

Private Sector Commission

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Budget 2010 – Opinion and Summary

The Private Sector Commission of Guyana Ltd

157 Waterloo Street

North Cummingsburg

Georgetown

Tele: 225-0977, Fax: 225-0978

Email: office@psc.org.gy

Preface

POLICY FRAMEWORK – 2010

The Low Carbon Development Strategy is a positive effort aimed at ameliorating the adverse impact of human activity on climate change. While this framework receives the unanimous support of the PSC, Government is encouraged to collaborate more closely with the private sector through a Public/Private Dialogue Body to ensure a smooth transition of economic activity under this new agenda.

The policy framework presented in the Budget Speech 2010 receives the general support of the PSC. The PSC especially endorses (subject to an environmental impact assessment) the move to fast track the Amaila Falls Hydropower Project in view of the fact that, in addition to the possibility of providing relief in the form of cheaper electricity, it will impact positively on Guyana's balance of payments by reducing import costs related to fuel oil, thereby freeing up scarce foreign resources for other productive uses. The Amaila Falls Hydropower Project should also respond to the demands of the National Competitiveness Strategy by delivering a more reliable supply of electricity and reducing the cost of producing goods and services for both the local and international markets.

While the need for expanding and upgrading infrastructure cannot be overemphasized, concern must nevertheless be raised about the growth in external debt. The PSC recommends caution in accessing external financial resources, with a possible guideline, or variation thereof, being the application of these funds mainly to projects for which definable, realistic and substantial export revenue targets can be established in the near to medium term.

The Government is encouraged to move forward with the compilation of national employment statistics. The importance of these statistics as a

guide to policy design cannot be overemphasized.

Finally, the PSC looks forward to working closely with Government to address two issues on taxation. The first issue is the streamlining of the corporate tax regime along with the phasing in of lower corporate tax rates to a level that both stimulates domestic private investment, and significantly improves Guyana's competitiveness within the region and further afield. The second issue is the provision of income tax relief for low and middle income earners.

SUMMARY OF THE 2010 AGENDA

THE LOW CARBON DEVELOPMENT STRATEGY

The Low Carbon Development Strategy aims at pursuing an economic growth path underpinned by a commitment to Reducing Emissions through Deforestation and Degradation (REDD). A memorandum of understanding was signed in November of 2009 between the Governments of Guyana and Norway aimed at developing a national scale model in Guyana on how forests can be deployed to address climate change without compromising sovereignty or national development priorities. The second draft of the LCDS was tabled in, and endorsed by the House. A political accord was signed on to by a few countries in Copenhagen at the United Nations Framework Convention on Climate Change meeting which contained the most realistic option for targets, provision for short and medium term financing, and specific reference to REDD-plus, with the possibility of successor meetings in 2010.

Implementation of the Guyana-Norway MoU will result in the receipt of US\$250 million by 2015 in performance-based payments. A mechanism is being developed which it is anticipated will be delivered through a Guyana REDD Investment Fund (GRIF). US\$30 million has been budgeted to be received through GRIF in 2010. This will finance critical transformative

infrastructure, low carbon small business initiatives, land demarcation and land titling for the indigenous communities, and the work at the Office of Climate Change.

TRANSFORMING THE ECONOMY

The agenda for economic transformation is founded on the parallel priorities of modernizing the traditional sectors and promoting growth and development in the new and emerging sectors.

TRADITIONAL SECTORS – the vision for these sectors is one where viability, profitability and global competitiveness are achieved sustainably into the long term. This will be pursued through requisite investments and critical restructuring being effected in the affected sectors (Sugar, Rice, Bauxite & Gold).

NEW & EMERGING SECTORS

AGRICULTURAL DIVERSIFICATION - Focus will be on increasing output volumes, diversifying the product base, improving quality and consistency, and providing market facilitation and support. To facilitate these objectives, G\$1.3 billion has been allocated to this group of sectors in the areas of agribusiness planning, extension services, technology transfer and institutional strengthening. Of this sum, G\$736 million will be spent under the Agriculture Export Diversification Program (AEDP), while another G\$350 million will be spent under the Rural Enterprise and Agricultural Development Program to develop a market and enterprise information system, to conduct a market identification and competitiveness assessment, along with training and capacity building for over 2000 farmers. The New Guyana Marketing Corporation will expand its services with the recent acquisition of four trucks and five refrigerated containers.

TOURISM – The strategy for this sector envisages continued focus on key markets and geographically contiguous markets such as Suriname and Brazil, new marketing techniques, key niches and high, value-added subsectors

such as birding and riverain yachting. Capacity and quality of service will also receive attention.

LETHEM – The commissioning of the Takutu Bridge in 2009 was accompanied by the opening of a multi-purpose complex at Lethem. The Special Border Regime was also introduced which has resulted in such benefits as duty-free access for certain items and waiver of the requirement of passports for Guyanese and Brazilian Nationals visiting the border towns of Bonfim and Lethem.

Private sector investment will also benefit from the development of the Lethem Industrial Estate and the establishment of a fibre optic cable link through Linden.

SMALL BUSINESS – The successor entity to the Linden Economic Advancement Program (LEAP) will be created in 2010. Investments are also committed to the expansion and upgrade of community market infrastructure.

INFORMATION & COMMUNICATIONS TECHNOLOGY - Substantial effort will continue to be devoted to the realization of modern facilitative infrastructure in the sector. Full liberalization in the telecommunications sector will be continue to be pursued, along with the promotion of increased and more affordable access to bandwidth, the promotion of private investment in ICT-based industries, making more effective use of ICT in the discharge of Government functions, and increased delivery of ICT education. Industries dependent on information and communications technology should expect to reap the benefit of the recent investment in fibre optic cable by the Guyana Telephone & Telegraph Company Ltd (GT&T). Government will complement this initiative by the installation of links to Lethem and Providence through Linden, establishing connectivity with northern Brazil. Investments will also be made in establishment of a robust infrastructure to facilitate e-Government applications, thereby resulting in lower costs and improved government service. An appropriate legislative and regulatory framework aimed at fostering and regulating the development of a

fully open, competitive telecommunications sector will be finalized, accompanied by legislation to cover electronic transactions.

PHYSICAL INFRASTRUCTURE FOR TRANSFORMATION - Investments will continue to be made in the expansion and upgrade of the country's physical infrastructure and transportation facilities. A total of G\$7.6 billion has been committed for roads and bridges, with G\$434.9 million being set aside for enhancing air transport, another G\$491.5 million for river transport and docking facilities, and G\$3.2 billion for the continued reconstruction, rehabilitation, restoration and maintenance of sea defense structures, along with the commencement of a mangrove management project for sustainable coastal zone protection. An additional sum of G\$6.1 billion has been committed to drainage and irrigation.

ENERGY, POWER GENERATION & SUPPLY –

The strategy for this sector comprises actions that involve increasing the capacity and efficiency of the sector to meet *immediate requirements*, promoting responsible use of energy, developing alternative sources of energy, and harnessing Guyana's hydropower potential.

Power generation capacity in Demerara was boosted to in excess of 90 megawatts with the installation of a new 20.7 megawatt plant at a cost of US\$27 million.

The power sector is expected to receive G\$5.8 billion in 2010. GPL also intends to bring on stream its US\$2.8 million state of the art customer information system. This will realize improved billing and a more efficient customer service. Government will also promote investments in biofuel production as an alternative energy source. An allocation of G\$4.1 billion has also been made for the construction of a roadway and other infrastructure for *the proposed US\$600 million Amaila Falls hydropower project, with an estimated output of 156 megawatts. This project is expected to come on stream in the second half of 2010.*

SOCIAL SECTORS – A sum of G\$21.4 billion has been committed to Education, with G\$13.3 billion being allocated to Health, and G\$2.8 billion to Housing. Key targets for housing include the allocation of 5,500 house lots and the distribution of 3,750 land titles. Additionally, G\$2.7 billion has been budgeted for improvements in water distribution across the country, with G\$1.1 billion earmarked for sanitation and G\$14.9 billion for enhancing security and justice. A further G\$1.7 billion has been budgeted for the improvement in the quality, efficiency and effectiveness of service delivery in the justice sector.

OTHER INSTITUTIONAL REFORMS –

FINANCIAL SECTOR REFORM – Legislation was passed in 2009 to assign to the Bank of Guyana responsibility for administering the Insurance Act. A new Anti-Money Laundering and Countering the Financing of Terrorism Act and the Money Transfer Agencies (Licensing) Act were also passed and made effective. A supervision guideline on risk management was also issued to licensed financial institutions.

The implementation of the financial sector reform agenda will continue in 2010 with the Credit Reporting Bill expected to return to the House for consideration. Legislation to bring the New Building Society Ltd. under the supervision of the Bank of Guyana has been prepared and will be reviewed. Regulations and guidelines pursuant to the Anti-Money Laundering and Countering of Financing of Terrorism Act will also be finalized, and implementation will advance. A new guideline on public disclosure will also be finalized and issued.

IMPROVING THE BUSINESS ENVIRONMENT - Policy coordination and leadership for the national competitiveness program will continue to be provided by a National Competitiveness Council. The networking of an information system with central Deeds Registry, its sub-Registries, and National Insurance Scheme and the Guyana Revenue Authority will be

completed in 2010, thereby facilitating online filing of registration, renewal of registration and same day registration of businesses. A single window processing system will effect the linking of all licensing bodies to the GRA with a view to reducing the time taken to process trade transactions. These reforms will significantly further reduce the time and cost of doing business in Guyana. Additionally, focus will continue to be made on modernizing and strengthening capacity in the various operational areas of the GRA, while *consideration will continue to be given to options for tax reform and further strengthening of tax administration.*

NATIONAL INSURANCE – Measures were adopted in 2009 to increase compliance among employers and self-employed persons, to

Central Government Financial Operations - Abstract
G\$Mlns

	Actual 2008	Revised 2009	Budget 2010
Total Revenue	82,963	94,890	104,548
Current Revenue	82,484	94,890	98,198
Tax	79,134	89,085	94,085
Non-tax	3,350	5,806	4,113
GRIF Inflows	-	-	6,150
Capital Revenue	479.0	-	200
Total Expenditure	114,433.4	127,430.6	135,881
Current Expenditure	78,492	80,440	86,907
Personal Emoluments	23,883	26,171	28,150
Transfers to private sector	20,768	21,793	23,117
Transfers to public sector	3,050	-	-
Other Goods & Services	24,244	25,889	27,983
Capital Expenditure	35,941	46,990	48,975
Grants	16,550	17,275	16,478
Fiscal Balance	(14,920)	(15,265)	(14,856)
As a percent of GDP	-6.3%	-6.0%	-3.3%
Gross Domestic Product *	236,059	255,822	448,072

* - Data for 2008 & 2009 at Current Market Prices; 2010 at Current Purchaser Prices (Rebased)

enhance the quality of service provided by the Scheme and to improve administrative efficiency. To this end, a number of amendments were effected to the statutes. The requirement of submission of certificates of NIS

compliance by employers and self-employed persons before the award of Government contracts has been made mandatory. Penalties and fines for several offences were also increased to serve as a deterrence against violations. NIS has also introduced and is now enforcing the requirement of electronic submission of contribution schedules by employers. Steps will be taken to implement the recommendations that emerged from the NIS reform process and its latest actuarial study along with its most recent strategic review.

STRENGTHENING PUBLIC ADMINISTRATION – Maximizing program effectiveness has been identified as highest priority. Work commenced in 2009 on the development of a results-based monitoring and evaluation system and the designing of training programs to be rolled out in 2010. The agenda for further strengthening public financial management will continue in 2010 which will see improved internal controls, expanded use of ICT in the delivery of information and services, and the further strengthening of the Audit Office.

GOVERNANCE – Government continued to engage stakeholders extensively on major policies, programs and issues such as the LCDS, the Competitiveness Strategy, and the National Education Strategic Plan. Mechanisms used included multi-stakeholder steering committees, targeted consultation and community outreaches. A close engagement with development partners was also maintained, in keeping with the Paris Declaration on Aid Effectiveness.

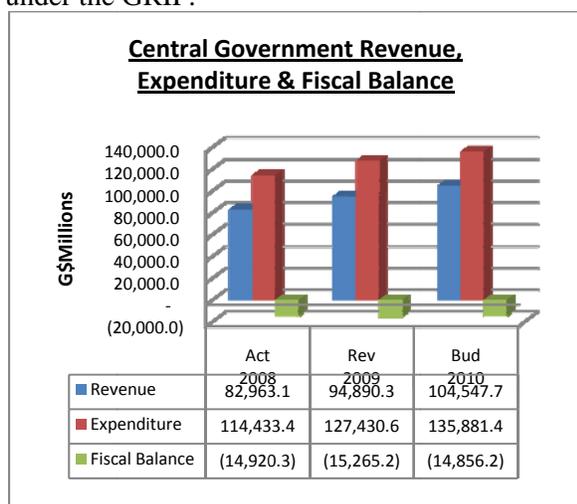
NATIONAL STATISTICS – the Bureau of Statistics has completed the technical work required for rebasing the National Accounts framework as well as updating the basket of goods and services underlying computation of the Consumer Price Index (CPI). The National Accounts was rebased to 2006, from 1988, while a new basket of goods and weights for the CPI was established based on data collected in the nationwide one-year Household Budget Survey which ended in September 2006. The inflation target for 2010 is based on the new series and will have January 2010 at the base period, while the growth rate for GDP 2010 and subsequent

years will be based on the revised National Accounts framework.

CENTRAL GOVERNMENT OPERATIONS – 2009/10.

Central Government’s fiscal deficit deteriorated by 2.3 percent to G\$15,265 million at the close of 2009, or 6.0 percent of GDP, mainly on account of the expanded capital program during the year. Fiscal performance for 2010 is however projected to improve by 2.7 percent to G\$14,856 million, or 3.3 percent of GDP¹.

Total revenues grew by 14.4 percent or G\$11,927 million to G\$94,890 million at the close of 2009. This reflected the 15.0 percent or G\$12,406 million current revenues to G\$89,085 million. An increase of 10.2 per cent is projected for total revenues in 2010, inclusive of the approximately G\$6,150 million to be received under the GRIF.



Tax receipts rose by 12.6 percent or G\$9,951 million to G\$89,085 million in 2009. The higher tax receipts were attributed mainly to the 63.5 percent or G\$8,318 million increase in excise taxes to G\$21,422 million. Value Added Tax declined by 3.2 per cent or G\$759 million to

G\$23,216 million, while income tax receipts grew by 6.3 per cent or G\$1,982 million to G\$33,532 million. These higher income tax returns reflected mainly the 24 per cent or G\$397 million increase in income tax on self-employed persons to G\$2,050 million. Personal Income Tax receipts grew by 4.3 per cent or G\$549 million to G\$13,223 million, while Corporation Tax on Private Companies increased by 5.0 per cent or G\$668 million to G\$14,050 million.

Central Government Current Revenue by Type - Summary

G\$Mlns

	Actual 2008	Revised 2009	Budget 2010
GRAND TOTAL	82,948	94,890	104,348
Tax Revenue	79,957	89,723	94,805
Income Tax	31,550	33,532	35,176
Value-Added Tax	23,975	23,216	24,703
Excise Tax	13,103	21,422	22,421
Taxes on Int'l & Trade Trans	7,755	8,068	8,732
Taxes on Property	1,281	1,321	1,413
Taxes on Prod & Consumption	-	14	-
Miscellaneous	23	34	44
Other	2,269	2,117	2,316
Other Current Revenue	2,991	5,168	9,543

Together, these accounted for 28.7 percent of current revenues, slightly below the 31.6 per cent registered in 2008. This is however projected to increase to 29.1 per cent in 2010.

Central Government Revenue - Income Tax

G\$Mlns

	Actual 2008	Revised 2009	Budget 2010
Income Tax	31,556	33,540	35,184
Personal Income Tax	14,423	15,397	16,287
Personal Income Tax (PAYE)	12,674	13,223	13,819
Income Tax on Self-Employed	1,653	2,050	2,325
Premium Tax	90	118	135
Professional Fees	6	7	9
National Development Surtax	0	-	-
Companies Income Tax			

¹ The GDP statistic used for 2010 was based on the revised methodology adopted (GDP at Current Purchaser Prices).

	14,160	14,982	15,625
Income Tax on Private Companies	0	-	-
Corporation Tax on Public Companies	778	932	899
Corporation Tax on Private Companies	13,382	14,050	14,726
Other Income Tax	2,974	3,160	3,272
Withholding Tax	2,755	2,943	3,038
Capital Gains Tax	218	217	234

Corporation taxes of private companies contributed 14.8 per cent of current revenues in 2009 compared with 16.2 per cent in 2008, with a 15 per cent contribution being programmed for 2010.

Other current revenue increased by 72.8 per cent or G\$2,177 million to G\$5,168 million, with a further increase of 84.7 per cent or G\$4,375 million being projected for 2010. This increase in Other Current Revenue to G\$9,543 million in 2010 includes approximately G\$6,150 in receipts under the Guyana Reducing-Emissions-through-Deforestation-&-Degradation Investment Fund (GRIF).

Total expenditure of Central Government rose by 11.4 per cent or G\$12,997 million to G\$127,431 million at the end of 2009, driven mainly by the 30.7 per cent or G\$11,049 million increase in capital expenditure to G\$46,990 million. Total expenditure is projected to grow by 6.6 per cent or G\$8,451 million to G\$135,881 million in 2010.

Current expenditure grew by 2.5 per cent or G\$1,948 million to G\$80,440 million. This comparatively small increase was due mainly to there being no transfers made to the public sector in 2009, compared with G\$3,050 million in 2008. Personal emoluments grew by 9.6 per cent or G\$2,288 million to G\$26,171 million, while payments for other goods and services rose by 6.8 per cent or G\$1,646 million to G\$25,889 million in 2009. Transfers to the private sector increased by 4.9 per cent or G\$1,025 million to G\$21,793 million, with an increase of 6.1 per cent to G\$23,117 million being projected for 2010.

Interest costs grew marginally at 0.6 per cent to G\$6,587 million. An increase of 16.2 per cent or G\$1,069 million to G\$7,657 million is projected for 2010.

Capital expenditure expanded by 30.7 per cent to G\$46,990 million in 2009. An increase of 4.2 or G\$1,984 million is projected for 2010.

