlling interest in the other companies followed the required processes as required by the Forests Act 2009.

11. Guyana-Norway REDD+ Partnership

Section 5.7.5 expresses that illegal logging is a source of concern. This is an incorrect notion as the level of illegal logging is very low for each year of annual reporting and far below the benchmark set under the agreement.

However, even though illegal logging has been verified as being low by the auditors, it still is recorded under the illegal logging **benchmark**.

This has been recommended for revisions and the only source of concern is having a more realistic level for comparison of annual results. GFC believes that there may be some mis-interpretation with the illegal logging reported results and the benchmark.

12. Internal Audit

The Internal Audit Unit (IAU) prepares audit report based on individual audits or assignment undertaken. These reports are submitted administratively to the Commissioner of Forest routinely on average twice monthly. A summary is presented to the GFC Board on a quarterly basis. The Board reviews these reports and may request the Auditor to appear before the Board to either present these reports or to answer queries as the needs arises.

The Corporate Affairs Sub-Committee of the GFC Board oversees the work of the IAU. In 2013 this Sub-Committee in consultation with the IAU revised and further developed an Internal Audit Charter and revised Terms of Reference for the Auditor including approving additional resources for this unit (staff and office space). This charter was approved by the full board in 2014. The IAU will be encouraged to form a closer alliance with the Institute of Internal Auditors (IAA). However, most of the courses, seminars and workshops conducted by the IAA Guyana chapter are attended by the IA or staff of the unit.

The findings and recommendation of the IA are send to the respective departments for action to be taken in addressing the findings where necessary. In subsequent audits, or review of operations the previous findings are checked for implementation and compliance and are highlighted in the IA report. A matrix will be developed to monitor progress with recommendations and action taken, and other pertinent information that will allow for easy tracking.

On the matter of the reporting done by the Internal Audit Unit, as outlined in Section 5.9.5, the facts are that the reports are sent to the GFC Management and other relevant staffs via the GFC Intranet. Responses are sent via the Intranet and follow ups are done constantly at Senior Management levels, and with the IA. The IA keeps track of the recommendations and brings any slippages to the attention of the CoF and the respective Heads of Divisions. The GFC acknowledge that continuous efforts should be made to strengthen the IA functions and upgrade where and when necessary, inclusive of membership to the IIA.

Also, Section 5.9.6 does not recognize that the Corporate Sub Committee of the Board functions as the Audit Committee and this Sub Committee, along with the CoF, and IA drafted an IAC which was approved by the Board.

13. The Reserve Fund (5.10)

General discussions were held with various Finance Ministers on this subject but no affirmative decision taken to set up this fund. Notwithstanding however, funds of the Commission are invested in term deposits accounts. In addition, resources are provided through annual budgeting to meet the next year expenses. These two provisions still enable the main tenets of such fund to be kept. In addition periodic transfers are made to the consolidated fund.

Section 5.10.2 does not take account of the fact that GFC has been making adequate provisions for the allocation of covering expenses in every upcoming year through the GFC's Annual Budgeting Process. Additionally, excesses of revenues over expenses are held in term deposit account therefore also allowing this to contribute to the fulfillment of upcoming year's expenses if needed.

14. Transfers to Other State Agencies and Consolidated Fund (5.11)

Transfers were done to the consolidated fund and other State Agencies based on Ministry of Finance instructions or Cabinet directives to the GFC. In the circumstance the GFC complied with the directive provided through the Ministry of Finance and Cabinet instructions.

Section 5.11.2 does not explicitly state that all **transfers** were made based on Cabinet's instructions to the GFC as was the case.

15. Investment (5.12)

The Investments in CLICO was approved by the GFC Board in 2004. Ministerial approval/no objection was obtained from the subject Ministers via the then Chairman of the GFC who was a representative from the Ministry of Finance. Hence the investments were deemed compliant with the Act.

Section 5.12.1 does not take account of the fact that the then Chairman of the GFC's Board expressed that no objection/approval was obtained from the Minister of Finance and the Minister with responsibility for Forestry, at that time, prior to the Board's approval.

16. Granting of Loans (5.13)

Section 5.13.1 is partial in its coverage of this issue and does not take account of Section 22 (1) (c) of the Act which states that the Commission shall not make any grant or loan except on terms and conditions that it considers appropriate. Although Section 22 (1) (a) prohibits the making of loans and grants by the GFC for such purposes as in the case of Iwokrama, Section 22 (1) (c) provides for the Commission to make loans and grants available on terms and conditions deemed appropriate by the Commission.

The GFC granted a loan to Iwokrama of US 600,000 on the basis of a Cabinet directive to the GFC. The GFC act makes provision for granting of such loan under Section 22 (1) (c). A loan agreement is in place that stipulates the terms and conditions of the loan to Iwokrama.

17. Bank Balances (5.14)

The overdraft facility at Demerara Bank has been liquidated.

18. Procurement and contract Management (5.16

The GFC does have procurement procedures and guidelines approved by the Board which follows the main tenants of the Procurement Act. Note is taken of the recommendation to have the revised draft procurement rules to be sent to NPTAB.

19. Financial Reporting and Audit (5.18)

The Commission has been in arrears in the completion and submission of audited financial reports and having these laid within the stipulated time frame in the National Assembly.

However, this was due to circumstances beyond the control of GFC.

Several factors contributed to this including capacity issues at the Auditor General's (AG) Office. In 2014 the audit of GFC was contracted out to private auditor approved by the AG's Office. This has led to the fast tracking of the audits; the audit for 2012 has been completed with an unqualified audit report issued in November 2015.

Currently the 2013 audit is in progress with an expected completion date of mid-January 2016. By the second quarter of 2016, the audit of 2014 and 2015 accounts is expected to be completed thereby bringing up to date all the audits, and thus enabling the submission of the arrear reports to Parliament.

The GFC thanks you for giving it the opportunity to provide this Management response which we believe will clarify some areas that were not fully reflective of the facts.

GFC also appreciates the conducting and completion of the audit which in our opinion, was very comprehensive and professionally done.

With best Regards,

GUYANA FORESTRY COMMISSION

A handwritten signature in blue ink, appearing to read 'James Singh', is written over a horizontal dotted line.

James Singh
Commissioner of Forests

