REPORT ON THE FORENSIC AUDIT AND REVIEW

OF THE CONSTRUCTION AND OPERATIONS OF

GUYANA MARRIOTT HOTEL

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Executive Summary

1. Following the withdrawal of the private developer around 2008/early 2009, the Government decided to proceed with the construction the Marriott Hotel without the involvement of the National Assembly. This was an unfortunate, consideringthat a significant amount of State resources would have been utilised in the construction of the facility, which would have required Parliamentary approval, in accordance with Article 217 of the Constitution.

2. **Cabinet's decision to establishthe Atlantic Hotel Inc.(AHI) to own the hotel and to effectively vest all authority in one person to advance the project was a significant setback.** From the very inception, Mr. Brassington has consistently declined to disclose information about the project and to respond to legitimate enquiries from various stakeholders on the grounds of confidentiality. Even the Assembly was not provided with the desired level of information, prompting it to approve of a resolution on 17 December 2012 to cease funding the project without Parliamentary approval. Needless to mention, the resolution was ignored. **For whatever reasons, the project was shrouded in secrecy.**

3. **The evidence clearly suggests that Cabinet took the decision to proceed with the project without the benefit from a feasibility study to determine the project's economic and long-term viability.** There was also unnecessary haste to proceed with the construction as evidenced by the award of the contract within days of the 28 November 2011 general elections.**Such haste might have contributed in no small measure to the significant cost escalations.**

4. Since 2009,the estimated direct cost of construction kept escalating at a significant rate. The original estimate for the construction of a 190,467 square foot hotel (the actual construction size) had worked out to US$33.220 million, excluding outfitting costs of US$10.404 million. It has since risen to almost double, having regard to the expenditure incurred to date and the projected cost to complete the hotel. When other cost considerations (e.g. design and branding, re-routing of the sewerage system and interest foregone during construction phase)are taken into account, the project (as opposed to the direct construction cost of the hotel) is estimated to cost at least US$98 million. This is quite an expensive venture, considering that: (a) only $15.5 million has so far been financed from external sources; and (b) the risks involved should the hotel not turn out to be a profitable venture. In the first the two and one-half months of commercial operations, the hotel has made a "house" loss of approximately G$60 million with an occupancy rate of 29.8%.

5. **ACE Square Investments Ltd. was yet to contribute to the equity of the project since according to the Shareholders' Agreement such contribution would only be made when**

the hotel is completed. NICIL had therefore have to use its own resources, along with the Republic Bank loan, to construct the hotel. When the hotel begins operation, ACE Square had the option of acquiring NICIL's equity interest. It therefore means that for an estimated US$98 million **in the total cost of the project, ACE Square would contribute only US$12 million or 12% and will secure 100% ownership rights. The whole arrangement involving the financing of construction of the hotel appeared to be deliberately cast to enable ACE Square to become the ultimate beneficiary of the project, with no financial contribution during the construction phase of the hotel. AHI indicated that ACE Square was no longer under active consideration as an investor.**

6. The Republic Bank loan of US$15.25 million is ranked priority to that of NICIL and is secured by "debenture and mortgages". These conditions have serious implications should AHI default in payment. The loan is repayable at rates of 9.15%and 8.65% during construction and post-construction phases respectively, via 26 equal, blended, semi-annual payments of principal and interest. However, there is an 18 month moratorium on interest and a 24 month moratorium on principal from the date of first disbursement.

7. The Contractor for the construction of the hotel, SCG International, was selected at a time when the company was facing allegation charges for corruption in Trinidad and Tobago. **NICIL was yet to provide details of the second bidder's original and revised bid price to enable me to confirm the basis of the selection of the contractor.The award of the construction contract for over US$50 million days before the 28 November 2011 and without prior Cabinet approval should also be a source of serious concern.**

8. The Engineering Supervision Consultant, M A Angeliades Inc., had faced criminal charges in a New York court and was disqualified from participating in the projects of the School Construction Authority until July 2015.By court order, the Head was relieved of his position at the time he signed the contract in August 2012.

9. There is a serious risk of default in the repayment of principal and interest on the Republic Bank loan should the hotel continue to make losses due to the less-than-desirable occupancy rate. In the circumstances, it would be necessary for the loan to be paid off at the earliest opportunity. **This is especially so, since the Republic Bank has a lien on the hotel and surrounding area via debenture and mortgages.**

10. Given the statement by Mr. Brassington in relation to the absence of market intelligence on the operations of casinos, **it is advisable not to proceed with the construction and outfitting of the Entertainment Complex estimated to cost US$12 million**. The results of the studies of both the Marriott International and HVS Consulting hinge on a fully operational Entertainment Complex and appeared too optimistic. **The Entertainment**

Complex is too risky a venture for the Government to undertake. There are also indications of possible amendments to the Marriott International's Management Contract "including whether or not the Agreement can be terminated within a 5-year period and whether the projections made by the HVS study are likely to materialize".

11. The Government of Guyana should proceed with haste to advertise for the sale of the hotel, bearing in mind that the Management Agreement with Marriott International is for 30 years renewable for another 10 years. The Agreement does provide for the sale of the hotel to a reputable individual or firm so that it can roll-over to the new owners. The vendor must have sufficient financial resources and liquidity to fulfill the obligations under the Agreement; be of good moral character with no criminal record; and does not have ownership interest in a branded hotel. Once the hotel is sold, AHI should be liquidated.

12. Alternatively, the Government could retain majority interest in the hotel and offer 49% of shares to the public and institutional investors, such as banks and insurance companies. However, the risk still remains in terms of the financial viability of the operations of the hotel.

13. State revenues from the proceeds of dividends from public corporations and the sale of public assets were diverted away from the Treasury and were used mainly to fund the construction of the Marriott Hotel without Parliamentary approval and in clear violation of Articles 216 and 217 respectively of the Constitution as well as the corresponding sections of the FMA Act. The Government may therefore wish to invoke the requirements of Sections 49, 76 and 85 of the FMA Act in relation to this as well as other issues raised in this report. Cabinet, collectively and individually, does not enjoy immunity as it relates to the application of the above sections, and for defying the wishes of the National Assembly as contained in resolution of 17 December 2012 for the government to cease funding the project without Parliamentary approval.

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Report on the forensic audit and review of the construction and operations of the Guyana Marriott Hotel

1. Background

1.1 The Government of Guyana has indicated that it was reviewing the performance and efficiency of publicly owned entities, statutory bodies, projects and activities financed by or through public funds. Accordingly, it has commissioned forensic audits and reviews of the operations of a number of entities, and has engaged the services of the undersignedConsultant to undertake such an audit and review of the Guyana Marriott Hotel.

2. Terms of reference

2.1 The terms of reference for the engagement are to ascertain:

(i) The authority for the decision to construct the Hotel and the basis for the decision;

(ii) The estimated cost for the construction of the hotel (including outfitting costs); any subsequent revision to that cost; and whether there was any comparative analysis with industry construction costs, especially in terms of cost per room;

(iii) The original sources of financing and how they changed over time;

(iv) Whether the decision to construct the hotel and the activities in connection with the construction were in conformity with established norms, rules, regulations and laws;

(v) The authority for deciding on the location of the hotel and the rationale for the decision on the location;

(vi) Whether a feasibility study was carried out **prior to** the decision to construct the hotel; the procedures that were followed in the selection of the consulting firm; and the results of the study in terms of the economic viability of hotel;

(vii) Whether a proper Engineer’s Estimate was prepared for the construction of the hotel; and the procedures followed in the selection of the person;

(viii) The amount State resources used to date to construct the hotel; the authority for the use of such funds; and whether such authority violated any of the Laws of Guyana and/or constitutional provisions relating to public finance;

(ix) Other resources used to construct the hotel and the authority for the use of such resources;

(x) Costs (including opportunity costs) incurred by NICIL and other sources to prepare the construction site, inclusive of the dismantling of the Government's Food and Drugs Department, the Luckhoo Swimming Pool and the office of the Guyana Water Authority, and the re-routing of the Georgetown Sewerage System;

(xi) The date when Atlantic Hotel Inc. formed; under whose authority this was done; and the rationale for such decision;

(xii) The estimated market value of the land used for the construction of the hotel;

(xiii) Proper financial records and supporting documents were maintained in support of the expenditure incurred; and whether there was adequate and proper financial reporting and audit;

(xiv) Competitive procedures were followed in the selection of the contractor as well as the Engineer for the hotel construction and the basis of the award of the contracts;

(xv) Construction costs to date; outstanding work to be done; and the estimated cost for such outstanding works;

(xvi) Details of all the fiscal concessions granted to the hotel; the authority for the grant of such concessions; the estimate of the value of such concessions; and whether there has been any violation in law, rules, regulations and policy guidelines in relation to the grant of such concessions;

(xvii) The final cost of the hotel after taking into account the costs associated with the preparation of the construction site, the value of the land, actual contraction costs, outfitting costs, estimated cost for all unfinished works, fiscal concessions and all other related costs;

(xviii) All contracts for the procurement of goods and services, and the execution of works have been awarded in a transparent manner and whether the best value was received as a result of such contracts;

(xix) The viability of the operation of the hotel, especially to support payments to Marriott International based on the management and other contracts entered into, and to provide for a reasonable return on the investment;

(xx) The authority for the decision to enter into the management and other contracts with Marriott International; whether there was any consideration for the use of other international hotel brands; and the justification for the selection of the Marriott International; and

(xxi) The occupancy rate of the hotel since it was opened for business; and whether a profit or loss has been made to date.

3. Scope and methodology

3.1 As per terms of reference, the period covered by the audit and review was from 1 January 2009 to 31 May 2015. The review was conducted in three phases – planning, execution and reporting. In the planning phase, as much information as possible about the Marriott's construction and operations was sought through mainly the use of questionnaires; a review of detailed documentation provided; and discussions with senior management. A detailed audit plan was then prepared setting out clearly the procedures to be followed, and various tests to be carried out in order to arrive at conclusions relative to the terms of reference.

3.2 An entry conference was held on 9 June with the senior management to discuss, among others, the terms of reference for the audit and review as well as the Consultant's interpretation and understanding of them in relation to the Marriott's operations. Following the entry conference, the planning of the assignment began followed by the execution of the field work.

3.3 The general approach to undertaking the assignment was the use of questionnaires in order to solicit as much information as possible and to obtain further understanding of the Marriott's operations. Supporting documents were requested, and additional discussions were held with key management personnel.

3.4 The field work concluded on 15 August 2015 and a preliminary draft report was submitted on 31 August 2015 to the Chairman of Atlantic Hotel Inc. for his comments. Following the receipt of his comments, the report was finalized and submitted to him on 5October 2015, copied to the Minister of Finance, the Minister within the Ministry of Finance and the Finance Secretary. A response is expected within 14 days. However, as of

27 October 2015, no response was received. As a result, I have decided to close the report and issue it in its final form.

4. Findings and recommendations

4.1 ***The idea of a Marriott-typehotel***

4.1.1 The idea of a Marriott-typehotel was first proposed to the Government of Guyana in 2004 by Adam Development/Urbahn Architects, a New York-based joint venture. On 22 November 2004, the Government (represented by Mr. Manzoor Nadir, Minister of Tourism, Industry & Commerce) and ADUA (represented by Mr. Mike Ahmad) signed a Memorandum of Understanding (MOU) for the establishment of a "world class hotel, casino and entertainment complex". The project, to be named "Scarlett on the Atlantic", was to be erected on approximately 15 acres of land situated in Kingston, Georgetown and owned in part by Government and Georgetown City Council.

4.1.2 The expiry date of the MOU was 30 June 2005 unless extended by the Government. However, there was no evidence of its renewal. Mr. Winston Brassington, who is the sole Director and Chairman of Atlantic Hotel (AHI) Inc., stated that "Following the developer's difficulties in or around 2008/early 2009, the GOG(Cabinet) made the decision to take control of the project and restructure it in its present format as a Public-Private-Partnership (PPP) and publicly advertised for this". He had also indicated that after AHI took over the project, it was working towards a project cost of US$40 million based on preliminary discussions with ADUA when they were looking to building a Marriott Courtyard and that several attempts were made at cost saving value engineering since the estimates were close to US$42 million.

4.1.3 In response to the preliminary draft report, AHIcommented that the original project was based on a US$52 million investment in a Marriott Courtyard and casino to be built on seven acres of land and that the Government was responsible for: (a) leasing the land at a peppercorn rent with an option to buy at US$1 million once the project was built; (b) the removal of the occupants; and (c) meeting the cost of relocating the sewerage pipes. In addition, the Food and Drugs Administration building was sold by removal following public tender in 2007 while the dismantling of the remnants of the Luckhoo Pool was done by the contractor as part of his mobilization works under the contract.**However, this explanation as it relates to the estimated cost is at variance with the earlier statement by Mr. Brassington.**

4.1.4 The Governmentdid not involve the National Assembly in the decision, considering that an initial estimated US$19.5 million of public fundswould have beenutilized to construct the hotel. As a result, the project was not reflected in the Estimates of Revenue and Expenditure and therefore the related expenditure would not have been captured in the public accounts of Guyana. This would have resulted in a significant under-reporting of expenditureduring the construction phase of the project which commenced with the turning of the sod ceremony on 20 November 2011and which has not yet concluded despite the opening of the hotel on 16 April 2015.

4.1.5 Mr. Brassington has consistently argued that no State resources were being used and that “Financing used to develop the Project came from the bank accounts of NICIL derived from revenue earned as dividends and proceeds from the sale of assets”. Needless to mention, NICIL is a state-owned company, and therefore its resources belong to the State. **For eleven years prior to 2002, NICIL collected such dividends and privatization proceeds and paid them over to the Consolidated Fund. With effect from 2002, Mr. Brassington became the Executive Director of NICIL. Since then, such funds ceased to flow to the Treasury, were retained by NICIL and treated asNICIL’s revenue.As of 7 July 2015, State resources totalling US$49.042 million were expended on the project.**

4.1.6 The minutes of the meetings of NICIL’s Board over the years have clearly indicated that Board took the position that all dividends received from public corporations and other entities as well as privatization proceeds should be paid over to the Consolidated Fund. **At the 12 March 2010 meeting, the former Head of the Presidential Secretariat made it clear that budget laws, i.e. Appropriation Acts, must take precedence over Company law requirements.**

4.1.7 Despite its views on the matter, the Boardappeared helpless and took no action to prevent this changed arrangement which sawNICIL retaining amounts totalling $26.858 billion for the period 2002 to 2014.The question of whether these funds should be considered the revenues of NICIL, has been addressed in a separate forensic audit report of NICIL.

4.1.8 Public opinion at the time was (and is still)divided on whether there is a need for such a hotel. Those not in favour argue that the existing occupancy rates for hotels currently operating in Georgetown and environs do not justify the proposed investment. There is therefore a risk that the hotel, once built and becomes operational, may not be a success story.

4.1.9 Concern has been expressed that Government's investment as of 7 July 2015 of US$49.042 million in the hotel would be particularly at risk. This figure does not include a syndicated loan of US$15.25 million from the Republic Bank of Trinidad and Tobago.The original amount of the loan was US$27 million, but further disbursements were suspended pending the outcome of court action relating to the debenture and mortgage used as partial security for the loan.In addition, the private equity of US$8 million is yet to materialize. As a result, NICIL had to use its own resources to meet the funding gap.

4.1.10 The current estimated cost of construction of the hotel of at least US$63 million does not include, among others, (a) the cost of re-routing the Georgetown Sewerage System, and the dismantling and removal of building housing the Food and Drugs Department and the office of the Guyana Water Authority; (b) the estimated market value of the landagainst the amount paid; (c) estimated market interest waived on NICIL's interest-free loan of US$15.5 million during the construction phase of the hotel; (d) estimated market interest on NICIL's additional financing of US$21.816million during the construction phase; (e) a number of other direct and indirect costs; and (f) the value of the various fiscal concessions granted.Taking these into account, the latest estimated cost of the project would work out to **at least US$89.532 million**. Further details of the latest estimated costs of the project are dealt with at sections 4.9 and 4.12 of this report.

4.1.11The Government disagreed with the view about the occupancy rates, and felt that it is necessary to have such a hotel to boost not only tourism but also to afford an opportunity for investors to be accommodated in a world-class facility. However, many stakeholders felt that, even if there was justification for the construction of such a facility, the Government had other priorities such as the construction of a new Demerara Harbour Bridge, and the cleaning up of the city of Georgetown. If the latter was undertaken, more tourists and investors are likely to be attracted to the country. They are also of the view that the construction of the Marriott-type hotel should be left to the private sector to undertake. Simply put, the Government should not risk taxpayers' funds in being involved in the hotel business.

4.1.12 The Government further argued that the arrangement is one of public-private partnershipthat is a common practice in several countries, and that there are circumstances where it will have to take the lead in the long-term interest of the country. The Government, however, did not respond to the issue of other priorities.

4.1.13 According to an article appearing in the Stabroek News on Sunday, 19 July 2015 under the caption "Guyana at risk of external debt crisis", a UK-based non-governmental movement Jubilee Debt Campaign had the following to say about PPPs in its recently released report:

> *… lending and borrowing by the private sector is a major source of risk in terms of future debt crises. Another factor is the rise of 'public-private partnerships' (PPPs). This can mean many kinds of things. One is where the private sector builds infrastructure for a government, such as a road or hospital, and the government guarantees to make set payments over a defined period. This has the same practical effect as if the government had borrowed the money and built the infrastructure itself, but it keeps the debt off the government balance sheet, making it look like the government owes less money than it actually does.*
>
> *… in fact, the cost to a government is usually higher than if it had borrowed the money itself, because private sector borrowing costs more, private contractors demand a significant profit, and negotiations are normally weighted in the private sector's favour. Research suggests that PPPs are the most expensive way for governments to invest in infrastructure, ultimately costing more than twice as much as if the infrastructure had been financed with bank loans or bond issuance.*

4.1.14 The same financing approach was taken in relation to the construction of the Berbice River Bridge and the aborted Amaila Falls project. In all three projects, knowledgeable persons have raised concerns about the high construction costs. It should be said that debt financing is a far more expensive option compared with equity financing. Debt financing attracts a fixed charge in the form of interest whether or not a profit is made. On the other hand, returns on equity financing are by way of dividends and only if a profit is made.

4.2 ***Incorporation of Atlantic Hotel Inc.***

4.2.1 On 3 September 2009, Atlantic Hotel Inc. (AHI) was incorporated with an authorised share capital of $1 million and a board of directors comprising not less than one and not more than ten persons. In a notice to the Registrar of Companies, Mr. Brassington was named the only Director and Chairman. The notice was signed by Ms. Marcia Nadir-Sharma as the incorporator and Secretary.

4.2.2 It is not clear why other members of the Board were not appointed, and Mr. Brassington remained the sole Directoruntil May 2015. Considering that AHI is a fully-owned Government company by virtue it being a wholly-owned subsidiary of NICIL (which in itself a wholly-owned Government company), it is inappropriate,especially from a governance standpoint, for the Board to comprise onlyone person spanning an extended period of almostsix years. In addition, during this period only two Board meetings were held involving two officials, namely, Mr. Brassington and Ms. Nadir-Sharma!

4.2.3 The minutes of the 3rdMeeting of the Board held on 8 May 2015 indicated that three additional Directors were appointed, namely Mr. Ramesh Ghir (Chief Executive Officer of the Cheddi Jagan International Airport), Mr. Dhaneshwar Deonarine (Deputy Permanent Secretary of the Ministry of Tourism) and Mr. Clinton Urling (businessman). This was a clearacknowledgement that the directorship of AHI comprising only one person was a highly unsatisfactory state of affairs which should not be allowed to continue.

4.2.4 Both Mr. Brassington and Ms. Nadir-Sharma arekey officials of NICIL, and by Cabinet decision CP(2009)10:1:R of 6 October 2009, NICIL is "authorised to do all acts necessary to complete the transactions contemplated on behalf of Atlantic Hotel Inc., the company that would own the project". A review of the annual report and audited financial statements of AHI for 2010 and 2011 showed that AHI was a dormant company, and NICIL undertook all transactions on its behalf. For 2010, there were no transactions, except that issued share capital of $1 million was shown as receivable from NICIL. Similarly, in 2011, AHI's balance sheet recorded fixed assets totalling $2.037 billion representing a 20% advance payment to SGC International for the construction of the hotel. The advance payment was made by NICIL and shown as a liability to NICIL in AHI's books. It was not until 2012, that AHI effectively began operations.

4.2.5 Since its formation in September 2009 until May 2013, AHI has been operating without By-Laws. These are the internal rules governing the operations of a company. It was not until 8 May 2013 that the Board approved of a resolution,signed by Mr. Brassington and Ms. Nadir-Sharma, for AHI to adopt as its By-Laws the Third Schedule of the Companies Act in its entirety.Despite the requirement of Section 62, AHIcontended that there was no breach of the Companies Act.**It is inconceivable for a company to operate without internal rules.**

4.2.6 Section 107 (1) of the Companies Act requires the directors of a company to call an annual general meeting not later than 18 months after incorporation and subsequently at least once every calendar year. By Section 107 (2), the Minister may, on application made by a company in accordance with a resolution of the directors and signed by a director or secretary, and payment of the prescribed fee and subject to such conditions and directions as the Minister thinks fit to impose or give: (a) extend the period of 18 months or 15 months; and (b) permit an annual general meeting to be held in a calendar year other than the calendar in which it otherwise be required to be held under subsection(1).

4.2.7 AHI commented that the Minister's permission was sought to extend the period for the holding of the annual general meetings and that the meetings for 2010, 2011 and 2013 were held on 13 August 2013.

4.2.8 By Section 345 of the Act, a government company is required to submit to the Minister not later than six months after the end of each calendar year the audited accounts of the company. A copy of these accounts is to be laid in the National Assembly within nine months of the close of the year. As can be noted from the following, these deadlineswere not met.

Year	Date of audit report	Date laid in National Assembly
2010	21 September 2012	22 October 2012
2011	9 October 2012	8 November 2012
2012	2 September 2013	9 July 2015
2013	10 July 2014	9 July 2015
2014	No yet issued	No yet laid

4.3 *Decision to construct the hotel*

4.3.1 A review of the Marriott Hotel's files at the EPA indicated that ADUA had applied for an Environmental Authorisation on **19 February 2008** for a project entitled **"Georgetown, Marriott Hotel & Casino Complex"**. The technical person named in the application was Mr. Shyam Nokta (Environmental Management Consultants) who assisted in the completion of the application and who was also involved in the preparation of the Environmental and Social Impact Assessment (ESIA) Study.

4.3.2 By advertisement in the Kaieteur News on **24 May 2009**, the Government of Guyana requested expressions of interest from investors to be part of a joint venture with the Government for a hotel project development at the existing site of the Marriott Hotel. The advertisement stated that the minimum capital investment was US$20 million for the proposed hotel having a minimum number of rooms of 150, and that construction was expected to start in September 2009. AHI indicated that in the first half of 2009, responses were received from ADUA and BK International. ADUA had earlier withdrawn as the developer of the project, as indicated by Mr. Brassington when he referred to the difficulties being experienced by the developer at the time.

4.3.3 AHI commented that the Government had already "initiated and completed the investment for and relocation of the sewerage pipes to provide an unencumbered site. Amendments to the Gambling Prevention Act were also effected in anticipation of this project via January 2007 amendments. Following the inability of ADUA to proceed, GOG took a decision to publicly advertise for a JV (Joint Venture) for the development of the project on the basis of the considerable preparatory work done by all parties to advance the project".

4.3.4 AHI was incorporated on **3 September 2009** with the objective of "building and operating a minimum of 150-rooms hotel (revised in 2010 to 197 rooms) and an entertainment complex (including a casino, nightclub and restaurant".

4.3.5 On **6 October 2009**, Cabinet by CP(2009)10:1:R approved of the Government of Guyana entering into a design and branding contract with ADUA in the sum of US$2.1 million, "with the permissible exemption of all taxes as provided for in law". There was, however, no public advertisement for the works to be undertaken but Mr. Brassington explained that the firm was selected based on its previous interest in the project.

4.3.6 AHI commented that Cabinet's approval was "based on the response from all the parties showing an interest in developing the project and seeking to identify a party that could assist in advancing the project. The ADUA contract was not a tax exempted contract and contained a condition of ensuring that the Marriott brand was secured, which was a necessary prior condition for effecting a design that would meet Marriott requirements."

4.3.7 In a correspondence dated **19 February 2010** addressed to the EPA, under the caption "Status of the Marriott Hotel, Casino & Entertainment Complex", Mr. Brassington informed the EPA that the project was now under the purview of AHI. In a separate correspondence, he also requested the EPA to substitute AHI for ADUA in the application for Environmental Authorisation and in the conduct of the ESAI study. Mr. Shyam Nokta was retained was retained to finalise the ESAI study.

4.3.8 On **23 April 2010**, Marriott International executed four agreements with AHI, represented by Mr. Brassington. These are: (i) Technical Services Agreement; (ii) Management Agreement; (iii) Licence and Royalty Agreement; and (iv)International Services Agreement. Three months earlier, Marriott International Inc. had prepared a "Market Study and Estimates of Future Operating Performance for a 160-room Marriott Hotel Georgetown, Guyana". In addition, the land on which the hotel was to be constructed was vested in NICIL by Vesting Order 61 of 2010 dated **23 November 2010** and signed by former Minister of Finance, Dr. Ashni Singh.

4.3.9 AHI commented that: (a) the agreements followed from a Letter of Intent executed in November 2009 and were also the result of the ability of both ADUA and the Government of Guyana to persuade the Marriott organization to commit to operating a full Marriott hotel in Guyana; and (b) earlier discussions with ADUA were premised on a Courtyard similar to Suriname or Trinidad.

4.3.10 During the period **June-July 2010**, requests for Expressions of Interest from qualified contractors were publicly advertised for the construction of the Georgetown Marriott Hotel, including the Entertainment Complex. A total of 23 firms expressed an interest of which seven firms were shortlisted. The contract was awarded in the sum of US$50.918 million to SCG International (Trinidad and Tobago) Ltd., a subsidiary of Shanghai Construction Group, on **16 November 2011**. Construction began following the turning of the sod ceremony on **20 November 2011**.

4.3.11 AHI commented that "While the contract was executed on 16 November 2011; SCG and NICIL (on behalf of AHI and GoG) were engaged in discussions to finalise the agreement since June 2011 following the close of tenders. The contract effectiveness was not until March of 2012; the start of the project was delayed due to SCG taking a decision to implement using personnel from SCG headquarters and not Trinidad. It was recognized that the project was high profiled".

4.3.12 **From the above sequence of events, it is evident that <u>the decision by the Government to proceed with the construction of the Marriott Hotel</u>preceded any feasibility study and was made without the benefit of an informed review of the results of such a study. There was therefore no economically sound basis for Cabinet's decision at the time to proceed with the project, and any subsequent study must be viewed with some degree of caution.**

4.3.13 AHI commented that it disagreed with the above conclusion and insisted that prior to the execution of the construction contract a number of feasibility studies were carried out, namely: (a) ADUA study in 2006; (b) the Marriott study in 2010; (c) Marriott updated study in 2011; (d) HVS study in 2010; (e) HVS updated study of 2012; and (f) a Republic Bank study in connection with a US$27 million loan to the project. **However, the conclusion refers to the Government's decision to take over the project from ADUA and to proceed with the construction of the hotel without the benefit of a feasibility study.** Except for the AUDA study of 2006,the other studies to which AHI referred were undertaken subsequent to the Government's decision. Besides, ADUA study was carried out some three years and would have been overtaken by not only time but also events that took place in the intervening period, for example, the global financial crisis of 2008. In addition, except for the HVS updated study, the other studies were not undertaken at the behest of the Government.

4.3.14 Mr. Brassington had earlier insisted that ADUA had carried out a feasibility study sometime in 2004(and not 2006, as stated in AHI's response) and that the study was supported by those of Marriott International in January 2010 and HVS in October 2010 and May 2012. When asked for a copy of ADUA's feasibility report, Mr. Brassington stated that he did not have one and that the information was proprietary to that organization for which neither the Government nor NICIL were partners.

4.3.15 Mr. Brassington further insisted that "at January 2010,no contract or decision to construct was even contemplated and that the feasibilities and pro-formas were done prior to tenders". One could legitimately ask the following questions:

- Why was AHI then formed in September 2009 as "the firm that will be the public/private partnership that will own the project"?

- Why, upon taking over the project from ADUA, did AHI not cancel the application for an Environment Permit and the ESIA Study for the "Georgetown, Marriott Hotel & Casino Complex" rather than requesting the EPA to transfer them to AHI? and

- Why did the preparation of the site (removal of the sewage system, dismantling of the Luckhoo Swimming Pool, and the relocation of the Food & Drugs Department and the office of the Guyana Water Authority) begin before January 2010?

4.3.16 In relation to the third question, Mr. Brassington acknowledged that the preparation of the site commenced before 2010 "as part of the overall efforts to make the site ready for ADUA's construction phase/work plan". However, an examination of NICIL's audited accounts indicates that no expenditure was incurred in the preparation of the site during the period 2004 (the year in which ADUA signed the MOU with the Government)through 2008. It was only in 2009 that the first set of expenditure amounting to G$38.161 million was incurred under the code name "Scarlett Pool". **For the period 2009 to 31 May 2015, amounts totalling G$519.199, equivalent to US$2.533 million (at an average exchange rate of US$1= G$205) were expended on the Marriott Hotel project under the code name "Scarlett Pool". This amount wasimproperly charged to the expenditure of NICIL, instead of AHI.**

4.4 *Study byMarriott International*

4.4.1 In January 2010, Marriott International Inc. prepared a "Market Study and Estimates of Future Operating Performance for a 160-room Marriott Hotel Georgetown, Guyana". Asked on what basis was the study undertaken, Mr. Brassington stated that: (a) this was an internal document that Marriott International relies on to determine whether it would want to be associated with a project; and (b) no other international hotel brand was considered because in 2004 ADUA had introduced Marriott International to the Government of Guyana. However, the introductory paragraph of the report on the study stated that the report was prepared "solely for the use of Atlantic Hotel, Inc, in examining the feasibility of the proposed Hotel".

4.4.2 The report referred to major initiatives that were being planned or were at feasibility stages. These included: (a) oil and gas exploration; (b) deep-water port in Berbice; (c) at least one hydro-electric power plant; (d) fibre optic cable from Brazil; (e) new land-based route between Brazil to the Atlantic coast via Guyana; (f) road from Brazil to Georgetown; and (g) the new Airport Expansion Project. The report stated that "it is clear that Guyana is benefitting from increased interest internationally that should help accelerate economic growth". **Marriott International's assessment of the project, particularly as regards occupancy rates, might have been influenced by these considerations and did not take into account other scenarios, such as: What if these initiatives do not materialize, or are materialized partially? In other words, Marriott International's conclusions were based on the most optimistic outcome.**

4.4.3 AHI commented that "…Marriott has a reputation for being conservative in their numbers, and nothing in their analysis indicated that they were relying on the potential new projects. More importantly, it should be noted that Marriott is performing at or better than expected projections in their Feasibility Study. In August 2015 the hotel saw a 52% occupancy".**It should be noted, however, that August is the peak month in terms of occupancy rate, and the overall projection for 2015 is 39.3%.**

4.4.4 The Marriott report further stated that: (a) a larger hotel of approximately 210 rooms might not be appropriate since the market will not develop sufficiently in the short-to-medium term to justify an additional 50 rooms; (b) **an occupancy rate of between 48% to 60% is projected;** (c) **most if not all of the Pegasus corporate, government and higher rated leisure business will migrate to the Hotel on the assumption that the Pegasus will continue to suffer from a lack of capital investment;** and (d) the Hotel will successfully penetrate the Georgetown market in the first year of its operations, "given the lack of international branded hotels in the city and the poor quality of the existing supply".

4.4.5 AHI commented that "the increased size of the hotel was contemplated from 2010 when consideration was given to having an extra floor for future expansion. By 2011, it was agreed that this was more economical to simply complete an additional floor and include in room stock and not leave as a shell. Marriott agreed to the expansion of the number of rooms to 197 and updated their pro-forma to so reflect by June 2011".

4.4.6 According to the study, account was not taken of the impact of potential future electricity and water tariff adjustments. Italso assumed that the building design would incorporate energy efficient features including, but not limited to, those required for LEED certification. LEED is the acronym for Leadership in Energy and Environmental Design. According to the Inter-American Development Bank, LEED is a documented standard for green building design to meet specific parameters such as energy conservation, efficiency in water use, carbon dioxide emission, improved indoor environmental quality and resource management. **The construction contract, however, excludes LEED certification costs, and therefore the hotel was builtwithout a green building design.**

4.4.7 AHI commented that "While the contract does exclude LEED certification costs this does not mean that the hotel is constructed without a green building design. The contract with SCG states that LEED Certification shall be a pre-condition for the release of the Contractor from performance under the contract". **However, the first comment appears to contradict the second.That apart, a review of the SCG contract as well as the performance bond did not indicate such a pre-condition.**

4.4.8 The study also indicated that "the use of generating equipment run with heavy fuels (HFO) may not be viable due to HFO's perception as a heavier pollutant than other fuels such as diesel". In addition, the hotel currently operates with a 5-megawatt standby generator which the contractor supplied as per contract requirements. According to industry experts, the capacity of the generator is significantly higher,having regard to the hotel's requirements for electricity. AHI indicated that the installed generating capacity is 2.5 MW.

4.4.9 On 23 April 2010, that is, four months after it issued its report on the above-mentioned study, Marriott International executed four agreements with AHI, namely (1) Management Agreement (for a fee of 0.25% of total gross revenues; (2) Technical Services Agreement (for a fixed fee of US$400,200 plus $10,00 for every month of overrun beyond 31 July 2013 in terms of the completion of the hotel); (3) Royalty and

License Agreement (3.75% of gross revenues and an incentive of 10% of operating profit); and (4) International Services Agreementrelating to advertising, marketing, promotion etc. (on a reimbursement of costs basis).

4.4.10 The Management Agreement is for 30 years, with a renewal option of 10 years at the discretion of Marriott International. In addition, since the hotel has not yet been completed, the cost of the technical services provided as at 31 August 2015 would work out to US$640,200.

4.4.11 AHI commented that "Notwithstanding the contract, the TSA fees relating to the hotel was fixed to the date of the opening of the hotel; any costs for TSA services after the opening are projected at US$25,000. It should be noted that the contractor has accrues US$1.5 M in liquidated damages for the delay in the opening of the hotel".

4.4.12 On 31 July 2014, AHI entered into a fifth agreement with Marriott International to act as the purchasing agent of AHI for the procurement of all outfitting items estimated at US$10.404 million.The fee is 6% of project costs, less US$10,000 that has been previously collected from AHI for consulting.

4.4.13 AHI commented that "The payments made to Marriott are as follows: TSA (US$642K; Marriott cost of procuring from third parties (US$90K) a total payment to Marriott of US$732K (excluding the cost of goods supplied from third parties of US$1.657M. The procurement of items is via Marriott approved vendors identified in the Marriott standards. These vendors have established preferential prices to Marriott; as such, from both a cost and efficiency perspective, it made sense to have Marriott perform this service. Third party firms conducting procurement of thousands of items would also charge a percentage of the costs for this service. The fee of 6%is for services performed either on AHI's or SCG's behalf, and is deemed extremely low when considering the benefit obtained by preferential prices given to Marriott".

4.4.14 **There was, however, no evidence that Cabinet approved for the above agreements.** Payments made to Marriott International as the end of June 2015 amounted to US$4.590 million at an exchange rate of US$1= G$207.5, as shown below:

Particulars	G$000
Technical services provided	136,875
Pre-opening costs	350,500
Working capital	100,000

Procurement	365,114
TOTAL	952,489
Equivalent US$	US$4.590 million

4.4.15 **Because of Marriott International's vested interest in the project, it would have been more appropriate for AHI,or the Government, to commissionan independent study to determine the feasibility and long-term economic viability of the project. Such a study would have formed the basis for deciding whether or not to proceed with the project. In addition, the Marriott International study was based on the construction of a 160-room hotel whereas the actual construction involves 197 rooms. In any event, the Government had already decided to proceed with the construction of the hotel.**

4.5 *HVS Consulting & Valuation Services Study*

4.5.1 On 11 October 2010, HSV Consulting & Valuation issued a report entitled "Market Study and Feasibility Analysis: Proposed Marriott Hotel and Entertainment Complex, Kingston, Georgetown, Guyana". The report was addressed to Mr. Sukru Evrengun, Circle Partners, Zurich, Switzerland who had requested the study. Mr. Brassingtion explained that "one potential equity investor (who has executed commitment letters with AHI) paid for a joint feasibility study to be prepared for AHI".

4.5.2 The report presented four different scenarios: (1) a 165-room hotel; (2) a 201-room hotel; (3) a 165-room hotel and entertainment complex; and (4) a 201-room hotel and entertainment complex. The components that make up the entertainment complex include a 14,200-square foot casino, a 6,700-square foot nightclub, and an additional 200-person restaurant.

4.5.3 The report projected a stabilized occupancy rate of 62 per cent based on a 165-room facility and an average base year room rate of US$140; and 58% based on a 201-room facility and an average base year room rate of US$135.80. It concluded that "we believe that the future levels of room night demand in the market area will support either a 165-room Marriott or a 201-room lodging facility. We project that the 165-room facility will operate more efficiently though the 201-room facility will ultimately generate greater net income levels".

4.5.4 The study also projected a cost of US$50.385 million for a 201-room Hotel and Entertainment Complex while for a 201-room facility only, the estimated cost was US$45.175 million. Included in these figures were the outfitting costs estimated at US$10.404 million. The Marriott International Study referred to in the previous section was, however, premised on a 160-room hotel and had advised against a larger hotel with an additional 50 rooms. AHI indicated that Marriott International had revised their feasibility to reflect a larger hotel of 197 rooms.

4.5.5 The ADUA study commissioned by the Government on 6 October 2009 at a cost of US$2.1 million had indicated a price tag of US$24.985 million for the construction of a 202,601 square foot hotel. When the Entertainment Complex of 71,431 square feet is added, the total estimated cost was $32.826 million.This gives a cost US$119.79 per square foot.

4.5.6 The actual construction size of the hotel as per agreementwith the contractor, inclusive of the Entertainment Complex, is 190,467 square feet. If the outfitting costs were excluded for the purpose of comparison with the ADUA estimated cost per foot, it therefore means that one year later, the cost per square foot for the hotel and Entertainment Complex went up by 68.6% from US$119.79 to US$209.91 (US$50.385 million minus US$10.404 million = US$39.981 million/190,467 = US$209.91).

4.5.7 AHI commented that: (a) the ADUA estimate was based on a lower quality building (such as a Courtyard) without amenities and fixtures, furniture, equipment and external works items, and excluded site administration charges; (b)the costs assumed overhead and profit of 3% which was quite low by Guyana standards, and there was a low estimate for preliminaries; (c) the costs per HVS study were based on a “turnkey” contract where the risks are largely borne by the contractor; and (d) Marriott International had advised that the cost per square foot was on the low end compared with other Marriott hotels.

4.5.8 On the assumption of **a mix of financing of 60 per cent equity and 40 per cent debt financing**, the report concluded that:

> *Based on our projected cash flows and estimated development costs (as provided to us by Circle Partners), it is evident that the development of a 201-Room hotel results in a higher IRR. When the additional components are taken into account, the 201-room Hotel and Entertainment Complex yields a higher IRR as well… Based on these investment parameters and assuming the developer will accept a 9.7% IRR as a 165-room complex or a 10.3% IRR as a 201-room complex, the feasibility of the development is confirmed.*

4.5.9 The Internal Rate of Return (IRR) is normally used to determine the feasibility of a project that yields cash flows over an extended period of time. It is that discount rate which, when applied to these cash flows, will result in a net present value of zero. In other words, it is that discount rate that will result in the present value of all cash outflows being equal to that of all cash inflows. The IRR therefore gives a break-even position.

4.5.10 Applying this concept to the Marriott Hotel, an investor is unlikely to invest if the return on his or her investment does not exceed 10.3% in the case of the 201-room complex. This return on equity investment is only possible with a fully operational Entertainment Complex. Without the Complex, the IRR is projected at a mere 0.7%. No investor will accept such a small return on investment. At the time of the audit, work on the Entertainment Complex had not yet started.

4.5.11 In addition, a project is only feasible if the IRR exceeds the cost of capital, which is an unknown factor at the moment in the case of the Marriott Hotel since the financing arrangements have not yet been concluded.

4.6 ***Agreement between the Government and Atlantic Hotel Inc.***

4.6.1 On 14 April 2011, the Government of Guyana (represented by the Guyana Office for Investment) and Atlantic Hotel Inc. (represented by Mr. Brassington and Ms. Nadir-Sharma) entered into an agreement for the latter to undertake, among others: (a) procuring financing of US$40M (minimum) and subject to a final cost close to US$50M for the construction of the hotel; (b) hiring and training of at least 100 staff; and (c) providing managerial leadership, subject to Marriott's associated agreements. The Government of Guyana, for its part, agreed to provide the following fiscal concessions:

- 10-year Corporation Tax holiday commencing the first year of commercial operations;
- 10-year waiver of property tax and withholding tax (including payment of interest and dividends to debt providers and equity holders);
- Customs Duty, VAT and Excise Tax waivers for machinery, equipment, building and other materials, fixtures and fittings and furnishings (including linen, utensils, accessories etc.) and non-luxury vehicles during the construction phase of the hotel; and
- Customs Duty and Excise Tax waivers on capital repairs or replacements including machinery, equipment and buildings where the total cost of such capital repairs or replacement is not less than US$10,000, and a "one-off" retrofitting of the project within the ten year period from the commencement of commercial operations.

4.6.2 The schedule to the Agreement showed an estimated construction cost of the hotel of US$22.258 million and outfitting cost of US$11.154 million, giving a total cost of US$33.412 million. When the Entertainment Complex (casino, night club and restaurant) and the Promenade are taken into account, the total cost was estimated at US$37.7

million. These figures did not include the outfitting costs for the Entertainment Complex which were yet to be determined. As indicated at paragraph 4.5.4, the HVS study,issued some six months earlier, showed an estimated cost of US$50.385 million for a 201-room complex, inclusive of the cost of the Entertainment Complex but not its outfitting costs. It is not clear what factors were taken into account in relation to this significant decrease in cost of US$12.685 million.

4.7 *Investment Agreement*

4.7.1 On 1 June 2012, the Government of Guyana, Atlantic Hotel Inc. and SCG International entered into an investment agreement which essentially repeats the contents of the agreement between the Government and AHI. The Minister of Finance signed the Agreement on behalf of the Government of Guyana while Mr. Brassington signed on behalf of AHI. However, there was no signatory on behalf of SCG International. There were two renewals to the Agreement, one dated 4 June 2013 and the other on 22 July 2014.

4.7.2 According to the first Agreement, the cost of the Marriott Hotel project was estimated at US$58 million. This was 15 months after the agreement between the Government and AHI was signed, and the estimated cost increased by US$20.3 million.

4.7.3 A key requirement of the Investment Agreement was for Go-Invest and/or the Guyana Revenue Authority(GRA) to visit the business premises and inspect all assets that benefitted from fiscal concessions. **Discussions with officials of the GRA indicated that this is not the normal practice for government projects.** However, inspections were carried out at the various wharves when the items imported arrived in the country.

4.8 *HVS Consulting & Valuation Services Updated Study*

4.8.1 On 2 February 2012, that is, 15 months after the first study, Mr. Brassington signed an agreement with HVS Consulting & Valuation Services for an updated study to be carried out of the Marriott project. The cost of this additional study was US$15,750 in addition to reimbursement of reasonable out-of-pocket travel and related expenses estimated at US$5,000.

4.8.2 The results of the updated study, which were presented to Mr. Brassington some nine months later on 31 October 2012, showed a revised estimated cost of construction of the hotel of US$58.5 million, up from US$50.385 million. Unlike the previous study, the figure of US$58.5 million includes the outfitting costs for the Entertainment Complex estimated at US$4 million. The increase over the previous study was therefore US$4.115 million.

4.8.3 Other conclusions contained in the revised study were as follows:

- The senior debt of US$31 million is projected to yield a return of 8.9%;
- NICIL's loan of US$15.5 million (repayable after 15 years) is interest free while NICIL's equity investment of US$4 million was anticipated to provide a return of 16.6%. Combining these, NICIL's overall investment of US$19.5 million is expected to yield 6.2%; and
- The private equity of $8 million is projected to yield a return of 22.2%.

4.8.4 The updated study assumes: (a) a change in the mix of financing from 60% equity and 40% debt to 20.5% equity and 79.5% debt; (b) NICIL would provide an interest-free loan of US$15.5 million; (c) equity financing would be US$12 million, with NICIL contributing US$4 million. **It therefore means that a private investor contributing US$8 million will secure two-thirds ownership rights of the hotel.**

4.8.5 As indicated earlier, the greater the financing via debt, the higher the cost of a project since a fixed charge in the form of interest is payable whether or not a profit is made.Applying this principle, since the proposed financing under the HVS updated study is now more weighted towards debt, that is, in the ratio of 79.5:20.5 in terms of debt versus equity, there should be a lowering of returns on equity investment. Instead, such returns were projected to more than double, from 10.3% to 22.2%. Further examination revealed that this was due mainly to the use of a **higher estimate for the average room rate of US$150 (using 2011 as the base year), compared with US$135.80 (using 2010 as the base year) projected in the earlier study.**

4.8.6 According to the notes to the audited financial statements of AHI for the year ended 31 December 2013, "AHI has by Board resolution passed on 11th April 2013, created 155,000 subordinated bonds in the Company of US$100 each, to be constituted as provided by the Subordinated Bond Agreement and issued as consideration for NICIL's provision of US$15,500,000 debt financing to AHI". Interest is at 0% and full repayment is at the end of 15 years. The Company's subordinate bond threshold was also increased "by shareholder's resolution passed on 15 July 2013, which created 25,125 additional subordinated bonds of US$100 each". This means that NICIL could increase the interest-free loan to AHI to US$17.013 million.

4.8.7 It would have been more appropriate for NICIL's loan of US$15.5 million to be converted into equity, especially considering that the loan is interest-free and is repayable after 15 years. In this way, NICIL, and by extension the Government of Guyana, would have secured ownership rights of approximately 71% with an equity investment of US$19.5 million, as opposed to the proposed arrangement whereby NICIL will be the minority shareholder with 33% ownership rights. In addition, if NICIL's debt is converted into equity, the question of the repayment of the loan would not arise, thereby freeing AHI of its liability to NICIL. Further, the amount of the repayment of NICIL's loan of US$15.5 million at the end of 15 years would be worth less than half of its present value.

4.8.8 According to the audited financial statements of AHI for the year ended 31 December 2013, "A Share Subscription Agreement and Shareholders' Agreement was executed with ACE Square Investments Ltd. On the 12th day of April 2013 for the purchase of one hundred and sixty (160,000) of the common (ordinary) shares in the Company to be issued as of Completion Date, representing 67% of the issued common shares of the Company".The company was incorporated in the British Virgin Islands and is owned by two Hong Kong businessmen. On the same date, a Shareholders' Agreement was entered into for, among others, ACE to have the option of acquiring all of NICIL's equity, which option can be exercised at any time after the opening of the hotel.

4.8.9 It is not clear: (a) on whose authority the revised mix of financing was agreed upon; (b) why NICIL's interest-free loan is not treated as equity; (c) why a private investor (ACE Square Investments Ltd.), with an equity contribution only US$8 million out of an estimated construction cost of US$58.5 million, would have two-thirds ownership rights of the hotel; and (d) on whose authority ACE Square Investments Ltd. could exercise the option of acquiring all of NICIL's equity investment in the hotel, thereby securing 100% ownership rights.

4.9 *Estimated construction costs*

4.9.1 The estimated cost of constructionfollowing the 2012 HVS feasibility study is summarized below:

Description			US$'000
Equity participation:	NICIL		4,000
	Private	8,000	
Total equity participation			**12,000**
Senior debt syndicated by Republic Bank			27,000
Subordinated loans by NICIL			15,500
Total financing through loans			**42,500**
Outfitting costs of entertainment complex			4,000

Total estimated cost of construction	58,500

4.9.2 **Up to the time of reporting, ACE Square Investments Ltd. was yet to contribute to the equity of the project since according to the Shareholders' Agreement such contribution will only be madewhen the hotel is completed.NICIL therefore had to use its own resources, along with the Republic Bank loan, to complete the hotel. When the hotel begins operation, ACE Square has the option of acquiring NICIL's equity interest. It therefore means that for an estimated US$100 million in the total cost of the project (inclusive of the various fiscal concessions granted over and above those given to other hotels), ACE Square will contribute US$12 millionor 12% and will secure 100% ownership rights. The whole arrangement involving the financing and construction of the hotel appeared to have been cast to enable ACE Square to become the ultimate beneficiary of the project, with no financial contribution during the construction phase of the hotel.**

4.9.3 The senior debt syndicated the Republic Bank attracts an interest of 9.15% during the construction phase and 8.65% during the post construction phase with a moratorium of 18 months. The loan is repayable via 26 equal blended, semi-annual payments of principal and interest with a 24-month moratorium on the principal from the date of disbursement. Given that disbursements of US$10 million and US$5.25 million were made in 2014 and 2015 respectively, no interest charges have yet accrued. The loan is secured by way of "debenture and mortgages" which effectively means that Republic Bank has a lien on the hotel and surrounding lands.

4.9.4 In relation to NICIL's loan of US$15.5 million, the project will repay NICIL the principal only at the end of 15 years. NICIL will therefore be subsidising the project to the extent of interest charges foregone. As at June 2015, the estimated interest charges foregone based on the pattern of disbursements would amount to US$3.191 millionat an interest rate of 9.15% (the same as that charged by the Republic Bank), as follows: 2013 – US$1.064 million; 2014 – US$1.418 million; and 2015 – US$709,000. In keeping with established accounting practice of capitalizing interest charges during the construction phase of a project, the cost of the project will increase by this amount. NICIL has provided additional financing to the project of US$21.816 million as at 30 June 2015 and for which the estimated interest charges foregone are similarly computed at US$3.828 million.

4.9.5 NICIL's loan is subordinate to the syndicated loan provided by the Republic Bank of Trinidad and Tobago. Should the project run into financial difficulties, the latter will get preference over the former in terms of loan repayment.

4.9.6 The outfitting costs of the entertainment complex (casino, nightclub and restaurant) are estimated at least at US$4 million which the operators were expected to fund. Since no operators have yet been identified, NICIL is likely to bear this cost. According to Mr. Brassington, “This aspect of the project is being deemed Phase 2 and is currently being put together in proper project management format. Consultants have been hired to provide design as well as casino specialty services in consultation with MI (Marriott International). A final cost on this has not been determined but is likely to be above the US$4 million budgeted”.

4.9.7 Mr. Brassington has also indicated that the estimated cost of the construction of the hotel is likely to exceed $63 million. This is in addition to a further US$3 million needed for additional infrastructure works to be undertakensuch as new sewerage pipes, the road and other costs prior to the start of commercial operations.

4.9.8 According to the minutes of the meeting of AHI’s board on 8 May 2015, Mr. Brassington stated that “One of the bigger challenges with casino is there is no market intelligence – Princess Hotel is no guide because it is unclear whether Princess’s reporting is accurate”. **Despite Mr. Brassington’s statements, plans are well in advance to proceed with the Entertainment Complex.**

4.9.9 AHI commented that “Mr. Brassington’s comments were taken out of context. The statement was made as a precursor to his discussion regarding the appointment of Marriott as the operator. The lack of market intelligence was identified as one challenge any casino owner will face in Guyana”.

4.9.10 In response to a request for information about the value of the land on which the hotel is being constructed, Mr. Brassington indicated that there were two estimates, namely (1) 2009 Rodrigues Architects Ltd - G$985 million, equivalent to **US$4.8 million**; and (2) 2013 State Valuation Office - G$150 million. The land was vested in NICIL by Order No 61 of 2010 dated 20 November 2010 and was sold to AHI for US$1 million.This is obviously not an arm’s length transaction, and therefore the full market value should be used in arriving at the cost of the project.

4.9.11 The Guyana Revenue Authority has provided information on tax exemptions granted to AHI for the period January 2013 to July 2015 in respect of building materials, furnishings and vehicles. The total exemptions amounted to $1.169 billion. Unlike other hotels which enjoy a 50% waiver, AHI was granted 100% as per agreement with the Government. Therefore, the additional benefit enjoyed by AHI amounted to $584.5 million, equivalent to US$2.821 million.

4.9.12 NICIL received amounts of $300 million and $353 million from the Guyana Forestry Commission and the Guyana Water Inc. which it expended on the re-routing of the sewerage system, the drilling of a well for the Marriott Hotel and other works.

4.9.13 Having regard to the above, the Marriott Hotel project is estimated to cost at least US$84.890 million, as shown below:

		US$’000	US$’000	
Estimated cost of construction per HVS study			**58,500**	
Estimated cost variance				
(US$63 million – US$58.5 million)		4,500		
Cost of re-routing sewerage system and other				
works (financed by GFC/GWI via NICIL)	3,150			
Estimated interest waived on NICIL’s loan	3,191			
Estimated interest on NICIL’s additional financing of		3,828		
Design and branding costs		2,100		
Difference in market value of land and amount paid		3,800		
Tax exemptions granted on building materials,				
furnishings & vehicles – 50%		2,821		
Additional infrastructure works		3,000	26,390	
Total estimated cost of the project				**84,890**
				======

4.9.14 The above revised estimated project cost does not include the value of the following other fiscal concessions granted. These are:

- 10-year Corporation Tax holiday commencing the first year of commercial operations;
- 10-year waiver of property tax and withholding tax (including payment of interest and dividends to debt providers and equity holders); and
- Customs Duty and Excise Tax waivers on capital repairs or replacements including machinery, equipment and buildings where the total cost of such capital repairs or replacement is not less than US$10,000, and a “one-off” retrofitting of the project within the ten year period from the commencement of commercial operations.

4.10 *Selection of the construction contractor*

4.10.1 An expression of interest from qualified contractors was publicly advertised for the construction of a hotel and entertainment complex to be operated by Marriott International and built in accordance with Marriott standards. The closing date for the receipt of applications was30 June 2010. Of the 23 local and foreign firms that applied for prequalification, seven firms were shortlisted based on the achievement of a score of above 60 points out of 100. The evaluation criteria were as follows:

		Points
(a)	Experience (including at least 10 years in regional and international projects and construction of two branded hotel)	30
(b)	Financial capability (including bonding capacity, third party liability and other insurance, other liability, audited accounts	25
(c)	References (minimum of five references from prior/similar Projects; at least two other references e.g. from banks, trade etc.	25
(d)	Track record in terms delivery within stipulated timeframe	20
	TOTAL	100

4.10.2 The prequalification was done internally by the staff of NICIL and by Zublin Grenada Ltd., the equity investor who had been initially identified to own 67% of the shareholdings of AHI.

4.10.3 In accordance with Section 24 of the Procurement Act 2003, public corporations and other bodies in which controlling interest vests in the State may, subject to the approval of the National Procurement and Tender Administration Board (NPTAB), conduct procurement according to their own rules and regulations, except to the extent that such rules and regulations conflict with the Act or the regulations, the Act and the regulations shall prevail. In addition, if funds are received from the Treasury for a specific procurement, then the corporation or other body shall be obliged to follow the procedure set out in the Act and the regulations.

4.10.4 Despite the size and complexity of its operations, NICIL does not have its own procurement rules, which is key requirement of the Procurement Act. In the circumstances, it would have been more appropriate for NICL to involve NPTAB in the assessment of tenders received for the award of contracts, as is the case of other State institutions that do not have their own procurement rules and regulations.

4.10.5 Mr. Brassington contended that the opening of all bids is normally done in the presence of the staff of the Auditor General's office and that NICIL carries out internal assessments before contracts are awarded. He further stated that NICIL staff would collect the bids received; review each bid submission for tender procedure compliance; and, where required, summarise key details of each bid. A paper is then prepared and presented to the various Boards and Cabinet for final decision.

4.10.6 Mr. Brassington's response, however, did not address NICL's failure to follow the requirement of Section 24 of the Act since the presence of the Audit Office at the opening of bids does not negate, or is not a substitute for, this requirement. In addition, internal assessments by the staff of NICIL lack the much-needed degree of independence, especially for a large project such as the construction of the Marriott Hotel.

4.10.7 The following is the summary of the results of the assessment of the firms that were prequalified, based on information provided by AHI:

Rank	Name of firm	AHI score	Zublin score	Comments
1	SCG International (Trinidad & Tobago)	91.5	91.5	This is the preferred firm.
2	Bejing Liujian Construction Corp, T &T Ltd	90.0	80.0	Mutual concern is the lack of experience outside China.
3	MNO Vervat – International	77.5	77.5	Has a relatively stable reputation.
4	Kier/Kee-CHanua Ltd.	68.5	75.5	Highly recommended based on Kier's experience. Shortfall was the documentation.
5	Sunway Construction Caribbean Ltd.	82.0	75.5	Seems experienced in general construction but may not be able to be the overall contractor in Caribbean. There are corruption charges against it in T&T.
6	NH International (Caribbean) Ltd.	78.5	58.5	This company submitted several trade references and has small business/hotel experience in some of the Caribbean's prime

				tourism locations. Questions are raised about their modus operandi based on the levels of claims by/or against them for more moneyvariations. There is no international experience but large scale office building experience in T&T.
7	Volker Construction International	78.0	61.5	They did not submit references but experience seems to be everything else but hotels

4.10.8 As can be noted, SCG International was awarded 91.5 points by both NICILand Zublin. The only comment in the above evaluation table was "This is the preferred firm".Some of the comments made in the right hand column also do not appear to be consistent with the points awarded.

4.10.9One of the shortlisted firms, Sunway Construction Caribbean Ltd.,was facing corruption charges in Trinidad & Tobago. **NICIL was aware of this during the prequalification exercise as can be noted from the comments in the right hand column of the above evaluation table. This firm was also given the maximum points of 25 out of 100 for references!**

4.10.10 One reputable international firm, Ballast Nedam International, was, however, not shortlisted. This firm was the contractor of the Mahaica-Mahaicony-Abary Drainage and Irrigation Scheme funded by the Inter-American Development Bank and the Government of Guyana in the sum of US$175 million. The Scheme was the largest drainage and irrigation project in South America at the time. The firm was also involved in feasibility studies for the Berbice River Bridge. **AHI commented, among others, that Ballast Nedam is a civil contractor and not a hotel contractor.**

4.10.11 Another reputable international firm, NH International (Caribbean) Ltd, although pre-qualified, was given a relatively low score. In 2009, **this firm won for the fifth time the prestigious Trinidad and Tobago Contractors' award. In 2008, it had also built the Ocean's Edge Resort in St. Kitts and received very favourable ratings for the works undertaken. The comments in the above evaluation table in relation to this firm give a different impression of the standing of this firm.**

4.10.12On 23 January 2011, the shortlisted firms were invited to bid.The bids were opened in early May 2011, and according to information provided by AHI, there were only two bidders. However, the prices were significantly higherthanthe estimated construction cost of US$41 million. SGC International's bid price of US$65 million**. However, up to the**

time of reporting, AHI was yet to provide information on details of the second bidder's original bid price.

4.10.13 Contrary to established procurement practices, AHI entered into negotiation with SCG, via a Memorandum of Understanding dated 14 June 2011 for the latter to submit alternative design, "providing such design meets the full requirements of a Marriott International Design Standards, the contractual, technical and administrative requirements as set out in the original tender documents and the full functional requirements for a 197 room Marriott hotel and Entertainment Complex". As indicated earlier, NICIL does not have its own procurement rules and regulations and therefore ought to have been guided by the requirements of the Procurement Act of 2003. **Section 41 of the Act states that there shall be no negotiation between the procuring entity and any of the bidders.**

4.10.14According to Mr. Brassington, "both tenderers indicated that with an alternative design, savings could be achieved with compromising the functional requirements sought. As such, they were allowed to submit revised proposals based on their alternate designs in mid May 2011. Again, SCG submitted the lowest price". **AHI was, however, yet to provide information about the second bidder's revised bid price as well as of documentary evidence of AHI's negotiation with the bidder. In the absence of this information, the basis of the award of the contract to SCG International could not be properly determined.**

4.10.15**In early July 2010, news reports surfaced in Trinidad and Tobago of SGC International being investigated in relation to the award of contracts totalling TT$2 billion relating to the Urban Development Corporation of Trinidad and Tobago (UDECOTT), in addition to several other government contracts. The Police had raided SGC's office and seized documents relating to UDECOTT. AHI commented that it was not aware that SCG was convicted for wrong-doing and that it could not disqualify the contractor on the basis of allegations.**

4.10.16In addition, Sunway Construction Caribbean Ltd. was reported to have sub-contracted work in the sum of TT$368 million to Times Construction Company Ltd., a company owned by the Managing Director of SGC International. It is not clear whether NICIL carried out the necessary due diligence and whether this matter was taken into consideration in the shortlisting exercise.

4.10.17Based on the receipt of a revised tender from SCG International, AHI (represented by Mr. Brassington) entered into a contract with SCGon 16 November 2011for the design and construction of the hotel in the sum of US$50.918 million. **The size of the hotel was stated as 17,695 square meters, equivalent to 190,467 square feet, compared with 274,032 square feet reflected in the ADUA design that was advertised. This represents a 31% decrease in the size of the hotel.**

4.10.18 **The contract was signed just 12 days before the 28 November 2011 elections, which is not normal practice for such a large contract to be executed so close to national elections, for obvious reasons. In addition, there was neither board approval nor the approval of Cabinet at the time the contract was entered into. It was not until 27 September 2012, some eleven months later, that such approval was granted, with a retroactive effective date of 30 September 2011.**

4.10.19 The value of the contract includes the cost of the promenade/boardwalk estimated at US$200,000 and a provisional sum of US$7.759 million for furniture, fittings and equipment (FF&E) costs. However, LEED certification costs as well as additional works on pilings and substructures estimated at US$1.5 million were not included. According to the contract, AHI is to cover the cost of third party inspections as well as the cost of final certification to ensure that the hotel is built to meet minimum LEED certifications.

4.10.20 In accordance with Clause 6 of the contract agreement with SCG International, "The Contractor may import any personnel who are necessary for the execution of the works". Implicit in this agreement is that only technical personnel whose skills are not available locally would be recruited from overseas. **However, virtually all of SCG's workforce came from overseas.**

4.11 *Selection of the engineering supervision consultant*

4.11.1 During the period 17 February to 9 March 2012 requests for proposals for construction supervision for the Marriott Hotel were solicited via public advertisement. Proposals were received from M. A. Angeliades Inc. and CEMCO Consultants Inc. in the amounts of US$1.068 million and US$1.614 million respectively, compared with an estimate of US$1 million. The assessment of the two bids was again done internally by NICIL, using International Federation of Consulting Engineers (FIDIC)Guidelines.

4.11.2 Those guidelines provide for the evaluation to be done by either of the following:

(a) The Quality-Based Selection (QBS) approach. This involves assessment to be made based on professional competence and experience, managerial ability, availability of resources, professional independence, fairness of fee structure, professional integrity and quality management systems; or

(b) Quality Cost-Based Selection (QCBS) which includes the cost component. However, if this approach is adopted only 10-20 % must be based on cost. In other words, quality remains the dominating factor with a weighting of at least 80%.

4.11.3 NICIL has opted to use the latter approach in the assessment of the two bids. It, however, assessed the bids using 60% cost factor instead of the 10-20% stipulated in the FIDIC Guidelines. The evaluation stated that “M. A. Angeliades M.A/RBIL appears to be a joint venture proposal between a US based firm called M. A. Angeliades and another firm led by Romesh Budhram…The proposed project team in the submission does not appear to have anyone from the main company M. A. Angeliades involved and will be the RBIL component of the joint venture”.**Despite this, the firm was evaluated based on the combined technical and professional competence and experience of the joint venture.**

4.11.4 In relation to CEMCO, NICIL’s only concern from a technical standpoint was that the project liaison officer, who had done some previous work with NICIL, did not deliver in the past.

4.11.5 The results of the evaluation indicated that, based on both technical and cost considerations, M. A. Angeliades Inc. was given a score 91.25 points, compared with 82.2 given to CEMCO. In response to my questionnaire dated 25 July 2015, Mr. Brassington submitted an unsigned Cabinet paper with a date of 29 July 2015 in which the Privatisation Board recommended that M. A. Angeliades be awarded the contract for the engineering supervision of the construction of the Marriott Hotel. Cabinet gave its “no-objection” via CP(2012)7:4:JJ on 25 July 2012.

4.11.6 AHI commented that “The unsigned Cabinet paper was retrieved from electronic records in MSWord. The MSWord document’s date was set to automatically update upon opening the document. A check of our records show that the document was emailed for submission to Cabinet on April 30, 2012...”

4.11.7 A review of the professional background of M. A. Angeliades Inc.’s team proposed for the project indicated that there was no professional engineer on the team. The Executive Project Manager is a Chartered Quantity Surveyor while the Assistant Project Manager, although having some experience in construction projects, does not have the requisite academic and professional background. The team was also to comprise Raman Kumar, as the Site Engineer, Edwin Semexant, Project Superintendent/Quality Control Engineer, and two other staff members. However, there was no evidence that Mr. Kumar had on-site presence at the project.In addition, the services of the Assistant Project Manager were terminated after about six months while Mr. Semexant returned to New York after a brief period of engagement.

4.11.8 **AHI commented that it was satisfied with the qualifications and experience of the Project Manager and that he had met the requirements set out in the bidding documents.**

4.11.9 In a correspondence dated 7 May 2015 to the Project Manager, Mr. Brassington commented as follows in relation to M. A. Angeliades Inc.'s claim for extended supervisory services: "We note that the resource allocation matrix forwarded to us does not reflect continuous engagement of a majority of the above persons or agencies. We submit that had the Consultant employed said personnel it would have substantially mitigated its costs for the extra time spent in the performance of its services and the cost of other expenses incurred. The Consultant dismissed its quality surveyor and did not employ a replacement. In fact, contrary to its contractual obligations, the Consultant has employed several persons without notice to AHI or provision of their CVs etc. It is our observation that the Consultant is severely under-staffed and has operated for a long period with only three people on its management team."

4.11.10 The above comments from Mr. Brassington would suggest significant shortcomings on the part of M. A. Angeliades Inc. to effectively carry out their dutiesto oversee the work of the contractor on behalf of the Government.

4.11.11 M.A. Angeliades Inc. was charged with underpaying 300 workers it had employed at nearly one dozen New York substation construction projects. The firmwas disqualified from participating in the projects of the School Construction Authority until July 2015. On 30 June 2010, the firm's head, M. A. Angeliades, pleaded guilty of felony and falsification of business records and he and his daughter were to have resigned from their positions in the firm which was to have been monitored by an independent private sector Inspector General through September 2013.Despite this, the contract between M. A. Angeliades Inc. and AHI was executed on 6 August 2012 and was signed in person by Mr. Angeliades!

4.11.12 In response to the above, AHI provided as evidence a letter dated 30 March 2011 from the lawyers of M. A. Angeliades Inc. indicating that the case was dismissed and there were no pending litigations. However, the letter made it clear that the period referred to was to 31 December 2009, and that the case was People v. M.A. Angeliades Inc., Ind. No. 2686/2009. Suffice it to state that the charges against the company were set aside after a non-prosecution agreement was filed in the court, requiring the company to compensate the workers who were underpaid, failing which the criminal charges would be restored.

4.11.13 One of the questions comprising the evaluation criteria was: "Has your organisation's license ever been revoked in said jurisdiction or trade category?" However, this part of the evaluation worksheet was left blank for both bidders. This raises the pertinent question as to whether the omission was an oversight or a deliberate act. AHI commented that the information was not filled in because M.A. Angeliades Inc. did not have a revocation of licence!

4.11.14 The duration of the engineering supervision contract was three months after the defects liability period of one year is over. However, at the time of the audit, the M. A. Angeliades Inc'steam was no longer is place, and CEMCO (the firm that was overlooked in the first place) was engaged to complete the supervision of the project.

4.12 *Costs incurred to date*

4.12.1 The latest audited financial statements of AHI are in respect of the year ended 31 December 2013. An examination of these statements showed the value of completed works as at this date, as follows:

	G$'000
SCG – value of works completed	6,491,118
Marriott International design and construction services	18,008
Geotech Associates Ltd.	15,866
M.A Angeliades Inc. – construction management	126,400
TOTAL	**6,651,393**

4.12.2 Using an exchange rate of US$1=G$205.9, the total cost of construction of the Marriott Hotel as at 31 December 2013 was US$32.304 million. The balance sheet position as at 31 December 2013 compared with the position at the end of the two preceding years is shown below:

	2013 $'000	2012 $'000	2011 $'000
Fixed assets	6,831,393	3,009,989	2,036,725
Current assets	89,449	907,636	75
TOTAL ASSETS	**6,940,842**	**3,917,624**	**2,036,800**
Less current liabilities	(2,499,726)	-	-
Less long-term liabilities	(3,640,422)	(3,116,449)	(2,035,800)
TOTAL NET ASSETS	**800,694**	**801,175**	**1,000**

4.12.3 The draft financial statements for the year ended 31 December 2014 were being audited by the Auditor General's office at the time of reporting. AHI has also provided an updated position as of 7 July 2015. The balance sheet position as at both dates is shown below.

	7 July 2015 $'000	31 December 2014 $'000
Fixed assets	11,730, 014	10,935,090
Cash on hand & at bank	271,285	19,187

TOTAL ASSETS	**12,001,299**	**10,954,277**
Less current liabilities	(4,811,746)	(4,788,195)
Less long-term liabilities	(6,365,859)	(5,365,866)
TOTAL NET ASSETS	**823,694**	**800,216**

4.12.4 The value of the completed works as of 7 July 2015 is shown below:

	G$'000
SCG – value of works completed (as of April 2015)	10,330,573
Other direct and related costs	960,676
Supervision	126,400
Freehold land	200,000
TOTAL	**11,716,514**

4.12.5 Using an exchange rate of US$1=G$207.21, the total cost of construction of the Marriott Hotel was US$56.609 million as at 7 July 2015.

4.12.6 As regards the Entertainment Complex, Mr. Brassington indicated that NICIL would provide loan financing, and the related cost was expected to increase from US$8 million to US$12 million. He also stated that: (a) consultants had been hired to provide design as well as casino specialty services in consultation with Marriott International; and (b) a final cost for the outfitting of the Complex had not been determined but was likely to be above the US$4 million budgeted.

4.12.7 With US$56.609 million already expended on the direct construction of the hotel, the final cost is likely to exceed US$76.109 million. Taking into account all other costs to date not reflected in AHI's books, the latest estimated cost of the project would be at least US$97.532 million, as shown below:

Details of costs	US$'000
As per draft financial statements as at 7 July 2015	56,609
Construction costs of Entertainment Complex	12,000
Estimated cost variance (US$63 million – US$58.5 million)	4,500
Additional infrastructure works	3,000
Sub-total	**76,109**
Cost of re-routing sewerage system and other works (financed by GFC/GWI via NICIL)	3,150
Estimated interest waived on NICIL's loan	3,191
Estimated interest on NICIL's additional financing of	3,828
Design and branding costs	2,100

Difference in market value of land and amount paid	3,800
Tax exemptions granted on building materials, furnishings & vehicles – 50%	2,821
Expenditure improperly charged to NICIL's accounts	2,533
Revised estimated cost of the project	**97,532**
	=======

4.12.8 As can be noted, an amount of G$271.285 million is shown as cash on hand and at bank as at 7 July 2015, compared with G$19.187 million as at 31 December 2014.AHI maintains two bank accounts each at the Republic Bank and the Scotia Bank for local and foreign currencies. At the end of June 2015, the foreign currency balance was US$539,077.

4.12.9At the 3rd Meeting of the Board held on 8 May 2015, Mr. Brassington gave an update of the status of the Marriott Hotel project. The key points of his presentation are as follows:

- It is a condition precedent of the agreement with the private investor that the injection of equity of US$8 million is contingent upon the full injection of the Republic Bank financing:
- The Government of Guyana "may keep the Project as a Guyanese institution and take the 67% private equity…";
- Cost overruns are likely to be 2-3% of the contract sum;
- There have been delays due to the fault of the contractor and liquidated damages are being claimed;
- AHI has retained third parties to complete the hotel and the related costs will be charged to the contractor;
- In relation to the Entertainment Complex, there is no market intelligence on the operation of casinos in Guyana. Princess Hotel is no guide since it is unclear whether it is operating accurately;
- Marriott International will be managing the Entertainment Complex. However, amendments to the Management Agreement are pending due to a number of unresolved issues, including whether or not the Agreement can be terminated within a 5-year period and whether the projections made by the HVS study are likely to materialize;
- NICIL will provide loan financing for the Entertainment Complex, the cost of which is expected to increase from US$8 million to US$12 million;
- NICIL has spent over US$43 million so far;

- NICIL’s loan to AHI is expected to be US$27-28 million once all other sources of financing materialize; and
- NICIL’s investment in Marriott comes mainly from the sale of GT&T shares and Bosai dividends.

4.13 *Outstanding works to be undertaken*

4.13.1 As indicated above, work was yet to commence on the construction and outfitting of the Entertainment Complex. In addition, at April 2015, more than 286 items of work were outstanding, as per inspection carried out by Marriott International. These weremainly in relation to unfinished works and defects to be remedied. Further, as at the time of the opening of the hotel, most of the executive suites remained incomplete. Additional work was also needed to complete the pool area, the bar and grill, and the salon and spa.According to AHI, these additional and rectification works are the responsibility of the contractor.

4.14 *Commercial operations and results to date*

4.14.1 The Marriott Hotel was opened for commercial operations on 16 April 2015.AHI has provided a copy of Marriott’s consolidated profit and loss statement as of 30 June 2015, i.e. two and one-half months after its opening. **A review of the statement indicated that the hotel has made a “house” loss of G$59.311 million as of this date. This was mainly due to the less-than-anticipated income from rooms (16.9% below budget), coupled with the high cost of utilities (73.9% higher than budget). The occupancy rate during this period was 29.8%.**

4.14.2 AHI commented that “On the basis of management information, the hotel is performing in accordance with budget and is projected to make an EBITDA (Earnings Before Interest, Taxation and Depreciation and Amortisation) of about US$100K or more by year end (latest estimate). At this time, the hotel, like any new project, would take some time to ramp up to optimal operations. Utility costs were substantially reduced although there is still a dispute”.

4.14.3 The Marriott International’s feasibility study had indicated that “most if not all of the Pegasus corporate, government and higher rated leisure business will migrate to the Hotel on the assumption that the Pegasus will continue to suffer from a lack of capital investment”. The management of the Pegasus Hotel provided details of occupancy for the period January to June 2015:

Month	Occupancy rate (%)

January 2015	63.64
February 2015	65.79
March 2015	77.15
April 2015	73.68
May 2015	53.76
June 2015	57.60

4.14.4 As can be noted, there was a 14.39% drop in the May-June period, compared with the period January to April 2015 when the occupancy rate averaged 70.07%. The management of the hotel explained that this is a normal occurrence mainly due to the May-June rains when there is a decline in visitors to the country. This was somewhat corroborated by the HVS study which indicated a decline of 9.5% in arrivals at the Cheddi Jagan International Airport during this period for the years 2007 to 2009.

4.14.5 As regards the cost of utilities, electricity purchased from the Guyana Power and Light for the period 16 April to 30 June 2015 amounted to approximately G$60 million which works out to G$24 million per month. Marriott also operates a 5-Megawatt standby generator, and at the time of reporting, details relating to the cost of operations and maintenance of this standby facility had not been provided. AHI nevertheless indicated that the installed generation is 2.5 MW and that a utility cost of a little over G$20 million has been factored into its projection for the rest of the year.

4.14.6 AHI commented that the hotel is performing in accordance with its budget and is projected to make **earnings before interest, tax, and depreciation and amortization(EBITDA**) of US$100,000 by year end. While the company enjoys a 10-year tax holiday in terms of corporation tax and a 10-year waiver on property and withholdings taxes, interest charges on the Republic Bank loan of US$15.25 million - 9.15% during construction phase and 8.65% post construction - will become due sometime next year when the 18-month moratorium period is over.

4.14.7 In addition, the Republic Bank loan is repayable via 26 equal, blended, semi-annual payments of principal and interest, with the former having a moratorium period of 24 months. The first disbursement of US$10 million took place in 2014 while the remainder of US$5.25 million was disbursed in 2015. The half-yearly repayment on the US$15.25 million on loan alone works out to US$586,534. When interest charges, loan repayment, and provision for depreciation and amortization are taken into account, the year 2016 and subsequent years are likely to be an extremely challenging financially, unless there is a significant improvement in the occupancy rate from the projected level of 39.3% for 2015.

4.15 *Environmental considerations*

4.15.1 By letter dated 22 October 2014, the EPA wrote to Mr. Brassington about allegations it had received of the "dumping of waste oil at seawall". The Contractor claimed it was "set retardant" used in the construction process to improve the working performance of the concrete. There was also garbage disposal into the Demerara River.

4.15.2 On 25 March 2015, the EPA wrote to Mr. Brassington about breach in the Environmental Authorisation whereby cement retardant was dumped on the coastline. Although corrective action was taken, there was non-compliance with the requirement to submit an Environmental Annual Report. This was the second reminder, the first being on 22 October 2014.

4.15.3 On 27 March 2015, the EPA conducted an inspection of the Marriott Hotel to assess the level of compliance with the Environmental Permit that it issued in May 2012. Several areas of non-compliance were noted in a letter dated 27 July 2015, including:

- Non-submission of quarterly monitoring reports to the EPA indicating compliance with the National Guidelines for the effluent discharge standard in relation to waste managed by the sewerage treatment facility;
- Overflow of waste around bins;
- Non-submission of details of the Sewerage Treatment Plan. This should have been submitted one month after the completion of the facility;
- Incurrence of an accident as a result of the discharge of set retardant on the coastline prior to the inspection;
- No generator room to assist in the mitigation of noise emanating from the generator;
- Exhaust stack not above the height of neighbouring buildings;
- Non-submission of reports on hazardous materials used or generated over the past six months;
- No impervious secondary containment walls to create temporary containment area in event of accidental spillage;
- No official with responsibility for coordinating environmental management, monitoring for compliance, reporting to the EPA and implementing the conditions of the Permit; and
- Non-submission of Environmental Annual Report to the EPA;

4.15.4 On 6 May 2015, the EPA received a complaint from the Guyana Forestry Commission regarding fumes nuisance caused by the painting of fuel tanks, causing the Commission to vacate its premises for that day. The EPA inspected the facility on 28 May 2015 and found that the fuel tanks were painted using a black substance from which a noxious odour was emanating. The Agency requested the Material Safety Data for the substance and the same was produced in Chinese. The EPA then requested an English version but as of the date of the letter, the request was not honoured. In addition, one of the conditions of the Environmental Permit is for Marriott to maintain a register of hazardous materials or chemicals used or generated by the operations. No such register was in place at the time of inspection.

5. Conclusions

5.1 Following the withdrawal of the developer, **the Government's decision to take over the Marriott Hotel project without the involvement of the National Assembly was an unfortunate one.**This is especially so, consideringthat a significant amount of State resources would havebeen utilised in the construction of the facility, which would have required Parliamentary approval in accordance with Article 217 of the Constitution.

5.2 **Cabinet's decision to establish AHI to own the hotel and to effectively vest all authority in one person to advance to project was a significant setback.** From the very inception, Mr. Brassington has consistently declined to disclose information about the project and to respond to legitimate enquiries from various stakeholders on the grounds of confidentiality. Even the Assembly was not provided with the desired level of information, prompting it to pass a motion on 17 December 2012 to cease funding the project without Parliamentary approval. Needless to mention, the motion was ignored. **For whatever reasons, the project was shrouded in secrecy.**

5.3 **The evidence clearly suggests that Cabinet took the decision to proceed with the project without the benefit from a feasibility study to determine the project's economic and long-term viability.There was also unnecessary haste to proceed with the construction as evidenced by the award of the contract within days of the 28 November 2011 general elections.Such haste might have contributed in no small measure to the significant cost escalations since the decision was taken to construct the hotel.**

5.4 Since 2009, the estimated direct cost of construction kept escalating at a significant rate. The original estimate for the construction of a 190,467 square foot hotel (the actual construction size) had worked out to US$33.220 million, excluding outfitting costs of US$10.404 million. **It has since risen to almost double, having regard to the expenditure incurred to date and the projected cost to complete the hotel.** When other cost considerations (e.g. design and branding, re-routing of the sewerage system and interest foregone during construction phase) are taken into account, the project costs (as opposed to the direct construction costs) is estimated tobe at least US$98 million. This is quite an expensive venture, considering that: (a) only $15.5 million has so far been financed from external sources; and (b) the risks involved should the hotel not turn out to be a profitable venture. Already for the two and one-months of commercial operations, the hotel has made a “house” loss of approximately G$60 million with an occupancy rate of 29.8%.

5.5 **ACE Square Investments Ltd. was yet to contribute to the equity of the project since according to the Shareholders’ Agreement such contribution would only be made when the hotel is completed. NICIL therefore had to use its own resources, along with the Republic Bank loan, to complete the hotel. When the hotel begins operation, ACE Square had the option of acquiring NICIL’s equity interest. It therefore means that for an estimated US$98 million in the total cost of the project, ACE Square would have contributedonly US$12 million or 12% and will secure 100% ownership rights. The whole arrangement involving the financing of construction of the hotel appeared to be deliberately cast to enable ACE Square to become the ultimate beneficiary of the project, with no financial contribution during the construction phase of the hotel. AHI indicated that ACE Square was no longer under active consideration as an investor.**

5.6 The Republic Bank loan of US$15.25 million is ranked priority to that of NICIL and is secured by “debenture and mortgages”. These conditions have serious implications should AHI default in payment. The loan is repayable at rates of 9.15% and 8.65% during construction and post-construction phases, via 26 equal, blended, semi-annual payments of principal and interest. However, there is an 18 month moratorium on interest and a 24 month moratorium on principal from the date of first disbursement.

5.7 **The selection of the contractor, SCG International (Trinidad and Tobago) Ltd, took place a time when the Police in Trinidad and Tobago were investigating the company for allegations of corruption and had raided its office and seized documents. In addition, AHI was yet to provide documentary evidence about the second bidder’s original and revised bid prices as well as details of negotiations of the bidder, as was done in respect of SCG International. Without such information the basis of the selection of the contractor could not be properly determined.The award of the construction contract for over US$50 million days before the 28 November 2011 and without prior Cabinet approval should also be a source of serious concern.**

5.8 Similarly, AHI entered into a contract for engineering supervision with M.A. Angeliades Inc. at a time when the firm was charged for under-paying some 300 workers in New York and, by court order, Mr. Angeliades was forced to resign from the company.

6. Recommendations

6.1 There is a serious risk of default in the repayment of principal and interest on the Republic Bank loan should the hotel continue to make losses due to the less-than-desirable occupancy rate. In the circumstances, it would be necessary for the loan to be paid off at the earliest opportunity. **This is especially so, since the Republic Bank has a lien on the hoteland surrounding area via debenture and mortgages.**

6.2 Given the statement by Mr. Brassington in relation to the absence of market intelligence on the operations of casinos, **it is advisable not to proceed with the construction and outfitting of the Entertainment Complex estimated to cost US$12 million.** The results of the studies of both the Marriott International and HVS Consulting hinge on a fully operational Entertainment Complex and appeared too optimistic. The Entertainment Complex is too risky a venture for the Government to undertake. There are also indications of possible amendments to the Marriott International's Management Contract "including whether or not the Agreement can be terminated within a 5-year period and whether the projections made by the HVS study are likely to materialize".

6.3 **The Government of Guyana should proceed with haste to advertise for the sale of the hotel**, bearing in mind that the Management Agreement with Marriott International is for 30 years renewable for another 10 years. The Agreement does provide for the sale of the hotel to a reputable individual or firm so that it can roll over to the new owners. The vendor must have sufficient financial resources and liquidity to fulfill the obligations under the Agreement; be of good moral character with no criminal record; and does not have ownership interest in a branded hotel. Once the hotel is sold, AHI should be liquidated.

6.4 **Alternatively, the Government could retain majority interest in the hotel and offer 49% of shares to the public and institutional investors, such as banks and insurance companies. However, the risks still remains in terms of the financial viability of the operations of the hotel.**

6.5 There is irrefutable evidence that State revenues from the proceeds of dividends from public corporations and the sale of public assets were not only intercepted but were also used mainly to fund the construction of the Marriott Hotel without Parliamentary approval, in clear violation of Articles 216 and 217 respectively of the Constitution as well as the corresponding sections of the FMA Act. **In consideration of this as well as other issued raised in this report, the Government may therefore wish to invoke the requirements of Sections 49, 76 and 85 of the Act as they relate to liability for loss of public moneys, the loss of public property, and the liability of officials respectively. Cabinet, collectively and individually, does not enjoy immunity as it relates to the application of the**

above sections of the FMA Actand for defying the wishes of the National Assembly as contained in resolution of 17 December 2012 for the government to cease funding the project without Parliamentary approval.

7. Acknowledgement

7.1 The Consultant wishes to express his gratitude to the Management and staff of NICIL/AHI for the cooperation extended during the course of the review.

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Date: