ANNUAL BUDGET REPORT 2019

BUDGET 2019: A DISTURBING TREND AND VISION FOR GUYANA’S FUTURE

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Budget 2019: A Disturbing Trend and Vision for Guyana’s Future

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RECOMMENDED CITATION

# Executive Summary

The role of budget and economic policies is to reduce barriers preventing people from realizing their full economic potential. Unfortunately, this budget does the opposite.

— Dr. John Shivdat

# Table of Contents

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Executive Summary</td>
</tr>
<tr>
<td>4</td>
<td>State of the Political Economy</td>
</tr>
<tr>
<td>5</td>
<td>Budget Basics</td>
</tr>
<tr>
<td>7</td>
<td>Budget Overview</td>
</tr>
<tr>
<td>8</td>
<td>Spending Priorities</td>
</tr>
<tr>
<td>9</td>
<td>Report and analysis of Funding Priorities</td>
</tr>
<tr>
<td>9</td>
<td>Health and Human Services</td>
</tr>
<tr>
<td>10</td>
<td>Public Education</td>
</tr>
<tr>
<td>11</td>
<td>Public Safety</td>
</tr>
<tr>
<td>12</td>
<td>Public Infrastructure</td>
</tr>
<tr>
<td>13</td>
<td>Economic Opportunity</td>
</tr>
<tr>
<td>14</td>
<td>General Government</td>
</tr>
<tr>
<td>15</td>
<td>Public Debt</td>
</tr>
<tr>
<td>16</td>
<td>Conclusion</td>
</tr>
<tr>
<td>16</td>
<td>Recommendations</td>
</tr>
</tbody>
</table>

# Endnotes

Who We Are

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The government's budget for 2019 continues a disturbing trend of prioritizing the government instead of the Guyanese people in its funding decisions. It continues to shape a future in which the government is not accountable to taxpayers, where corruption and political nepotism are entrenched, and future oil revenues benefit only the governing political class. Once again, the budget cut funding for economic opportunity sectors limiting opportunities for unskilled and low-skilled workers, poor and low-income families, and small businesses to succeed. It continues to gut funding for the agriculture sector which employs 21% of the country's workforce, most of whom are unskilled and low-skilled workers.

The crippling of the sugar industry and the gradual defunding of the agriculture sector from 2015, undoubtedly, have an air of punishment to it. Especially, given that the sector employs mostly workers of Indian descent who are largely unenthusiastic about the administration. The budget would worsen poverty, widen inequality, and promote more jobless growth. These outcomes would be accompanied by greater economic uncertainty, further decay of public trust, and potentially more social and economic conflicts considering the current constitutional impasse.

This budget provides the clearest evidence yet of the mismatch between the government's priorities and those of the Guyanese people and economy. Sadly, taxpayers' money is used to fund the government's priorities at the expense of their own livelihood and success.

This budget would reduce public debt and free up resources for jobless growth, increase corruption, and with little preparation for oil and gas.

If the CCJ’s rules that the motion was validly passed, the consequences would be more severe. The government must resign and set a new date for elections. This, however, is not a foregone conclusion as the government has demonstrated its willingness to flout the Constitution to retain power. Its initial acceptance of the validity of the motion immediately after its passage and subsequent reneging and failure to abide by the Constitution do not inspire confidence that it will comply with the CCJ’s ruling.

It is understandable that every administration would have a different vision for Guyana and is expected to advance policies to achieve that vision. However, only a vision and policies that promote public accountability and transparency, an efficient government, value for taxpayers’ money, evidence-based policymaking would create opportunities for everyone to succeed and sustainable long-term prosperity. To return the economy on the path to sustainable long-term growth and broad-based prosperity, lawmakers should:

- Realign spending priorities to public needs. Specifically, return public investment to economic opportunity sectors, especially agriculture, to create opportunities for poor and low-income families.
- Reduce the size of the public sector labour force. This would reduce public debt and free up resources for investment in key areas such as education, health, and infrastructure.
- Reverse costly tax and revenue policies that increased the cost of living, mostly for low-income families, such as VAT on electricity, some food items, and other necessities.
- Enforce existing transparency and accountable regulations and adopt new ones to tighten control on corruption, financial misspending, and waste in public agencies. These are especially important with the onset of oil revenues.
- Adopt legislation to require periodic independent performance evaluations of each public agency to determine what programs are working and sunset those that are not delivering value for taxpayers’ money.
It is tempting to look ahead and think that success is inevitable, that Guyana is destined for an economic transformation, unlike anything that it has experienced in its 53 years as an independent state. This temptation is founded mainly on the success of offshore oil and gas exploration and the prospects for commercial success. And more precisely, the impact of this success on revenues for investment in critical services such as education, healthcare, and infrastructure.

But, if the tabling and successful passage of the motion of no-confidence by the National Assembly on December 21, 2018, teaches anything, it is that economic success is always at the mercy of politics, which for far too long has obstructed Guyana’s development and limit the potential and success of the Guyanese people. This was illuminated by the chaos that engulfed the political economy in the aftermath of the passage of the no-confidence vote.

The constant struggle for control of the political economy has shaken the foundation of the Constitution of Guyana and tested the independence of the judiciary to guard and defend the Constitution. This struggle has exposed severe fault lines in the Constitution and multiple weaknesses in how the institutions of government function, respond to the changing needs of the people and advance the principles of democracy, freedom and civil liberties.

The nation is awaiting Guyana’s highest appellate court and final arbitrator’s judgment on the validity of the no-confidence motion, the Caribbean Courts of Justice (CCJ). The CCJ has set May 10, 2019, for the hearing of the challenges to the ruling of the Guyana Court of Appeal which overturned the ruling of the Chief Justice that the motion was validly passed, and the government must resign as is dictated by the Constitution.

The ruling by the Guyana Court of Appeal was widely criticized by the public, private sector, and many others. Critics argued that the decision was based on two errors: (1) justices re-writing the constitution instead of interpreting it, and (2) a flouting of the principles of elementary mathematics by arguing that 33 is not an absolute majority of 65. In layman terms, 33 is not greater than 32. The real tragedy here, however, is the damage to the court’s credibility and public trust (or the perception of it) that accompanied its ruling.

A week prior to the vote of no-confidence, on December 14, 2018, lawmakers approved a budget of more than $300 billion for the fiscal year 2019. This is the last budget before the next constitutionally required general and regional elections by May 2020. Thus, even before the no-confidence motion, 2019 was destined to be a year of politics and policies of preservation.

The ultimate decision on the validity of the motion has significant implications for Guyana’s economy. If the CCJ upholds the Court of Appeal’s ruling, the government will remain in office and continue to implement its priorities for 2019 with the 2020 general and regional elections at the center. From a budget and policy perspective, this almost certainly means no change in policy direction but a continuation of policies that have slowed the economy over the last three years, promote jobless growth, corruption and little preparation for oil and gas.

If overturned, the consequences would be more severe. The government must resign and set a new date for elections. This, however, is not a foregone conclusion as the government has demonstrated its willingness to flout the Constitution to retain power. Its initial acceptance of the validity of the motion immediately after it was passed and subsequent backpedaling and failure to abide by the Constitution do not inspire confidence.

Regarding the implementation of the 2019 budget, it is unclear what spending authority a caretaker government would have vis-a-vis the already approved spending limits. What is clear, however, is there will be more uncertainty resulting in potentially less private and public investment and a continued slowing of the non-oil and gas economy. This has real and dire consequences for social sectors, especially healthcare, public safety, and economic opportunity sectors that are currently in distress and struggling.

Irrespective of the outcome at the CCJ, the analysis presented in this report assumes that the next general and regional elections would likely occur after December 31, 2019. Thus, the impact of budget policies and prediction of outcomes must be understood within this context.
Understanding the Budget Process

The illustration below provides a very simplified overview of the budget process highlighting the relationships, checks and balances between the Executive, the Legislature (Parliament) and the President. The complete budget making process is way more complex and involves multiple steps, procedures, activities, and timelines.

The **Executive**, through the Ministry of Finance, proposes a budget for consideration by the Legislature (synonymous with Parliament or the National Assembly). The Ministry of Finance is responsible for the preparation of the budget. It initiates and manages the entire process which includes working with all budget agencies to determine adequate funding levels. The Minister of Finance proposes the government's budget to Parliament for debate and approval.

The **Legislature** debates and approves the entire proposed budget or part of it for the fiscal year. Unapproved allocations are sent back to the Minister of Finance for revision and resubmission. The total of all approved expenditure becomes the 'adopted budget'. (Note: The adopted budget is not yet a law, it only becomes law after the President signs it.)

The **President** signs into law the adopted budget which then becomes the **Enacted Budget** or more formally the **Appropriations Act**. The President can veto the adopted budget if he believes that it does not reflect his administration priorities. This is unlikely when the governing party, which includes the President and his Cabinet, commands a majority of votes in the legislature. The President is the Head of the Executive, and is thus part of the Executive branch of the government.

The **Appropriations Act** authorizes funding at a specific level for multiple service priorities through the various government ministries and public agencies responsible for delivering public services. The funding levels authorized for the different service priorities reflects the government policy priorities and development agenda.
Understanding Service Priorities and Budget Agencies

Service Priorities

There are multiple service priorities that are funded by the Appropriations Act including those guaranteed by the Constitution. Below is a list of these service priorities and the respective budget agencies responsible for their implementation.

**Health & Human Services**
- Ministry of Public Health
- Ministry of Social Protection
- Ministry of Communities
- 10 Regional Administration*

**Public Education**
- Ministry of Education
- 10 Regional Administration*

**Public Infrastructure**
- Ministry of Public Infrastructure
- Ministry of Telecommunication
- 10 Regional Administration*

**General Government Services**
- Ministry of Presidency
- Office of the Prime Minister
- Ministry of Finance
- Ministry of Foreign Affairs
- Ministry of Indigenous Affairs
- Parliament Office
- Office of the Auditor General
- Public and Police Service Commission
- Guyana Election Commission

**Economic Opportunity**
- Ministry of Agriculture
- Ministry of Natural Resources
- Ministry of Business

**Public Safety and Security**
- Ministry of Public Security
- Ministry of Legal Affairs
- Guyana Defense Force
- Supreme Court
- Office of the Ombudsman
- Public Prosecutions
- Public Service Appellate Tribunal
- Ethnic Relations Commission
- Juvenile Justice Commission
- Rights Commission of Guyana
- Public Procurement Commission

**Public Debt**
- Public Debt

Funding levels for government ministries and other public agencies are included in the Estimates of the Public Sector, Volume 1, which is part of the national budget presented to the National Assembly. The estimates are prepared and published annually by the Ministry of Finance. See link for PDF versions of the estimates.
Total Expenditure

Total authorized expenditure for the fiscal year 2019 equals $307 billion\(^1\), representing an increase of more than 15% or $40 billion over the revised total for the fiscal year 2018 of $267 billion. Total expenditure for 2019 continues the increasing trend in expenditure over the review period.

Source of Funds

Of the $307 billion in total expenditure, $241 billion (78%) is funded from general revenues, $11 billion (4%) from grants, and the deficit of $55 billion (18%) from the issuing of new public debt. After 2015, the budget deficit exploded reaching 18% of total expenditure in 2019, compared to less than 1 percent in 2015.

Key Trends

From 2015, total expenditure grew by an average of almost 14% or $31 billion each year.

The budget deficit exploded after 2015 reaching 18% of the total expenditure, up from less than 1 percent in 2015.

Consumption taxes remains the largest source of revenue and is projected to increase by more than 12% ($11 billion) over 2018 for a total of $100 billion.

Income taxes, the second largest source of revenue, is projected to increase by 13% ($10 billion) over 2018 for a total of $89 billion.

General Revenues

General revenues for the fiscal year 2019 is projected at $241 billion, an increase of 15% ($31 billion) over 2018.\(^2\) Of this amount, $100 billion (41%) is from consumption taxes (VAT), $89 billion (38%) is from income taxes and the remaining $52 billion (21%) is from trade taxes and other non-tax revenue sources.
Budget 2019 Funds a Good Life For the Government at the Expense of Economic Opportunities for Everyone Else

While the government's 2019 budget was presented under the theme “Transforming the Economy, Empowering People, Building Sustainable Communities For the Good Life”, the budget cuts total funding for economic opportunity sectors by 28% (more than $6 billion) over 2018. Further, these sectors received just 7% ($21.3 Billion) of the total budget, the lowest funded service priority. The current administration cut funding for these sectors almost every year since 2015. These funding decisions will do the exact opposite of the promise of a “good life” for Guyanese. Cutting funding for these sectors undermines job creation and broad-based growth needed to lift families out of poverty, restore economic confidence, and promote private sector growth.

Budget 2019 continues a post-2015 trend of shifting more money away from productive sectors to support a growing and inefficient government bureaucracy. Funding for general government services increased by 28% ($15 billion) for a total of $69 billion. By far, government services which include a host of bureaucratic and administrative functions, consume the largest share (23%) of the total budget. In 2019, the cost of running the government apparatus is 62% ($27 billion) more than it was in 2015. These funds could have been used for much better purposes to revive the economy and create opportunities for success such as providing broadband access to high school students, building roads in rural areas, or reducing the cost of energy.

Budget 2019 increased funding for health and human services and education by more than $6 billion each, for a total of $62 billion and $47 billion, respectively. Increased investment in these services is needed to improve the level and quality of services. However, the high level of inefficiency, financial mismanagement, waste, and corruption in the implementing agencies offer little hope for public benefits and improved outcomes. Record level investments over the last few years have failed to deliver promised results. For example, health outcomes such as maternal and child mortality rates, suicides, immunization rates, and deaths by communicable diseases have either worsened or remained unchanged, despite higher levels of public spending.3

### Percent Change in Funding Levels by Service Areas

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Funding levels, G$ billions</th>
<th>Percent Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>2019 = $69.0 2018 = $54.0</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Public Education</td>
<td>2019 = $40.0 2018 = $34.9</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Public Safety</td>
<td>2019 = $46.8 2018 = $40.4</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Health &amp; Human Services</td>
<td>2019 = $62.3 2018 = $55.6</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Public Infrastructure</td>
<td>2019 = $43.0 2018 = $39.8</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Public Debt</td>
<td>2019 = $18.3 2018 = $17.7</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Economic Opportunity</td>
<td>2019 = $21.3 2018 = $27.7</td>
<td>-23%</td>
<td></td>
</tr>
</tbody>
</table>
**Building Clean and Safe Communities**

Clean and safe communities are necessary to attract and retain residents, businesses, private investments, and to grow local economies. Most communities across Guyana lack foundational infrastructure for today’s economy such as drainage and irrigation, basic access roads and pedestrian walkways, public security, solid waste management, potable water, cheap and reliable energy and broadband services.

Budget 2019 increased funding for communities by 27% (less than $2 billion) for a total of $8.3 billion. Of note, $685 million of new funds is allocated for subventions to local authorities, an increase of more than 5,000% over 2018. The significance of this increase raises questions about the capacity of local governments to efficiently utilize these funds. The timing of this allocation given the nearing of general elections raises further questions about its true purpose. The budget also includes efforts to improve the quality of potable water in communities.

**Public Health**

The goal of public health is to improve the health and well-being of the population through the provision of quality and affordable healthcare services, including preventative services and public health education. Funding for public health services increased by 12% ($3.7 billion) for a total of $35.8 billion. This amount includes the $10.6 billion (equivalent to 30%) allocated to the 10 administrative regions.

Increased funding is necessary to improve the level and quality of healthcare services. However, the biggest problem with healthcare is not the lack of funding but the abuse and mismanagement of funds. Corruption continues to drain billions of allocated dollars resulting in widespread shortages of basic medications, dysfunctional and shortage of medical equipment, patient neglects, and poor-quality services – all contributing to the recent rise of negligible deaths.

With more than 70% of total allocated funds controlled by the central government, regional & local governments are hamstrung in their abilities to improve access to and the quality of critical services. Currently, Guyana has one of the highest maternal and child death rates in the Caribbean and Latin America, largely due to the lack of access to basic services. The death rates are even higher in rural and hinterland communities.

Poor management and oversight of the sector also contribute to its poor performance. The combination of bad policies, the lack of accountability, and outdated patient care and information systems contribute to the poor quality services and worsening outcomes. For example, data by WHO and UNICEF shows that recent immunization coverage has dropped for common diseases from 2014 levels.

**Social Protection**

Social protection is an integral part of poverty reduction and social development. It refers to policies and programs designed to reduce poverty, economic hardship, and vulnerabilities among families at risk, e.g. seniors, children, and female single-parent households, by providing vital support such as supplemental incomes, basic needs assistance, job training, and workforce readiness services.

Funding for social protection increased by 7% ($1.2 billion) for a total of almost $18.2 billion. Roughly $1 billion of new funding is for old age pension and social assistance, which increased by $1,000 each for a total of $20,500 and $9,000, respectively. Funding for childcare and protection services, however, has been cut despite a rising number of child abuse cases and the lack of enforcement of current protection regulations.

For the working poor (workers aged 18-64 living in poverty), there are no poverty reduction programs that provide support to help make ends meet and encourage a path to self-sufficiency. Workers trapped in low-income jobs have no support for upward mobility. Likewise, there are no unemployment support programs.
**Funding for Public Education**

Total funds for public education increased by 16% ($6.4 billion) for a total of $47 billion. This includes $600 million for the design of a hospitality institute, skills development and rehabilitation, and the construction of TVET centres funded by the CDB. It also includes $350 million in capital expenditure for both campuses of the University of Guyana. Increased funding could help to improve the country's dated education system, update curriculum and invest in technologies, particularly at the primary and secondary levels where students lack access to computers and broadband connectivity.

**Delivery of Education Services**

The regional education departments oversee and manage the delivery of nursery, primary and secondary education in the respective regions. Total allocation for delivery services increased by 17% ($3.5 billion) for a total of $25 billion. Of the new funds, $0.5 billion is for capital improvement, primarily for regions number 1, 2, 7, 8, 9, and 10.

Whereas these funds could help to improve the quality of delivery services, a lot more priority and resources are needed to arrest the most severe challenges. On average, the country loses about 12% of teachers annually with 40 to 45 percent being trained teachers. Over a three-year period, 633 trained teachers left the public education sector for various reasons. This is a significant loss of human and intellectual capital that would hurt the growth and development for a long time.9

**Ministry of Education**

Of the total $47 billion for the education sector, 47% ($22 billion) is allocated to the Ministry of Education. This represents an increase of 15% (almost $3 billion) over 2018. With roughly half of all funds controlled by the ministry, local governments which have the responsibility to deliver services, do not have adequate resources to innovate and improve the quality of services. This contributes to the almost permanent stagnation of the education sector.

The Ministry's budget includes more than $4.5 billion in subventions and grants to various educational institutions and organizations. Of this amount, $79 million is for the Cyril Potter College of Education, more than $2.5 billion for the University of Guyana (both campuses), and $335 million for the school uniform assistance programs. Funding for the uniform assistance programs which benefits poor children has not increased since 2015.
Public Safety & Security (PSS)

Budget 2019 increased funding for public safety, security, and justice by 15% ($5 billion) for a total of $40 billion. Of the total increase, almost $4.5 billion is allocated to the Ministry of Public Security and the Guyana Defense Force. Funding for the Supreme Court also increased by $270 million. The budget offers no major shift in policy to address the decaying state of public safety and security and modernize the security and justice sector.

The quality and response of police and emergency services are extremely poor and among the worse in the Caribbean. The sector lacks intelligence gathering capabilities, human resources, advanced technologies, response apparatuses, data and analytics necessary to improve services. Despite this, only 15% ($6 billion) of total funds are allocated for capital expenditure. Of the new funding, about 75% is allocated for an additional 700 clerical and office support staffs. This is unlikely to have a material and positive impact on the quality of services or improve citizen’s safety and security.

State of Public Safety, Security and Justice

Public safety, security, and justice remain a top concern for families, businesses and communities. In 2017, the overall crime rate increased by 35%. Violent crimes (murder, armed robbery) also remain relatively high although it is said to have declined by 11%. The most recent information from the UN Office on Drugs and Crime lists Guyana’s 2013 homicide rate as 20.4 per 100,000 people – the third highest murder rate in South America (behind Colombia and Brazil) and five times higher than that of the U.S.

Domestic violence against women and children, particularly sexual violence are pervasive. Almost 5,000 children are abused each year, according to the Childcare and Protection Agency. In the first two months of 2019, 400 child abuse cases were reported, an increase over the same period last year. Occasional, crimes such as rape and robbery are perpetrated by police and military officers. Guyana also has the 6th highest roadside traffic death rate in the Caribbean.

Beyond the issue of crime, basic emergency services such as emergency medical services and disaster preparedness services do not exist. And while there are basic fire and police services, the quality is terribly poor. The unfortunate occurrence of a fire or a robbery is almost certain to result in maximum damage, including the loss of life. Similarly, the justice system is antiquated and deprived of any technological improvement resulting in extreme system backlogs and poor delivery of judicial services.

When Safety and Security Fail

Public safety, security, and justice are moral and human rights that are intrinsic to the development process. Safety and security represent many things, including protection from crime, psychological security, consistent housing, stable income, clothing, and food supplies as part of the predictability of daily life. When families feel safe and secure, they are more likely to engage in economic activities which are good for growth. Likewise, when businesses have trust in the justice and security system, they are more likely to invest and create jobs.

But, when families feel unsafe and businesses do not trust the security and justice system, at worst, they migrate and, at best, withhold their spending and investment. In the worst case, those most likely to migrate are professionals, skilled workers, technicians, and entrepreneurs - the core of the country’s human capital stock. This makes it difficult-to-impossible for communities and local governments to improve services, attract and retain new businesses, create jobs, reduce poverty, and the quality of life for citizens. It also makes it difficult for such communities to be a good place to live and raise a family.
Building a Prosperous Economy

Concrete, steel, waterways, and fiber optic cables are basically the building blocks of a prosperous economy. Infrastructure powers businesses, enables trade, connects workers to jobs, creates opportunities for struggling communities and protects the nation from an increasingly unpredictable natural environment.\textsuperscript{11}

Investment in public infrastructure creates jobs in the transport, electricity & water, construction, and communication sectors which account for a third of Guyana’s economy. Many jobs in these sectors have low barriers to entry, benefiting low-skilled workers and their families. Investment in these sectors also support workers in other sectors such as agriculture and mining by improving transport services.

More Funds for Public Infrastructure but Efficiency and Accountable are Important

Funding for public infrastructure increased by 8% ($3.2 billion) for a total of almost $43 billion. Of this amount, 81% ($35 billion) is allocated for infrastructure, 10% ($4.4 billion) for communications, and the remaining 8% ($3.6 billion) is allocated to the ten regions for public works.

Of the total funds, 75% (more than $32 billion) is allocated for capital expenditure and the remaining 25% ($11 billion) for current expenditure. Of note, almost $2 billion in capital expenditure is allocated for various studies and consultancies. Another $550 million is for purchasing furniture and equipment, equipment parts and repairs, and repairs to government buildings.

In principle, increased funding could help to fix the country’s poor infrastructure. However, a review of two years of audit reports shows that taxpayers lost almost $1 billion to misspending, waste and financial mismanagement at the Ministry of Public Infrastructure (MPI). Breaches of procurement regulations, sole sourcing, and substandard services are rampant, according to the study. The ministry controls 75% of all funds for infrastructure.\textsuperscript{12}

Corruption, inefficiency, and mismanagement reduce the real return (e.g. road miles paved, bridges built, etc.) on taxpayers’ money. This is because the actual amount spent on fixing and building the country’s infrastructure is significantly lower than the amount allocated. Overall, this has a chilling effect on the economy, as was evident over the past three years, and discourages private sector investment and jobs growth.

The Future of the Economy is Digital

Globalization continues to make the world economy smaller, considerably increasing access to markets, capital, and technology. However, to harness the full benefits of a global economy, promote real growth, and create opportunities for families and businesses, the government must invest in faster, cheaper, better quality, and more reliable broadband to markedly improve connectivity and access to the digital market place.

Disappointingly, budget 2019 reduced funding for telecommunication by more than 5% over 2018. Further, it proposes no change in policy to liberalize the ICT sector for more reliable and superior network services. The high cost of broadband and mobile services continues to hamper private sector growth, innovation, and businesses success. Limited coverage, poor connectivity, and a monopoly in the provision on landline services are also undermining an e-commerce-led economic transformation and jobs creation.

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Economic Opportunity

Economic opportunity is about creating opportunities for people to realize their full potential and lead successful lives. It includes access to a good paying job, capital to start a business, affordable housing, research and innovation, good infrastructure and clean and safe communities to live and raise a family.

The role of budget and economic policies is to reduce barriers preventing people from realizing their full economic potential. It includes public investment in economic opportunity sectors to encourage commerce and growth, attract private investment, and create good paying jobs. It also includes investment in sectors that provide opportunities for unskilled, low-skilled workers, and displaced workers.

More Cuts to Economic Opportunity Sectors

The government continues to cut overall funding for economic opportunity sectors (agriculture, natural resources, and commerce) for the fourth consecutive year. Budget 2019 reduced funding for these sectors by 23% ($6.4 billion) for a total of $21 billion. This directly contradicts the government’s claim of empowering people and building sustainable communities for the good life.

Ending Agriculture and Punishing Farmers

Funding for the agriculture sector was cut by more than 29% (more than $7 billion) for a total of over $17 billion. This amount includes a total of $2.8 billion allocated directly to the regions. The fiscal assault on agriculture by the current administration amounts to a total of more than 24% (more than $5 billion) gutted from its funding over the period.

The fiscal assault on the sector including the closure of three sugar estates (against the recommendations of the Commission of Inquiry) resulted in more than 5,000 workers without jobs. These workers are mostly low-skilled and are unable to find and keep higher paying jobs in the commercial, services, and manufacturing sectors. Many have since fallen into poverty or deeper poverty and are struggling to feed their families on subsistence activities. Some committed suicide.

Negligibly Investment in Commerce

The private sector faces a myriad of challenges that limit growth, investment, profitability, job creation, access to markets, competitiveness, and the creation of new products and services. Among these are expensive energy, a poor and inefficient transport infrastructure, the high cost of investment capital, burdensome regulations, and workforce limitations.

Despite these constraints, funding for these sectors remains insignificant at 1.3% ($4 billion) of the national budget. To put this into perspective, consider that funding for foreign affairs is about twice the level of investment for commerce and the natural resource sectors. It is no surprise that growth over the last three years has been jobless, failed to restore economic and market confidence, and without any meaningful impact on poor and low-income families.
General Government Services

General government services refer to the services of all government agencies, bodies, commissions, and institutions at all levels of government that keep the economy running. Services such as business registration processing, tax collections, permitting, foreign relations, and governance. At the central and regional levels, these services are paid for by taxpayers as part of the total annual budget.

The gold standard for government services is to provide efficient, high-quality services at the lowest possible cost. This leaves more funds for investment in critical services that promote growth and job creation. Stated differently, the more efficient the government, the more money would be available to invest in services such as education, healthcare, and infrastructure.

The Government’s Bill is Out of Control

The total cost of running the government is growing at a troubling rate and draining billions of taxpayers’ dollars. In 2019, the total cost increased by 28% ($15 billion) to $69 billion. That is the largest increase in funding of any service priority, an amount that is equivalent to half of all new revenues expected in 2019.19 Roughly a quarter (23%) of the entire budget is consumed by the government.

In 2019, it cost taxpayers about $200 million a day or $8 million an hour to keep the government running. In 2015, the cost was $115 million a day or $5 million an hour. What is even more troubling is despite paying millions more per day to run the government, taxpayers got less and less in return in terms of jobs, economic growth, and quality public services.

More Funding Less Accountability

Funding for the Ministry of Finance (MOF) increased by 27% ($8 billion) for a total of $36 billion. The additional funds include $5.3 billion to fund the ‘revision of wages and salaries’ for existing positions. For perspective, this amount is more than the amount allocated for improving telecommunications in the entire country. The MOF also received funding for 22 new positions of which 18 are clerical and office support. More than half of the total funds for government services go to the MOF.

The MOF is responsible for preparing the national budget, manage all public finances, monitor all expenditure by statutory bodies, and more importantly, develop and enforce fiscal management and accountability standards in the public sector. Despite spending more on oversight there is no improvement in public financial management. Successive annual reports by the Auditor General show there is systemic and widespread abuse, waste and mismanagement of public funds across public entities.

Presidency Draining Public Dollars

There has been a seismic shift in funding to the Ministry of Presidency (MOP) since 2015. In 2019, funding for the MOP grew by 32% ($3 billion) for a total of $12.4 billion. This is the largest percentage increase of all budget agencies. This level of funding is 200% higher than in 2015. For a country of fewer than 750,000 people with many unmet social needs, these resources could have been put to better uses with clear public benefits. With the economy in distress and jobs disappearing, it is unclear what taxpayers are getting in return for these funds.

Of greater concern is the shifting of various responsibilities away from ministries with parliamentary oversight and putting them under the presidency. For example, $1.9 billion is allocated for public service management and $1.6 billion for citizenship and immigration services. These services are better performed by other ministries that are separate of the presidency and subjected to legislative oversight and greater public scrutiny.
**Deficits and Public Debt**

A budget deficit (share of the budget financed by borrowing) occurs when the government spends more than it collects in revenues. Deficits add to the total public debt of the country. A deficit is financed by borrowing either from domestic or external lenders. Alternatively, it can be financed by printing money which causes high levels of inflation and can destabilize the economy.

A deficit is not inherently good or bad. It is good when the money borrowed is used to pay for capital investment that delivers broad public benefits, pay for themselves in the long-run, and spur higher levels of economic growth. For example, building roads, seaports, water treatment plants, schools, health centers, and investing in clean energy.

A deficit is bad when monies borrowed are used to pay for recurring expenses such as salaries, overheads, and utilities. It is also bad when it is used to directly or indirectly to pay for expenditure that does not meet a public need, has a clear public benefit, or promote economic growth. For example, spending $1 billion on the Durban Park project while borrowing billions to invest in core public services.

The level of debt relative to the size of the economy is an important indicator of economic health. Too much public debt can hurt the economy by reducing future revenues available to pay for critical public services. Likewise, underutilizing debt can mean missed opportunities for growth, income, and jobs. The objective is to balance fiscal, monetary and debt policies that deliver high and sustained growth and prosperity without burdening future generations.

**Deficit Exploded After 2015 and Growing**

The budget deficit exploded after 2015. In 2015, the deficit totaled $1.2 billion, representing less than 1% of the total expenditure. In 2019, the deficit rose to $55 billion equivalent to 18% of total expenditure. The deficit in 2019 is almost 500% of the level in 2015. The heavy utilization of debt post-2015 is essentially early borrowing against future oil revenues, a risky policy that is a centerpiece of the current administration.

More important than the size of the deficit is to ensure monies borrowed are used productively to generate growth. Unfortunately, more borrowing and spending didn’t stop the economy from slowing from 3.3% in 2015 to 2.2% in 2017. And although growth was positive over the period, it was largely driven by unsustainable sources, gold and bauxite extraction, which has less to do with policies and more to do with luck. Over the same period, the economy lost between 25,000 – 50,000 jobs (rough estimate).

Official data for 2018 is not yet available but growth is expected to show an uptick mainly due to oil and gas activities. However, an uptick in growth is unlikely to have a material impact on net job creation. This is because production in the oil and gas sector is highly mechanized and requires very little manual labour.

**Debt Policy: Debt, Debt and More Debt**

When an individual or a business borrows money, it must repay the amount borrowed plus interest. The same is true for the government. The sooner the repayment the less the amount of interest paid. Early repayment frees up revenues to fund critical projects or access new credit. It also puts the government in a better position to respond to shocks. In other words, early repayment, other things equal, makes good fiscal sense.

Until 2015, the government sought to pay down the public debt; total debt stock fell by $53 billion from $371 billion in 2012 to $318 billion in 2015. Over this period, annual debt payments exceeded annual budget deficits resulting in a net reduction of total public debt. For example, in 2015, the government paid $20 billion towards public debt and borrowed only $1.2 billion to fund the budget deficit.

After 2015, the government borrowed more than twice the amount it repaid each year (see chart above). For example, in 2018 the government borrowed $45 billion and paid $18 billion towards debt. At the end of September 2018, total public debt was $346 billion, roughly 85% of GDP (2006 prices), and $28 billion more than it was in 2015. This amount is artificially suppressed because the government holds a large portion of new debt in an overdraft on the consolidated fund account. More than 75% of all public debts are owed to external lenders and 72% are in US dollars.
Conclusion

The government's budget for 2019 continues a disturbing trend of prioritizing the government instead of the Guyanese people in its funding decisions. It continues to cut funding for economic opportunity sectors limiting opportunities for unskilled and low-skilled workers, poor and low-income families, and small businesses to improve their conditions and quality of life and achieve social and economic success. Absent of economic reasoning, the government continues to its fiscal assault the agriculture sector which employs 21% of the country's workforce, most of whom are unskilled and low-skilled workers and provides the only source of survival for many poor and low-income families.

The crippling of the sugar industry and the gradual defunding of the agriculture sector since taking office in 2015, undoubtedly, have an air of punishment to it. Especially, given that the sector employs mostly workers of Indian descent who are largely unenthusiastic about the administration. This raises the question of the intent and vision behind the government's decision to dismantle the sector. The budget would make poverty more widespread, widen inequality, and promote more jobless growth. These outcomes would be accompanied by greater economic uncertainty, further decay of public trust, and potentially an increase in political and social conflicts in light of the current constitutional impasse and the nearing of fresh general and regional elections.

While the budget cuts funding for the agriculture sector out of concerns for fiscal sustainability, it provides billions more to support a growing and inefficient government bureaucracy benefiting mainly the governing political elites. The budget themes are indeed clear – and very disturbing. Despite increasing allocations to other important sectors such as healthcare, education, and public safety the scale of corruption, financial waste and misspending, and inefficiency in the implementing agencies offer little hope for any meaningful impact and improved outcomes. Record levels of spending since 2015 have failed to deliver on promised results including the “good life for Guyanese”. Overall, the budget continues to shape a disturbing vision of Guyana future in which the government is not accountable to taxpayers, corruption and political nepotism are entrenched, and future oil revenues benefit the only the governing political class.

Recommendations

It is understandable that every government would have a different vision for Guyana and is expected to advance policies to achieve that vision. However, only a vision and policies that support public accountability and transparency, an efficient government, value for taxpayers’ money, and evidence-based policymaking would create an economy that works for everyone and achieve long-term prosperity. To achieve this, the government should:

- Realign spending priorities to public needs. Specifically, restore public investment in agriculture and significantly increase investment in commercial and natural resources sectors to create opportunities for poor and low-income families.
- Clean up the public sector by reducing the size of its labour force. This would reduce the budget deficit and free up resources for investment in key areas such as education, health, and infrastructure.
- Adopt legislation to require periodic independent performance evaluation of each government ministry and public agency to determine what programs are working and sunset those that are not delivering value for taxpayers’ money.
- Adopt performance and efficiency standards for public entities to increase efficiency and the return on taxpayers-funded investment.
- Enforce existing transparency and accountable regulations and adopt new ones to tighten control on corruption, financial misspending, and waste in public entities. This is especially important with the coming of oil revenues.
- Reverse costly tax and revenues policies that disproportionately increased the cost of living for poor and low-income families, for e.g. eliminate VAT on electricity and other food and necessity items.

These recommendations are not intended and would not solve all the problems. They are intended to address the most urgent issues undermining the broad-based growth and shared prosperity such as the lack of accountability and public transparency and poor budget and economic policies.
2 Supra note 1. Appendix D. p.518.
4 Supra note 1. p.181.
9 Ministry of Education. *Improving the Number of Trained Teachers for Quality Improvement in Education*. Accessed on April 8, 2019.
10 Supra note 1.
14 Supra note 13.
15 Supra note 13.
19 Supra note 2.
WHO WE ARE

An independent, non-partisan, and not-for-profit research institute that promotes evidence-based budget, tax and economic policies through accurate, timely and easy-to-read policy research and analysis for building a strong and vibrant economy that provides opportunities for all Guyanese. We communicate our findings strategically, making use of messaging that meets people where they are and that non-experts can digest.

OUR VISION

The Institute's vision is founded on the ideal that Guyana is a country with strong democratic institutions and limitless freedom where people who work hard can build a future, raise a family, run a business, where the state provides adequate social protection for seniors and families struggling to make ends meet, and creates opportunities for everyone to succeed. Further, Guyana must be a model of democratic governance in the Caribbean and Latin American.

OUR MISSION

Our mission is to:

• Promote evidenced-based public policies through rigorous scientific research and analysis to inform policymakers of policies that works;

• Open the budget and policymaking process to greater public participation for increased governmental accountability and stronger democratic institutions; and

• Promote strategic public investment to create modern primary and secondary education systems, bring employment and affordable housing opportunities within the reach of individuals and families, and to create safe, and vibrant communities, that sustain a thriving economy.

OUR WORK

We provide timely research and analysis on:

Government budgets to inform policymakers and the general public on the impact of budget and tax decisions on families and the economy.

Economic policies at the national, local and community levels, paying close attention to impacts on economic growth, job creation, household incomes, inflation, public debt, and the environment.

Social policies to determine whether they are meeting the needs of Guyanese in a sustainable, economically sound way and to articulate government action that can improve these policies for better outcomes.

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