



**Guyana Budget &
Policy Institute**
Independent Analysis. Shared Prosperity

**PUBLIC BUDGETING AND
PERFORMANCE NEED
URGENT IMPROVEMENT:
TAXPAYERS PAY
MORE TO GET LESS**

JULY 2018

Dhanraj Singh

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

EXECUTIVE SUMMARY

In Guyana, there is a growing frustration among taxpayers who do not know what they are getting in return for the taxes they pay. Citizens want to know how effectively and efficiently the government is using their money to deliver needed services. They want to know how their money is being spent, why it's being spent that way, and what outcomes their investment yields. Most taxpayers would be hard pressed to answer these questions. This analysis seeks to answer these questions, broadly, by taking a macroeconomic look at what taxpayers received in return for their money over the last five years.

Between 2014 and 2018, taxpayers funded more than \$1.1 trillion in government spending. This amount was about three times the value of the country's real economy of \$407 billion at the end of 2017.

However, an analysis of the return on public investment as measured by economic growth, job creation, access to quality and affordable healthcare, poverty reduction, and public safety shows that taxpayers received successively less in return for their tax dollars.

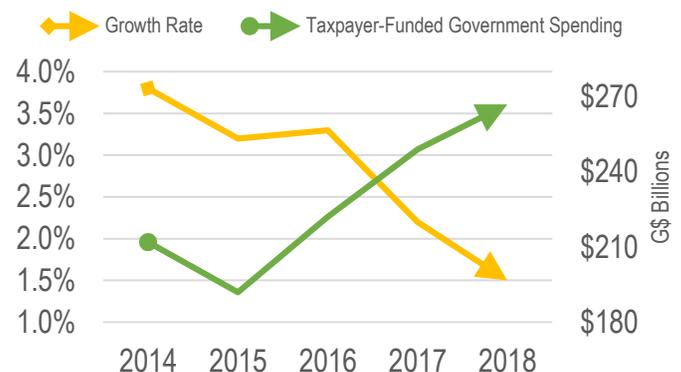
Economic growth almost halved, thousands of workers lost their jobs, access to and the quality of critical services deteriorated, and public safety weakened over the period. Evidently, the government was unable to use taxpayers money and deliver a good return - higher economic growth, improved quality of life, and more opportunities for long-term prosperity. Its budget and policies undermined growth and began to reverse decades of positive economic momentum and social and economic progress. Despite the poor economic performance, taxpayers are on the hook for hundreds of billions of dollars in debt.

When the economy performs poorly and access to critical public services decreases and jobs disappear, there are devastating social and economic consequences. Families, especially those living on tight budgets are forced to make even harder choices like choosing between putting food on the table and sending their children to school. At the level of communities, problems such as homelessness, crime, hunger, family separation, adult and child poverty,

racial tension and violence tend to rise. Early evidence suggests that these problems have already reached alarming levels resulting in heightened public concerns for safety and security.

It is no surprise that taxpayers are growing weary, having little trust or confidence in how the government spends their money. In fact, the evidence confirms that the growing public frustration and demand for greater transparency and accountability are well-founded and likely necessary to improve public budgeting and performance.

Taxpayers Pay More to Get Less



Note: Growth rate for 2018 is projected at 1.5% based on current trend.
Data: Bank of Guyana Annual Report 2017; Estimates of the Public Sector . Volume 1. 2016-2018.

Public investment is inseparable from economic prosperity – productivity growth, job creation, higher incomes and economic growth. However, these outcomes are not guaranteed merely by writing bigger budgets and spending more public monies. The government must be intentional and deliberate about achieving the best outcomes for taxpayers' money.

The best approach to achieve public transparency, accountability, and a good return on investment is to focus on what citizens really need. Accordingly, lawmakers must start making public investment decisions that are informed by research, data analytics, and strategic planning and show a demonstrable likelihood of significant economic impact. Moreover, the focus should be on accountability in results and performance, broadly defined, and on the development of budgets that fund outcomes, rather than inputs.

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

I. PUBLIC FRUSTRATION AND THE NEED FOR MORE ACCOUNTABILITY

In Guyana, there is a growing frustration among taxpayers who don't know what they are getting in return for the taxes they pay. They want to know how effectively and efficiently the government is using their money to deliver needed services. They want to know how their money is being spent, why it's being spent that way, and what outcomes their investment yields. Most taxpayers would be hard pressed to answer these questions.

Too often there are no data or resources to answer these questions; the government does not systematically collect and publish the data. In some instances, reports prepared solely for internal purposes are not available to the public. On the rare occasion, when reports are available, they are not written for the public and often omit information of public interest. It is no surprise that taxpayers are growing weary, having little trust or confidence in how the government spends their money. This frustration has fueled a growing demand for increased accountability and public transparency.

Public transparency and accountability are important because the government does not fund itself; it is funded by taxpayers in the form of taxes and fees. In the private sector, managers are accountable to investors; accordingly, the government is accountable to taxpayers. When citizens pay taxes, they give up a portion of their hard-earned income, money they could otherwise use for their own private benefit, to pay for goods and services for the greater societal good.

Taxpayers have the right to expect that the government uses these monies to fund critical public investments in line with public needs and grow a diverse and sustainable economy.

Transparency and accountability are also critical for building public trust and confidence, which are essential if the government wants to be regarded as clean, fair and open. These qualities are hallmarks of good governance and fundamental to a democratic and civilized society.

II. TAXPAYERS HAVE PAID MORE THAN \$1.1 TRILLION IN 5 YEARS

Over the last five years (2014 – 2018), taxpayers have funded more than \$1.1 trillion in central government spending. About 88% (roughly \$1 trillion) of this spending was financed from taxpayer revenues fees, most of which came from income and consumption (VAT) taxes and fees. The remaining 12% (about \$140 billion) was financed from domestic and external public borrowing.¹ Central government spending was about three times the value of the country's real economy of \$407 billion at the end of 2017.² Over the five-year period, taxpayers poured an average of \$11 billion, an annual increase of five percent, more than the previous year to fund increased levels of government spending. At the end of the current fiscal year, taxpayers will have paid \$55 billion, 30 percent more than they paid in 2014 to fund government spending.

Taxpayers Paid More Than \$1.1 Trillion in 5 Years to Fund Government Spending

(total government spending, G\$ Billions,)



Data: Estimates of the Public Sector. Volume 1. 2016-2018.

The total of more than \$1.1 trillion is a conservative figure. It does not include monies the government spent out of the country's savings (reserves). Over the review period, the government almost completely exhausted the country's stock of gold reserves. At the end of 2014, total gold reserves were over \$25 billion. By the end of March 2018, this amount was \$3.3 billion.³ Also, excluded from this analysis are monies taxpayers paid directly into the coffers of local governments – Municipalities and Neighborhood Democratic Councils (NDCs) – in the form of local taxes and fees.

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

Both of these entities have independent taxing authority apart from central government – meaning they levy and collect taxes and fees separate from the central government. Further, the total of more than \$1.1 trillion does not include monies taxpayers pay in the form of out-of-pocket expenditures for the same goods and services that their taxes should cover – a form of hidden and double taxation. For example, out-of-pocket expenditures for school supplies such as textbooks and writing materials not available in public schools.

III. RETURNS ON TAXPAYERS INVESTMENT INDEFENSIBLY LOW

The evidence suggests that over the last five years, Guyanese taxpayers continuously paid more each year, but received successively less in return. The return on investment as measured by economic growth, job creation, access to quality and affordable healthcare, poverty reduction, and public safety declined over the period. The government, the sole manager of taxpayers' money, was unable to use these funds to increase economic growth, lift families out of poverty, improve access to quality healthcare, make communities safer and create opportunities for families and businesses to succeed.

The evidence confirms that the growing public frustration and the demand for greater transparency and accountability are well-founded and necessary.

When the economy performs poorly and access to critical public services decreases and jobs disappear, there are devastating immediate and long-term social and economic consequences. For many families, this means parents without jobs surviving on less or no income at all, less food on the table, not knowing where the next meal will come from, and choosing between sending their children to school and paying rent.

The impact is not limited to individual families. As a society, problems such as homelessness, crime, hunger, family separation, adult and child poverty, and racial tension and violence tend to take hold. More importantly, present

and future taxpayers are on the hook for billions of dollars in debt for which they received little or no benefits.

IV. POLICY IMPLICATIONS

Public investment is inseparable from economic prosperity – productivity growth, job creation, higher incomes and economic growth. However, these outcomes are not guaranteed merely by writing bigger budgets and spending more public monies. The government must be intentional and deliberate about achieving the best outcomes for taxpayers' money.

Studies show that the best approach to achieve public transparency, good fiscal management and a good return on public investment is to focus on what citizens really need.⁴ Moreover, the focus should be on accountability in results and performance, broadly defined, and on the development of budgets that fund outcomes, rather than inputs. Budgeting must also balance immediate needs with laying the foundation for long-term prosperity.

V. MEASURING THE RETURN ON PUBLIC INVESTMENT

Measuring the return or social benefit of public investment is difficult by its very nature. How can you accurately measure the value of a life saved by providing access to quality healthcare or measure the value of providing timely and or poor-quality or when access is restricted. Despite these limitations, economists and policy practitioners have relied on some key outcome measures that provide a good macro assessment of the return on public investment.

These include the following measures: the rate of economic growth; job creation; income growth; access to quality and affordable healthcare; adult and child literacy; mortality rates; public safety; income inequality; and the poverty rate. These indicators also reflect how well the government manages public funds for delivering broad social benefits. An improvement in these indicators suggests improvement in the economy, living standards, quality of life and economic opportunities; conversely, a decline suggests the opposite.

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

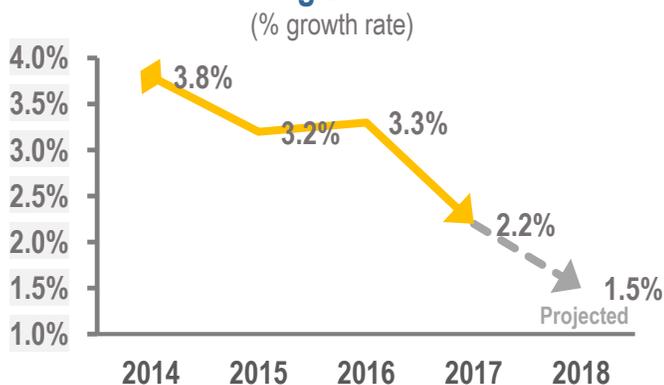
□ ECONOMIC GROWTH ALMOST HALVED

Economic growth is among the most crucial indicators of the return on taxpayers' investment. High and sustained growth means more goods and services for households to enjoy, which can greatly improve living standards.

From 2014 – 2017 (the latest year for which official data is available) the inflation-adjusted growth rate declined almost consistently from about 4 percent to 2.2 percent⁵

This slowdown was driven by the precipitous decline in growth in the agriculture, forestry & fishing sectors and in the manufacturing sector for most of the period. At the end of 2017, both of these sectors had lost more than five percentage growth points, compared to 2014. This was not a surprising outcome considering the government had cut funding for these sectors almost consistently for the past three years, largely to free up monies to pay for the ballooning cost of governance, administration and other ambiguous expenditures.⁶

Economic Growth Almost Halved and Trending Downward



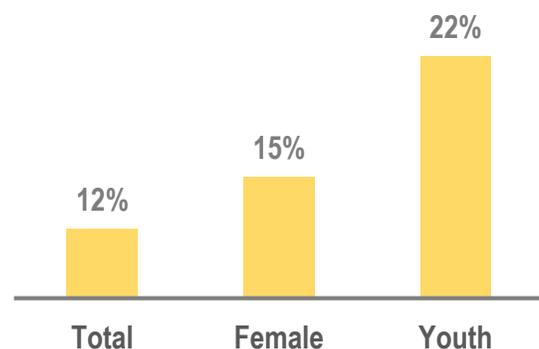
Data: Bank of Guyana. Annual Report 2017. Table 10-II

□ JOB CREATION AND EMPLOYMENT TUMBLED

The economic slowdown was accompanied by the lack of opportunities for gainful employment among all age groups. In 2017, the adult unemployment rate increased to 12 percent, according to data by the Bureau of Statistics. The unemployment rates for females and youths are even higher. Only about half of all persons of working age were participating in the labour force. Of all those who were employed, about 50 percent did not have formal jobs. Among young females, ages 15 to 24 years, about one in three was without work. These individuals were unable to pursue successful careers and contribute meaningfully to the economy.

Unemployment Rates Remain High

(data for the second quarter, 2017)



Data Source: Bureau of Statistics.

Creating opportunities for gainful employment and economic prosperity is a central role of the government. Unfortunately, the government closed three major sugar estates and put thousands of low-skilled workers out of a job and without income to support their families. Unofficial estimates put this number at approximately 7,000 workers.

Additionally, from 2015, an estimated 300-500 private sector jobs have been cut as a result of counterproductive budget and taxation policies that reduced consumer and investor confidence and slowed business activities. With no comparable job creation ventures, net job growth over the period was negative.

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

□ HEALTH OUTCOMES AND ACCESS TO HEALTHCARE DETERIORATED

Having ready access to quality and affordable healthcare services is critical to maintaining good physical and mental health, increase productivity, improve living standards, and living a successful life. In 2015 (the latest year for which data is available), the mother and child death rates in Guyana were among the highest in the Caribbean and Latin America. The majority of deaths were from preventable causes.⁷ Guyana also maintained one of the highest suicide rates in the world over the period.⁸ On the plus side, between 2014 and 2016, the adult life expectancy at birth lengthened marginally to 66.7 years.

Far from the claim that Guyana has maintained an impressive healthcare system, the evidence suggests a fragmented and dysfunctional healthcare system.⁹

Throughout the period, there were multiple confirmed claims of widespread and frequent shortages of basic supplies and medications at public hospitals and health centers across the country, indicating a serious problem with accessing care.¹⁰ Frequent shortages forced people to either pay more out-of-pocket to access care from expensive private providers or to forego treatment and live with their sickness. Further, there were widespread concerns with abuse, neglect, poor treatment, long wait times, unavailability of doctors at the time of visit, and inoperable medical equipment and machinery at public healthcare centers. In some rural areas, persons had to travel unreasonable distances (even days) through rough terrain to access a healthcare facility.

□ POVERTY REMAINS ALARMINGLY HIGH

Guyana remains one of the poorest countries in the Caribbean and Latin America. As of 2006 (the most recent figures), roughly 4 in 10 adults lived in poverty.¹¹ Worse yet, about half of all children lived in households without enough money to pay for food, clothing, shelter, and other basic necessities. Without updated data, it is difficult to say with certainty whether poverty has worsened or improved over the review period. However, it is reasonable to

extrapolate that many workers and their families fell below the poverty line or survived on incomes near the poverty line.

From 2015, many low-skilled workers lost their jobs due to contraction in the agriculture and manufacturing sectors and were unable to find meaningful employment in other sectors. With few job opportunities and no social safety nets for working-age adults, workers generally seek employment in the subsistence sector where wages are desperately low. Even workers who were fortunate enough to find meaningful work in other recognized sectors, depressed wages likely kept them from earning a decent middle-class income.

□ PUBLIC SAFETY AND SECURITY A BREWING CRISIS

Public safety, security, and justice are key to economic prosperity. In fact, these are moral and human rights that are intrinsic to economic development and growth. From 2014 to 2018, taxpayers paid about \$140 billion for public safety and security services. This investment represents roughly \$190,000 per person over the period.¹² However, data collected from a citizen's feedback survey and from primary observation suggest the public is more fearful of its safety and security than at the beginning of the period.¹³ Over the last three years, there were multiple jailbreaks that resulted in numerous inmate deaths and criminal escapes. Daily, the local media, including social media, is inundated with stories of robbery, murder, suicides, accidents, fires, domestic abuse, and other crimes.

Basic emergency response services, such as emergency medical services and disaster preparedness services simply do not exist. And while there are basic fire and police services, the quality is extremely poor. The unfortunate occurrence of a fire or a robbery is almost certain to result in maximum damage or casualty. Similarly, the justice system is antiquated and operates on decades-old processing and management systems, resulting in excessive caseload backlogs and the inefficient delivery of judicial services. For many people, calling the police, the fire service or utilizing the courts is too burdensome and costly; most often people choose to avoid them even when they stand to lose a great deal.

PUBLIC BUDGETING AND PERFORMANCE NEED URGENT IMPROVEMENT: TAXPAYERS PAY MORE TO GET LESS

VI. FINAL THOUGHTS

Guyanese taxpayers, over the last five years, funded more than \$1.1 trillion in government spending. This is a significant amount of money for which taxpayers deserve a good return. After all, when people pay taxes they are doing so with the expectation that the government will use these funds to make critical investments that benefit society and grow the economy. Evidently, the government was unable to use these funds to increase economic growth and improve the economic prospects for all Guyanese. Not only was the government unable to improve growth and create opportunities for economic prosperity, its budget and policies weakened the economy and began to reverse decades of social and economic progress.

Government officials must start making smart investment decisions that are informed by research, data analytics, strategic planning, and the prioritization of investments that both align with public needs and show a demonstrable likelihood of significant economic impact. There are no shortages of sensible economic policies, best practices for effective public management, public transparency, accountability and good governance practices that ensure that taxpayers get a good return on their investment. However, the government must be intentional and deliberate about achieving these outcomes.

How lawmakers will choose to recognize and address this issue remains to be seen. It is abundantly clear that taxpayers are growing weary and frustrated with what they are getting in return for their money. They are demanding greater transparency and accountability, which government officials should have no problem with given that taxpayers are the ones paying the bill. It would be economically and politically unwise for lawmakers to ignore their concerns.

END NOTES

¹ Government of Guyana. [Estimates of the Public Sector](#) for the Fiscal Years 2014 – 2018.

² Bank of Guyana. [Annual Report 2017](#). Table 10-II

³ Bank of Guyana. [Statistical Abstract](#). May 2018. Table 1.1

⁴ Seagal, F. Geoffrey and Summers, Adam B (2002). [Citizen's Budget Report. Improving Performance and Accountability in Government](#). Policy Study No. 292. Reason Public Policy Institute.

⁵ Supra note 2.

⁶ GBPI. [Mortgaging Guyanese Future and the Economy](#). Annual Budget Analysis and Report 2018.p 8.

⁷ Singh, Dhanraj and Sekhani, Richa (2017). [Guyana has one of the Highest Mother and Child Death Rates in the Caribbean and Latin America, Mostly From Preventable Causes](#). Guyana Budget & Policy Institute. Policy Report.

⁸ Ramphul, Ryan (2018). [Deaths by Suicide Remains a Major Public Health Issue in Guyana – Lawmakers Can Do More to End This Tragedy and Save Lives](#). Guyana Budget & Policy Institute. Policy Brief.

⁹ Department of Public Information. [Prime Minister, Moses Nagamootoo's Featured Address at the Official Launch of the Ministry of Public Health Exposition](#) on Wednesday April 18, 2018 at the Ramada Hotel in Guyana.

¹⁰ Based on interviews GBPI conducted with residents and business owners in Regions number 2, 3, 4, 5, and 6 between January 1, 2018 and March 31, 2018 to collect data on the state of the communities, social issues and the outlook of the economy.

¹¹ Sekhani, R (2017). [Poverty Facts: Almost 4 in 10 Guyanese Cannot Afford Basic Costs of Living](#). Guyana Budget & Policy Institute. Policy Fact Sheet.

¹² Supra note 1. Sum of total government spending on all public agencies under the public safety sectors (per the Estimates of the Public Sector) for the period 2014-2018 divided by total population of est. 750,000.

¹³ Based on interviews GBPI conducted with residents and business owners in Regions number 2, 3, 4, 5, and 6 between January 1. 2018 and March 31, 2018 to collect data on the state of the communities, social issues and the outlook of the economy

Guyana Budget & Policy Institute

“One of the many ways in which democracies are suffering from weakened legitimacy is how governments raise and spend public resources”

IBP 2018

WHO WE ARE

Guyana Budget Policy Institute (GBPI) is a nonpartisan public-policy think-tank. Our goal is to promote a strong and vibrant economy that provides opportunities for all Guyanese through evidence-based, open and transparent budgeting; and equitable taxation and economic policies. GBPI produces rigorous, peer-reviewed research and directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge, and results. Through practical and innovative approaches to complex problems, GBPI seeks to change the way people think about budget and policy issues while promoting effective policies that allow and encourage greater civic engagement in the budgeting and policymaking process. This approach will ensure shared prosperity and sustainable growth.

OUR VISION

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

OUR MISSION

Our mission is to promote evidenced-based public policies through rigorous scientific research and analysis to inform policymakers of policies that works.

To open the budget and policymaking process to greater public participation for increased governmental accountability and stronger democratic institutions. Finally, the institute promotes strategic public investment to create a modern education system, from primary to secondary, bring employment and affordable housing opportunities with the reach of individuals and families, create safe, clean and vibrant communities, and a thriving economy.

The Budget and Policymaking Process



OUR WORK

We provide timely research and analysis on:

government budgets to inform policymakers and the general public on the impact budget and tax decisions would have on families and the economy.

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

social policies to determine whether they are meeting the needs of Guyanese in an economic and sustainable way and provide ways the government can improve these policies for better outcomes.

CONTACT US

Website: www.gbpi.institute

Email: gbpi@gbpi.institute

Telephone:

Guyana: +592 639 5737

United States: +1 561 860 5651