

BUDGET ALERT

GRENLEC TRANSACTION EXPOSES BLIND SPOT IN NATIONAL BUDGETS

By Laurel Theresa Bain

Sunday 24th January 2021 will be one month since the revelation by WRB of the repurchase of its shares in GRENLEC by the Government of Grenada. The population is still perplexed, despite the statements by government ministers and in Parliament. The main areas of contention remain the legality of the transaction and the source of funds for the repurchase of the shares.

The information provided on the source of funds to repurchase the shares in GRENLEC is ambiguous and is one of the main causes of the confusion. In the Government Press Conference on 30th December 2020, the public was informed that the repurchase transaction was financed, not by loans or grants, but by savings on the capital account and from savings accumulated from 2013. The savings on the capital account was explained to be the result of the low rate of implementation of the capital budget. In its Press Release on 12th January 2021, an alternative report on the financing of the repurchase transaction was given. The public was informed that the transaction was financed by grants and concessionary loans from the 2020 Budget. At the sitting of Parliament on 15th January 2021, the nation was informed that the repurchase transaction was financed by savings on the capital account of the 2020 Budget.

Although there have been public pronouncements, citizens remain perplexed. The complexities of identifying the source of financing are combined with the lack of Parliamentary approval for the expenditure as required by the Constitution. In addition, the available funds in the approved Budget for 2020 was not sufficient to finance the repurchase transaction; and so, the question of where the funds came from remains unanswered.

This ongoing debate has brought to the forefront some blind spots in the Budget which need to be resolved. These blind spots call into question the accuracy, consistency and comprehensiveness of the information presented to Parliament; and the consistency and application of the legislation that informs the budget process. The outcome of these blind spots is a systemic failure of the financial management system, including the operation of the checks and balances for protecting the integrity of the public accounts.

Currently, a thorough assessment of the Government financial position is impossible due to the lack of information on all Government financial transactions. This is brought about by, among other things, the failure of the Government to publicly disclose detailed information on the performance of the National Transformation Fund through which most of the capital projects in the Budget are financed.

In 2020, seventy (70) percent or \$86m of the \$122m in capital projects was financed from the National Transformation Fund. It is projected that \$172m will be withdrawn from the National Transformation Fund to finance the estimated \$305m in capital projects in 2021. The lack of transparency in the operation of the National Transformation Fund is a major cause of the confusion on the financing of the repurchase of the WRB shares in GRENLEC. It is a blind spot in the Budget which inhibits a thorough assessment of the financial position of the Government and complicates the tracing of the financing of the repurchase of the WRB shares.

This is specifically related to the ambiguous use of the word grants as a source of financing of the national Budget. In the Budget documents two types of grants could be identified. There are official grants from governments, institutions, and agencies such as China, the Caribbean Development Bank [CDB] and the European Development Fund [EDF] and these are itemized in the Budget documents. Generally, the Government does not have discretion on the use of these funds which account for a small proportion of

capital expenditure. The official grants were estimated to be \$29m or twenty-four (24) percent of the \$122m of capital expenditure in 2020.

The other type of grants referred to in the Budget documents are grants from the National Transformation Fund. The Citizen by Investment Act [2013] makes provisions for successful applicants to make investments or contributions to approved capital projects. These investments or contributions by the Economic Citizens are deposited in the National Transformation Fund and are defined as external grants. These 'grants', which are presented to Parliament as a total amount, were budgeted at \$172m in the 2021 Budget as previously indicated. These are different from official grants and the ambiguous use of the word 'grants' has contributed to the confusion on the financing of the capital projects.

Most importantly, the investments or contributions to approved projects by Economic Citizens should not be classified as capital grants but as capital receipts. The payment is a requirement for the purchase of citizenship and therefore is a component of the cost of acquiring Grenadian citizenship. In contrast, a grant is a gift. It is a transfer not linked to an exchange for a good, service or asset. It is non quid pro quo. Consequently, the classification of the public accounts, particularly the financing of the capital account, would need to be revisited.

As such, for transparency, the public information on the use of grants, particularly for the contentious WRB repurchase transaction, should differentiate between the official grant inflows and 'grants' defined by the Government as those received from Economic Citizens through the National Transformation Fund. To declare publicly that the repurchase transaction was not financed by grants or loans and to inform subsequently that it was financed by grants and concessionary loans is confusing and does not lend itself to fiscal transparency. The announcement of the financing of the repurchase transaction by concessionary loans was a new phenomenon that added further complexities to the financing of the repurchase of the WRB shares. The information presented in Parliament did not address the fundamental cause of the confusion among the population, one of which, is the blind spot in the Budget i.e. the National Transformation Fund. Accordingly, the reports on the fiscal performance presented to Parliament do not accurately reflect Government's financial position.

The non-disclosure of information on the National Transformation Fund is contrary to the intent of financial management as envisaged in the Constitution and the Public Finance Management Act [2015]. The Constitution, subsections 75 and 76 makes provision for the establishment of the Consolidated Fund and other Funds established by Acts of Parliament. This is reinforced by the Public Finance Management Act which in subsection 45 makes provision for the establishment of Special Funds as approved by Parliament. The National Transformation Fund is one such Fund, established by an Act of Parliament to receive inflows from the Citizen by Investment Programme. Along with the proceeds from the sale of citizenship, the Citizen by Investment Act makes provision for a component of the inflows to be investment or contributions to approved projects. These provisions in the Citizen by Investment Act, which were approved by Parliament, have significant implications for the management of the public finances. In the system of good government, the Executive [Cabinet] is accountable to the Parliament. Therefore, Parliament should receive comprehensive reports on the operation of the National Transformation Fund and any other Funds established by an Act of Parliament. Reporting on the National Transformation Fund should be an integral part of the Budget. To omit reports on the National Transformation Fund undermines the credibility of the Budget. This questions the comprehensiveness and hence the accuracy of the information; and the degree to which the Executive [Cabinet] has been accountable to the Parliament.

The original intent of the legislation was for the operation of the Citizen by Investment Programme and the National Transformation Fund to be transparent. The Citizen by Investment Act [2013] Subsections 14 and

15 provided for the public disclosure of information. The existence of the blind spot in the Budget due to the non-disclosure of information on the National Transformation Fund, and the accompanying lack of fiscal transparency, point to the need to reactivate the information disclosure requirement. The non-disclosure of information from the National Transformation Fund and the exclusion of this information from the reports presented to Parliament could compromise the financial management system and the checks and balances for protecting the integrity of the system.

The Public Finance Management Act and the Audit Act, which operationalize the provisions of the Constitution, provide standards for maintaining the integrity of the public accounts. It is the responsibility of the senior officers of the Ministry of Finance to advise the Executive [The Cabinet] on financial matters. Specifically, the Accountant General has to ensure that all expenditures were duly authorized and accurate and comprehensive records are maintained of the public accounts. The Public Finance Act elaborates on the components of the public accounts to include the Consolidated Fund and Special Funds. The Accountant General is also obligated to submit the public accounts to the Director of Audit. It is the responsibility of the Director of Audit to report to Parliament, through the Minister of Finance on the public accounts. Finally, the Public Accounts Committee has the parliamentary responsibility to examine the public accounts and report to Parliament. It is doubtful whether these requirements for efficient financial management were implemented as reports on the National Transformation Fund were not presented to Parliament.

Ensuring accountability and transparency in budgeting is the responsibility of all economic agents with the support of Non-Government Organizations. It is also imperative that international and regional institutions that undertake surveillance of the economy provide comprehensive reports on the public finances which will support the principle of fiscal transparency.

Knowledge is power and experience is the greatest teacher.

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Ms Bain has undertaken assessments of the economies of the Eastern Caribbean Currency Union (ECCU) and research on fiscal policy and taxation issues in the ECCU. She is the Author of the books: Fiscal Policy The Economy and The Tax Structure of the Member Countries of the ECCB. Ms. Bain has worked extensively with international development agencies and regional institutions.

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