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Analysis & Commentary on Guyana's National Budget



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ABOUT FOCUS 2004

Focus on Guyana's National Budget is an annual publication of **Ram & McRae**, Chartered Accountants and highlights, reviews and comments on the major issues surrounding and raised in the National Budget. **Focus 2004** is the fourteenth in the series which is circulated among politicians, the business community, the country representatives and international agencies operating in Guyana and member firms of Ernst & Young.

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ABOUT RAM & McRAE

Established in 1985, **Ram & McRae**, formerly Christopher L. Ram & Company has distinguished itself in the field of professional services both in Guyana and abroad. Our client focus, commitment to professionalism and our continuous search for excellence are the sources of our unchallenged reputation among professional firms.

Ram & McRae has secured a premier place in the provision of taxation and advisory services to local and international business operators. It offers the public a unique set of the legislation (and advice thereon) including:

- **Consolidated Tax Laws of Guyana** (comprising Income Tax (in Aid of Industry), Income Tax, Corporation Tax, Property Tax, Capital Gains Tax, Revenue Authority and Hotel Accommodation Tax) Acts. These are also available individually.
- **Companies Act, 1991**
- **NIS Act, Cap 36:01**
- **Mining Act 1989**
- **Petroleum (Exploration & Production) Act 1986**
- **Petroleum (Production) Act, Cap 65:05**
- **Termination of Employment & Severance Pay Act 1997**
- **Trade Union Recognition Act 1997**
- **Dealers in Foreign Currency (Licencing) Act 1989**
- **Foreign Exchange (Miscellaneous Provisions) Act 1996**
- **Securities Industry Act 1998**
- **Insurance Act 1998**

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

- Handbook on the Companies Act, 1991
- The Annual Guyana Business Outlook Survey 1995-2004 (except 1998)
- Guyana Investors Information Package
- Focus on Guyana's National Budget 1991 – 2003
- Business Page (weekly column in the Sunday Stabroek Newspaper by the Managing Partner)

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PRE-BUDGET COMMENTS

Much of the early comments on Budget 2004 speculated on the timing of the Budget which at one stage was expected to be published 'early', after which it became a guessing game until the date of March 29, was finally announced.

On March 12, 2004 the Stabroek News Business Supplement reported the visit of an IMF team to work with the Ministry of Finance 'to set the macro-economic targets' which determine the framework for spending in 2004. The article indicated that growth was below 1% but quoted sources as saying that 'the issue of a stimulus package is highly unlikely given fiscal constraints and the high tax burden on a few'.

Business houses had already signaled their wishes for the year as early as December 2003 in the annual Business Outlook Survey done by Ram & Mc Rae published on December 19, 2003. The Survey showed that the five most urgent wishes of the business community were: steps to combat crime, lowering of direct taxation, policies to reduce interest rates, lower exchange rates and enhanced governance.

The President too signaled his own economic philosophy in December 2003 when he described the approval for relief for Guyana under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative as 'Guyana's best Christmas Gift. That the benefit amounted to US\$30M annually for ten years hardly justifies such excessive language.

As the newspapers carried photographs of the Minister of Finance, Mr. Saisnarine Kowlessar and his team meeting with a few stakeholders including the Trades Union Congress, there were popular calls for job creation, increasing the income tax threshold and increase in salaries. A man-in-the-street survey conducted by Stabroek News (S/N March 15, 2004) produced the usual wishes for a reduction of P.A.Y.E. rates, reduction in import taxes on popular consumer goods, repair to roads, improvement of utility infrastructure, additional funding for laboratory facilities and classroom conveniences at the University of Guyana, additional funding for the Police Force and revision of pension benefits.

The Georgetown Chamber of Commerce & Industry at a pre-budget meeting with the Minister of Finance on March 4, 2004 submitted a written proposal which included calls for 'significant tax reform to "jump start" the economy; raising the tax threshold "to at least \$36,000" and a reduction in the PAYE rate; the abolishment of the 2% MCT; the introduction of tax certificates as opposed to tax returns 'which are considered labour-intensive and time consuming'; unifying the tax rate at 35%; taxing of diesel at the maximum 5% rate and tax credits and deductible mortgage repayments for new homes and first time buyers. Some of the non-tax measures sought included the establishment of economic zones, reduction to agricultural and student interest rates, formulation of a national export strategy and wealth creation strategies, reform of the Customs Department, expedition of regional linkages via the Guyana/Brazil road and the bridging of the Berbice River.

The Consultative Association of Guyanese Industries Ltd, an employers' organisation lobbied for the creation of jobs, allowing the NIS to invest in securities rather than increase the contribution rate, an improvement in the delivery of technical education, and policies facilitating agreement between employers including the government and their employees thereby avoiding arbitration. Among the tax measures recommended were investment incentive legislation, increases in the threshold for personal taxes, the removal of taxes such as property taxes and estate duties and rebates on mortgage interest and travel tax to senior citizens.

The Guyana Manufacturers Association again referred to punitive consumption tax rates affecting its membership. It called for a review of the rates applicable to alcoholic beverages, reduction of the rates on locally manufactured food items (with complete removal of C-Tax on items with more than 90% local inputs) and enforcement of G-Tax on cottage industries to widen the tax net and protect local industries. Other measures advocated include the introduction of an export processing zone, formalisation of the Small Businesses Act, an increase of the income tax threshold, the implementation of VAT to broaden the tax base, a reduced tax rate of 25% to the manufacturing sector and a single consumption tax rate of 10%.

The Trades Union Congress, the umbrella but divided labour organisation, re-submitted its 2001 proposals which we understand were updated orally at the meeting with the Minister. Understandably, the TUC is concerned that employed persons continue to bear the brunt of the personal taxes collected by the Guyana Revenue Authority and argued that the TUC 'cannot accept as a matter of principle that workers could or should be paying an even greater percentage of tax year after year' while some sectors which benefit substantially from the budgetary allocation are not contributing commensurately to the State's coffers.

Specifically, the TUC recommended a wealth tax, restructuring of the tax bands and rates beginning at 10% rather than 20% currently, reform of the National Insurance Scheme including consideration of a Family Health Insurance Plan and the reform of the Scheme's Investment Policy, the provision by the Government of funds for housing loans on which interest relief would be available, and increases in the grant funds for the TUC and the Critchlow Labour College.

Not only were these encounters held far too late for any meaningful effect, but several groups which had been on standby for meetings were never called while the umbrella Private Sector Commission was ignored because of what is believed to be personality difficulties which President Bharrat Jagdeo has had with leading officials of that body. Despite these recurring complaints, there is never any explanation for the non-consideration of the recommendations made by those privileged to have an audience with the Minister nor do the organisations address the more fundamental question whether they could not better utilise the time spent on the exercise.

Of course one of the reasons for the meek approach with respect to the business groups is that the leaders of those bodies prefer to cultivate relationships that give them direct access to the President which they generally use to lobby for their own, rather than the interest of their general membership. Indeed it would be rare among our private sector for any group to make recommendations which would in any way be inconsistent with that of the leadership at the given time.

If this country's private sector wants to be taken seriously it has to assert its rights while putting its own house in order. Unfortunately there is far too much fear and self-censorship for a meaningful and mutually respectful relationship to exist with the Government.

INTRODUCTION

Minister of Finance Mr. Saisnarine Kowlessar, presented his fifth budget to a House that was again missing representatives from the Opposition PNC/R, despite an earlier statement prior to the Budget that the significance of the budget and subsequent debate necessitated the presence of the Party. The party's leader Mr. Robert Corbin who last year entered into a Constructive Engagement with President Bharrat Jagdeo replacing the failed Dialogue between the parties, had pledged not to attend any activity in the presence of Minister of Home Affairs Ronald Gajraj who has been accused of involvement in extra-judicial killings by squads set up by him in response to criminal activities mainly on the East Coast of Demerara and in Georgetown. The non-PPP/CIVIC members at the sitting, held at the Ocean View Hotel due to rehabilitation works at the National Assembly, were MP's Sheila Holder of WPA, Ravi Dev of ROAR and Attorney-at-Law Khemraj Ramjattan who was recently expelled from by the PPP/C.

Once again the Budget was presented just before the constitutional deadline, despite the several complaints and criticisms that it is wholly inappropriate for the national Budget to be approved some four months into the financial year, a problem which not even the recently enacted Financial Management and Accountability Act has addressed.

The presentation itself lacked conviction adding to a lacklustre Budget whose only merit is the dubious claim of being the largest in the history of the country. After all, there is no inherently great virtue in borrowing or taxing or in the ability to spend huge sums of money. It is almost surreal for a Budget that once again reports a contraction in the economy for the third time in six years to have as its theme 'Investing for Economic Growth and Enhanced Social Development'. This unwillingness to confront reality remains a major hurdle to returning the economy to the level of growth which the country recorded from 1992 to 1997 and which is so necessary for addressing the social ills of the country.

Political rhetoric, including the suggestion that the PPP/C alone 'fought for and secured the return to democracy in 1992', is no substitute for presentation and substance in a Budget that had not a single direct measure to bring relief to employees, businesses or the unemployed and that is sure to disappoint supporters of the Government and critics alike. The nearest item that could be considered a Budget measure is the 1% increase in the National Insurance Scheme contribution rate to 13%. While this is unlikely to be welcomed by employees or employers, the increase is negligible in so far as addressing the impending crisis which the Scheme faces. For the growing army of unemployed, the Budget offers little and indeed the word itself did not appear once in the Speech – a first for years.

While there are no new tax measures, it will be recalled that the principal tax measures in 2003 did not come with the Budget and there must be some trepidation about prospects for additional taxes later on this year, particularly if there is any shortfall in revenue or a large unbudgeted wage bill following the public workers arbitration.

The Minister, even before announcing the contraction in the economy referred to the number of 'challenging, unforeseen and unforgettable circumstances marking the third term of the Government'. The Minister is surely not unaware that in neighbouring Venezuela where President Hugo Chavez is in a perpetual struggle to stay in power against quite considerable odds, that country's economy grew by 9% last year even though every sector was affected, including oil.

In order to avoid addressing the contraction last year, the Minister chose to deal with the three year period 2001-2003 during which he reported a growth of 1%, a situation that has 'laid the

foundations for growth and further development in 2004'. He also chose to deal with international and often incomparable statistics such as the country's improved position in the Human Development Index which is a mere statistic for the average Guyanese.

In his review of the global economy, the Minister again chose to go back to 9/11 and to identify the negative factors affecting national economies in 2003 such as SARS and the war in Iraq which at worst could only have affected Guyana most tangentially. Despite these problems, the world economy grew by 2.5% in 2003 and is projected to grow by 3.5% in 2004 while Guyana's contracted in 2003 with projected growth of 2.5% in 2004.

Despite the endless plans to diversify the economy, very little has changed in the past six years as the following table shows:

Gross Domestic Product at 1988 Prices by Industrial Origin:

Description	1998	%	2001	%	2003	%
Sugar	790	14.99	880	16.08	935	17.00
Rice	209	3.97	199	3.64	218	3.96
Livestock	109	2.07	119	2.17	130	2.36
Other Agriculture	272	5.16	281	5.13	291	5.29
Fishing	142	2.69	165	3.01	159	2.89
Forestry	200	3.80	195	3.56	183	3.33
Mining & Quarrying	645	12.24	652	11.91	554	10.07
Manufacturing	328	6.22	309	5.64	309	5.62
Distribution	439	8.33	427	7.80	412	7.49
Transport & Communication	439	8.33	506	9.24	555	10.09
Engineering & Construction	471	8.94	461	8.42	468	8.51
Rent & Dwellings	93	1.76	94	1.72	97	1.76
Financial Services	294	5.58	293	5.35	293	5.33
Other Services	188	3.57	204	3.73	210	3.82
Government	650	12.33	689	12.59	686	12.47
Total	5,269		5,474		5,500	

Source: Bureau of Statistics

Shortfall in sugar was largely made up by the rice sector giving the Minister optimism that 'farmers are slowly recovering from the financial crisis that had earlier hit the industry', despite the fact that weather conditions were the most significant factor in rice production. Like the economy itself, the manufacturing sector performs more like a yo-yo, falling 2% this year after expanding by 2% last year with worrying declines in several key areas. Gold too remains a concern which despite the substantial increase in price, has recorded a decline of 8.7%, affected by both Omai and domestic producers. In this regard, the failure to plan for the departure of Omai will have severe economic and social consequences particularly for the hinterland communities which have come to rely on that company.

The outturn was mixed. The projected growth of 1.2% did not materialise while inflation was as projected and the Guyana/ US Dollar exchange rate stable, although remittances and money laundering may be contributory factors. It must be a cause for concern that despite the advent of the Guyana Revenue Authority the substantial sums invested in staffing it as well as new tax measures in 2003, the revenue garnered by the GRA in 2003 declined in real terms.

In referring to stability in the exchange rate, the Minister ignored the significant depreciation in the Guyana Dollar relative to the Euro, Sterling and other international currencies.

The National Development Strategy (NDS) – once promoted as the vision that would drive development – has been ignored completely and the only two 'economic' documents referred to in the Speech are the Poverty Reduction Strategy Paper (PRSP) and the PPP/CIVIC Manifesto. The Manifesto had identified among the priority areas for attention during the period 2001-2005 National Unity and Harmony, More and Better Jobs, Further reduction of the tax burden on workers, Housing for everyone, Emphasis on Accountability, Ethics and Morality and Enhanced Local Government.

The PRSP, which instead of being a derivative of the NDS is now in place of it, and which is a creature, if not an imposition of the International Donor Community, is in danger of losing focus with targets after targets being missed and practically no national ownership. The difficulty for the Minister is that the PRSP is now controlled out of the Office of the President and it is fast becoming irrelevant to those who it was designed to help. The reality is that there is now no longer an indigenous economic plan for the country and it is not surprising that succeeding budgets are almost synonymous with no new ideas, initiatives or innovation. We cannot do the same thing we did last year and expect different results.

Apart from the absence of specific measures to deal with the challenges facing the country, women or Amerindians, some things stand out - that the replacement of a culvert can cost close to G\$200M and that the Guyana National Commercial Bank has been completely privatised. What about the billions of dollars in loans which it has retained and which are now administered by the Guyana Co-operative Financial Services (GCFS)?

Last year **Focus** suggested that the Minister's use of figures might be deliberately ambiguous and confusing. In one particular case this year, he went further exaggerating a US\$2.5M investment into US\$4M and a turnover of approximately \$100M into purchases of hundreds of millions of dollars!

Such loose use of figures is unacceptable from a Minister of Finance.

It is difficult to believe that the charges of corruption involving his Ministry would not have played on his mind during his Speech. He would probably have earned respect for acknowledging the problem and indicating steps to deal with it.

We have learnt that the Government has decided not to debate this Budget for another two weeks. We consider this irresponsible and unbecoming of a National Assembly in which so much resources and hope reside. The Budget is already late and every effort ought to have been made to accelerate discussions. The Government's seriousness is now on the line.

SPEECH HIGHLIGHTS

Size of the Budget: \$75.6Bln, 3.7% increase

2003 Facts

Contraction in the economy of 0.6% compared to a target of 1.2% and actual of 1.1% in 2002

Overall balance of payments deficit reduced from US\$25.4M in 2002 to US\$9.9M

The 91-day Treasury bill rate declined from 3.91% at December 2002 to 3.4% at December 2003

Inflation rate of 4.9% as compared to target of 5.0%

Depreciation of the Guyana Dollar by 1.3% to \$194.25* at year end compared to 1.2% in 2002

Increase in Current Revenue collections by 1.8% from G\$44.6B in 2002 to G\$45.4B

Current account deficit of US\$84.1M and net inflows on the capital account of US\$78M (2002 – US\$88.7M)

Minimum public sector wage increased by 5% to \$22,099 per month

Increase in rice production of 23.3% and bauxite of 4% and decreases in sugar of 8.7% & gold of 13.7%. Diamond declaration increased by 66.1%

Exports of US\$517M compared to imports of US\$571.7M a trade imbalance of \$54.6M

* Bank of Guyana rate

2004 Measures

No new tax measures

Increase in NIS contribution rate from 12% to 13% (employee 5.2%, employer 7.8%). The self employed contribution rate will increase from 10.5% to 11.5%

Financial Targets – 2004

Inflation of 4.5% with growth in Real GDP of 2.5%

Current revenue of \$47.9B, a 5.5% increase over 2003

Decrease of 45% in the overall deficit from US\$9.9M to US\$5.4M

Overall deficit of non-financial sector to increase from G\$10.9B (7.6% of GDP) to G\$13.0B (8.4% of GDP)

Increase of 29.5% in the overall deficit after grants from \$15.5B to \$20.1B

Overall deficit of the central government (before grants) to increase by 20.5% to \$26B

REVIEW 2003**2003 Global Facts**

World output projected at 3.5% in 2004 compared with an estimated 2.5% in 2003

World trade growth increased by 4.7% in 2003 and is projected at 7.5% in 2004

2003 Local Facts

	Target 2004	Actual 2003	Target 2003
Real GDP growth	2.5%	(0.6%)	1.2%
Inflation rate	4.5%	4.9%	5.0%
Current account deficit of the balance of payments	US\$118.9M	US\$84.2M	US\$154.3M

The Global Economy

After an eventful 2002 which saw world economies going into recession, the advanced economies were again tested and the global economy declined in the first half of 2003 mainly as a result of sluggish growth in Japan and Europe, the effects of the Iraq war and the impact of the SARS virus. The second half of the year fared much better, attributed largely to expansionary fiscal policies in the US and Europe. Oil producing countries such as Trinidad and Venezuela benefited from high oil prices while oil-importing Caribbean countries suffered. The Caribbean tourism industry however benefited from growth in the global economy as a result of the climbing Euro rate.

The Domestic Economy

A review over the past few years reveals a "yo-yo" economy with spurts of positive and negative growth. In 2003 the economy contracted by 0.6% against a target growth of 1.2% and a 1.1% growth in 2002. In 2001 growth was recorded at 1.9% while in 2000, the economy contracted by 1.4%.

Declines in the production of sugar, gold and manufactured goods mainly contributed to the contraction of the economy. Sugar, a key contributor to the economy, was negatively affected by poor weather conditions, declining by 8.7% to 302,378 tonnes from 331,052 tonnes in 2002.

Mining and quarrying declined for a second consecutive year. In 2002 there was a contraction of 6.9% and in 2003, 8.7% due to declining production at Omai not matched by new finds. The huge slide of 16% in gold production could not be cushioned by increases in diamond production and bauxite production of 66.1% and 4.7% respectively.

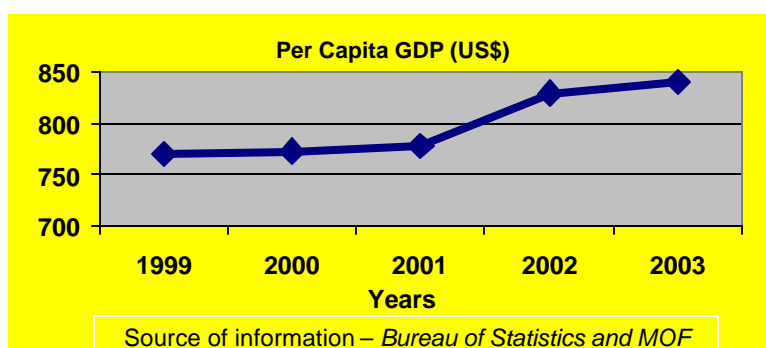
Declines in plywood manufacture (20%) and beverages (rum – 18%, beer and stout – 22.4% and malta – 30%) contributed significantly to the 2% decline in the manufacturing sector. However, there was positive growth in production of stockfeed, cereals, aerated beverages, bottled water and corrugated cartons. The manufacturing sector grew in 2001 and 2002 by 0.2% and 2% respectively.

All sub-sectors of the services sector recorded growth except for the distribution sub-sector which declined by 2.5%. Overall, there was a growth of 2.1% with the transport and communications

sector (5%), engineering and construction sector (5.8%), financial sector (1%), rent of dwellings (3%) and other services (2.6%) being the contributors. In 2002 only the transport and communications sector recorded a growth of 4.5%.

On a positive note, rice production increased significantly by 23.3% to 355,019 tonnes after declining by 10.7% in 2002.

Per capita GDP for 2003 was US\$840.2 compared with US\$829.2 in 2002. (*Per Capita GDP is the total output produced inside a country during a given year divided by the total population*)



Debt

External debt service payments rose by 16.4% to US\$49.7M and the stock of debt decreased by 13% to US\$1.08B. The Minister reported that approval of the government's request for debt relief was delayed until December 1, causing the Government to have to meet increased debt service payments.

The Minister also reported that in December 2003 the Boards of the IMF and World Bank confirmed that Guyana had met the completion point of the EHIPC thus resulting in the additional debt relief of US\$334M in net present value terms over ten years.

Balance of Payments

	Actual 2002	Revised 2003	Budget 2004
Current Account	(106.10)	(84.10)	(118.90)
Merchandise Trade	(67.60)	(54.60)	(92.70)
Service (net)	(78.50)	(69.80)	(67.20)
Transfers	40.00	40.30	41.00
Capital Account	86.10	78.00	113.50
Capital transfers	31.10	44.80	40.10
Non-Fin. Public Sector	19.70	14.40	33.60
Private Sector Capital	43.60	26.10	33.00
Short-term Capital	(8.30)	(7.30)	6.70
Errors and Omissions	(5.30)	(3.80)	-
Overall Balance	(25.40)	(9.90)	(5.40)

Source of information - *Estimates of the Public Sector*

The deficit on the current account on the Balance of Payment reduced from US\$106.1M to US\$84.1M, an improvement of 20.7%.

Despite the decrease in export quantities of sugar, foreign exchange earnings increased by US\$9.7M. Correspondingly, while the volume of rice exports increased by 23%, the value of exports decreased marginally by US\$0.2M. The appreciated Euro was responsible for increased earnings of bauxite, sugar, other and re-exports, but collectively there was a marginal increase in exports of 4.3% (to US\$517M). The export earnings from rice, gold and timber exports decreased.

Imports increased by 1.5% from US\$563.1M to US\$571.7M as imports of both capital and intermediate goods increased during the year while consumption goods decreased, as it did last year. The cost of fuel imports increased by 17% or US\$21.4M.

Public Sector Investment

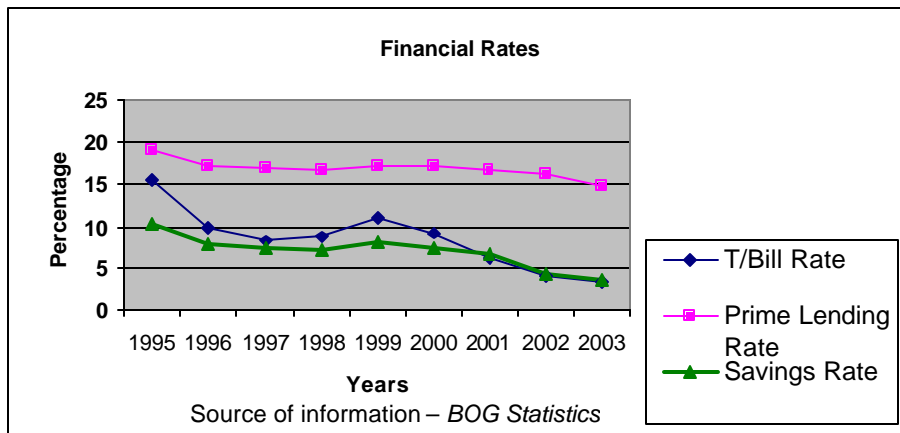
Once again the Public Sector Investment Programme (PSIP) achieved 95% of the target budgeted at \$16.8B. The Minister highlighted among key achievements as the continued upgrade of physical (road network, bridges, air transport and maritime facilities, sea defence system and drainage and irrigation) and social (education, health, housing and water) infrastructure, economic advancement and poverty reduction programmes (Poor Rural Communities Support Services Project, Linden Economic Advancement Project, Basic Needs Trust Fund and Social Impact Amelioration Programme).

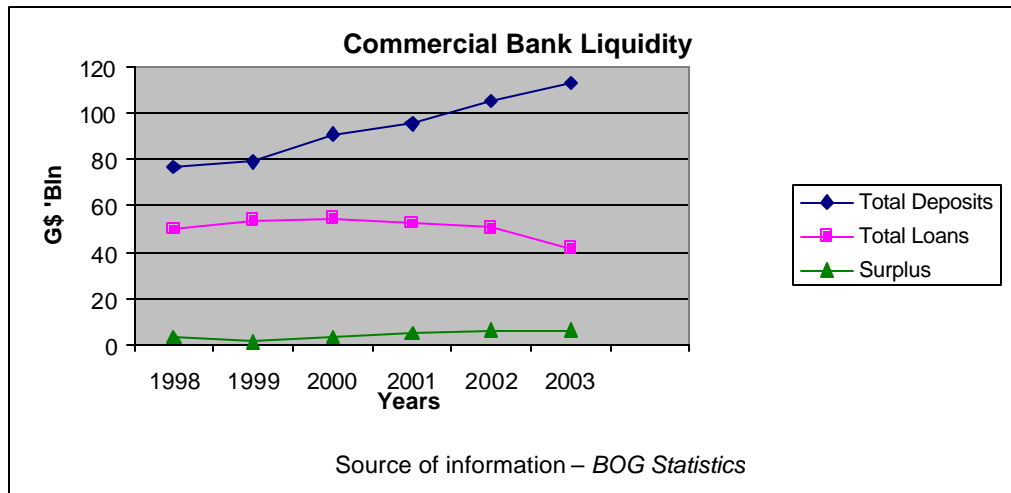
Banking and Interest Rates

Interest continued its downward trend with rates on 91-day treasury bills falling by 0.51 percentage points to 3.40% and ordinary savings by 0.83 to 3.46%. Lending rates fell by 1.37 percentage points and the spread decreased to 0.42 percentage points. The NBS had interest rates of 7% for low income housing.

Loans and advances to the private sector decreased by \$10B or 17.2%. Overall net domestic credit of the banking system fell by 8.1% to \$25.9B. Liquidity in the banking system remained high at \$40B, 7.2% more than in 2002. Currency in circulation and private sector deposits grew by 8.3% while total deposits grew to \$108.7B, an increase of 7.5%.

The following table shows the spread earned by the commercial banks as the financial rates continue to decline.





The Exchange Rate

The exchange rate of the Guyana dollar to the US dollar remained stable, depreciating by 1.3% and settling at \$194.25 at year-end. In 2002 and 2001, the rate declined by of 1.2% and 2.6% respectively.

Issues in the Financial Sector

The Minister reported on some of the actions initiated to improve the capacity and capability of the Bank of Guyana. These included a study on supervisory strategy for the Bank and establishment of a Financial Stability Unit. The Minister also reported the drafting of regulations for the Money Laundering (Prevention) Act, the full privatisation of the GNCB, operation of an Insurance Commission and the establishment of the stock exchange.

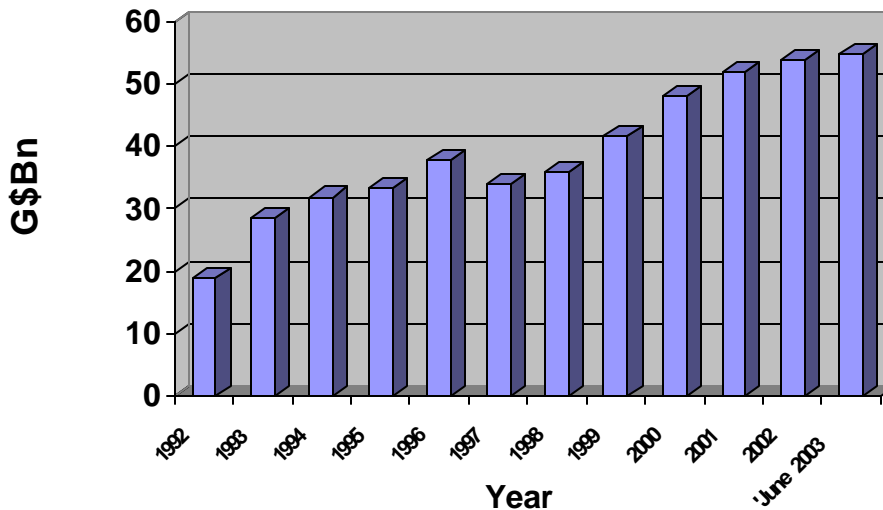
Public Sector Modernisation

The Minister reported the government's actions to modernise the public sector, the passage of the new Fiscal Management and Accountability Act, plans to begin the process of modernizing the treasury and improve its transparency, efficiency and targeting of public expenditure, approval of new procurement legislation, legalisation of the corporate structure of the Demerara Harbour Bridge and installation of new management in the Guyana Power and Light Inc.

Ram & McRae's Comments

Debt: Surprisingly, even in addressing the debt stock, the Minister paid virtually no attention to the domestic debt which has grown exponentially over the past 12 years, costing billions of dollars annually. It seems that the Government has no policy or guidelines that set out the principles and conditions under which the government borrows. The growth in the domestic debt from 1992 to June 2003 is shown in the following graph:

Domestic Public Debt



Source of information – BOG Statistics

The Manufacturing Sector: Rum and beer are generally perceived to be standard bearers of the manufacturing sector and the reported decline in rum production (18%) and beer/ stout (22.4%) have a national resonance. The decline in beer production is significantly higher than the decline reported by Banks DIH in its Annual Report to September 30, 2003.

Public Expenditure: The public sector expenditure target does not seem to suffer from the same constraints of other targets. The recent disclosures of improprieties at the Finance Ministry affecting a very senior public official who exercised considerable authority, and the inordinate delay in addressing procurement concerns and accountability, can only add to the public's unease about capital expenditure.

One senior and knowledgeable official in Linden found the statement that \$200M was expended to replace a collapsed culvert at West Watooka and conduct workshops and train persons in the catchment of areas particularly interesting but questionable.

Economic Performance: Over the past six years the economy has been at a virtual standstill and the Millennium Development Goals (MDGs) are receding further into the world of the unlikely.

Exchange Rate: The Minister's focus on the Bank of Guyana exchange rate to the US Dollar is misleading. The average market exchange rate reported by the BOG at the end of 2003 was \$198.2 while the G\$ exchange rate against the Pound Sterling declined by 10.3%.

2003 LEGISLATION

Perhaps reflecting the greater spirit of co-operation subsisting at least for a period following the resumption of leadership contact between the Government and the main Opposition Party, the National Assembly was far more productive passing 17 Acts compared with 10 in 2002.

The major pieces of legislation passed and assented to during the year were:

The Fiscal Enactment (Amendment) Act 2003
The Kidnapping Act 2003
The Procurement Act, 2003
The Maritime Drug Trafficking (Suppression) Act
The Fiscal Enactment (Amendment No.2) Act 2003; and
The Fiscal Management and Accountability Act 2003.

A complete list of the Acts passed in 2003 is contained in Appendix 1.

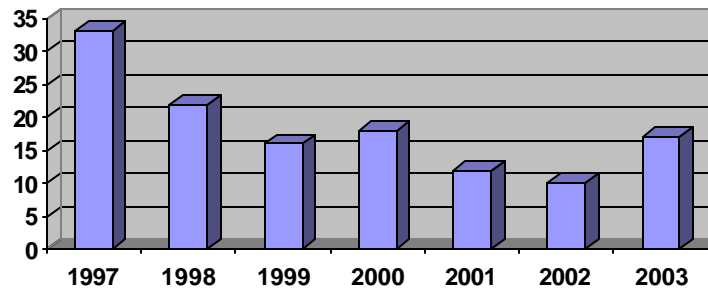
The first of the two Fiscal Enactment Acts gave effect to the tax measures announced in the 2003 Budget Speech introducing a service tax of 10% on domestic telephone calls, cell phone calls or fax messages originating in Guyana, to increase the personal income tax threshold and to increase the rate of withholding tax from 10/15% to 20%.

The second - The Fiscal Enactment (Amendment No.2) Act 2003 – was wide-ranging in its scope and amended no less than six Acts in quite significant ways. The Act has eliminated the broad discretionary powers to remit taxes under the various tax Acts, provides for a standard rate of interest to be charged on late tax payments by reference to the prime lending rates of the commercial banks, extends the scope of services subject to the 10 % service tax, substantially increased professional fees by as much as 2400 %, gave the GRA specific powers to use presumptive methods to determine the income of self-employed individuals and to impose a minimum tax on the self-employed, repeals Section 105 of the Income Tax Act under which the President could remit taxes, and limits the discretion of the Commissioner to waive penalties in circumstances constituting 'good cause' only. These are inability to pay due to natural disaster, disability, mental incapacity or death or with respect to a particular tax payer when there is doubt as to collectibility that can be resolved by a whole or partial waiver. Neither in the 2003 Budget Speech nor in the current speech did the Minister indicate the tax effect of either of the two Acts.

The Fiscal Management & Accountability Act was finally passed, and assented to on December 16, 2003 , but several key sections of the Act will not be implemented until the end of the year, at the earliest. These include Sections 15 (Annual Budget Proposal), 68 (End of Year Budget Outcome and Reconciliation Report), 72 (Programme Performance Statement) and Part XII (dealing with Statutory Bodies) which will do so from December 15, 2004.

This Act is designed to provide a framework for modernising and better regulating the financial management practices of Government, but there are concerns that implementation of the Act will seriously test the existing institutional framework at the Ministry of Finance, prompting the Government to seek technical assistance.

Acts Passed In Parliament



NB: 2003 figure does not include Acts not yet assented to

In addition, there were 49 Orders and 7 Regulations published by various Ministers under several Acts for which they bear Ministerial responsibility.

The much anticipated Small Business Act was passed earlier this month, though there were consultations with the business community and strong support for the passage of the Act for a considerable period of time. The same applies to the Investment Act although no one – MP's, officers in the National Assembly or interested stakeholders has a copy of the legislation that is with the President for his assent.

Ram and McRae's Comments

Some of the legislation was not only welcome but long overdue and had been in the pipeline for several years. Legislation continues to give the responsible Minister wide powers of direction and authority even over statutory entities raising doubts about the degree to which political control has been abolished.

For example while the President no longer has the authority to remit (waive) taxes, that power now vests in the Minister of Finance over whom the President exercises considerable influence. The overriding control however is contained in the provision that any sum due to the revenue of the country cannot be remitted unless the Minister is empowered by law to grant the remission.

While the first of the two Fiscal Enactment (Amendment) Acts was expected, the second was sudden, in some respects quite draconian, and led to a Court challenge by the lawyers with respect to whom there is now a stay. While the matter is *sub judice*, the Minister must consider how this affects the government's plans for ensuring that the self-employed including lawyers pay a fair share of taxes. He must also realise that his failure to consult with stakeholders on matters affecting them will always be resented.

Inordinate delays often characterise not only the passage but also the coming into effect of legislation passed. In our view the following major Acts have not been properly effected for the reasons stated.

Companies Act 1991

This 542-sections Act was passed and assented to in record time in 1991 then was held in abeyance until it was rushed into operation on May 25, 1995 on the direction of the International Financial Institutions. In the opinion of many corporate lawyers, this Act requires a number of amendments as well as action to bring certain sections into effect such as the very important Section 156 which anticipates exemption from audit for small companies. The Act's provisions for authorising and disclosing the remuneration of directors have been hotly debated and certainly require clarification while the omission regarding charitable companies needs to be corrected.

The Office of the Registrar of Companies which is the regulator responsible for overseeing compliance with this Act is ill equipped to carry out its mandate and compliance is extremely limited.

The Financial Institutions Act (FIA)

This Act requires financial institutions to be licenced with the Bank of Guyana to carry on banking or financial business. In 1996, the Bank of Guyana published several guidelines under the Act.

The Bank of Guyana has generally been effective in the administration of the FIA although it has been criticised for having been too soft on Globe Trust, not strong enough in disapproving of persons who may not be fit and proper for appointment as directors, and being too slow in bringing under its purview, the New Building Society and the financial institution on the West Coast Demerara posing as a co-operative.

Insurance Act 1998

This Act was passed in the National Assembly on 31st December 1998 but did not come into operation until 18th December 2002. The Insurance Arbitration Board was established in 2003 but the Insurance Board of Review required by the Act has not yet been set up.

Because of its one-size-fits-all approach, many of the affected persons are either unwilling or unable to comply with the Act.

The Securities Act 1998

The Act, passed in the National Assembly on 31st December 1998, came into effect in stages to July 2002. The Guyana Securities Council was established in July 2001 while the Guyana Stock Exchange was launched on June 30, 2003.

The Council is yet to finalise rules of corporate governance to upgrade current governance practices in leading public companies including DDL and Banks DIH Ltd which have been criticised by Business Page Columnist and Managing Partner of Ram & McRae for their poor performance and inadequate accounting and financial disclosures.

All members of the Securities Council are appointed by the Minister of Finance.

The Deeds Registry Act 1999

This Act was passed on 23rd, April 1999 to establish the Deeds Registry as a body corporate to carry out the functions assigned to the Registrar under nine separate Acts including the

Companies Act, Deeds Registry Act and Land Registry Act. The Act requires the setting up of an advisory board.

Failure by the Government to direct serious attention and resources to address the deficiencies at the Registry, continues to harm the business community and the public which should expect that public records are accessible and current.

The Minister of Legal Affairs is responsible for the administration of the Deeds Registry Act.

The Money Laundering (Prevention) Act 2000

This Act, passed on 29th March 2000 is designed to prevent money laundering and provide for the establishment of a Supervisory Authority which could be the Governor of the Bank of Guyana or some other fit and proper person.

No Supervisory Authority has yet been set up but we understand a Unit has been established in the Ministry of Finance. This Act addresses money laundering only through Financial Institutions and even at its best could not effectively prevent money laundering through a range of avenues other than financial institutions.

The Act for which the Minister of Finance is responsible is therefore not in operation.

Bureau of Statistics Act 1991

The Bureau of Statistics Act 1991 was assented to by the late President Hoyte in 1991. It established the Bureau as a corporate entity to carry out the functions set out in Section 3 of the Statistics Act among which is the collection and publication of statistics.

The Bureau carried out a Population and Housing Census in September 2002, and the Minister reported that the Census results were submitted to the Government 'earlier in the year', without giving any indication of the date when it would be published. The Census is already long overdue and the delay is inexplicable and unfortunate for those who take statistics and planning seriously.

The First Schedule to the Act requires that the names of members of the Bureau be Gazetted but there is no evidence that this has been done. Incredibly, the Act provides for the Minister to be chairman if *he* fails to appoint a chairman.

The Procurement Act 2003

After several undertakings by the Government in response to widespread concerns about corruption and efficiencies in the awarding of hundreds of millions of dollars for goods and services, a Procurement Act was passed in the National Assembly on June 19, 2003 and assented to on July 19, 2003. An earlier Procurement Act 2002 was passed and assented to but subsequently repealed by 2003.

The Order to bring this Act into force has not been made by the Minister of Finance nor has the National Procurement and Tender Administration been established. The Minister of Finance has wide ranging powers of appointment and direction while the Act retains a role for Cabinet in the award of contracts.

Tourism Authority Act 2002

The Authority is not currently functional, the period of appointment of the last Board having expired on December 31, 2003. The Authority, which has responsibility for the development of the tourism industry, over which the Minister of Tourism exercises wide ranging powers, has been underfunded and for the current year has been allocated a significant increase from \$20M to \$31M.

Integrity Commission Act 1997

This Act was passed on 24th September 1997 and was designed to ensure proper conduct by politicians and public officials. This Act is generally seen to have had no impact while both the evidence and perception of corruption have mounted, most recently at the very senior level in the Ministry of Finance.

It seems that in exchange for financial assistance, the Government of Guyana is quite willing to enact legislation despite the absence of commitment, conviction or capacity. The consequence is that the objectives are seldom met even when the legislation is brought into effect.

UNFINISHED BUSINESS

A common feature of past Budget Speeches is the several issues which are announced and soon forgotten. The Budget Speech is as much a political speech as it is a technical document and it is not unusual to find that issues are addressed in a manner designed to conceal any deficiencies. While some attempt has been made this year at least to refer to those issues announced last year, the pace of implementation is not one that can be treated lightly.

In this section, we consider those issues outstanding from previous years and offer some comments thereon:

- ✓ **Tax Reform Study:** *Tax reform has been on the agenda for several years and the legislation passed last year provided the framework for addressing the widespread evasion of taxes by the self-employed. The Speech gave no indication of when these provisions would be brought into effect but rather announced that a VAT Implementation Team has been installed in the GRA and staff exposed to training in VAT issues.*
- ✓ **Tabling legislation on bankable property rights** – *no mention in the 2003 and 2004 Speeches but the Minister has announced a more limited 'programme to improve land titling and allocation.'*
- ✓ **Tabling new Procurement legislation and establishing a new Procurement supervisory body. The Supervisory Body** – *the National Procurement and Tender Administration has not been set up and the Act is therefore not in operation.*
- ✓ **Civil Service** – *The Minister announced that the government has shifted from undertaking job descriptions and a performance appraisal system to 'completing overview studies and horizontal assessments of the Public Service'. Once again, wages for public servants will be determined via arbitration which in the recent past has been unpredictable and costly for the government which has blamed the settlement for creating imbalances in the government accounts.*
- ✓ **Bringing a new semi-autonomous Deeds Registry into operation** – *This has still not been done.*
- ✓ **Improving institutional framework for trade and investment facilitation** – *There is little evidence of progress in this area, but the Minister has announced the convening of an investment conference in the second half of 2004.*
- ✓ **Appointing a Commissioner of Insurance and support staff to enforce legal framework;** *A Commissioner and two staff are housed at the Privatisation Unit of the Ministry of Finance but many companies are either unable or reluctant to meet the new statutory requirements under the Insurance Act.*
- ✓ **Restructuring the rice, sugar and bauxite industries in order to enhance their viability, their ability to compete internationally and their net contribution to society;** - *The privatisation of Linmine and Bermine announced in the 2000 Budget Speech has still not materialised while the former privatised Aroaima Mining and Aroaima Bauxite companies have reverted to state ownership.*
- ✓ **Diversifying the economic base for the purpose of stimulating investment into new products and services in order to reduce the country's dependence on the traditional production centres.** - *The evidence is that the structure of the economy has remained virtually unchanged for the past years.*

Ram and McRae's Comments

- Reform of the Public Service is not only a human resource issue but a structural one. There is an urgent need to review the number of Ministries and the structure and operations of the Office of the President which has become unwieldy and unmanageable.
- The delay in establishing the Public Service Commission due to the PPP/C-PNC/R impasse, gave rise to hundreds of persons being recruited on contracts at salaries that bear no resemblance to the established public service positions. The loss of institutional capability and the number of political appointees by the Administration will complicate efforts at reform.
- It would be unfortunate if the Government were to impose VAT on an unprepared Guyana Revenue Authority and a populace that is never consulted on taxation measures. The government had announced in the 2003 Budget that VAT would be introduced from 2006, a commitment that is restated in 2004. The Government has, to its own cost and that of those who still seem willing to pay taxes, ignored continual calls for wider consultation on tax reform, fostering considerable dissatisfaction which is sometimes translated into non-compliance and tax evasion. In addition, there were 49 Orders and 7 Regulations published by various Ministers under several Acts for which they bear Ministerial responsibility.
- The mis-steps to bring order and transparency to procurement characterised by the passage of a Procurement Act in 2002 only to be repealed one year later continue to cause concern particularly as evidence of improprieties mounts. The Government should move expeditiously to bring this Act into operation to avoid its commitment being questioned.
- The Government seems unwilling to recognise the very critical role which the Deeds Registry plays in the proper functioning of the commercial sector. The failure of the Minister to update the nation on this issue is quite regrettable and incomprehensible.
- Despite all talk about diversifying the economic base of the country, the economy remains dependent on rice, sugar and bauxite which are currently being restructured. The manufacturing sector continues to disappoint even as the major manufacturing companies expand their commercial operations often importing for distribution items which compete with their own manufactured products.
- The Bar Association's challenge to the tax measures contained in Act 15 of 2003 remains an outstanding issue that is outside of the discretion of the Government, but no less important. The Government cannot now rule out legal challenges to new legislation including VAT which is conceptually no different from the service tax now being challenged. It therefore needs to move carefully in addressing the issue of VAT.
- Consistent with the PPP/C's Manifesto commitment to promote the effectiveness of the Justice System while promoting business efficiency, the Minister might have been expected to announce resources for the Commercial Court.

2004 POLICY ISSUES & TARGETS

The Minister stated that the policies for 2004 and beyond are guided by the broad policy reforms outlined in the Poverty Reduction Strategy Paper designed to raise the level of development and generate sustainable growth under the following principal headings:

Macroeconomic Fundamentals

- Maintaining low rates of inflation, adequate savings, healthy international reserves, a stable exchange rate and a prudent fiscal position.
- Positive growth for 2004 and 2005.

Retooling the Economy

Sugar

Sugar remains the centerpiece of the economy and of Government's plans. Under the Guysuco Strategic Plan, production is expected to increase by approximately 50% from approximately 300,000 tonnes in 2003 to 450,000 tonnes while the cost of production is projected to decline from US17 cents to US 9 cents per pound in 2007.

The Plan, to be financed mainly by soft loans from India and China, includes the construction of a co-generation project while retaining the Demerara Estates.

Rice

With the objective of enhancing the competitiveness of the industry, Government will continue to seek loans, grants and other forms of assistance. The government hopes to access 11.7M Euros from the EU, US\$3.4M from the IDB and a soft loan of \$3.2M Euros from an unidentified source to purchase machinery and equipment.

Bauxite

The operation of Aroaima Bauxite Co. Ltd and Bermine will be further consolidated; the workforce at Aroaima will be reduced by 150 workers while Linmine will be privatised in the first half of 2004.

Legislatively, the Government will revise the Mining Act to enhance investments incentives.

New Growth Areas

The only sections selected for special attention are tourism - although no specific action is identified - and aquaculture.

Stimulating Investment

The Minister announced the passing of the Investment Act, the establishment of an Investment Promotion Council and a Small Business Development Fund, accelerated steps for the introduction of VAT, the strengthening of the GRA, Debt write off and restructuring of amounts owing to the Guyana Co-operative Financial Services (GCFS), a government-owned entity charged with collecting the debts of the former GNCB.

Financial System

The proposed targets are:

- Enhancement of the legislation to introduce deposit insurance
- Amending the Financial Institutions Act and Regulations
- Restructuring the GCFS.
- Speed Up Land Titling
- Hosting an Investment Conference
- Obtain a US\$32.8M loan for a project to support transparent management of the Government's fiscal and financial affairs.
- Operationalise the Fiscal Management and Accountability Act.
- Receive by March 31, 2004 a report from a Committee established to review the legislation and policy framework of all statutory bodies.
- Pursue other avenues of debt relief to manage the debt ratio which is still high and which is expected to reach 248 % of revenue in 2007.

Ram & McRae's Comments

The projections for positive growth for this and next year conflict with the PRSP recently sent by the Minister of Finance to various stakeholders and which projects a decline of -0.3 in 2005. Such inconsistency both between and within documents can only cause confusion and raise doubts about the care with which official documents are prepared.

Whatever its objectives towards other sectors of the economy, the Government continues to invest heavily in rice and sugar and seems prepared to underwrite any borrowings to support the expansion of these industries. The cost reduction target for sugar seems particularly ambitious given the firm commitment of the Government not to close the Demerara Estates where the cost of production is much higher than in Berbice.

While Guysuco has been a major contributor to the State's coffers, the TUC is concerned that the same cannot be said of rice. As part of the efforts to widen the tax net and to avoid any charges of favouritism, the Government must ensure that the rice sector pays its fair share of taxes.

Even as the Minister of Finance laments the high debt to revenue ratio, the Government continues to borrow for almost any purpose and without any apparent regard for servicing those debts. It is amazing that it will cost Government US\$32.8M to finance the project to support the Government's fiscal and financial affairs and one can only speculate about the cost/benefit analysis that led to this decision.

The announcement that the work of the Committee established to review the legislation and policy framework of all statutory bodies is so far advanced will take many by surprise. Such a study will be both informative and instructive and the public would no doubt be looking forward to the fruits of the Committee's labour.

The Government has effectively refused to speak with the PSC despite a written request for a meeting. Such attitude does not bode well for the Investment Conference.

THE GOVERNMENT OF GUYANA FINANCIAL PLAN 2004

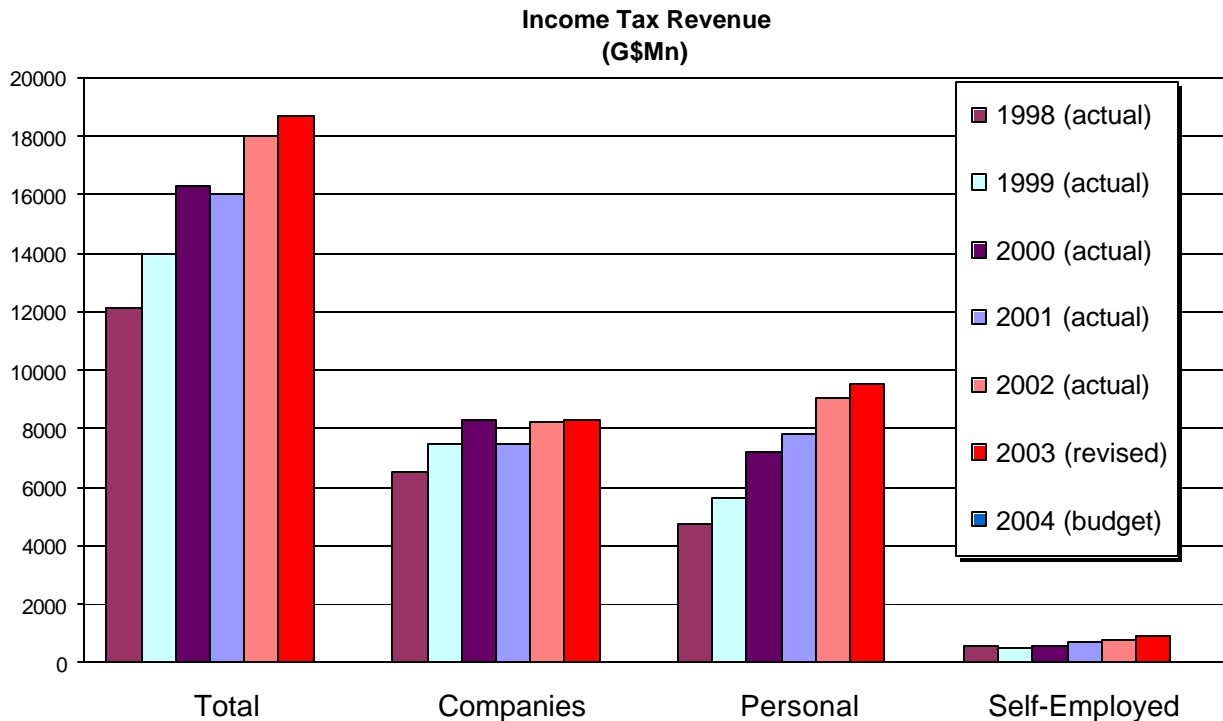
The table on the page 26 presents a summary of the Government's projected financial plan for 2004. Some of the 2003 figures, which appeared in the 2003 Estimates, have been restated in the 2004 estimates without any explanation. The 2004 Plan projects a negative current balance of G\$152.5M compared with G\$742.5M in 2003, which is effectively an improvement of G\$590M.

In 2003, the Minister had projected a deficit on the current account of G\$1.65B, while the latest estimate for 2003 was G\$743M, a reduction in the deficit of G\$907M. A shortfall in revenue of G\$584M was more than offset by savings in current non-interest expenditure of G\$1.07B in almost every line item.

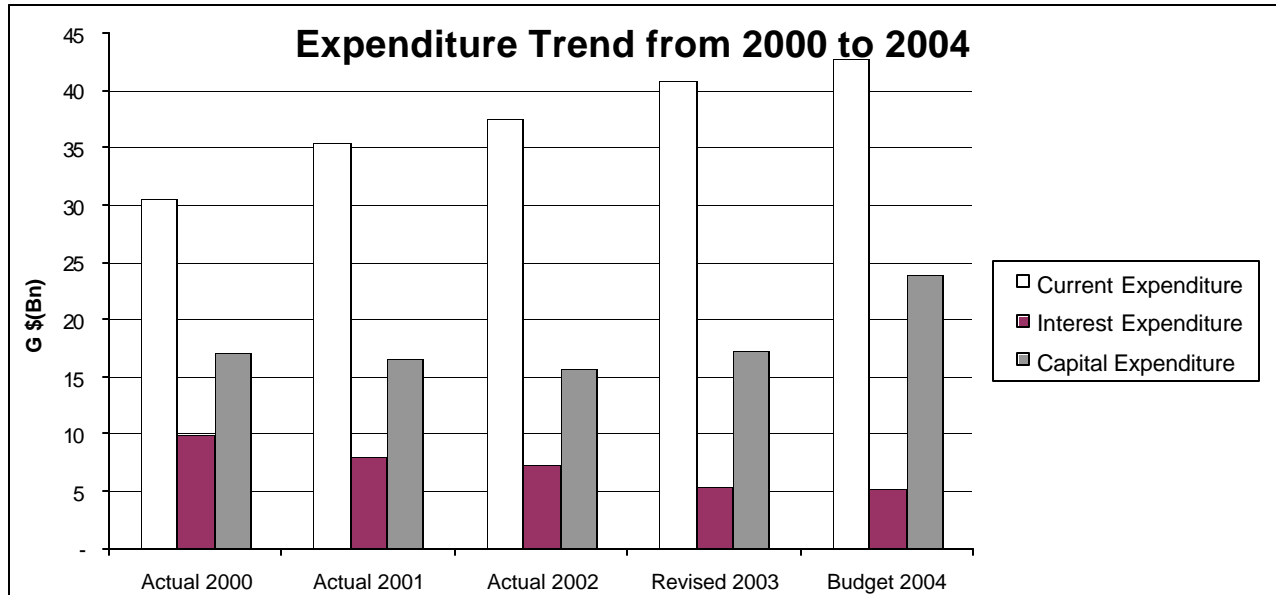
The main elements of the 2004 Plan are:

Current revenues are projected to increase by G\$2.51B or 5.5% to G\$47.9B for 2004 from G\$45.4B in 2003. The Revenue Authority projects an increase of G\$2.93B or 7% over 2003 and estimates to collect 92.8% of the total current revenues. In 2003, the Revenue Authority realised an increase in its revenues of G\$704.2M or 1.7% over the revised 2002 but fell short of budget by G\$964.9M or 2.3%.

Collections by the Internal Revenue totaled G\$22.4B in 2003 as compared with G\$22.1B in revised 2002, an increase of 1.2% or G\$284.4M. Collections by the Internal Revenue are expected to maintain its 54% share of the Guyana Revenue Authority's total revenue. Current revenues expected in 2004 from Customs and Trade amounts G\$20.5B and represents 46% of total Guyana Revenue Authority's revenue. Customs and Trade revenues for 2004 and revised 2003 increased by G\$1.6B and G\$284M over revised 2002 and latest estimates 2003 respectively.



Total Current non-interest expenditure is projected to increase by G\$1.97B from G\$40.8B to G\$42.8B for 2004. Personal emoluments of G\$17.7B represents a 3% increase over 2002 actual and 41% of projected total non-interest current expenditure.



Total interest expenditure is projected to decrease by 1% from G\$5.31B in 2003 to G\$5.26B in 2004. Interest on domestic and external debts is projected to increase and decrease by 4.8% and 8.4% respectively reflecting the changing structure of the national debt.

Capital revenue is projected at G\$7.6B, representing a G\$2.6B or 51.6% increase over 2003. The projected revenue comprises mainly of HIPC relief of G\$3B (2003 - G\$2.3B) and Project and Programme funds of G\$4.6B (2003 - \$2.6B). Projects and programmes are analysed as project grants of G\$2.1B and Cash and Commodity Assistance Grants of G\$2.5B. Of the G\$4.6B, G\$1.6B will be received from the European Union.

Capital expenditure of G\$23.8B represents a 38% increase over 2003 as compared to 10.2% increase in 2003 from revised 2002. The revised 2003 estimates decreased by \$4.97B or 22% from the initial budgeted figure.

For a further analysis of current and capital expenditures, please refer to page 27 'Who Gets What'.

Debt repayment is projected at G\$3.7B (2003 - G\$2.5B) made up of domestic debt repayments of G\$33.4M (2003 - G\$49.8M) and external debt repayments of G\$3.6B (2003 - G\$2.4B), representing a decrease of 32.9% and increase of 49.3% respectively over the previous year.

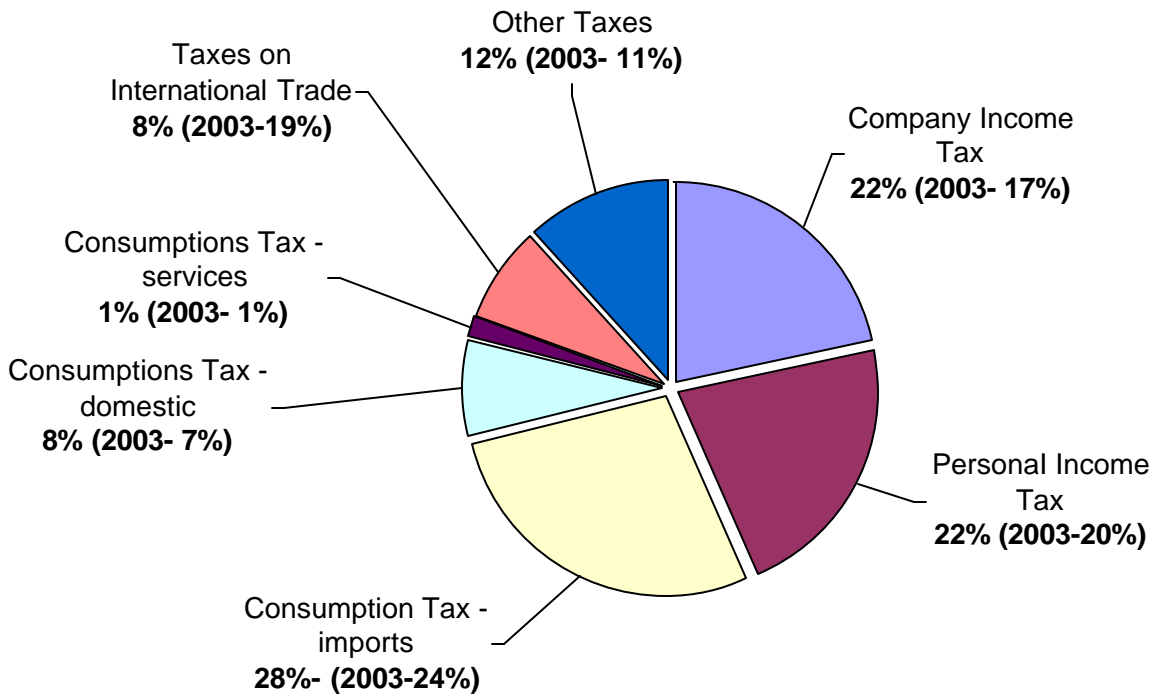
There is an overall deficit of G\$20B compared with a deficit of G\$15.5B in 2003. It is projected that the deficit will be financed from domestic and external sources of G\$4.7B and G\$15.3B respectively. The overall balance of deficit before grants is projected at G\$27.7B compared with a deficit of G\$20.5B in 2003, an increase of G\$7.2B or 35%.

During 2004, Domestic and External Debt Service as a percentage of current revenue is projected at 18.6% compared with the revised budget for 2003 of 17.2%, while showing a decrease from 21.9% in 2002.

Ram and McRae's Comments

- Recent institutional reforms as well as the specific tax measures have failed to change the general structure of tax collections in which the employed persons, a few companies and imports account for the bulk of tax revenues in the country.
- The GRA is facing a real test of its will and capacity to find ways of extracting tax from self-employed persons and would probably need a survey of its own to widen the tax net. The GRA must also be aware of the high instance of smuggling often resulting in both import as well as income tax losses.

Budgeted Tax Revenue for 2004



Source: 2004 Estimates of Public Sector

- Personal emoluments in the Government continue to be a large percentage of revenues and this is likely to increase after the arbitration with the Public Service Union. Yet the individual salaries are well below a reasonable wage as the substantial and spiraling remuneration paid to contracts employees shows. Some of the contract rates are exorbitant even by private sector standards and these need to be restrained as urgently as the total wage bill.

FINANCIAL OPERATION OF CENTRAL GOVERNMENT (ACCOUNTING CLASSIFICATION)

ITEMS	BUDGET	Revised	Budget	Revised	Revised	Actual
	2004	2003	2003	2002	2001	2000
CURRENT REVENUES	47,900.2	45,390.4	45,974.6	44,558.2	41,426.2	41,328.0
1.1 Guyana Revenue Authority	44,460.4	41,526.7	42,491.6	40,822.5	37,769.7	38,072.0
1.1.1 Internal Revenue	23,966.3	22,386.5	22,311.6	22,102.1	19,668.3	18,949.2
1.1.2 Customs & Trade	20,494.1	19,140.1	20,180.0	18,720.0	18,101.4	19,122.8
1.2 Sugar Levy	0.0	0.0	0.0	0.0	0.0	124.4
1.3 Other	3,439.8	3,863.7	3,483.0	3,735.7	3,656.5	3,131.6
CURRENT EXPENDITURES	42,794.7	40,822.0	41,897.7	37,444.9	35,374.8	30,553.8
2.1 Personal Emoluments	17,716.4	16,341.1	16,901.1	15,832.0	14,743.3	14,317.7
2.2 Goods and Charges	12,971.6	11,117.4	11,826.1	9,700.6	9,057.4	8,189.2
2.3 Transfer to the Private Sector	12,001.7	10,097.7	10,670.5	9,553.6	9,576.7	8,046.9
2.4 Transfer to the Public Sector	105.0	3,265.8	2,500.0	2,358.7	N/A	N/A
INTEREST EXPENDITURE	5,258.0	5,310.9	5,726.4	7,225.1	7,993.7	9,927.9
3.1 Domestic	3,109.4	2,966.3	3,019.2	4,312.8	4,782.6	5,050.1
3.2 External (Cash)	2,148.6	2,344.6	2,707.2	2,912.3	3,211.1	4,877.8
CURRENT BALANCE	-152.5	-742.5	-1,649.5	-111.8	-1,942.3	846.3
CAPITAL REVENUE & GRANTS	7,571.1	4,994.4	5,733.8	4,572.6	5,716.4	6,745.9
5.1 Grants	7,571.1	4,983.0	5,671.4	4,541.7	5,667.0	6,689.9
5.1.1 HIPC	3,003.6	2,338.7	2,605.3	1,836.3	2,747.1	2,281.6
5.1.2 Project and Programme	4,567.5	2,644.3	3,066.1	2,705.4	2,919.9	4,408.2
5.2 Other (inc. Sale of Assets)	0.0	11.4	62.4	30.9	49.4	56.0
CAPITAL EXPENDITURE	23,838.6	17,275.7	22,247.2	15,675.3	16,510.5	17,025.4
DEBT REPAYMENT	3,669.6	2,484.7	3,024.9	2,515.0	3,063.8	6,025.7
7.1 Domestic (Net)	33.4	49.8	50.6	124.6	101.1	2,400.2
7.2 External (Cash)	3,636.2	2,434.9	2,974.3	2,390.4	2,962.7	3,625.5
OVERALL BALANCE	-20,089.6	-15,508.5	-21,187.8	-13,729.5	-15,800.2	-15,458.9
TOTAL FINANCING	20,089.7	15,508.5	21,187.8	13,729.5	15,800.2	15,459.1
9.1 External	15,317.7	11,584.8	12,839.9	8,643.6	12,826.3	12,199.5
9.2 Domestic	4,772.0	1,923.7	6,347.9	5,085.9	2,973.9	3,546.0
9.3 Divestment (net)		2,000.0	2,000.0	0.0	0.0	-286.4
Total Domestic and External						
Debt Service as a % of Current						
Revenues	18.6	17.2	19.0	21.9	26.7	38.6

WHO GETS WHAT IN 2004

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\$40.986B which is 2.32% less than revised 2003. The Ministries/Departments with the most significant allocations are:

Ministries/Departments	2004		2003 revised		% Inc.
	\$ (Mn)	%*	\$ (Mn)	%*	
Ministry of Finance	9,953	19.26	13,018	25.40	(23.54)
Ministry of Foreign Affairs	1,677	3.25	1,554	3.03	7.92
Office of the President	1,141	2.21	1,059	2.07	7.74
Ministry of Education	4,704	9.10	3,883	7.58	21.14
Ministry of Labour, Human Services & Social Security	1,473	2.85	1,402	2.74	5.06
Ministry of Home Affairs	3,783	7.32	3,615	7.05	4.65
Guyana Defence Force	2,781	5.38	2,697	5.26	3.11
Georgetown Public Hospital Corporation	1,950	3.77	1,799	3.51	8.39
Ministry of Health	2,026	3.92	1,886	3.68	7.42
* Percentage of total current expenditure					

As in the previous year, the Ministry of Finance, Ministry of Education, Ministry of Home Affairs and Guyana Defence Force receive the most significant allocations. Separate allocations are provided for the Ministry of Foreign Trade and International Cooperation and the Ministry of Amerindian Affairs. The regions with the most significant allocations are:

Region	2004		2003 revised		% Inc.
	\$ (Mn)	%*	\$ (Mn)	%*	
No.4 Demerara/Mahaica	1,439	16.42	1,358	16.43	5.96
No.6 East Berbice Corentyne	1,575	17.97	1,531	18.53	2.87
No.5 Mahaica/Berbice	775	8.84	716	8.66	8.24
No.2 Pomeroon/Supenaam	964	11.00	920	11.13	4.78
No.10 Upper Demerara/Berbice	919	10.49	868	10.50	5.88
No.3 Essequibo Islands/West Demerara	1,413	16.12	1,355	16.40	4.28
* Percentage of regional allocation					

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

Ministries/Departments	2004	2003	Difference	% Inc./ (Dec)
	\$ (Mn)	\$ (Mn)		
Ministry of Housing and Water	352	338	15	4.30
Ministry of Finance	9,953	13,018	(3,065)	(23.54)
Ministry of Health	2,026	1,886	140	7.42
Ministry of Education	4,704	3,883	822	21.14
Ministry of Home Affairs	3,783	3,615	168	4.65
Georgetown Public Hospital Corporation	1,950	1,799	151	8.39
Ministry of Foreign Affairs	1,677	1,554	123	7.89
Ministry of Public Works and Communications	757	812	(55)	(6.80)
* Percentage of total current expenditure				

Capital Expenditure

Central Government's capital expenditure for the year is budgeted at **G\$23.94B** which is **17%** above revised 2003 and **37%** of total 2004 expenditure. The Ministries/ Departments with the most significant capital expenditure allocations are:

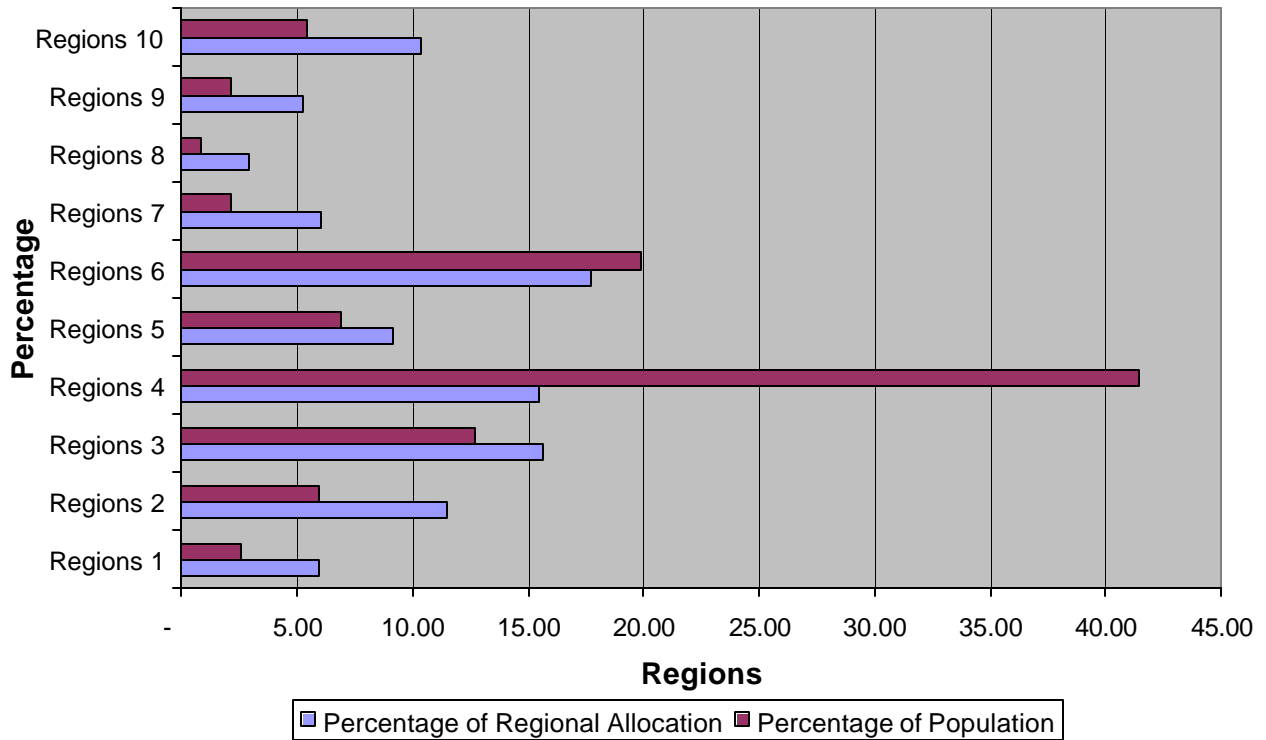
Ministries/Departments	2004		2003		% Inc./ (Dec)
	\$ (Mn)	%	\$ (Mn)	%	
Ministry of Finance	5,928	25	9,200	37	(35.57)
Ministry of Public Works & Communications	7,397	31	4,667	19	58.50
Ministry of Education	1,900	8	2,147	9	(11.51)
Ministry of Housing and Water	2,585	11	2,953	12	(12.45)
Ministry of Agriculture	1,281	5	1,072	4	19.53
Ministry of Local Gov't & Regional Devel.	871	4	1,125	5	(22.58)
Ministry of Labour, Human Services & Social Sec.	963	4	499	2	92.99
Guyana Defence Force	154	1	147	1	4.76
* Percentage of total current expenditure					

Regional Allocations

Region 6 (East Berbice/ Corentyne) whose share of the country's population is about 20%, received approximately 17.7% of the total current expenditure amount allocated to the regions. The situation regarding the total expenditure allocation is similar. Region 6 gets 18% while the even smaller Region 3 (Essequibo Islands/West Demerara), with a population share of 12.5% gets 15.67% of the amount of the regional expenditure, which compares to a similar amount in 2002. On the other hand, Region 4, with 42% of the country's population receives only 15.42% of the total expenditure allocated to the regions.

The regional allocation is however of limited use only as Region 4's allocation is distorted by the range of costs such as education and health which are charged to respective ministries while in the other regions such costs are accounted for in the regional budget.

Percentage of Regional Allocations to Population Totals



Ram & McRae's Comments

It would have been very helpful if the Minister had linked spending to the PRSP in the same way that he linked the policies underlying the Budget. For example, how does the budgetary allocation fit into the priorities of the PRSP?

Education continues to receive increasing share of the recurrent budget although the benefits are reduced by emigration. By comparison, the health service which appears underfunded had only a 7.5% increase, marginally less than the increase for the Georgetown Public Hospital Incorporated.

The Ministry of Home Affairs which is in the frontline in the fight against crime receives an increase of 4.65% over 2003 from \$3.61B to \$3.78B while the capital budget for the Ministry increased from \$330.5M to \$367.9M or 11%.

It is worth stating however than money alone will not solve the crime problem. It needs a Guyana Police Force that is properly led, independent, honest and with clear goals and objectives. Appropriate mechanisms to deal with corruption within the force is also needed.

2004 BUDGET MEASURES

Fiscal Measures in 2004

No tax measures were announced in the Budget.

The NIS contribution rate will be increased by 1% from 12% to 13% effective April 1, 2004, split between the employer 7.8% and employee 5.2%.

At the ceiling the increase in contributions amounts to a maximum of \$204 weekly and \$884 monthly.

NIS Contribution at the ceiling	At the rate of 12%			At the rate of 13%			Difference
	Employer	Employee	Total	Employer	Employee	Total	
Weekly	1,469	979	2,448	1,591	1,061	2,652	204
Monthly	6,365	4,243	10,608	6,895	4,597	11,492	884
Total	7,833	5,222	13,056	8,486	5,657	14,144	

COMMENTARY AND ANALYSIS

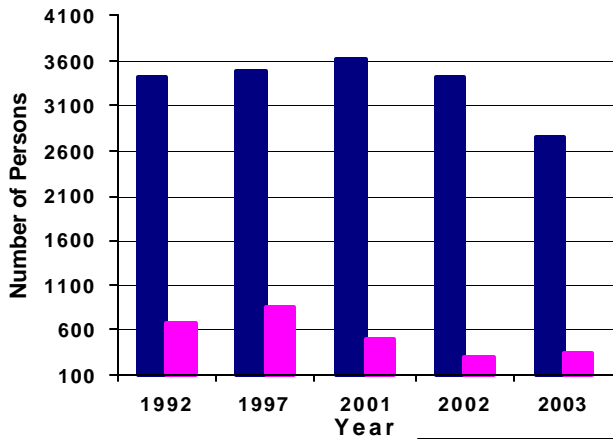
Most Guyanese would have found the Budget Speech particularly disappointing while those who took the time and effort to offer recommendations for inclusion would again be considering the usefulness of the exercise. The continued emphasis on the size of the Budget is hardly an informed approach while key economic and social issues are unaddressed. We believe that the following areas warranted far greater attention.

Unemployment

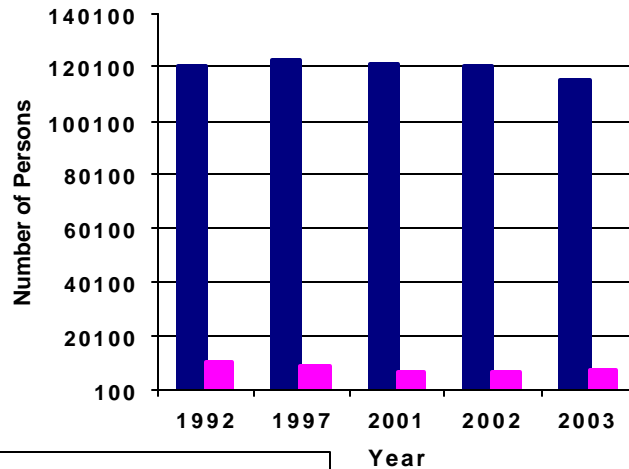
Very little data is available on unemployment rates with the last Household Income and Expenditure Survey/ Living Standards Measurement Survey (HIES/ LSMS) carried out some five years ago. What is clear though is that there are high migration rates of skilled professionals being lost to self-sponsorship programmes to North America and although the unemployment numbers are high, the available skills are found wanting in meeting requirements for available jobs. The World Bank has warned that the effects of emigration will leave Guyana without many qualified and experienced people “in the medium term”.

The Economist (Feb 12, 2004) suggested that in the absence of reliable unemployment figures in measuring economic health, it would be preferable to consider the more objective employment data. Statistics obtained from the National Insurance Scheme show a depressing tale of contraction in the number of active employees as well as active employers since 1992 but more marked since 1997. And it is not that the many persons who are no longer employed have turned to self-employment, the numbers of which have also declined from 16,589 in 1992 to 8,843 in 2003, a decline of 46.7%.

Number of Employers Registered by the National Insurance Scheme



Number of Employees Registered by the National Insurance Scheme



Active at end of year
 New

Any revival of the economy will require the large numbers of unemployed to find jobs and enjoy some spending power. It is salutary however that the Budget is even less upbeat about the job situation than it was last year.

Remittances

Recent studies suggest that the economy is increasingly dependent on remittances which constitute a major safety valve, source of foreign exchange, only income for thousands and deposits into the banking system. Yet, there appears to be no willingness on the part of the Administration to collect relevant information for analytical and planning purposes.

Looming Crisis

Almost all social security schemes go through their own mid-life crisis as demographic and financial conditions mature and/ or change. During the Burnham years, the Scheme was the banker of first resort, and its funds were often commandeered with interest deferred. The alarm bells sounded by recent actuarial studies have largely been ignored but the time has surely been reached for urgent decisions to be made and effected.

The consequences of Burnham's policies on the Scheme can only be exacerbated by a delay to improve the financial structure of the Scheme. The contribution rates required to restore the Scheme to viability will be too high for either employers or employees to bear.

Mr. Kowlessar and the Government can make a lasting contribution by injecting a substantial amount of cash into the Scheme from some of the EHIPC funds which have become available.

This spells bankruptcy for the Scheme unless the Scheme is revamped, refinanced and restructured. The Government has to avoid the temptation to delay acting on the recommendations of independent actuaries.

The actuaries advise that the ageing of the general population will have a major impact on the ratio of workers to retirees and projects that the number of NIS contributors for each pensioner will fall from 4.4 in 2001 to 1.9 in 2062.

Investments/ Investment Act

Focus welcomes the passage of the Investment Act particularly against the background of the contraction of private investment in the economy. A recent World Bank report noted that Guyana's economic policy regime is not conducive to private sector development and impedes the country's competitiveness. Reporting a decline in private investments from 30% of GDP in 1992-4 to 12% in 1997 and 7.4% in 2003, it cited as some of the causes the many licences required to start up and operate a business, impediments in clearing goods through Customs and irregularities in public procurement.

The continuing crime situation in the country and the perception of physical risk from political riots, excessive government regulation and discretion were other reasons cited for the poor investment image of the country.

Illicit Trade

The illicit trade of drugs and fuel is a continual threat to the economy. Inadequate border security, freer passage of individuals between Guyana and Brazil and Surinam and weak laws make Guyana a haven for illegal activity prompting the US State Department to issue a warning that “the economic, political and social conditions in Guyana make it a prime target... for narcotics traffickers to expand their illicit activities.”

The drug trade distorts the economy, plays havoc with legitimate businesses and seriously harms the image of the country. The Money Laundering Act as well as the tax laws including the Tax Information Exchange Agreement with the USA are tools which need to be utilized.

Governance

It is arguable that the crisis facing the country has its root in the poor governance structures and arrangements in the country. The Government simply does not have the administrative capacity or understands some elementary principles of management. This was most strikingly exemplified in the case of one Minister who after being sworn in as a Minister confessed to the press that she was not aware of ‘what the job entailed’. More recently information has become available of a large number of politically appointed contract employees with only vague responsibilities and little training.

While there are about eighteen ministers, there is no substantive Minister of Agriculture despite the importance of agriculture to the country. On the other hand, there are two Ministers of Local Government and yet progress on local government reform has been painfully slow. The concentration of decision making in Cabinet and at the level of the President hampers effective management and stifles initiative.

The World Bank Report noted that the ethnically polarized political system constrains governance reform by creating gridlocks to the mechanics of parliamentary decision-making; undermines respect for rule of law by allowing considerations of ethnicity and party affiliation to take precedence over impartial treatment by the state; and erosion of social capital.

For there to be real progress, significant changes are needed in both the major political parties demonstrating a willingness to share the resources as well as the responsibilities. Even the best constructed budget could not overcome these challenges which have stalled progress for decades.

CONCLUSION

Guyanese would be particularly disappointed in the Budget which has avoided many of the serious issues confronting the country. While there are clearly constraints under which any Budget would be constructed, the Minister has once again failed to inspire the people that they have the ideas and capacity to manage a recovery. What is even worse is the apparent failure or reluctance to identify the root causes of the problem while glossing over some of the symptoms.

Surely the Minister cannot hope that the PRSP will do what the Budget did not. Poverty alleviation needs vision, leadership and courage.

Without a guiding vision, there will be no plan to manage. And without managerial skills to deal with the operational issues, there can be no success. The task ahead seems even more difficult than before.

LEGISLATION 2003
Appendix 1

Legislation	Name of Act	Objective	Assented Date
Act No. 1 of 2003	Appropriation Act 2002	To provide for the issue from the Consolidated Fund of the sums necessary to meet the expenditure of Guyana for the financial year ending 31 st December 2003. The Act authorises the Accountant General to issue from the Consolidated Fund, a sum not exceeding \$62.866Bn to defray charges and expenses of the Government for the financial year.	April 30, 2003
Act No. 2 of 2003	Demerara Harbour Bridge Corporation Act 2003	An Act to establish the Demerara Harbour Bridge Corporation and which sets out the constitution and functions of the corporation and for matters connected therewith or incidental thereto. Identifies the post of General Manager and its functions.	April 30, 2003
Act No. 3 of 2003	Land Registry (Amendment) Act 2003	An Act which amends the Land Registry Act to specify frequency of advertisements in the Gazettes and daily newspapers.	May 30, 2003
Act No. 4 of 2003	Fiscal Enactments (Amendment) Act 2003	Amendment of the Tax Act and Income Tax Act to provide for: i) the imposition of a 10% consumption tax on telephone calls ii) raising of the income tax threshold from \$216,000 to \$240,000 per annum iii) increase in withholding tax from 15% to 20%	May 30, 2003
Act No. 5 of 2003	Constitution (Amendment) Act 2003	An Act to alter the Constitution to provide for the Commission of Inquiry.	May 16, 2003
Act No. 6 of 2003	Kidnapping Act 2003	To provide for the punishment of offences of abduction, wrongful restraint and confinement for ransom and other related offences and for matters related thereto.	July 2, 2003
Act No. 7 of 2003	Public Utilities (Amendment) Act 2003	Amendment of the Act by addition of a sub-paragraph	July 28, 2003
Act No. 8 of 2003	Procurement Act 2003	To provide for the regulation of the procurement of goods, services and the execution of works to promote competition among suppliers and contractors and promote fairness and transparency in the procurement process. The Act sets out the objectives of maximising economy & efficiency, fostering and encouraging participation by suppliers/ contractors among others. The criteria for suppliers/ contractors is set out as well as other operational issues and the Act establishes the National Procurement and Tender Board.	July 28, 2003
Act No. 9 of 2003	The Pharmacy Practitioners Act 2003	To provide for the incorporation of a pharmacy Council, the regulation of the practice of pharmacy and for matters connected therewith.	Sept 29, 2003

Act No. 10 of 2003	Constitution (Amendment) (No. 2) Act 2003 Arrangement of Articles	An Act to repeal, re-enact and alter specific articles of the Constitution and for the insertion of new articles in accordance with articles 66 and 164: <i>Repeal:</i> Articles 11, 22, 29, 30, 36, 39, 147 <i>Re-enact:</i> Articles 22, 29, 36, 39, 147 <i>Alter:</i> Articles 27, 40, 138, 139, 142, 149 <i>Insert:</i> Articles 38A-G, 149A-J, new Title 1A	August 12, 2003
Act No. 11 of 2003		Not published in the Official Gazette	
Act No. 12 of 2003	Maritime Drug Trafficking (Suppression) Act 2003	To provide for co-operation in the suppression of illicit maritime drug trafficking and for connected matters.	August 19, 2003
Act No. 13 of 2003	Veterinarians Act 2003	To provide for the registration and control of veterinarians and animal health assistants; to regulate the practice of veterinary medicine and to provide for matters connected therewith and incidental hereto.	Sept 29, 2003
Act No. 14 of 2003	Animals (Movement) and Disease Prevention Act 2003	To control the movement of animals into and from Guyana, to prevent the introduction and spread of animal diseases within Guyana; to protect and promote animal health and safety and to provide for matters connected therewith and incidental thereto	Sept 29, 2003
Act No. 15 of 2003	Fiscal Enactments (Amendment) Act 2003	To amend the Motor Vehicles and Road Traffic Act, the Financial Administration and Audit Act, the Consumption Tax Act, the Travel Voucher Tax Act, the Income Tax Act, the Income Tax (in Aid of Industry) Act and the customs Act to institute certain tax policy reforms as regards remission of tax, adjustment of tax rates and allowing tax administration resources to be used more efficiently.	August 22, 2003
Act No. 16 of 2003	Revenue Authority (Amendment) Act 2003	To amend the Revenue Authority Act 1996 to grant autonomy to Governing Board in the Management of human resources of the Authority.	October 27, 2003
Act No. 17 of 2003		Not published in the Official Gazette	
Act No. 18 of 2003		Not published in the Official Gazette	
Act No. 19 of 2003	Local Authorities (Elections) (Amendment) Act 2003	To amend the Local Authorities (Elections) Act to provide for the postponement of elections of councilors of local democratic organs.	Dec 31, 2003
Act No. 20 of 2003	Fiscal Management And Accountability Act 2003	Provides for the regulation of the preparation and execution of the annual budget; the receipt control and disbursement of public moneys; the accounting for public moneys; and such other matters connected with or incidental to the transparent and efficient management of the finances of Guyana.	Dec 16, 2003

Orders 49 (mainly Public Corporations Act)
Regulations 7 (Securities Industry Act, Mining Act, Environmental Protection Act, Telecommunication Act, Fisheries Act)

SELECTED SOCIO-ECONOMIC INDICATORS
Appendix 2

ITEM	2003	2002	2001	2000	1999
1.0 National Accounts Aggregates					
1.1 Growth Rate of Real GDP %	-0.6	1.1	2.3	-1.4	3.0
1.2 GDP at factor cost (US\$M)	631	617.8	602.5	596.9	593.6
1.3 GNP at factor cost (US\$M)	588.4	562.8	550.9	552.6	524.6
1.4 Per Capita GDP (US\$)	840.2	829.2	777.5	773	770.3
1.5 Per Capita GNP (US\$)	783.5	755.4	710.9	715.6	680.8
2.0 External Trade and Finance (US\$M)					
2.1 Bal of Payments Current Account Balance	-84.1	-106.1	-128.3	-113.4	-75.2
2.2 Imports of Goods and Non- Factor Services (G&NFS)	-777.1	-758.9	-775.4	-788.6	-728.3
2.3 Exports of Goods and Non- Factor Services (G&NFS)	702.6	667.2	655.6	674.5	672.0
2.5 Imports of G&NFS/GDP(%)	-74.5	122.8	128.7	-132.1	-122.7
2.7 Exports of G&NFS /GDP (%)	123.1	118.6	106.8	113.0	113.2
2.8 Net International Reserves of Bank of Guyana	111.3	183.7	187.2	178.4	126.8
2.9 External Public Debt Outstanding	176.2	1237	1196.7	1188.0	1200.0**
3.0 PRICES, WAGES & OUTPUT					
3.1 Rate of Inflation (% changed in Urban CPI)	4.9	6.1	1.9	6.2	8.6
3.2 Public Sector Monthly Minimum Wage in G\$ (e.o.p)	22099	21047.3	20,045	19000	15000
3.3 % Growth Rate	5	5	5.5	26.66	31.1
3.4 Electricity Generation (in M.W.H)	549.3	512.7	504.8	476.9	443.2
4.0 POPULATION & VITAL STATISTICS					
4.1 Mid- Year Population ('000)	751	774.8	774.8	772.2	770.5
4.2 Population Growth Rate (e.o.p)	0.03	0	0.3	N/A*	0.03
4.3 Net Migration ('000)	N/A*	N/A*	-12	N/A*	-10.6
4.4 Visitor Arrivals ('000)	N/A*	104.3	99.3	N/A*	57.4
5.0 HEALTH AND EDUCATION					
5.1 Public Expenditure on :					
5.1.1 Education as % of National Budget	14.4	18.2	16.5	11.7	11.6
5.1.2 Health as % of National Budget	8.9	8.8	7	5.7	6.7
6.0 CRIME					
6.1 Reported Serious Crimes	2941	3470	3512	4149.0	3905.0
6.2 of which: Homocides	206	142	79	95.0	101.0
7.0 EXCHANGE RATES					
7.1 Exchange Rates US\$ (BOG)	194.25	191.75	189.5	184.8	177.7
7.2 Exchange Rates US\$ (mkt rate)	198.2	192.63	189.58	183.79	180.3
7.3 Exchange Rates Pound Sterling (mkt rate)	321.84	288.18	266	260.49	281.3
8.0 INTEREST RATES					
8.1 Prime Lending Rate	14.88	16.25	16.79	17.21	17.25
8.2 Small Savings Deposit	3.46	4.29	6.7	7.28	7.97
8.3 Three Months Time Deposits	2.81	3.7	7.2	7.37	9.34
Treasury Bill Rate	3.4	3.91	6.25	9.2	11.07
Public Domestic Debt (G\$M)	54775^	53794	52008	48035	41630

* Not Available

** After HIPC Debt Relief

*** After the Naples Terms Debt Stock Reduction

^ as at June 2003