

# **A Proposal for an Economic Policy Advisory Body for Guyana**

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## **Introduction**

The aim of this note is to develop a proposal for an economic policy advisory body to help develop government policies to promote growth and jobs, reduce poverty, and improve the nation's health, education, safety, and general well-being. The rationale for proposing an advisory body is that with the economy growing so rapidly and risks elevated, the current model of policy development by government alone, through the annual budget exercise, is no longer sufficient. There is a need to support and expand that model with a broad-based, independent advisory body, comprising members from the business sector, labor, academia, and civil society.

## **The Impact of oil on the economy**

In recent years Guyana has become one of the most promising oil-producing countries in the world. The discovery of around 10 billion barrels of recoverable oil off the Atlantic coast has been one of the highlights of the crude oil industry. Crude oil production began at the end of 2019, which, together with projected oil prices, led the IMF to predict that the country's GDP will almost triple in size between 2020 and 2026 (Table 1). The government expects that oil production capacity will increase from its current level of about 120,000 bpd to about 1 million bpd by 2030, and Rystad Energy predicts that by 2033 Guyana could become the second largest deep-water crude oil producer in the world.<sup>1</sup>

The oil industry in Guyana will have a profound impact on the size of the economy relative to other Caricom countries. From near parity in 2019, the size of Guyana's economy is projected to be more than twice the size of Barbados's by 2026. Over the same period Guyana's economic size will shift from less than half that of the Bahamian economy to near parity. In 2019, the Guyana's GDP per capita was among the lowest in the Latin America and the Caribbean (LAC). By 2026, however, the IMF projects that Guyana's per capita GDP will be among the top ten in LAC, about 2½ times that of Jamaica, and within reach of Trinidad and Tobago's (Table 1, and IMF, World Economic Outlook October 2021).

The introduction of the crude oil industry has already reshaped the size and composition of the GDP. In the past, the economy of Guyana was largely driven by developments in the agricultural sector. In 2019, agriculture directly contributed one quarter of GDP. In addition, the sector has a large impact on the manufacturing sector in areas such as sugar and rice production, as well as on the services sector in, for example, transportation, retail and food services. In comparison, the contribution to the GDP of the mining and quarrying sector (mainly gold and bauxite) was about 14 percent. By mid-2021, it was estimated that the mining and quarrying sector accounted for as

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<sup>1</sup> <https://oilnow.gy/featured/guyana-on-track-to-become-second-largest-deepwater-producer-in-the-world-says-rystad-energy/>

much as 51 percent of GDP, with crude oil alone amounting to about 45 percent of GDP. On the other hand, the share of agriculture in GDP has dropped to about 14 percent.

**Table 1. GDP and GDP Per Capita GDP in Larger Caricom Countries**  
(US dollars)

	2019	2020	2021	2022	2023	2024	2025	2026
The Bahamas								
GDP	13.2	9.9	10.7	12.0	12.9	13.7	14.3	14.8
GDP per capita	34,575	25,734	27,437	30,584	32,368	34,009	35,093	36,070
Barbados								
GDP	5.3	4.4	4.6	5.1	5.5	5.8	6.0	6.3
GDP per capita	18,448	15,346	16,105	17,769	18,947	19,836	20,615	21,423
Guyana								
GDP	5.2	5.5	7.4	9.8	12.0	12.6	13.2	14.0
GDP per capita	6,594	6,953	9,369	12,426	15,153	15,768	16,563	17,509
Jamaica								
GDP	15.8	14.0	14.9	15.6	16.3	17.0	17.7	18.4
GDP per capita	5,781	5,102	5,421	5,697	5,931	6,178	6,431	6,681
Trinidad and Tobago								
GDP	23.2	21.6	21.6	23.1	23.9	24.6	25.3	26.1
GDP per capita	16,637	15,424	15,353	16,323	16,805	17,220	17,647	18,088

Source: IMF: World Economic Outlook, October 2021.

GDP in billions of US dollars, and GDP per capita in nominal US dollars.

### **The formulation of policies through the budget**

Annual budgets are the most important mechanisms through which policy priorities, measures, and targets are set in areas such as growth, jobs, infrastructure, and social spending. Each budget is a financial plan that drives the operations of the government and facilitates the implementation of policy measures in an organized manner. Estimates of revenues and expenditures are required to be presented to the National Assembly within 90 days of commencement of each financial year.<sup>2</sup>

The budget-preparation process in Guyana is initiated by the Ministry of Finance (MoF) through its Office of the Budget. The first step in this process is the issuance of a Budget Circular by the MoF to individual ministries and government agencies that outlines the deadlines and requirements for submitting budget proposals, as well as a description of the fiscal policy objectives, financial targets, and priorities of the government. The circular is issued on or before July 1 of the year preceding the budget year and the process in each ministry is supervised and coordinated by the head of budget in the respective ministry or agency, who is usually the Permanent Secretary.

The work of adjusting and aggregating the various submissions by agencies is done by staff within the Office of the Budget. These are staff who have extensive experience in assessing the financial implications of various budgetary measures. When the Office of the Budget has compiled its draft budget, it is sent to the minister for forwarding to cabinet. Following cabinet

<sup>2</sup> Procedures for the preparation of the budget may have changed recently with the positioning of the minister of finance in the Office of the President.

discussion and approval, the next step is the submission of the budget for approval by parliament.

The minister of finance plays the central role in presenting the Appropriation Bill to parliament. If budgetary measures affect any existing laws, the MoF will normally propose any necessary amendments to these laws and pilot them through the process of approval. The exact timing of this process varies each year, but generally the proposed budget is under the purview of the National Assembly for about one month around November/December. This timeframe allows the government to adopt the budget by December 31, although the legal deadline is March 31. Upon approval of the budget by parliament, the MoF is then responsible for disbursing the approved funds to the various ministries and agencies.

### **The budgetary framework for 2022**

The budget for 2022 and the medium-term framework for the period 2023-2025 outlined by the minister of finance in his budget speech to parliament represent a significant departure from the revenue and expenditure patterns established by past fiscal performance. Against a background in which the growth rates of the economy between 2022-2026 are projected to surpass the rates achieved in recent years by wide margins, the medium-term framework anticipates an ambitious investment program across all sectors of the economy. These investments include important items of capital expenditure that focus on transforming the infrastructure in Guyana to address needs that have been identified in the areas of energy, transport, climate change, and sea and river defense.

To this end, the budget allocates large sums of money to, for example, the development of a gas-to-energy project, hydro-power plants, the construction and repair of roads and bridges, and the commencement of work on a four-lane fixed-span bridge across the Demerara River. As a result of these and other financial commitments, budgetary capital expenditures are projected to soar during the 2022-2025 period. A clear indication of the sources of funding and the phasing of individual projects is not identified in the budget. However, projections in the budget documents envisage that these expenditures will be financed mainly by withdrawals from the Natural Resource Fund (NRF).

The key risk of the fiscal outlook presented in the budget is that the scarcity of technical and management skills in the central government, together with weak mechanisms of accountability could lead to inadequate project appraisal, procurement, and monitoring, resulting in waste and corruption. Already in 2018, a report by the IDB noted that public expenditure had low efficiency and that the budget process had little public engagement, insufficient transparency and weak oversight. The same report observed that “.. multiple capital projects are delayed, over-budgeted, or sub-standard in quality once completed.”<sup>3</sup> The Auditor General’s annual reports also document weak oversight and accountability. Waste from spending at levels beyond the country’s capacity to manage its projects would also lead to lower savings set aside in the NRF

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<sup>3</sup> <https://publications.iadb.org/publications/english/document/Strengthening-of-Guyana%E2%80%99s-Fiscal-Framework-in-Anticipation-of-an-Oil-Boom.pdf>

for future generations. The budget's projections show that by the end of 2025 about 60 percent of oil-related inflows to the government (about US\$3.5 billion) would be spent, and 40 percent (US\$2.4 billion) saved in the NRF.

### **A policy advisory body for Guyana**

Guyana is at a point of great potential, but it also faces complex challenges and considerable risks. Some of the challenges are the high incidence of poverty as well as basic education and health outcomes that lag those in most CARICOM countries,<sup>4</sup> a shortage of skills, and inadequate infrastructure and public services. Other major challenges include protecting Guyana's fragile coastal environment and avoiding the risk that the non-oil part of the economy is weakened by high costs and falling competitiveness. The inflow of revenue from oil will help provide resources to tackle some of these challenges, but more effective policymaking will also be needed.

As noted above, policy is currently conducted as a public sector exercise through the instrument of the annual budget presented by the ministry of finance. But public sector capacity is limited, and policymakers have no experience in managing the forthcoming unprecedented growth in activity and wealth, nor the associated risks. In such a context an advisory body on the economy could support the government by broadening the pool of expertise for helping propose solutions or approaches to the challenges and risks. Several countries have established advisory bodies on the economy. Many are in developed countries, and similar institutions have been set up in Costa Rica, Mexico, Peru, and South Africa.<sup>5</sup>

In Jamaica, the Economic Policy Oversight Committee (EPOC) was set up in 2013 as an independent body to monitor the government's compliance with its adjustment program with the IMF. On completion of the program in 2019 EPOC was asked by the government to continue to monitor its reform program. EPOC comprises 11 members, is chaired by an executive of a private financial institution, and has representatives from the business and banking community, the public sector, labour, and civil society. Meetings are held quarterly, with a technical committee meeting monthly, and EPOC issues press releases and quarterly reports on the economy to the public.<sup>6</sup>

The rationale for advisory bodies is that as economies become larger and increasingly complex governments need to consult on a structured and continuous basis with a broad range of expertise outside of government to design policies and address risks. The idea is that these bodies bring to bear a richer knowledge base and views from a wide range of stakeholders in addressing problems and developing solutions. They can do so by:

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<sup>4</sup> UNDP, Human Development Report 2020, <https://hdr.undp.org/sites/default/files/hdr2020.pdf>

<sup>5</sup> For a review of advisory bodies, see, for example, OECD (2017), Policy Advisory Systems: Supporting Good Governance and Sound Public Decision Making, OECD Public Governance Reviews, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264283664-e>

<sup>6</sup> For additional information see <http://epocjamaica.com/>

- providing expertise, inputs, and alternative perspectives on policy issues facing governments;
- assessing key economic, financial, environmental, and climate risks, and ways to mitigate them; and
- helping promote dialogue among different groups of stakeholders and informing the public.

In summary, the aim of policy advisory groups is generally to broaden the pool of expertise in order to improve policymaking, thereby helping reduce poverty, promote growth and jobs, and improve overall well-being. Advice is provided on request by the government, or by the advisory body acting on its own in response to a perceived need for policy support.

Transparency is a key feature of advisory bodies. In many countries advisory bodies are allowed to publish advice given to governments.

In Guyana's case an advisory body could be convened by the President, with representatives from the private sector, labour, academia, and civil society. It would take into account the work of other advisory or consultative bodies to avoid duplication. Based on the experience of other countries, including Jamaica, some key features would include the following:

- The advisory body's functions would be to consider, analyse, and provide advice to government on matters related to the country's socio-economic development and risks;
- It would be operationally independent and multi-disciplinary, comprising a diverse and non-partisan group of professional men and women in fields such as business and finance, law, technology, economics, social development, infrastructure, climate science and the environment, and public services;
- Members would be appointed for a period of two years, and be guided by a code of conduct to govern matters such as conflicts of interest and ethics;
- The body would be supported by a small secretariat to provide research and reporting services, and be given access to relevant government information; and
- The body would report to the press on its meetings and recommendations, and issue periodic reports summarizing its work.

Guyana is on the brink of unprecedented economic change alongside considerable challenges and risks. This conjuncture requires an improved framework for policymaking which brings together a broader pool of knowledge and expertise. An advisory body can help meet that need.