# Focus on Guyana's Budget 2001


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## ABOUT FOCUS 2001

**Ram & McRae** is pleased to offer its analysis of Budget 2001. This is an annual publication which seeks to review and comment on the major issues raised in the National Budget. Its contents are not intended to take the place of the text of the speech or a professional advisor.

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- Consolidated Tax Laws of Guyana (Income Tax (in Aid of Industry), Income Tax, Corporation Tax, Property Tax, Capital Gains Tax) Acts. These are also available individually.
- Companies Act, 1991
- NIS Act
- Mining Act
- Petroleum (Exploration & Production) Act
- Petroleum (Production) Act, Cap 65:05
- Termination of Employment & Severance Pay Act
- Trade Union Recognition Act
- Dealers in Foreign Currency (Licencing) Act
- Foreign Exchange (Miscellaneous Provisions) Act
- Revenue Authority Act
- Hotel Occupancy Tax Act

Other publications by the Firm which are available to the public are:

- Handbook on the Companies Act, 1991
- The Guyana Business Outlook Survey 1995, 1996, 1997, 1999, 2000 & 2001
- Guyana Investors Information Package
- Focus on Guyana's National Budget 1991 - 2000

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**Ram & McRae** through its affiliation with Ernst & Young International has access to worldwide resources which ensures that its clients seize the business opportunities that help them to be on the cutting edge of their industry.

## PRE-BUDGET COMMENTS

After prolonged post-elections violence and disputes over the March 19 elections results, the Government on June 11, 2001 announced a much anticipated budget date of June 15, 2001. This was the second budget presentation Mr. Saisnarine Kowlessar who was made substantive Minister of Finance following the elections.

Because of the uncertain economic climate caused by poor performance in 2000 and escalated by the political instability in the first half of 2001, there were mixed emotions and expectations for the Budget this year.

In Stabroek News article on January 11, 2001, several prominent businessmen were asked to comment on the economic performance in 2000 and what they think is needed to bring stability in 2001. Mr. Norman McLean, Human Resources Manger of Omai Gold Mines, stated that investment is dependent on the outcome of the 2001 elections but was optimistic that business performance would improve in 2001 if the Government stands committed to assisting with the consumption tax burden and promoting a strong "buy local" campaign.

Mr. Eddie Boyer, Managing Director of National Hardware Guyana Ltd., felt that most businesses fell below their profit targets in 2000 because of high overhead costs and bank lending interest rates. He believes that the 2001 election is the key to the success of the economy and that if the Government can stabilise the political climate and generate confidence in the economy, investment can be attracted to improve Guyana's future.

The CEO of Guyana Stockfeeds Ltd. – Mr. Robert Badal – saw the year 2000 as a difficult year because of bank lending rates, the decline in the value of the Guyana dollar, the smuggling of oil and the dumping of chicken in Guyana. He feels that businesses need renewed confidence in the economy which can only happen if the post elections climate is stable enough to encourage investment. He also strongly believes that the Government must raise the tariff on imported chicken to allow local businesses to compete and implement the investment code and the stock exchange to stimulate business activities.

Mr. Yesu Persaud, Chairman of DDL, believes that the Government needs to provide incentives to businesses for value-added activities to reduce the country's dependence on primary commodities to carry the economy. This requires a shift to service related activities and a change in the education system. He considers political and economic stability very important to business and investor confidence. He stated that "there are tremendous opportunities for Guyana only if politicians would see the world as it is and recognise that no one is waiting for Guyana".

The Chairman of Banks DIH expressed concern over the fall in the value of the Euro which was affecting the earnings of GUYSUCO. For the manufacturing sector, he feels the Government needs to implement the system of Value Added Tax urgently.

President of the Essequibo Chamber of Commerce and senior executive at Pomeroon Oil Mills, Mr. Steve Hemraj, noted that there was a decline in business activity on the Essequibo Coast. He opined that the performance of the economy hinges on the Private Sector which must play a greater and more decisive role. He also stated that the Government must facilitate a level playing field for businesses in order for the manufacturing sector to grow and for the rice industry to recover from its financial crises. For this to happen the Government needs to take decisive action on the Investment Code and the Small Businesses Act. It also needs to slash bureaucracy and reduce unfair competition in the economy.

Mr. David Yankana, Executive Director of the Consultative Association of Guyanese Industry and Director of the Private Sector Commission, believes it is important to the growth of the economy for joint ventures with overseas importers to be pursued in the wood and agro-processing sector since this is an essential component of the CARICOM Single Market and Economy. He stated that the private sector is convinced that development cannot happen without investment into the resources of Guyana such as mining and agro-processing, a reform of the tax system by the Government, and reduced bureaucracy in the public sector to adequately respond to the needs of investors. He feels the Government must increase expenditure to improve the education system and social services and must actively pursue negotiations on the EU's Everything but Arms Initiative.

A Stabroek News article on Thursday June 12, 2001 stated that President Bharrat Jagdeo "intended to make liberal use of the tax system this year so as to attract investments. It is expected that tax relief measures will be detailed in the budget to spur productive investments and create much needed jobs to sustain the economy".

A Chronicle article on the day of the Budget stated that the budget figure is expected to be close to last year's $62Bn figure, the largest ever to be presented in the National Assembly. It quoted Minister Kowlessar as saying that this is now "a half year budget … therefore we had to re-focus and do some cutting of the numbers … We have to examine the situation in totality and a lot of expectations cannot be met this year but will have to wait until next year".

The article also stated that "according to the President, the Government has secured an additional $25Mn per annum in debt relief which will allow more spending on developmental projects in the social sector". It noted that the President stated that the Government had to reduce expenditure and revise revenue forecasts, but it will still be "a fiscally prudent budget".

It was a general view by all the businessmen interviewed by Stabroek News that a stable post-elections climate is essential to the stability in the economy and the creation of investment.

However, months after the elections the tension and uncertainty still hang in the air and leave many to wonder how the Government's Budget will restore the confidence of Guyanese.

# INTRODUCTION

Minister Saisnarine Kowlessar presented the first budget of the 8th Parliament and his first as substantive Minister of Finance on Friday June 15, 2001. For the third consecutive year, there were no new taxes although inflation and the changes in the exchange rate used for customs duty purposes automatically increase tax revenues.

The Budget Speech itself is one of the latest ever presented in Guyana due in part to the March 19 elections and post elections disturbances. The PNC/Reform, the major opposition party had earlier walked out of the National Assembly, reportedly in protest at the presence of new Attorney General and former Chairman of the Elections Commission, Mr. Doodnauth Singh, SC. In the Introduction section of Focus 2000, we had referred to the number of key Ministry of Finance staff transferred to the Office of the President and expressed the view that "the institutional arrangements for his (Mr. Kowlessar's) effective functioning are just not present". The evidence is that no concerted action was taken to address this situation with the result that the Ministry of Finance is not as strong as it needs to be, or as it was a few years ago.

The 2001 Budget in many ways resembled the previous year's. The measures, policies and targets offered no substantial changes and again provided very few measures with no recognition of tax reform as an issue requiring serious, urgent attention.

The theme of the budget was "Moving Guyana Forward Together" and the Minister said he had taken careful note of the "people's demands, hopes and aspirations". Pre-budget pronouncements and the sluggish performance of the economy had led to expectations that the Budget would contain tangible measures to help restore confidence in the economy and the country. This was partly encouraged by the series of consultations which the Minister held with a number of private sector stakeholders, many of whom made written submissions to him.

The Minister complimented those interest groups who submitted proposals for tax relief and tax reform assuring them in his speech that the Government "value their contributions highly". The Minister has to be careful that interest groups may see no benefit in making proposals if all they receive is a public acknowledgement, and if none of their ideas are taken on board. That no concession was made to the workers by way of an increase in the personal deduction seems almost an act of insensitivity to the difficulties which they face.

In his opening remarks the Minister indicated that the Government had "developed a comprehensive economic development strategy for implementation over the next five years". Could the Minister have been referring to the National Development Strategy which is a ten year plan? As we noted in our 2000 Focus, important issues such as labour participation and unemployment appear to have achieved taboo status and for this year, Amerindian Affairs receives no attention.

The manufacturing sector in Guyana continues to struggle as they call for a reform of the consumption tax to alleviate the burden at the enterprise level while ensuring no loss in Government revenues.

The conditions both internationally and locally are hardly ideal for the presentation of a Budget. However, difficult circumstances demand a special type of response – imagination, vision, leadership, energy, hope and enterprise. The challenge for this Government is to demonstrate those qualities to the nation.

## SPEECH HIGHLIGHTS

### 2000 Facts

- Contraction of growth in the economy by 0.8%
- Overall balance of payments turnaround from a US$4.4Mn deficit to a US$17.1Mn surplus
- Overall expansion of the monetary base by 11%
- Depreciation of the Guyana Dollar by 2% compared to 7.7% in 1999
- Current revenue collections increased by 12.2% to G$41.3Bn

### Measures - 2001

- $500Mn set aside for implementation of poverty programmes, 113% increase over 1999
- $200Mn allocated for a rural electrification programme
- $753.6Mn allocated under the Urban Development Programme for the construction and rehabilitation of six municipalities
- $583Mn provided for the development and upgrading of existing housing schemes and regularisation of squatter settlements
- Sugar, rice and bauxite industries to be restructured to enhance viability and increase competitiveness
- Over $1Bn spending proposed to improve drainage and irrigation
- Development of an investment code, restructuring of GO-Invest and spending of $18.7Bn on infrastructural development
- $11.8Bn for improvement of quality of education
- Guyana Defence Force to be re-capitalised at a cost of $575Mn
- $5.3Bn budget for health to focus on hinterland areas and Berbice

### Financial Targets - 2001

- Inflation - 6%
- Growth in Real GDP of 2.8%
- Current revenue of $44.0Bn, a 6.5% increase over 2000
- Current expenditure of $45.9Bn, a decrease of 5% over 2000
- Estimated total expenditure of G$64.7Bn, 1% less than in 2000
- Overall deficit of the central government to decline by 2.7%
- Overall deficit of non-financial sector to decline from 4.9% of GDP to 6.7%
- Improvement in the overall deficit after grants from $8.5Bn to $7.4Bn or 5.3% of GDP

## REVIEW 2000

### 2000 Global Facts

- Output expanded by 4.7% compared to 3.3% in 1999
- Growth in advanced economies was 4.2% compared to 3.2% in 1999
- Unemployment level of 5.9% in advanced economies
- An increase in world trade in goods and services of 10%
- A general increase in output of regional countries up to 7.9% in Trinidad and Tobago

### 2000 Local Facts

- A fall in sugar and rice production by 15% and 20.1% respectively
- Current account deficit of US$113.4m and a capital account surplus of US$126.6
- Minimum public sector wage of G$19,000 per month

| | Target 2001 | Actual 2000 | Target 2000 |
|---|---|---|---|
| Real GDP growth/(decline) | 2.8% | (0.8%) | 3.0% |
| Inflation rate | 6% | 5.9% | 9.5% |
| Current account deficit of the balance of payments as a % of GDP | 5.3% | 8.5% | (26.7%) |
| Increase/(decrease) in the money supply | Not stated | 15% | Not stated |

### The Global Economy

Global output expanded by 4.7% with growth of 4.2% in the advanced economies. This resulted in a fall in unemployment to 5.9% in the advanced economies. But as oil prices rose, consumer prices rose by 2.3%. Growth at the regional level was highest in Trinidad and Tobago at 7.9%.

### The Domestic Economy

The economy recorded a negative 0.8% growth following an impressive 6.8% growth in the second quarter of 1999 and overall 3.0% growth in 1999. A 1.3% decline was also recorded in 1998 following positive growth in the preceding seven years.

The notable decreases in production of sugar (15%) and rice (20.1%), two of the country's three principal products were attributed to poor weather.

Gold output increased by 4.8% to 476,150 ounces and gold prices increased slightly in 2000. Production of bauxite increased by 14% to 2.6 million tonnes.

The manufacturing sector recorded negative growth by 13.9%, with beverages declining by 12% and other manufacturing falling by 16%. The manufacturers frequently complain about the complexity and high rates of consumption taxes from which they are seeking relief.

There were shortfalls in output of ointments (19.5%), footwear (12%), soap (54.5%), garments (24.3%) and rum (33%). There were however increases in production for pharmaceuticals (45.1%) and food (3%). Commodities which experienced growth included electricity (7.6%) and stockfeed (7.5%).

The services sector recorded positive growth in all of the sub-sectors particularly in engineering and construction which recorded a 6.5% growth. Distribution increased by 5.2% reflecting a recovery in the imports of consumption goods while transport and communication grew by 5.5%.

Financial services increased by 5.5% while government services increased by 10%.

Sugar production of 273,317 tonnes, after increasing by 25.8% to 321,438 tonnes in 1999, fell short of the budgeted output level by 12% or 37,324 tonnes in 2000. Rice production fell short of budget by 73,659 tonnes or 20% compared with an increase of 7.6% in 1999.

Egg production continued the 1999 trend with an increase of 17.1% while the related livestock production fell by 5.3% to 11,769 tones, reversing half of the 1999 growth. The decline in the forestry sector of 16% is far from the budgeted target of 6.1% growth. Fisheries exceeded the budgeted growth of 3% to record a massive 14.1%. The Minister did not address the performance of non-traditional crops in the Speech.

Despite increased volume exports, revenue from bauxite declined by US$76.5Mn while gold output increased by 4.8% producing revenues of US$120.5Mn. The mining and quarrying sector recorded an overall 5.9% growth.

Included in the Budget Speech as Appendices are Socio-Economic Indicators 1996-2000, some of which warrant comments. On a very positive note is the 41% increase in the net international reserves of the Bank of Guyana which at US$178.4Mn is equivalent to 3.7 months of imports.

Despite the much talked about debt relief, the External Public Debt outstanding at the 31st of December 2000 was US$1,188Mn, a mere US$12Mn less than at December 31st of the previous year. There continues to be net outward migration and a declining population.

Per capita GDP for 2000 was US$773, a mere 0.9% over 1996 and 4.4% less than 1997.

Inflation for 1999 had been reported in the 2000 Budget and was even referred to in the 2001 Budget Speech as being 8.6%. In the Appendices referred to above, the figure has been revised upward substantially to 11.9% by some 38.4 percentage points.

Assuming that this is not a printing error, the revision vindicates consistent doubts about the inflation figure in particular, but in growth rate figures as well.

Sustained and serious efforts need to be made to address the quality and availability of data so necessary for decision making purposes.

**Public Sector Investment**

The implementation rate of the Public Sector Investment Programme (PSIP) was an impressive 91% across the health, education, water and sanitation areas.

**Banking and Interest Rates**

The 91-day Treasury Bill declined to 9.2% from 11.07% in 1999.

The weighted average lending rate at the commercial banks decreased to 17.68% and the savings rate reduced to 7.5% but the Minister was at pains to comment *"ad nauseam"* on the spreads and re-affirmed the Government's oft-stated intention to have it reduced.

Loans and advances to the private sector increased by 5.2%. Reflecting the drive in the housing sector, mortgage loans continued to record dramatic growth of 35.6% following 44.6% in 1999.

**The Exchange Rate**

The exchange rate of the Guyana dollar to the US dollar stabilised at G$186 with a depreciation of 2% compared to a decline of 7.7% in 1999. When the PPP/Civic Government took office in 1992 the exchange rate was G$126.

**Inflation**

The relatively modest inflation of 5.9% was due no doubt to the stable exchange rate and government's reduction of consumption tax on fuel from a 50% level to 35% on gasolene and 25% on dieselene to moderate the impact of higher international prices.

Noting the importance of fuel and an expectation that prices will remain high, the Minister reported that the Government has been exploring short-term solutions to acquire fuel at lower prices.

**Minimum Wage**

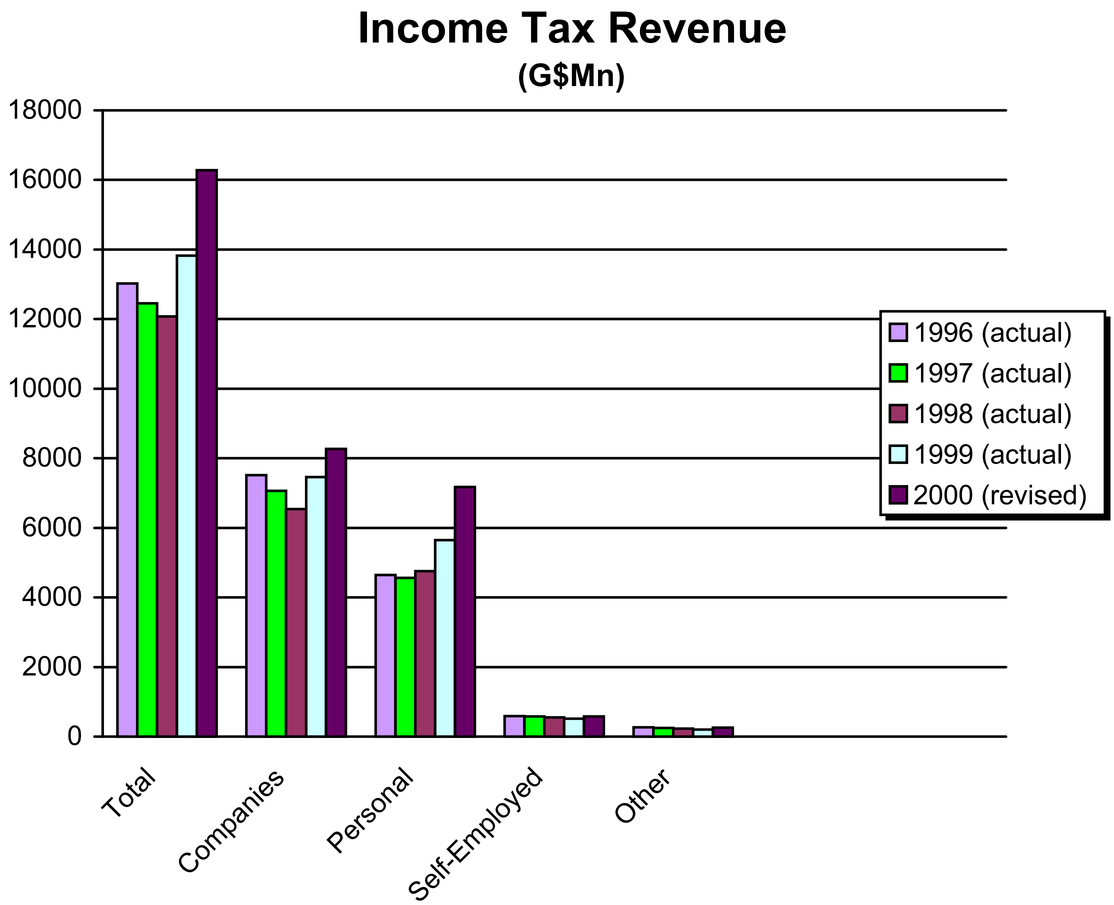
Following an increase in the minimum wage for public servants by 31% in 1999, a further 26.66% was realised. This wage now stands at $19,000 per month.

**Budget Performance**

Central Government finances again improved significantly. Collections increased from 1999 by 12.2% to $41.3Bn, 8% more than the budgeted amount.

Collections by the IRD increased by 18% following a 13.2% increase in 1999. Significant increases were recorded in personal income taxes (26%) and company taxes (13%). Customs revenue was $19.1Bn, an increase of 21% more than 1999. The principal reasons noted for the increases were higher oil prices, a customs valuation-rate based on current exchange rates, and improved tax collection.

Non-interest expenditure increased by 25% to $14.3Bn, while personal emoluments increased by 19.1% to $14.3Bn. Expenditure on other goods and services was $8.2Bn and transfer payments $8Bn (an increase of 48.2%). Domestic interest was $5.1Bn (45.7% more than 1999) whilst scheduled external interest payment amounted to $5.8Bn but under the HIPC Initiative only $4.9Bn was actually paid, approximately $219Mn more than in 1999.




There was an increase of $4.7Bn in capital expenditure and net lending compared with the 1999 amount of $600Mn. Overall total expenditure was $59.9Bn, an increase of $13.2% over 1999.

The overall deficit before grants was $18.6Bn, almost double the $9.9Bn in 1999, represents 97% of the amount budgeted. The deficit after grants was $8.5Bn.

Whilst merchandise exports declined by 3.8% to US$505.2Mn, merchandise imports increased by 6.3% to US$585.4Mn, both in consumer and capital goods.

After a consistent deficit, the overall balance of payments movement followed the 1999 narrowing by a further movement of US$21.5Mn, to record a surplus of US$17.1Mn.

**Ram & McRae's Comments**

In the World Economic Outlook 2001 the directors of the IMF noted that the prospects of global growth had weakened significantly, led by a marked slowdown in the United States, the stalling recovery in Japan and a slowing of growth in Europe and a number of emerging market countries. Chances are reasonable that the slowdown will be relatively short-lived although the pace of recovery will be slow.

This slowdown in global growth will adversely affect the low-income countries, both directly and through lower commodity prices. The directors underscored the need to maintain prudent macroeconomic polices and to press ahead with corporate, financial and institutional reforms. This last item should be emphasised in a review of Guyana's economic outlook.

The contraction in the Guyana economy of 0.8% was smaller than earlier pronouncements which had put the decline at 1.8%, and considerably less that the 3% growth recorded in 1999 and projected for 2000. The result is that the economy has declined in two of the past three years, raising serious concerns about the country's ability to meet the assumptions set out in the Macro-Economic Framework in the November 1, 2000 IMF Decision Point Document, 1998-2018.

The contraction of the economy during the year 2000 seems likely to lead into 2001, especially with the after-effects of the general elections and the forecast in the World Economic Outlook. Although avoiding a double-digit inflation during the period, the ability of the Government to improve the situation in 2001 will be tested.

The Government's concern about the interest rates spread is a recurring theme of Budget speeches and must be particularly acute given the Government's reduction of the minimum reserve requirement of commercial banks in 1999. However, Government appears to have overlooked the effect of the Financial Institutions Act including substantial provisioning prescriptions. The risk of lending has increased and this inevitably affects the interest charged. In any case, the commercial banks have never paid much heed to the Government's and the public's complaints about the interest spread.

The fact that a worsening in the performance of sugar and rice could be devastating to our economy emphasises the need for Guyana to move away from these sectors and develop emerging sectors such as beef production taking advantage of the recent pronouncement that Guyana is free from "Foot and Mouth".

The Minister did not acknowledge the financial crises facing the rice industry, including foreclosure by the financial institutions against a number of operators.

The reduction in the level of consumption taxes on fuel no doubt eased the strain on consumers. However the fact that higher prices are paid to the international suppliers means that more foreign exchange would leave the country.

The 26.66% increases in wages for public servants translated to an overall increase of 19.1% which no doubt was good news for the Government and would also have contributed to increases in personal taxes.

## 2000 LEGISLATION

Highlighted hereunder is legislation passed in 2000 which is of particular interest to the business community.

| Legislation | Name of Act | Objective | Effective Date |
|---|---|---|---|
| **Act** No. 1 of 2000 | Money Laundering (Prevention) Act 2000 | To provide for the prevention of money laundering and for the establishment of a Supervisory Authority to monitor financial institutions.<br><br>The Act designates the Governor of the Bank of Guyana as the Supervisory Authority whose powers include receiving reports from financial institutions and sending reports to law enforcement agencies. Financial Institutions are required to pay special attention to all complex, unusual or large business transactions and to promptly report suspicious transactions to the Supervisory Authority.<br><br>*Ram and McRae's Comment:* One banker has described this Act as just "a piece of paper" since nothing has so far been done to put it into effect. | March 29, 2000 |
| **Act** No. 4 of 2000 | Caribbean Investment Fund Act 2000 | To give effect to the Caribbean Investment Fund Agreement which governs the establishment and management of the Fund.<br><br>The Act incorporates the Agreement between Member States and Associate Members of the Caribbean Community and the ICWI Group of Jamaica establishing the C.I.F. of US$50Mn in two tranches. All Signatory States including Guyana have agreed that no taxes, duties, levies or imports are payable.<br><br>*Ram and McRae's Comment:* First tranch of $25Mn has been established. One Guyana entity has accessed the Fund. | May 19, 2000 |
| **Act** No. 5 of 2000 | The New Building Society (Amendment) Act 2000 | Amends the New Building Society Act to allow NBS to invest any portion of its funds not immediately required for its purposes upon mortgages of movable property, i.e. the right and interest in obtaining title to land pending the issue of title or the passing of transport to the mortgagor. It also gives the Minister the power to extend the provisions relating to a private housing scheme. | May 20, 2000 |

| | | | |
|---|---|---|---|
| **Act** No. 6 of 2000 | Income Tax (Amendments) Act 2000 | Amends the Income Tax Act as follows:<br>Section 15 of the Act which deals with the application of a mortgage finance company which has an agreement with the government to provide finance for housing development and for tax exempt status was amended by the insertion of an additional section requiring the mortgage finance company to submit additional information and to adhere to certain requirements for approval of tax exemption.<br><br>Section 39 of the Act was also amended to allow any person who is exempt from corporation tax to also be exempt from withholding tax.<br><br>*Ram and McRae's Comment:* The decision to introduce this legislation was announced in 1998. The legislation requires the conclusion of agreements with the financial institution, and the making and tabling of an Order in Parliament. No agreement has yet been signed with any finance company. | May 20, 2000 |
| **Act** No. 8 of 2000 | Business Names (Registration) (Amendment) Act 2000 | To amend the principal Act to allow the previous year's registration to be endorsed as a valid certificate for the current year, to cause the Registrar to file a statement and issue a certificate on receiving any statement or declaration made in pursuance with the Act, to realistically increase the penalties payable under the Act and to change the amounts of the fees stated in the principal Act.<br><br>*Ram and McRae's Comment:* This constitutes a simplification of the process which should be helpful to small businesses. | May 20, 2000 |
| **Act** No. 10 of 2000 | Civil Aviation Act 2000 | The Act repeals the Civil Aviation of 1996 and establishes a Civil Aviation Authority as a body corporate to ensure the attainment of international standards of aviation safety. The Act gives the Minister wide-ranging powers including the establishment of Aerodromes, the provision of roads and the regulation of any area in connection with the arrival or departure of civil aircrafts.<br><br>It also gives the Minister power to authorise airports to improve facilities for the purpose of avoiding damage to aircraft and to regulate aviation in the time of war.<br><br>*Ram and McRae's Comment:* The Civil Aviation Authority has not yet been established. | August 29, 2000 |

## UNFINISHED BUSINESS

Every year, Focus lists the key issues and policies identified in the Budget Speech and seeks to track their implementation.

A major concern is the absence of any co-ordinating or monitoring system to ensure that action is taken on those policies and issues. The situation probably costs the country vast sums of money. The Budget Speech is a high-visibility event and its contents are subject to public scrutiny. Any weaknesses are easily exposed and this may place the Minister in a less favourable light than his counterparts whose obligations and responsibilities are less well known. Yet unfinished business may all be equally important and some monitoring mechanisms should be put in place.

This problem goes to the heart of governance and public administration. The need for independent, competent public servants, capable ministers who understand and respect the importance of systems and procedures, a Cabinet that holds each member responsible and a Parliament that operates as a true watchdog, preferably through Committees, should lead to more effective management. This will ensure the ministries carry out the task for which they are responsible.

Some of the more critical unfinished business are:

- ✓ Publishing an Investment Law;
- ✓ Completing a Tax Reform Study (limited study done by the IMF);
- ✓ Tabling legislation on bankable property rights;
- ✓ Appointing a Commission of Insurance;
- ✓ Appointing a Securities Council;
- ✓ Appointing a Director of Civil Aviation;
- ✓ Tabling new Procurement legislation and establish a new Procurement supervisory body;
- ✓ Identifying agencies for rationalising and consolidating Public Sector Resources;
- ✓ Providing an incentives framework to attract local and foreign investment and the restoration of tax holidays modalities;
- ✓ Working with local and international banks to provide pre- and post-shipment financing and other related services to the manufacturing sector;
- ✓ Improving the welfare of Amerindians by developing market networks in the Caribbean for Amerindian art and craft. This appears to have been abandoned;
- ✓ Launching of a Youth Employment Programme - appears to have been abandoned;
- ✓ Reforming the Civil Service - the spiralling number of ministries and changes in portfolios suggest that reform is not sufficiently thought out;
- ✓ Establishing a Securities Council;
- ✓ Bringing a new semi-autonomous Deeds Registry into operation - Act was passed but not brought into force;
- ✓ Improving institutional framework for trade and investment facilitation - the role and functions of GO-Invest are again being reviewed;
- ✓ Appointing a Commissioner of Insurance and supporting staff to enforce legal framework;
- ✓ Supporting distressed companies - the only concerted effort has been with respect to the rice sector;
- ✓ Establishing an NGO Co-ordination Unit; and
- ✓ Obtaining a loan from IADB for public sector reform programme.

## 2001 POLICY ISSUES & TARGETS

In announcing the policy agenda for 2001, Minister Kowlessar noted that this was the first year of the PPP/C's new mandate and that the strategies, plans and programmes identified are fashioned to accelerate the country's progress over a five-year period. He quoted the President as saying the new Guyana will be one where all people will benefit from "accelerated economic progress, expanded opportunities and rapid social development; a place where fairness and justice dwell and from which fear, prejudice and discrimination are banished".

### Re-engineering the Economy

- Restructuring the Traditional Industries

Restructuring of the rice, sugar and bauxite industries has been identified in order to enhance their viability, their ability to compete internationally and their net contribution to society.

- Diversifying the Economic Base

An allocation of $425Mn has been made for the purpose of stimulating investment into new products and services in order to reduce the country's dependence on the traditional production centres.

- Creating the Climate for Attracting Investment

  1. Legislative: The Investment Code will be enacted when consultations are over and will clearly define the various areas of interest and concern to potential investors, including the incentives' structure.

  2. Institutional: The Guyana Office for Investment (GO-Invest) will be restructured. The new Foreign Trade and International Cooperation Ministry to support GO-Invest. Additionally, Guyana's Embassies and Consulates will be re-organised and adequately staffed to effectively market Guyana and its products.

1. Infrastructural Development: It is forecasted that $18.7bn will be spent on the Public Sector Investment Programme (PEIP) in 2001.

**Economic Targets**

- ***Growth Rate and Production Targets***

Real GDP is projected to grow by 2.8% in 2001. The sectoral growths are as follows:

- ***Agriculture***

  - ✓ Sugar production is budgeted to decline by 6.9% to 292,297 tonnes.
  - ✓ Rice output is projected to grow by 20% to 350,000 tonnes.
  - ✓ Other crops and livestock are targeted to grow by 2% and 4%, respectively.
  - ✓ Forestry sub-sector is expected to decrease by 7.7%.
  - ✓ Fishing is expected to grow by 4%.

- ***Industry***
    - ✓ Bauxite is expected to decline by 3.5% to 2,594,000 tonnes.
    - ✓ Gold output is projected to grow by 4.6 % to 498,196 tonnes.
    - ✓ Engineering and construction is estimated to expand by 4%.

- ***Service***
    - ✓ Financial services will grow by 3.5%.
    - ✓ Other services are estimated to increase by 4%.

- ***Inflation and Monetary Targets***
    - ✓ Inflation is projected at 6% in 2001.

- ***Balance of Payments***
    - ✓ Earnings from exports of merchandise are expected to increase to US$515Mn.
    - ✓ Imports of merchandise are projected to increase to US$605Mn (fuel accounting for 21.5%).
    - ✓ Net services are projected to grow by US$4.8Mn.
    - ✓ Transfers should increase by US$1Mn.

- ***Fiscal Targets***

**Central Government**

- ✓ Total expenditure is estimated at G$64.7Bn or 4% more than G$62.6 in 2000.
- ✓ Current revenue of Central Government (net of rice levy) is projected to grow by 6.5% to G$44Bn.
- ✓ Current expenditure (net of rice levy) is expected to grow by 6.8% to G$45.8Bn.
- ✓ Central Government balance to decline by 2.7%.
- ✓ Current account balance to deteriorate by G$229Mn.
- ✓ Capital expenditure to grow by 9.7% to G$18.7Bn.

**Public Enterprise**

- ✓ Overall balance of the enterprises is expected to decline from a surplus of G$975Mn (0.8% of GDP) to a deficit of G$2.2Bn (1.6% of GDP).
- ✓ Receipts from public enterprises are budgeted to decline by 3.2% to G$44Bn.
- ✓ Non-interest payment to decline by 3.2% to G$42.8Bn.
- ✓ Operating expenses estimated to be G$46.2Bn.
- ✓ Growth in capital programme is projected at G$3.3Bn.

**Consolidated Balance Sheet**

- ✓ Overall deficit of the non-financial public sector is targeted to decline from 4.9% of GDP in 2000 to 6.7% of the GDP in 2001.
- ✓ G$15Bn in external inflow is projected.

**Ram & McRae's Comments**

*Sugar*: The Minister re-affirmed Government's unwillingness to accede to the World Bank's demand that the Demerara Estates be closed.

*Bauxite*: The Minister announced that the Government is unable to provide further subsidies to Bermine

*Gold:* The projected growth of 4.6% in the overall gold sector translates to a growth of 15% after excluding Omai's projection of no increase in their gold output.

Plans frequently fail because the necessary institutional and operating mechanisms are not properly conceptualised and established. A number of these issues are really unfinished business from the earlier years due in part to management weaknesses but also to the absence of adequate institutional arrangements.

## THE GOVERNMENT OF GUYANA FINANCIAL PLAN 2001

The table on the next page presents a summary of the Government's projected financial plan for 2001. Some of the 2000 figures have been restated in the Estimates without attention being drawn thereto. The Plan projects a current balance of G$1.392Bn compared with a balance of G$0.846Bn in 2000, an increase of G$0.546Bn or 65% from 2000. The elements which account for this increase are explained below.

**Current revenues** are projected to increase to G$44.017Bn in 2001 from G$41.327Bn in 2000. The Guyana Revenue Authority projects an increase of G$1.457Bn or 3.8% over 2000 and now brings in 89% of the total current revenue. In the second year of its operations the Revenue Authority would have been expected to increase revenues well above the projected rate of inflation of 5.9%. In 2000, the Revenue Authority realised increased revenues of 19.8% over the previous year and 9.37% over budget. The increase in collections by the Internal Revenue Department was G$0.648Bn and the Customs and Trade was G$0.808Bn, or 3.4% and 4.2% respectively over the collections by the then independent departments.

**Total Current expenditure** is made up of interest expenditure of $9.1Bn or 21% (2000- 24.5%), personal emoluments of $15.7Bn or 37% (2000- 35.3%) and other charges of $17.8Bn or 42% (2000- 40.10%). Current expenditure is projected to increase by 9.8% from G$30.533Bn to G$33.533Bn in 2000. The main allocations of the non-interest expenditure were the Ministry of Finance 16.40%, Ministry of Education 10.02%, Ministry of Home Affairs 9.45%, Guyana Defence Force 7% and Guyana Public Hospital Corporation 4.86%.

There were several significant changes in the allocation of certain expenditure in comparison to the previous year. Major decreases include Guyana National Service (100%), Public Utilities Commission (100%), Ministry of Trade, Tourism and Industry (54.17%), Ministry of Health and Labour (54.14%) and Ministry of Local Government (53.85%).

Some of the significant increases of non-interest expenditure include the Office of the Prime Minister G$105Mn, Ministry of Local and Regional Development G$56Mn, Ministry of Tourism, Commerce and Industry G$112Mn, Ministry of Health G$960Mn, Ministry of Labour, Human Services and Social Security G$629Mn, Public Service Ministry G$75Mn, Ministry of Culture, Youth and Sports G$471Mn and Ministry of Legal Affairs G$154Mn.

**Total interest expenditure** is projected to decrease by 8% from G$9.927Bn in 2000 to G$9.091Bn in 2001 or approximately 20.6% of current revenue compared with 24% in 2000. Interest on domestic debt is projected to increase by 0.16% and that on external debt is projected to decrease by 17.3%.

**Capital revenue** is projected at G$7.483Bn (2000 - G$6.745Bn) and capital expenditure at G$18.683Bn (2000 - G$17.025Bn). The revenue figure is made up principally of Balance of Payments support and commodity assistance loans mainly from the IDB and the IDA.

**Capital expenditure** of G$ 18.684Bn represents a 9.73% increase over 2000. This follows an increase of 37.9% in 2000 and a decrease of 5.28% in 1999. The proposed allocation of the capital expenditure includes Ministry of Public Works and Communications 22.87%, Ministry of Education 16.01%, Ministry of Finance 11.91%, Ministry of Housing and Water 10.44% and Ministry of Agriculture 8.82%.

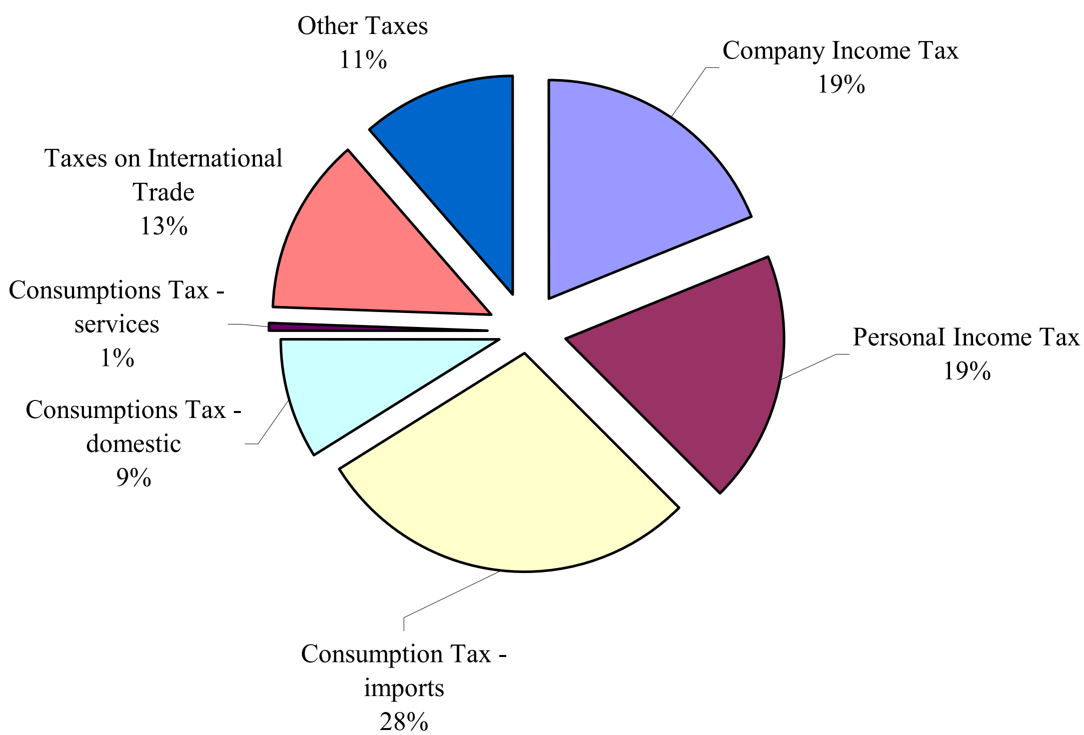
**Debt repayment** is projected at G$3.311Bn (2000 - G$6.025Bn) made up of domestic debt repayments of G$102.9Mn and external debt repayments of G$3.208Bn and representing decreases of 95.2% and 11.5% respectively over the previous year. There is an overall deficit of G$13.119Bn compared with a deficit of G$15.459Bn in 2000. It is projected that the deficit will be financed from external sources amounting to G$15.145Bn. The overall balance of deficit before grants is projected at G$20.60Bn which is G$1.602Bn less than the deficit of G$22.204Bn in 2000.

During 2001, Domestic and External Debt Repayment as a percentage of current revenue is projected at 7.52% compared with a revised percentage of 14.58% in 2000 and a budget of 15.58% for the preceding year.

**Ram and McRae Comments**

Comparisons with previous year may not be entirely reliable since certain 2000 figures may have been changed without explanation. There have also been a number of changes in Ministries and Departments with consequential changes in the allocations. The Plan is very much in line with 2000 figures and reflects the Minister's prior comment that the budget was a *half-year budget*. While the collection by the Revenue Authority may look very impressive, a main source was in personal income taxes, a large proportion of which would have arisen from the public sector wage increase. The decrease in the interest on the external debt of 17.3% compares favourably with an increase of 6.4% in 2000 and a decrease of 31% in 1999.

**Budgeted Tax Revenue for 2001**




Source: 2001 Estimates of the Public Sector

## FINANCIAL OPERATION OF CENTRAL GOVERNMENT (ACCOUNTING CLASSIFICATION)

G$ Million

| ITEM | BUDGET 2001 | REVISED 2000 | BUDGET 2000 | ACTUAL 1999 | ACTUAL 1998 |
|---|---|---|---|---|---|
| | | | | | |
| **1 Current revenue** | **44,017.8** | **41,327.9** | **38,269.5** | **36,839.3** | **33,121.3** |
| 1.1 Guyana Revenue Authority | 39,528.9 | 38,071.9 | 34,809.6 | 31,770.2 | 29,071.6 |
| 1.1.1 Internal Revenue | 19,597.8 | 18,949.2 | 17,222.8 | 15,967.0 | 14,016.3 |
| 1.1.2 Customs and Trade | 19,931.1 | 19,122.8 | 17,586.7 | 15,803.2 | 14,965.3 |
| 1.2 Sugar levy | 1,245.0 | 124.4 | 1,000.0 | 1,800.0 | 1,999.6 |
| 1.3 Other | 3,243.9 | 3,131.6 | 2,459.9 | 3,269.1 | 2,050.0 |
| | | | | | |
| | | | | | |
| **2 Current Expenditure** | **33,533.3** | **30,553.8** | **29,901.3** | **24,441.7** | **20,328.5** |
| 2.1 Personal Emoluments | 15,694.0 | 14,317.7 | 14,244.0 | 12,020.4 | 9,790.9 |
| 2.2 Other goods and services | 9,416.7 | 8,189.2 | 8,687.5 | 6,990.9 | 6,310.3 |
| 2.3 Transfers to private sector | 8,422.6 | 8,046.9 | 6,969.8 | 5,430.4 | 4,227.3 |
| | | | | | |
| **3 Interest** | **9,091.7** | **9,927.9** | **11,657.2** | **7,397.8** | **10,497.8** |
| 3.1 Internal | 5,058.3 | 5,050.1 | 5,870.0 | 3,465.2 | 3,086.1 |
| 3.2 External (Cash) | 4,033.4 | 4,877.8 | 5,787.2 | 3,932.6 | 7,411.7 |
| | | | | | |
| **4 Current balance** | **1,392.9** | **846.3** | **(3,289.0)** | **4,999.8** | **(7,073.5)** |
| | | | | | |
| **5 Capital Revenue and Grants** | 7,483.1 | 6,745.9 | 6,370.8 | 4,914.7 | 2,842.4 |
| | | | | | |
| | | | | | |
| **6 Capital Expenditure** | 18,683.5 | 17,025.4 | 14,600.0 | 12,345.2 | 13,033.8 |
| | | | | | |
| **7 Debt Repayment** | **3,311.4** | **6,025.7** | **5,964.1** | **5,073.0** | **5,261.9** |
| 7.1 Internal | 102.9 | 2,400.2 | 2,401.0 | 1,666.6 | 315.7 |
| 7.2 External (Cash) | 3,208.5 | 3,625.5 | 3,563.1 | 3,406.4 | 4,946.2 |
| | | | | | |
| **OVERALL BALANCE** | **(13,118.9)** | **(15,459.0)** | **(17,482.4)** | **(7,503.7)** | **(12,579.1)** |
| | | | | | |
| **Total Financing** | **13,118.9** | **15,459.0** | **17,482.4** | **7,503.7** | **12,579.1** |
| | | | | | |
| 9.1 External | 15,145.2 | 12,199.5 | 11,545.1 | 8,346.8 | 7,681.2 |
| 9.2 Domestic | (1,817.5) | 3,546.0 | 5,267.3 | (261.4) | 4,538.4 |
| 9.3 Divestment (net) | (208.7) | (286.4) | 670.0 | (581.7) | 359.5 |
| | | | | | |
| **Total Domestic and External Debt Service as a % of current revenue** | **28.2** | **38.6** | **46.0** | **33.9** | **47.6** |

Source: 2001 Estimates of the Public Sector

## WHO GETS WHAT IN 2001

### Current Non-Interest Expenditure

In this section we consider how the budgeted expenditure is allocated among competing ministries, departments, programmes and projects.

Central Government's non-interest current expenditure (employment costs and other charges) for the year is budgeted at G$32.6Bn which is 12% above the revised 2000 amount. The Ministries/ Departments with the most significant allocations are:

| Ministries/Departments | 2001 | | 2000 | | % Inc./(Dec) 01/00 |
|---|---|---|---|---|---|
| | $ (Mn) | %* | $ (Mn) | %* | |
| Ministry of Finance | 5,346 | 16.40 | 4,925 | 16.87 | (0.47) |
| Ministry of Foreign Affairs | 1,324 | 4.06 | 1,331 | 4.56 | (0.50) |
| Ministry of Agriculture | 794 | 2.44 | 755 | 2.59 | (0.15) |
| Office of the President | 843 | 2.59 | 841 | 2.88 | (0.29) |
| Elections Commission | 1,030 | 3.16 | 1,026 | 3.52 | (0.36) |
| Ministry of Education | 3,266 | 10.02 | 2,733 | 9.36 | 0.66 |
| Ministry of Health & Labour | 775 | 2.38 | 1,690 | 5.79 | (3.41) |
| Ministry of Home Affairs | 3,082 | 9.45 | 2,664 | 9.13 | 0.32 |
| Guyana Defence Force | 2,291 | 7.03 | 1,954 | 6.69 | 0.34 |
| Georgetown Public Hospital Corporation | 1,583 | 4.86 | 1,396 | 4.78 | 0.08 |
| Ministry of Health | 960 | 2.94 | - | - | 2.94 |

* Percentage of total current expenditure

Not unlike last year, the Ministry of Finance, the Ministry of Education, the Ministry of Home Affairs and the Guyana Defence Force received the most significant allocations. The Public Utilities Commission and the Guyana National Service received no allocations for the year 2001. Five new ministries received allocations in the 2001 Budget.

The regions with the most significant allocations are:

| Region | 2001 | | 2000 | | % |
|---|---|---|---|---|---|
| | $ (Mn) | %* | $ (Mn) | %* | Inc./(Dec) |
| | | | | | |
| No.4 Demerara/ Mahaica | 1,169 | 16.34 | 957 | 15.77 | 0.57 |
| No.6 East Berbice Corentyne | 1,442 | 20.15 | 1,263 | 20.80 | (0.65) |
| No.5 Mahaica/Berbice | 624 | 8.72 | 523 | 8.62 | 0.10 |
| No.2 Pomeroon/Supenaam | 834 | 11.65 | 673 | 11.09 | 0.56 |
| No.10 Upper Demerara/Berbice | 667 | 9.32 | 599 | 9.87 | (0.55) |
| No.3 Essequibo Islands/ West Dem. | 1,098 | 15.34 | 884 | 14.56 | 0.78 |

* Represents % of regional allocation.

Significant changes from the previous year's latest estimates occurred in the following Ministries / Departments:

| Agency | 2001 $ (Mn) | 2000 $ (Mn) | Variance $(Mn) | % Inc./(Dec) |
|---|---|---|---|---|
| Ministry of Youth, Culture and Sports | 471 | 241 | 230 | 95 |
| Office of the Prime Minister | 105 | 32 | 73 | 228 |
| Ministry of Legal Affairs | 154 | 104 | 50 | 48 |
| Ministry of Local Government | 42 | 91 | (49) | (54) |
| Ministry of Trade, Tourism and Industry | 77 | 168 | (91) | (54) |
| Ministry of Health and Labour | 775 | 1,690 | (915) | (54) |
| Ministry of Human Service & Social Security | 598 | 973 | (375) | (39) |
| Public Utilities Commission | 0 | 58 | (58) | (100) |
| Guyana National Service | 0 | 262 | (262) | (100) |

The reductions in the allocations for the Ministry of Local Government, the Ministry of Trade, Tourism and Industry, the Ministry of Health and Labour, and the Ministry of Human Service & Social Security were because of the creation of the new ministries – The Ministry of Local Government and Regional Development ($56Mn), the Ministry of Tourism, Commerce and Industry ($112Mn), the Ministry of Health ($960Mn) and the Ministry of Labour, Human Services and Social Security ($629Mn).

**Capital Expenditure**

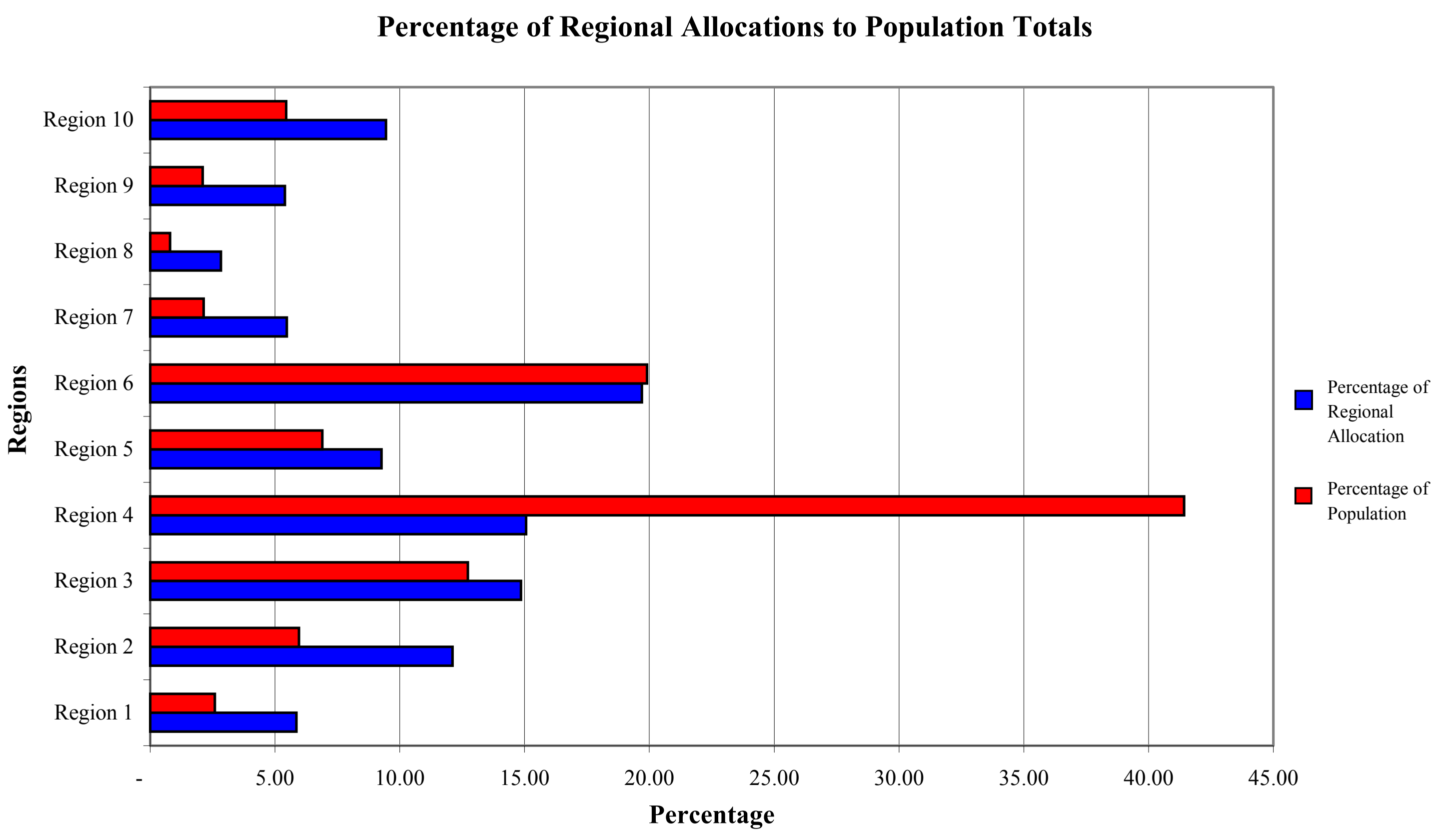
Central Government's capital expenditure for the year is budgeted at G$18.7Bn which is 28% above revised 2000 and 36% of total 2001 expenditure. The Ministries / Departments with the most significant capital expenditure allocations are:

| Ministries/Departments | 2001 | | 2000 | | % Inc./(Dec) |
|---|---|---|---|---|---|
| | $ (Mn) | % | $ (Mn) | % | |
| Ministry of Public Works & Communications | 4,273 | 22.87 | 3,886 | 26.61 | (3.74) |
| Ministry of Education | 2,992 | 16.01 | 2,104 | 14.41 | 1.60 |
| Ministry of Finance | 2,226 | 11.91 | 971 | 6.65 | 5.26 |
| Ministry of Housing and Water | 1,950 | 10.44 | 2,225 | 15.24 | (4.80) |
| Ministry of Agriculture | 1,648 | 8.82 | 1,512 | 10.35 | (1.53) |

The Public Utilities Commission and the Guyana National Service receive no allocations while allocations for the Ministry of Local Government, the Ministry of Trade, Tourism and Industry, the Ministry of Health and Labour, and the Ministry of Human Service & Social Security were significantly cut. The Georgetown Public Hospital Corporation ($64Mn), the Office of the Auditor General ($9Mn) and the Guyana Defence Force ($283Mn) had the most significant increases in allocations by 256%, 200% and 142% respectively.

## Ram & McRae Comments

Once again Region 6 (East Berbice/Corentyne) whose share of the country's population is about 20%, receives approximately 20% of the total current expenditure amount allocated to the regions. The situation regarding the total expenditure allocation is similar. Region 6 gets 20% while the even smaller Region 3 (Essequibo Islands/West Demerara), with a population share of 12.5% gets 15% of the amount of the regional expenditure, up from 14.2% in 2000. On the other hand, Region 4, with 42% of the country's population receives only 15% of the sum the total expenditure allocated to the regions.




Source: Population - Guyana Statistical Year Book –1994
Budget Allocations - 2001 Estimates of the Public Sector

## 2001 BUDGET MEASURES

| MAIN BUDGET MEASURES | COMMENTS |
|---|---|
| No new taxes, fees or fines | This has been the third consecutive year that the Government has claimed not to have increased taxes. However, the upward movement in the customs rate of the US dollar is an effective tax increase as does inflation which erodes the real value of the personal allowance. |
| Allocation of $500Mn for the implementation of various poverty programmes. This is in addition to the allocations of $1.1Bn under SIMAP, $188.4Mn under the Poor Rural Communities Project and $100Mn under the Basic Needs Trust Fund Programme | It is interesting that the Minister referred to "distressed communities" - a term not dis-similar to that used by the Leader of the Opposition.<br><br>The Minister did not indicate what special arrangements, if any, were contemplated having regard to the dialogue. |
| Provision of $254Mn to execute programmes of the local government bodies and $754Mn under the Urban Development Programme to construct and rehabilitate infrastructure in the six municipalities | The local government allocation represents a mere $2Mn increase over 2000. |
| $538Mn allocated for the development and upgrading of existing housing schemes and squatter settlements The Minister announced that some $650Mn will be provided to continue the land distribution programme in 2001. | There is no indication of how this amount will be allocated between existing and new settlements or how many house lots distributed and schemes established. |

**Ram and McRae's Comments**

The Minister did not indicate the institutional arrangements for the execution of these projects.

## COMMENTARY AND ANALYSIS

This budget, similar to the last budget, bore no surprises - no new taxes, very few new measures and again no mention of tax reform. There were some promising developments however in the turnaround of the balance of payments deficit and the commitment to infrastructural development, particularly as incentives for investment.

### Economic Affairs

The IMF continues to exert a dominant influence over the country's economic affairs. The country looks hopefully for any kind of an exit strategy from what is believed to be the longest running IMF programme in the world. In return for more and more debt relief, key agreements and commitments affecting fundamental issues involving the country, to which Guyanese are not privy, are made to the IMF.

While the IMF sometimes expresses concerns about certain specific policies and the slow pace with which action is taken by the administration, it seems satisfied with the overall direction and management of the economy. It has been critical of the U-turns on taxation, the pace of the privatisation and the inadequate systems and information, so critical for decision-making purposes. Yet the Decision Point Document signed between the government and the IMF in November 2000, suggests that the IMF is not sufficiently thorough in its review of the action taken on agreed matters. This is particularly serious since there appears to be no parliamentary oversight of these agreements.

Despite comments about globalisation and the global economy, there was regrettably no mention of any of the regional (Caricom), hemispheric (Summit of the Americas in Québec) and international (Everything But Arms Initiative) developments, all of which could seriously affect Guyana's economic prospects in the near and medium term.

These issues are perhaps even more significant following the announcement of the resignation by the Caribbean's chief negotiator, Sir Shridath Ramphal. We offer the following comments on the Free Trade Area of the Americas (FTAA) decided on at the Summit and the EBA Initiative:

### Free Trade Area of the Americas (FTAA)

Within the next five years, the FTAA will remove practically all barriers to trade and services in a market close to 800 million people accounting for over 11 trillion dollars in GDP. This trading bloc including the USA, Canada, Latin America and the Caribbean (but excluding Cuba) accounts for a significant proportion of Guyana's output and apart from the trade implications there will also be other serious implications which would mean that international trade will bring in less revenue from tariffs. Guyana would have to rely on increasing the quality and quantity of its output along with minimising its importation costs in order to sustain a balance of trade surplus.

The countries of the Caribbean can still benefit from special trading arrangements as it does with the European market, but these considerations must form part of all negotiations. Sugar and rice are currently vital for Guyana's survival and how these are treated in the medium term under any new arrangements can determine the economic future of the country.

## Everything But Arms

Guyana, along with several other African, Caribbean and Pacific states, currently benefit from trade with European countries under the fourth ACP-EC Convention. These benefits stem from the European Union only allowing exports from ACP states to access the European markets for specified commodities.

In a well-intentioned decision to assist least developed countries, the European Commission adopted a proposal on September 20, 2000 that would provide full access for the world's poorest countries to European markets. This simply means more competition for products from countries such as Guyana. Following an impact assessment report published on February 8, 2001, the EU adopted the Everything But Arms Initiative on February 26, 2001.

The Initiative extends duty and quota free access to all products except arms and ammunition originating from the least developed economies. Three products - sugar, rice and bananas - will be allowed access to the EU markets over a phasing-in period expected to end during the year 2009 as follows:

Fresh bananas by January 1, 2006; Rice by September 1, 2009; and Sugar by July 1, 2009.

The impact on Guyana, which enjoys a substantial premium on its sugar and rice exports to the EU, could be catastrophic. Revenues in these sectors will fall as higher levels of imports from other sources enter the EU market.

Over 2001/2002, there will be no changes in the tariff on sugar and rice but a decline in revenues should be expected as the current duty-free quota of 74,185 and 2,517 tonnes of sugar and rice respectively will be increased by 15% every year.

## Tax Reform

For decades, Guyana has been one of the highest taxed countries in the world. Even allowing for the inadequacy of national statistics, the size of the unofficial economy and the high level of tax evasion, this situation is unacceptable on legal, equity and economic grounds. The tax contributed by the self-employed persons (professionals, unincorporated businesses, farmers, artisans, etc.) is a disgraceful 1.44% of taxes paid in 2000. While income taxes collected by the Revenue Authority increased by 17.8% in 2000 the share contributed by the self-employed increased only by 14%.

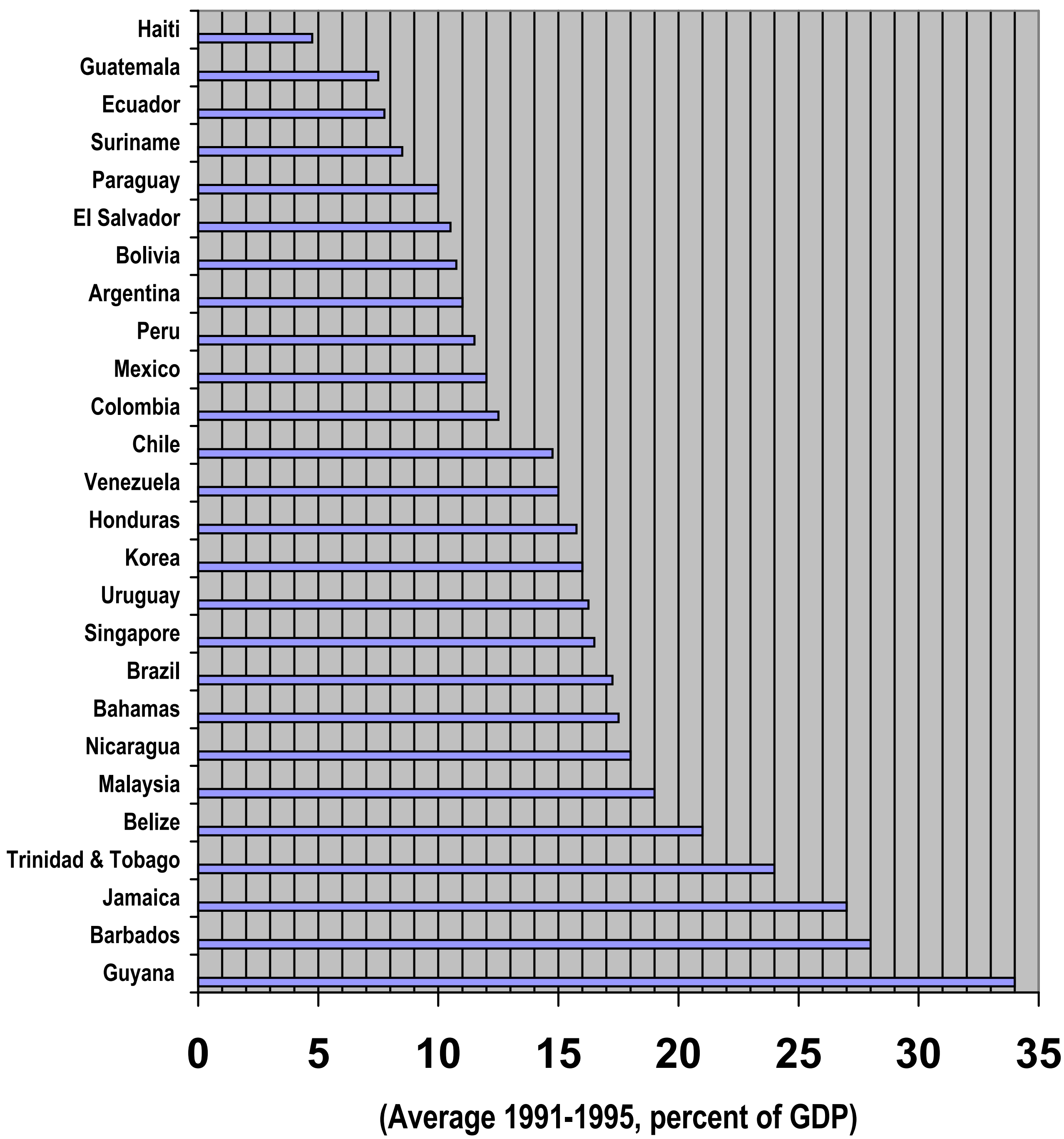
Last year Minister Kowlessar announced the completion of a study by the IMF of Guyana's tax system. That study identified a number of findings on the tax system including:

- A relatively high current revenue to GDP ratio to compensate for the higher ratio of Government expenditure to GDP;
- A narrow revenue base which fosters economic inefficiency, inequity and tax evasion;
- Weak revenue administration hampered by lack of training, inadequate resources, low wages and poor morale;
- A threatened overall tax base represented by the overall prospective consequences of the growing economic and financial integration in the international economy; and
- More efficient taxation of domestic activities through taxes on consumption and income and introduction of a broad-based VAT.

The study had a number of deficiencies while making a case for the introduction of VAT at a single rate of 15% with minimum exemptions.

# TOTAL TAX BURDEN

**Source: IDB Report on Economic & Social Progress in Latin America**



There are conflicting reports of the commitment made by Guyana to the IMF in relation to VAT. While possessed of the most draconian powers, our tax authorities are finding it extremely difficult to collect taxes from the so-called "hard to tax" group. On grounds of administrative convenience, the IMF study recommends that the group be excluded from VAT which will mean the burden of taxes will continue to be carried by a very narrow base.

Participants and presenters at the June 13, 2001 public consultation on VAT referred to in the Budget Speech were in agreement that considerably more work needs to be done before a commitment to VAT is made. These include:

- Expenditure reform
- Tax reform
- Administration reform
- Conduct of an Impact Study

**Tax Holidays**

In some pre-budget comments, President Bharrat Jagdeo, who has continued to pay close attention to the Ministry of Finance, had announced his Government's intention to encourage investment by a "liberal use of the tax system". This included generous concessions and tax holidays.

Tax holidays it is worth remembering, do not rate as high in the investment decision as do political stability, a sound macro-economic environment and a stable tax system. The PPP/C has been very uncertain with regard to tax holidays having abolished them in 1994 and re-introduced them in 1998. The IMF, which often uses Guyana as its model of success was forced to comment as follows:

" ….it is indeed regrettable that in Guyana the Government has chosen to re-introduce tax holidays in 1998 after having correctly abolished them in 1994. One can only hope that the occasion is taken to review the operational mechanisms as well as the subsequent activities of enterprises currently in exemption status. New exemptions, if really deemed unavoidable, should be granted on a limited and strictly monitored basis."[1]

Exemptions, remissions and tax holidays narrow the tax base and necessitate high rates of tax to compensate for the taxes forgone. In addition, they are open to abuse, have a distortionary effect on resource allocation and investment decisions and often lead to concern about lack of transparency. Most importantly they take from Parliament the important function of taxation and place it in the hands of the politician.

**Lean Government**

One of the commitments under the various ERPs, and a necessary pre-requisite for good, effective government and governance is the streamlining of the Ministries and Departments of the Government. Yet if we consider the call of the late President, Dr. Cheddi Jagan, for "lean and clean" government we notice a substantial increase in the number of Ministries from 1992 when there were 13 Ministries, to twenty-two currently.

[1] IMF, *Guyana: Toward a Medium-Term Strategy for Reforming Tax Policy and Administration*: (2000) p6

The changes in the Ministries of the Government create logistical difficulties, budgetary problems and render comparison quite challenging, not to mention the managerial problems of co-ordinating such a large number of persons.

A country with as small a population and limited human resources available to the public sector cannot afford this mushrooming of Ministries. We need to limit the number of our Ministries and Departments, if necessary by way of Constitutional amendment, flatten the pyramid and urgently engage in meaningful public service reform.

**Public Sector Wage Increase**

The Minister was carefully ambiguous about public sector wages. The Government has in some earlier years been criticised for pre-empting wages negotiations by imposing settlement through the Budget and in other years for not making any provision in the Budget.

The approximate 10% increase in "employment costs" shown in Table 7 of the National Estimates masks a wide variation in increases in various Ministries/ Departments which are probably attributable both to changes in the establishment as well as rates.

As a consequence of the deliberate ambiguity over wage increases, pensioners will most likely have to await the conclusion of the negotiations between the Government and Unions representing the public workers before they receive any increases for this year.

**Privatisation**

For several years, *Focus* has been expressing reservations and concerns about the lack of commitment to the Privatisation Policy Framework Paper, tabled in Parliament by the then Finance Minister Asgar Ally, which was supposed to guide the privatisation process.

Many of the entities we have privatised appeared under-prepared for privatisation and were treated more as "forced sale" with consequences for the price obtainable. No attempt was made to make the shares generally available which would have encouraged economic democracy and helped in creating a viable stock exchange. The privatisation of the national airline GA 2000 failed less than two years after the sale of 52% of the shares to a group led by ace businessman Yesu Persaud. This may suggest that those involved in the transaction may not have had the requisite experience or expertise.

**Personal Allowances**

Employed persons who contribute some 44% of the total income tax revenues of the country must be particularly disappointed that for the fourth straight year, no adjustment has been made to the modest personal allowance or free pay which has seen a depreciation of 23% since 1997. Inflation has had a double whammy effect on employment income by taxing nominal rather than real increases in pay and reducing purchasing power of the after tax income.

Even as the government considers and announces its willingness to make liberal use of the tax system to encourage businesses, it ought to remember the sitting ducks of the tax system - the employed persons.

## CONCLUSION

The size of the Budget has increased significantly over the years. Yet the Report of the Auditor General raises serious doubts about the institutional capacity including systems, personnel and controls relevant and appropriate to this level of income and expenditure.

Parliament and most importantly the PNC Reform and the Public Accounts Committee need to exert greater influence over the financial system and the financial resources of the country. Post facto review is analogous to closing the stable after the horse has bolted.

Those Guyanese who pay such high taxes expect to be assured that there is complete financial propriety, accountability and control.

In the introduction section of the Speech, the Minister noted that the Budget is the first step toward the realisation of the goal of having a very "robust, diversified economy that is both capable of withstanding adverse external shocks and competing effectively within the new globalised environment".

With almost half of the year gone, political uncertainty and continuing migration, we would be fortunate indeed to achieve the 2.8% growth in real GDP in 2001.

**Ram & McRae**
**Chartered Accountants**
**Georgetown**
***Guyana***

**June 16, 2001**

## APPENDIX 1

SELECTED SOCIO - ECONOMIC INDICATORS

| ITEM | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **1.0 Accounts Accounts Aggregates** | | | | | |
| 1.1 Growth Rate of Real GDP | (0.8) | 3.0 | (1.8) | 6.2 | 7.9 |
| 1.2 GDP at factor cost (US$M) | 596.9 | 593.6 | 601.3 | 626.5 | 590.1 |
| 1.3 GNP at factor cost (US$M) | 552.6 | 524.6 | 545.1 | 552.8 | 510.9 |
| 1.4 Per Capita GDP (US$) | 773.0 | 770.3 | 777.4 | 808.3 | 766.0 |
| 1.5 Per Capita GNP (US$) | 715.6 | 680.8 | 704.8 | 713.2 | 663.0 |
| 1.6 Gross National Disposable Income | 718.6 | 668.5 | 696.8 | 676.3 | 671.3 |
| 1.7 Private Consumption as % of Gross Domestic Expenditure | 43.0 | 41.1 | 43.9 | 40.6 | 42.1 |
| 1.8 Public Consumption as % of Gross Domestic Expenditure | 23.8 | 22.7 | 19.1 | 18.7 | 16.5 |
| **2.0 External Trade and Finance (US$M)** | | | | | |
| 2.1 BOP Current Account Balance | (113.4) | (75.2) | (96.5) | (105.1) | (53.8) |
| 2.2 Imports of Goods and Non- Factor Services (G&NFS) | (788.6) | (728.3) | (775.0) | 708.8 | 663.5 |
| 2.3 Exports of Goods and Non- Factor Services (G&NFS) | 674.5 | 672.0 | 688.8 | 637.4 | 621.0 |
| 2.4 Resource Balance | (114.1) | (56.3) | (86.2) | (71.4) | (42.5) |
| 2.5 Imports of G&NFS/GDP(%) | (132.1) | (122.7) | 128.9 | (113.1) | 112.4 |
| 2.7 Exports of G&NFS /GDP (%) | 113.0 | 113.2 | 114.6 | 101.7 | 105.2 |
| 2.8 Net International Reserves of Bank of Guyana | 178.4 | 126.8 | 122.2 | 149.9 | 153.9 |
| 2.9 External Public Debt Outstanding | 1,188.0 | 1,200.0 | 1,496.5 | 1,513.0 | 1,537.0 |
| **3.0 PRICES, WAGES & OUTPUT** | | | | | |
| 3.1 Rate of Inflation (% changed in Urban CPI) | 6.2 | 11.9 | 4.6 | 6.8 | 6.6 |
| 3.2 Public Sector Monthly Minimum Wage in G$ (e.o.p) | 19,000.0 | 15,000.0 | 11,445.0 | 8,804.4 | 7,337.0 |
| 3.3 % Growth Rate | 26.7 | 31.1 | 30.5 | 20.0 | 15.0 |
| 3.4 Electricity Generation ( in M.W.H) | 476.9 | 443.2 | 431.2 | 390.4 | 347.3 |

| ITEM | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **4.0 POPULATION & VITAL STATISTICS** | | | | | |
| 4.1 Mid- Year Population ('000) | 772.2 | 770.5 | 773.4 | 775.1 | 770.1 |
| 4.2 Population Growth Rate (e.o.p) | N/A* | 0.0 | 0.5 | 0.1 | 0.5 |
| 4.3 Net Migration ('000) | N/A* | (10.6) | (13.0) | (16.3) | (8.0) |
| 4.4 Visitor Arrivals ('000) | N/A* | 57.4 | 65.6 | 75.7 | 97.1 |
| | | | | | |
| **5.0 HEALTH AND EDUCATION** | | | | | |
| 5.1 Public Expenditure on : | | | | | |
| 5.1.1 Education as % of National Budget | 11.7 | 11.6 | 11.9 | 6.8 | 7.3 |
| 5.1.2 Health as % of National Budget | 5.7 | 6.7 | 5.9 | 7.3 | 6.3 |
| | | | | | |
| **6.0 CRIME** | | | | | |
| 6.1 Reported Serious Crimes | 4,149.0 | 3,905.0 | 4,423.0 | 3,233.0 | 4,563.0 |
| 6.2 of which: Homocides | 95.0 | 101.0 | 120.0 | 99.0 | 88.0 |
| | | | | | |
| **7.0 EXCHANGE RATES** | | | | | |
| 7.1 Exchange Rates US$ | 184.8 | 181.0 | 166.9 | 143.1 | 140.7 |
| | | | | | |
| **8.0 INTEREST RATES** | | | | | |
| 8.1 Prime Lending Rate | 17.2 | 17.3 | 16.6 | 16.9 | 17.2 |
| 8.2 Small Savings Deposit | 7.3 | 8.0 | 7.1 | 7.4 | 7.7 |
| 8.3 Three Months Time Deposits | 7.4 | 9.3 | 8.0 | 8.4 | 9.0 |

* Not Available