

**Barbados: Report on Observance of Standards and Codes—
Fiscal Transparency Module**

This Report on the Observance of Standards and Codes on Fiscal Transparency for Barbados was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on September 6, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Barbados or the Executive Board of the IMF.

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BARBADOS

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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September 6, 2007

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in Barbados in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Barbados has a number of good practices on fiscal transparency including a legal requirement to publish the budget *Estimates*, the annual *Report of the Accountant General*, and the annual *Report of the Auditor General* as well as websites that provide data on budget outturn for current and previous years. The outturn prior to the budget year is provided along side budget estimates, which are provided on a gross basis according to administrative, economic, program and functional classifications. Full information on debt and financial assets is published in the *Report of the Accountant General* which also includes a statement on contingent liabilities. A financial management information system is in place which effectively controls revenue collection and expenditures, and a new system of accrual accounting began in April 2007. The code of ethics for public servants meets the key criteria of the *UN International Code of Conduct for Public Officials*. Procurement and employment regulations are standardized and accessible. The legislature receives monthly reports on budget execution and the audited financial accounts are presented to the legislature within a year of the end of the fiscal year. A national statistics agency has technical independence and verifies the quality of fiscal data.

To improve fiscal transparency, highest priority should be given to developing a better understanding of the full reach of government activities. This will require taking inventory of all statutory bodies and determining whether their primary purpose is commercial or noncommercial activities, and then developing the means for reporting on the consolidated general government including extrabudgetary funds. The nongovernment public sector should also be clearly defined and consistently monitored. Other important priorities include providing an analysis and documentation of costs of quasi-fiscal activities and tax expenditures in the budget documentation; strengthening audit functions and improving the effectiveness of the Public Accounts Committee; and better analysis and disclosure of information related to public-private partnerships. In addition, while budget implementation practices are sound, some recommendations are provided for the improvement to the legal framework and budget preparation process. It also is important to move ahead with plans to develop a debt management strategy. Finally, fiscal transparency could be greatly improved through better use of websites, more user friendly publications, and a stronger effort to disseminate and publicize the availability of fiscal data.

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ABBREVIATIONS

BAO	Barbados Audit Office
BSS	Barbados Statistical Service
CBB	Central Bank of Barbados
CPD	Central Purchasing Department
GFS	Government Finance Statistics
FMAA	Financial Management and Auditing Act
FMIS	Financial Management Information System
IAU	Internal Audit Unit
MOF	Ministry of Finance
NIB	National Insurance Board
PAC	Public Accounts Committee
PEIF	Public Enterprise Investment Fund
PPP	Public-Private Partnership
QFA	Quasi-fiscal Activities
ROSC	Reports on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard

I. DETAILED DESCRIPTION OF PRACTICE¹

A. Clarity of Roles and Responsibilities

Definition of government activities

1. **General government is not clearly defined although it is largely consistent with Government Finance Statistics (GFS) principles, and is mostly covered in the budget process.** 1.1.1
The units of general government are listed in Box 1. There are no local governments in Barbados, but there are numerous statutory boards, some of which carry out activities commonly assigned to local governments, and 16 extrabudgetary funds which are established by law and financed through earmarked revenues. Despite using the term extrabudgetary fund, there are no extrabudgetary institutions, but only various extrabudgetary accounts that are managed by government ministries or by a public financial institution (see Box 2 for details of extrabudgetary funds).
2. **The National Insurance Board (NIB) is a government department, and its operational costs are included in the budget; but revenue from contributions and income earned on their investment is off-budget.** Instead, the NIB is required to report separately on its finances to Parliament on a monthly and annual basis. The NIB carries out three main tasks: it collects contributions from employers, it pays benefits to recipients, and it invests its surplus. For further details see paragraph 23 below.
3. **Statutory boards are legally separate entities from government, and may carry out commercial or noncommercial activities.** There are around 75 statutory boards and other agencies that meet the criteria of nonmarket nonprofit institution as defined in the *Government Finance Statistics Manual* (2001) and therefore fall within the general government. These include 23 school boards, health councils, and various other commissions and control boards. Statutory boards must have their budgets approved by the ministry they report to, and receive a transfer from the budget to finance their activities. Any user fees or own revenues are used to offset operating costs, and remain outside the Consolidated Fund (CF). They are not subject to the Financial Management and Audit Act (FMAA), but are generally expected to be in line with the same requirements. Many are created by establishing acts which explain their purpose and reporting requirements. Those that are fully funded by the budget have their staffing approved by the Public Service Commission.

¹ Discussions on fiscal transparency were held in Bridgetown during November 6-17, 2006. The IMF staff team comprised Ms. Parry (Head), Ms. Rehm and Mr. Mayes (all from the Fiscal Affairs Department). The mission met with a number of senior officials of the Ministry of Finance, including Minister Mascoll, Mr. Layne (Permanent Secretary), and Mr. Smith (Director of Finance and Economic Affairs). It also met with the Accountant General, the Auditor General, the Clerk of Parliament, and with officials from the Management Accounting Unit, the Public Investment Unit, the Treasury, the Central Purchasing Department, the Inland Revenue Department, the Land Tax Department, the Customs and Excise Tax Department, the Central Bank of Barbados, the Ministry of Commerce, Consumer Affairs and Business Development, the Ministry of the Civil Service, the National Petroleum Corporation, the Barbados National Oil Company, the Ministry of Education, the Ministry of Energy, the Transport Board, the Water Authority, the National Insurance Board, and the Barbados Statistics Service.

Box 1. General Government in Barbados	Percent of GDP in 2005-6
General Government in Barbados comprises the following:	26.5 ¹
Central Government Units Covered by the Budget	
Attorney General's Office, Parliament, Prime Minister's Office, Governor General's Office, Cabinet Office and 14 ministries	5.1
Central Government Units with Individual Budgets	
National Insurance Board	NA
	0.8
Extrabudgetary Expenditures of which Public Enterprise Investment Fund	8.0 ²
Government Units Receiving Transfers from the Budget	
Statutory Boards among which include:	
School Boards	
Health Councils	
Barbados Cadet Corps	
Barbados Defense Force	
Child Care Board	
National Assistance Board	
National Conservation Commission	
Urban Development Commission	
Rural Development Commission	
<i>Notes:</i>	
¹ Excludes transfers to non-profit and public institutions and extrabudgetary expenditures	
² Estimated as transfers to non-profit institutions and public institutions	
NA= Not available	

4. **No distinction is made between commercial statutory boards (public enterprises) and noncommercial statutory boards, which makes it difficult to determine the number of each.** The *Assignment of Responsibilities for the Business of Government* does not distinguish between units within the ministries, and extrabudgetary funds, statutory boards, agencies and public enterprises reporting to those ministries.² At present, there are four public financial institutions and 24 nonfinancial public enterprises.³ Transfers to public enterprises are included in the budget, but loans (including on-lending) or advances by the government to the public enterprises are not included in the budget, but can be found in fiscal reports.

² The 2005 Staff Lists also lists statutory boards and public enterprises under each ministry, but due to a recent reorganization of ministries, these are not consistent with the list of responsibilities.

³ A few of these are slightly less than 100% owned by central government. Nine are statutory boards, and the others are companies established under the Companies Act.

5. Relations between the government and nonfinancial public enterprises are governed by laws that sanction quasi-fiscal activities. *1.1.4* The nonfinancial public sector includes companies established under acts of Parliament and public limited liability companies established under the Companies Act with the government as full or partial shareholder. In general, there is no supposition that public enterprises will be self financing, and establishing acts specifically reference amounts approved by Parliament as a source of funds. They are regulated to some extent by these founding acts, which describe the rights of the sectoral minister and or the Minister of Finance to direct, control, and limit their activities. As a result, public corporations carry out quasi-fiscal activities (QFAs), i.e., activities supporting government policy aims, which would not be undertaken if the corporation was solely functioning on the basis of commercial incentives.

6. Government equity holdings, including fully-owned corporations, are extensive; publicly available information on government equity holdings is limited and the management of state assets is not clearly defined. *1.1.5, 2.1.4*

Government equity holdings are largely limited to fully-owned public enterprises. In recent years, the government has taken steps to reduce its equity holdings through privatization, though it has retained a minority interest in some.⁴ Aggregate equity holdings by government are reported in the Annual Estimates. Conversion of cumulated losses of public enterprises to new equity is not identified. Public enterprises submit annual reports to Parliament and quarterly reports to the MOF Management Accounting Unit. This unit maintains data on government equity, but there is no report that provides equity holdings by company.

Government relations with nonfinancial public corporations and the private sector *1.1.4*

7. Quasi-fiscal activities are extensive in the nonfinancial public sector due to regulated prices. Prices are regulated below cost for public transport, natural gas, water, housing, and other services ensuring that they require predictable ongoing support from the budget. Prices are regulated below cost for public transport, natural gas, water, housing, and other services ensuring that they require predictable ongoing support from the budget, though such support is not currently provided to the public enterprises that provide natural gas and water. Prices for most of these public enterprises are to be regulated by the Fair Trading Commission, which will make it costly for the enterprises to ask for a rate increase. In addition, most of these public enterprises must also serve rural areas which are not profitable, especially where this requires costly infrastructure for relatively few customers.

8. The financial relationship between the Transport Board and central government is not transparent. Private sector transportation services are profitable, while the Transport Board is not, owing in part to the designation of routes and to the below cost-recovery fare charged to all users.⁵ The Transport Board receives a regular

⁴ Southern Golf and Country Club (6.1 percent), Barbados National Bank (19.7 percent), and Insurance Corporation of Barbados, Ltd. (15 percent)

⁵ Further fare reductions for student and elderly are offset by explicit rebates from government, but only up to the point of the set fare.

budget transfer to cover losses, but despite a documented annual need, only a small portion of the necessary amount is included in the budget.⁶ This forces the company to operate with a perpetual cash shortage and leads to arrears with its suppliers. The Transport Board also has government guaranteed loans that are fully paid by the government, though the loans remain on the books of the Transport Board. They would appear, however, in the list of guarantees included in the budget documentation.

9. **Below-cost pricing by the National Petroleum Company has led to consistent losses in recent years, but the company does not receive budget transfers.** The National Petroleum Company faces variable prices for natural gas from the National Oil Company while facing a set consumer price that has not been increased since 1994 for commercial users. Furthermore, the amount of natural gas that can be sold is in decline as national resources are being depleted. While the National Petroleum Company plans to request a rate increase from the recently established Fair Trading Commission, it is unclear whether the necessary increase would be regarded as politically feasible. Since the National Petroleum Company does not receive budget transfers, most of the resulting losses are financed through arrears on payments to the National Oil Company.

10. **No profits or dividends are paid to the budget from public corporations; if they do make a profit, it is reinvested into the company or transferred to an extrabudgetary fund.** The exception is the central bank as discussed in paragraph 15. There are no provisions for profit transfers to the budget under any establishing acts of state enterprises. Some, such as the National Oil Company, Ltd have some profits that are generally reinvested. Others, such as the Agricultural Development and Marketing Company, transfer profits to extrabudgetary funds (see Box 2).

11. **Privatization has generally been carried out in a transparent manner; 1.1.5 No specific legislation governs the privatization processes, but receipts are reported to Parliament.** Privatization receipts are paid into an extrabudgetary fund called the Public Enterprise Investment Fund (PEIF), and are reported to Parliament on an ex post basis. The PEIF is managed by the Accountant General in the MOF, and its funds are used for various off-budget development projects. Projected privatizations for the fiscal year are normally included in the budget speech. Companies are first corporatized, and then an announcement is made that a percentage of shares are offered for sale.⁷ The Barbados National Bank and the Insurance Corporation of Barbados, Ltd. were privatized in 2006. In the case of these two privatizations, the government first offered less than 50 percent of the equity, and no local institution or individual expressed interest. Subsequently, a privatization committee was formed for each institution, and a request for proposals was sent out to specific financial institutions in the Caribbean region to become a strategic partner in these institutions. The committees chose the most suitable proposals, and once finalized, they were announced in Parliament and broadcast on the radio.

⁶ In 2005-6 the budgeted transfer amount was only BD\$7 million, but the supplemental transfer amount is expected to be BD\$30 million.

⁷ In some cases, such as public guest houses, privatization is simply the sale of the property or assets.

Box 2. Extrabudgetary Funds

Public Enterprise Investment Fund (Cap. 5A)

Resources include receipts from the sale of government enterprises or shares therein; amounts allocated by Parliament, repayment by enterprises of debts due to government, and gifts. These may be used to (i) defray costs associated with the sale of an enterprise, (ii) finance specific investment; (iii) finance repayment of debt; and (iv) own administrative costs. The Accountant General makes quarterly reports on the economic activity of the fund to the Minister of Finance which are then laid before Parliament.

Social Investment Fund (Cap. 50)

Resources include amounts received from the *Public Enterprise Investment Fund*, amounts allocated by Parliament; other sources as determined by the Minister of Finance. These may be used to finance projects/programs to reduce poverty through the creation of enterprises and their administrative costs. The Accountant General makes quarterly reports on the economic activity of the fund to the Minister of Finance which are then laid before Parliament. Accounts are audited once per year by the Auditor General.

Agricultural Development Fund (Cap. 252B)

Managed by the Enterprise Growth Fund, Ltd., and financed by transfers from the Enterprise Growth Fund, amounts from Parliament, revenue from tariffs on food imports (transferred from the Consolidated Fund) and other sources determined by the Minister of Agriculture, and gifts. Resources may be used to finance projects/programs to support agricultural development and administrative costs. The accountant of the *Enterprise Growth Fund, Ltd.* prepares quarterly reports for the Minister of Agriculture, which are laid before Parliament. Accounts are audited once per year by the Auditor General.

Export Promotion Marketing Fund (New)

Managed by the Enterprise Growth Fund, Ltd. and financed by a 2 percent environmental levy on vehicles and allocations from Parliament. Resources may be used to finance projects/programs to increase exports.

Sugar Research and Development Fund and Sugar Industry Scholarship Fund (Cap. 270—Sugar Industry Law) Financed from a levy on sugar producers, and used to finance research and development and to provide assistance to sugar producers. An annual statement prepared by the Accountant General must be audited by the Auditor General and laid in Parliament.

Training Fund and Training Loan Fund

Established by the *Training Act (Cap 35)* and financed by Parliament, these funds provide loans and scholarships for public servants and officers, teachers, officers of statutory boards, and others determined by the parent ministry for training. An annual report on each fund is made to Parliament

Arts and Sport Promotion Fund (New)

Financed 60 percent from lotteries to promote sports and the arts.

Enterprise Growth Fund

Managed by *Enterprise Growth Fund, Ltd.*, a public financial institution which receives advances from the government and earns revenue on the interest it charges for on-lending to individuals or projects under this fund. This fund also provides resources for the separate funds as indicated.

Tertiary Education Loan Fund

Established by the *Education Act (Cap. 41)* and managed by the Ministry of Education to provide financial assistance to persons wishing to pursue tertiary education, and financed by Parliament, proceeds of any loan raised by the government for the purposes of the Fund, and repayment of loans and interest paid on loans. Audited annual accounts are required to be laid in Parliament.

Tourism Investment Fund

A retained earnings fund financed from profits of the *Barbados Tourist Investment Corporation (Cap. 332A)*, a public enterprise, and used for purposes decided by the Board of the corporation.

Box 2. Extrabudgetary Funds (continued)

Small Hotel Investment Fund

The Small Hotel Investment Fund (SHIF) is managed by *Enterprise Growth Fund Limited*, and financed through the *Public Enterprise Investment Fund*. The SHIF provides financing to small hotels that are members of the Intimate Hotels of Barbados (Intimate Group) to assist with the refurbishing of their properties, group marketing, training and the procurement of goods and services for membership of the Intimate Group.

Tourism Loan Fund

The Tourism Loan Fund is managed by *Enterprise Growth Fund Limited* and financed by amounts received from the Central Bank of Barbados. The Fund provides loans for the refurbishing and upgrading of hotels and attractions and/or for the construction of facilities to be used for the purpose of carrying on business in the areas of historical, cultural and natural heritage attractions.

Industrial, Investment and Employment Fund

The Industrial Investment and Employment Fund (IIEF) is managed by the *Enterprise Growth Fund Limited* and financed through the *Public Enterprise Investment Fund*. The Fund provides loan and equity financing to help local manufacturers create growth-oriented companies.

The Innovation Fund

The Innovation Fund is managed by the *Enterprise Growth Fund Limited* and is financed through the *Public Enterprise Investment Fund*. The Fund provides seed capital and technical expertise to entrepreneurs who have an innovative idea and are in need of funds to commercialize their ideas.

12. **Laws and processes governing regulation of the nonfinancial private sector are generally clear and open.** 1.1.5 A survey⁸ of Caribbean companies found that administrative procedures for business registration and licensing were quite good in the five countries in the survey (Barbados, Dominican Republic, Grenada, Jamaica, and Trinidad and Tobago), but they also ranked Barbados last compared to the other four countries. The Companies Act, Cap. 308 and the Companies Regulations, 1984 includes requirements for setting up or dissolving a company. This act also sets the accounting standards and required financial statements which must be audited by an independent auditor. These statements must be disclosed to the public unless an exemption is granted. Information regarding this act and other information and laws related to business operation can be found on the Corporate Affairs and Intellectual Property Office website.⁹ Additional information regarding small and medium-size businesses can be found at the Ministry of Commerce, Consumer Affairs, and Business Development website.¹⁰ Discussions with ministry officials indicate that there is considerable public consultation in preparing new regulations.

Government relations with the central bank and public financial sector

13. **The Central Bank of Barbados (CBB) is not independent.** The Governor of the CBB is appointed by the Minister of Finance for a period not exceeding five years, but is

⁸ See *Benchmarking FDI Climate in the Caribbean*, Foreign Investment Advisory Service (IFC and the World Bank), June 2004.

⁹ See <http://www.caipo.gov.bb/index1.htm>

¹⁰ See <http://www.commerce.gov.bb/>

eligible for reappointment. The Board consists of the Governor, Director of Finance and Economic Affairs,¹¹ and five other Directors who are appointed by the Minister of Finance for three years and are eligible for reappointment. In addition, a number of activities of the CBB require approval of the Minister of Finance, who also can override CBB policy through written order. This order must also be published in the *Official Gazette* to acknowledge the government's assumption of responsibility of the policy. However, since the establishment of the CBB, no Minister of Finance has invoked this statutory authority. There is no subsidized or directed lending by the CBB.

14. **The CBB is banker and fiscal agent of the government, but receives no fees for its services and pays no interest on government deposits.** The CBB may purchase a limited amount of government securities or other government debt only if they form part of an issue made to the public at the time of acquisition. In general it only purchases short-term securities. It also may make temporary advances, within limits, in the form of an overdraft account. The government's treasury account is typically in overdraft, and currently pays the market rate of interest on the overdraft. At the end of the financial year, the treasury account must be in balance. The accounts of the CBB must be audited at least once a year, and the certified annual accounts and a report on annual operations must be submitted to the MOF, and are subsequently laid before Parliament and published.

15. **The transfer of profits to the budget is not fully clear, but is determined by the Minister of Finance.** The CBB law clearly defines the calculation of net profits, and clearly specifies the percent of profits that can be transferred to the General Reserve of the CBB, and that can be used to redeem government securities held by the CBB. However, the percent of net profit to be transferred to the Consolidated Fund of the government is not fully clear since "suitable amounts" out of the remaining net profits can be transferred to special funds, but these amounts are agreed with the Minister of Finance. The distribution of profits is a business decision based on existing economic conditions that requires flexibility and hence, has not been fully specified by the law.

16. **Public financial corporations carry out quasi-fiscal activities.** 1.1.4
As noted, the most important public financial institutions were recently privatized. Before privatization the BNB conducted quasi-fiscal activities by lending to public enterprises (such as the Transport Board or Water Authority) that would not likely have received a loan from most commercial banks. Four smaller public financial institutions remain 100 percent government-owned which submit quarterly management accounts to the MOF. Three of these were set up with the intent to use them for directed lending to certain projects or sectors. They receive loans from the government and on-lend, earning income on the interest received. One of them, the Enterprise Growth Fund Ltd., manages a number of extrabudgetary funds.

Fiscal management relations among the branches of government

17. **The powers and composition of the executive, legislative and judicial branches are clearly defined in the Constitution, and the budget law (the Financial Management and Audit Act (FMAA)) and its regulations set out the fiscal roles of** 1.1.2

¹¹ Whoever occupies this position in the Ministry of Finance

Parliament and the executive branch. The Constitution requires a Money Bill to be introduced by the House of Assembly. The FMAA requires the budget to be submitted to Parliament before the beginning of the fiscal year. Appropriations lapse at year end, and there is no spending authority in the event that the budget is not passed at the beginning of the year. Any amendments by Parliament to the draft budget are approved by the Minister of Finance before the appropriations bill is passed. The executive may submit any number of supplemental budget appropriations during the budget year for approval by Parliament.

The legal and administrative framework for budget management

18. **The legal framework for management of public funds is clear on most major processes of budget management.** 1.2.1 The Barbados constitution, the *Financial Management and Audit Act* (FMAA) and the associated rules incorporate important principles of public finance: (1) taxes can only be imposed by law¹²; (2) expenditure from the Consolidated Fund can only be undertaken after approval of the budget in Parliament; (3) government financial data is presented in some detail, according to an agreed classification, on a gross basis, in an ex-ante form in an annual budget and ex post in final accounts; (4) management and coordination of the budget process is assigned to the Minister of Finance; (5) clear rules exist on the issuance and reporting of government guarantees. Provisions for government borrowing are set out in the *Treasury Bills and Tax Certificates Act*.

19. **The Constitution and the FMAA define the budget preparation and approval process in broad terms.** They also provide for the offices of the Accountant General and Auditor General, the creation of the Consolidated Fund (CF), and assign responsibility for budget preparation and execution to the Minister of Finance. The FMAA and associated rules contain more detailed provisions regarding accounting and financial reporting; the duties and responsibilities of controlling officers and the accountant general. Separate legislation grants the authority of the Minister of Finance to extend loan guarantees, and to take out special loans. The law does not deal with issues of managing the composition of the public debt, fiscal risk and sustainability, or financing arrangements such as public/private partnerships (PPPs).

20. **A number of PPP infrastructure projects have been initiated in recent years, without a surrounding framework law.** As a result, the process for agreement on such a contract is unclear, and while the nature of the contract (e.g. to build a prison or hospital) is made public, the exact nature of the financial agreement is unclear, as is the precise allocation of risk. PPP arrangements are off-budget. In some cases the difference between the PPP arrangement and a bond-financed government investment project is unclear, save that under the former, no debt is acknowledged in the government accounts.

21. **Mechanisms for the coordination and management of budgetary and extrabudgetary activities are not well defined.** 1.1.3 There are sixteen extrabudgetary “funds” which are not institutions, but off-budget accounts managed by various

¹² Article 16 of the Barbados Constitution protects against seizure of property without provisions in written law.

ministries. The total amount of expenditure by these extrabudgetary funds was not made available to the mission, making it impossible to know their overall fiscal significance. Balances of these funds are included in the annual estimates, and most are audited by the Auditor General. The extrabudgetary funds are established under individual acts of Parliament that specify the sources and uses of funds in general terms (Box 2). The largest and most active of these funds is the Public Enterprise Investment Fund (PEIF). Two new extrabudgetary funds—the Export Promotion Marketing Fund and the Arts and Sport Promotion Fund—were created in 2005 and 2006, respectively. The complicated relationship between the government and the Enterprise Growth Fund, Ltd. which also manages a number of extrabudgetary funds makes it difficult to understand how expenditure from these funds is decided. Reports on the most active extrabudgetary funds are made to the parent ministry, and laid in Parliament, on a quarterly basis.

22. Loans may be made to public or nonpublic enterprises under terms agreed by the Cabinet, but such loans are not included in the budget nor individually approved by Parliament.¹³ Loans have generally been used to finance capital projects undertaken by the public enterprises. The only information on these loans is given ex post in the Accountant General's report.

23. The NIB has not met legal requirements to provide annual reports and audited financial statements on its funds to the Minister of Finance and Parliament. The National Insurance Board (NIB) is in fact a combination of several funds including the National Insurance Fund (for pensions), Unemployment Fund, Severance Payment Fund and a provident fund for sugar sector employees. Following a financial restructuring in 2002, the NIB moved into a position of substantial surplus (three percent of GDP for 2005). Despite its size, audited statements for the NIB have not been made available, and the last annual report, published in 2004 covers 2002.¹⁴ There are at present no penalties for failure to comply with the legal requirements. Owing to a substantial domestic asset requirement facing the NIB, it holds substantial quantities of government debt purchased at open auctions. The NIB also nominally holds a 10 percent share in the Barbados National Bank.

The legal and administrative framework for tax policy and administration

24. Taxes are established by law, but there is no formal requirement for taxes to be enacted by law, save for protection of property provided in the Constitution. *1.2.2* The laws and implementing regulations leave little room for discretion on the part of the tax officials, and the legal framework grants discretion with regard to modification or interpretation only to the Minister of Finance or the tax Commissioner. While significant tax changes are addressed in the Financial and Economic Policy Statement, the tax laws themselves in some cases permit the Minister of Finance to

¹³ Parliamentary authorization is permanent under Section 32 of the Financial Management and Audit Act which states that loans given by the Government to government and nongovernment enterprises shall be secured by ways of a loan agreement or debenture mortgage, the terms of which are to be agreed by Cabinet.

¹⁴ According to this report, the objective of having reserves in 2030 equal to at least five times annual expenditures in 2030 was achieved under all but the pessimistic scenario.

change rates or schedules of eligibility. In practice, when this right is exercised, Parliamentary approval is required within a four month period.¹⁵

25. Economic development policies are supported by a range of tax incentive schemes that add considerable complexity to the tax system. *1.1.2* Barbados has a wide range of tax arrangements targeted at particular kinds of domestic companies, including (i) tax holidays; (ii) tax credits with respect to export sales and foreign currency earning; (iii) a special small company regime; (iv) investment incentive allowances; (v) tax reductions for special development areas; and (vi) special regimes for tourism, shipping, and other sectors.¹⁶ Moreover, the *Duties, Taxes and Other Payments (Exemption) Act (2002)* gives the Minister of Finance authority to grant exemptions on any duty, tax, or payment without recourse to Parliament.¹⁷

26. Tax administration is clearly defined and reasonably well coordinated with overall fiscal management. *1.2.2* Tax administration is fragmented, including the Inland Revenue Department, Customs and Excise Department, and the Land Tax Department. There is no taxpayer identification number that is used for the same taxpayer by all the revenue administration agencies.¹⁸ Despite the difficulties raised with these arrangements, departments have established ways of interfacing with different technologies. A project is under consideration to merge the tax administrations which would improve sharing of information and possibly effectiveness.¹⁹ They are also considering a joint audit process. Revenue estimates included in the annual appropriations are generally provided by the tax administration departments.

27. Taxpayers' legal rights are well defined, but in some cases seem to favor the tax administration. *1.2.2* In addition to written materials, websites²⁰ for each of the tax departments provide considerable information including the individual tax laws and regulations, instructions, frequently asked questions, and advice for taxpayers. The Land Tax website also includes a Customer Charter. Individual tax acts contain statements of

¹⁵ The tax framework comprises four main taxes, namely the income tax (LOB CAP. 73), the VAT (LOB CAP. 87), excise duties, and customs duties (LOB CAP.66). These laws describe, among others, tax base, tax rates, tax concessions, and the general principles and procedures relating to tax issues. All tax laws and regulations are published in the official Gazette. Some can be accessed from the web sites of the separate tax departments; most can be accessed from the CARICOM web site (www.caricom.org).

¹⁶ The legal framework for exemptions is extensive, including the *Small Business Act*, the *Industrial Incentives Act*, the *Fiscal Incentives Act*, and *Shipping Incentives Act*, all of which are publicly available.

¹⁷ Information on all types of tax concessions can be found at: <http://www.barbados.gov.bb/finance/pages/taxadmin.htm>

¹⁸ The Inland Revenue Department utilizes the National Registration Number of each taxpayer as a Document Locator Number for information processing. (This number is assigned and administered by the Department of the Electoral and Boundaries Commission). This number is also utilized in customs and VAT administration.

¹⁹ While outstanding arrears appear large, to a significant extent these reflect bad debts of longstanding that cannot, under the current system, be written off.

²⁰ Inland Revenue Department: <http://www.barbados.gov.bb/ird/>, Land Tax Department: <http://www.barbados.gov.bb/landtax>

Customs and Excise Department: <http://www.barbados.gov.bb/customs>

taxpayer rights, including the right to object or appeal, although in some cases, the period for initiating the objection or appeal is short (21 days to one month). In many cases, payment of the disputed amount is a precondition for the appeal process to begin. The appeal process includes first recourse to the Commissioner, then to a tribunal named by the Minister of Finance, and finally to the High Courts. Details of appeals to the Income Tax Appeal Board in the last few years indicate there were few appeals and the majority were dismissed.

Public servants' code of behavior and anti-corruption activity

28. **Public servants are subject to a code of conduct which includes the key provisions of the United Nation's *International Code of Conduct for Public Officials*.** 1.2.3
According to the code of conduct,²¹ public servants cannot be absent without permission, are forbidden from accepting or soliciting gifts, cannot have secondary employment without consent, and must not disclose information which came to them through official capacity. They are also required to disclose any investment or shareholdings, and if these create a conflict of interest, they must divest from such investments. In addition, public servants are required to be prudent in the conduct of their private or financial affairs. Officials involved in the collection of taxes do not have a separate code of conduct, but they are required to take an oath of fidelity and secrecy as a means to promote ethical conduct. Disciplinary measures may be taken for infractions of the code of conduct. Some fraudulent practices have been discovered either by the Ministry of Finance or by the Auditor General, and these are prosecuted. The authorities maintain that corruption is not a serious problem in Barbados.

B. Open Budget Preparation, Execution, and Reporting

The budget preparation process: clarity and consistency of process and presentation

29. **The annual budget process is clear and reasonably open.** 3.2.1
The budget preparation process (see Box 3) is well established and understood by ministries, departments and units (budget agencies). The annual budget circular normally is promulgated in early September, allowing budget agencies some six to eight weeks to prepare their draft estimates.²² Expenditure ceilings are decomposed to ceilings for personal emoluments, goods and services, current transfers to authorities and companies, and Public Sector Investment Program (PSIP) projects. The budget circular provides clear instruction on the structure and content of the budget agencies' draft estimates, including presentational formats. Generally there has been a high level of compliance with the budget preparation requirements and timetable over the past several years. The statutory requirement that the Estimates and Appropriations Bill be tabled before the commencement of the year has been met over this period. However, the period for legislative review is very short: the Assembly currently has only five days to consider the Estimates and the Senate is given only three days.

²¹ Chapter 3 of the General Orders for the Public Service of Barbados, last revised in 1997.

²² Budget agencies should be informed of their annual expenditure ceilings at the beginning of the draft estimates preparation stage, however sometimes these are promulgated a few weeks after the issuance of the budget circular.

Box 3. The Budget Preparation Process		
Timing	Activities	Legal basis
The Government has determined the fiscal year to be April 1- March 31. The main steps in the process are as follows:		
June - July	Budget Department circulates request for fiscal information required for preparation of fiscal framework	Budget Circular
July - August	Revenue agencies, Public Investment Unit and Accountant General (pensions and debt) submit framework estimates	Budget Circular
August - September	Budget Department prepares fiscal targets and issues budget circular	Budget Circular
October	Budget Department issues expenditure ceilings to ministries and departments	Budget Circular
July-October	Ministries and Departments prepare Schedules of Personal Emoluments and Draft Estimates	Budget Circular
November - December	Budget Department and Civil Service Ministry review personal emoluments and draft estimates	Budget Circular
December	Budget Department holds preliminary meetings to discuss estimates.	Budget Circular
January	Ministry of Finance conducts major estimates meetings. The Estimates Committee, chaired by the Minister of Finance, approves all estimates proposals. The Planning and Priorities Committee approves all investment proposals.	Budget Circular
February	Budget Department compiles final estimates and finalizes estimates documentation	Budget Circular
February	Budget Department arranges for printing of Schedules of Personal Emoluments and Estimates documents	Budget Circular
March	Estimates submitted to Cabinet for approval	Budget Circular
March	Annual Estimates tabled and Annual Appropriations Bill introduced in House of Assembly	Constitution, FMA Act
April - March	Minister of Finance can table supplementary budgets in the House of Assembly from time to time throughout the year	Constitution, FMA Act
Before end of March	Minister of Finance introduces Supplementary Appropriation Bill in the House of Assembly, covering supplementary budgets	Constitution, FMA Act
As soon as possible after year end	Minister of Finance introduces Final Appropriation Bill in the House of Assembly, containing any supplementary estimates not included in any appropriation Bill	Constitution, FMA Act

30. **The budget classification is broadly consistent with GFS86; and expenditure and revenue estimates are shown on a gross basis.** 3.2.1 Revenue estimates are classified by type of tax or other revenue collected. The expenditure estimates are classified by administrative (ministry, department, unit), program, economic (wages and salaries, NIS contributions, goods and services, transfers, debt service and fixed asset expenditure); and functional classifications. The *Estimates* document provides a brief description of the objective/functions of each subprogram, and a short description of the purposes of some of the cost objects for each subprogram. The economic classification structure—which is based on cash accounting principles—is broadly consistent with GFS86. However the functional classification structure is not consistent with the COFOG standard headings, and no information is provided at the sub-function level.

The macroeconomic framework and policy basis for the budget

31. **The overall balance of central government excluding extrabudgetary activities is the main indicator of the fiscal position, which is monitored during the year.** 3.2.3 The budget includes the deficit on the accountant general's basis (which includes

amortization as expenditure), and the deficit on the GFS basis. Public corporations report to Parliament separately, but there is no reporting on the consolidated public sector.

32. **Budget forecasts and some underlying macroeconomic assumptions 3.1.3, 4.2.2 are clearly presented.** The MOF does not have its own macroeconomic unit, but instead depends on the CBB to provide them with macroeconomic estimates. Macroeconomic assumptions are used internally to develop the budget estimates. The assumptions for growth, inflation, and exchange rate are reported in the *Economic and Financial Policies of Government*, but not with the estimates themselves. **Macroeconomic models and forecasts are not open to outside scrutiny.**

Medium-term planning and analysis of fiscal risks

33. **A statement on medium-term fiscal policy objectives is not included in 3.1.1 the budget document, and fiscal sustainability issues are not presented.** No explicit medium term framework of fiscal policies exists at present, nor is there an assessment of the implications of current and new programs for fiscal sustainability. The authorities are taking steps to develop a medium-term framework for the budget, which has been piloted to date in five ministries, which have reportedly produced three-year estimates for the 2006/07 fiscal year. The *Economic and Financial Policies of Government* is delivered to Parliament by the Minister of Finance and sets out new policies for the next fiscal year, but does not cover medium-term objectives. The government has a *Strategic Plan 2005-25* which includes broad policy goals such as the diversification of agriculture, improvement of transparency for both government and business. These in turn are used to guide the public investment program. See Box 4 for discussion of public investment and public-private partnerships.

34. **There are no explicit fiscal rules, but the MOF aims to remain within an 3.1.2 overall balance of 1 percent of GDP (on GFS basis).** Another aim is to reduce debt to around 60 percent of GDP by 2012 by targeting a positive current balance. There are at present no rules or guidelines for achieving the envisaged debt reduction.

35. **Estimates of new initiatives and ongoing costs of government policies are 3.1.4 not clearly distinguished in the budget documents.** New program proposals are costed separately by the ministry concerned during the budget preparation process. These proposals are combined into one document that is used for internal purposes, but not publicly available. Budget estimates are given on a line item basis and do not show the cost of new programs separately. The budget speech discusses new initiatives for the forthcoming year.

36. **The sensitivity of budget estimates to changes in economic variables is 3.1.5 not assessed nor are fiscal risks discussed with the budget.** The budget documents do not contain any analysis of revenue under varying circumstances, nor is there any analysis of uncertain expenditures, such as contingent liabilities, that could negatively impact the budget. However, the Accountant General's report does contain a statement on contingent liabilities.

Box 4. Public Investment Projects and Public-Private Partnerships

The Public Investment Unit in the Ministry of Economic Affairs and Development is in charge of developing and managing the medium term public investment program, which includes all projects valued over a quarter million US dollars. The unit makes recommendations to the Planning and Priorities Committee (PPC) of Cabinet on which projects to approve, and the PPC makes the final decision for the public investment portfolio. There are three main classifications of capital projects:

- 1) Most projects are “**on-budget**” and fall under the sector ministries budget in the annual budget *Estimates* document. The project budget includes all costs associated with the project including project administration costs. Foreign-financed projects are on budget; the government is reimbursed by the relevant international agency for project costs.
- 2) The second type of project is **on-lending** to public enterprises such as on-lending to *Cricket World Cup Barbados Ltd.* to refurbish a tourist attraction. Some Cricket World Cup projects are on-budget, and others are on-lending of this type.
- 3) The third type of project is **public-private partnership** (PPP). The government has recently become interested in PPPs which they claim are more cost-effective and timely in completing projects. It is also a way to avoid an explicit increase in government debt. However, once accrual accounting is adopted by the government, the assets and liabilities associated with PPP arrangements will be disclosed on the government’s balance sheet.

Public-Private Partnerships

The government has signed five PPP contracts for the following projects: a desalinization plant, a prison, a judicial center, and highway and a Coast Guard station. Except for the desalinization plant, the contracts cover construction and maintenance only, not operation of the facility. The desalinization plant has a demand guarantee that the government will purchase a minimum quantity of water. Three other PPPs are in the pipeline including a hospital expansion, a civic center, and a solid waste management center.

For all PPPs there is a technical committee assigned to evaluate tenders, negotiate and select the firm. At the tender stage the public is made aware of the intent to contract out. The values of winning contracts are published in the press, but the details of the contracts are not publicly available. Not all PPPs had tenders—an emergency project did not. PPP projects must have the approval of the Cabinet. More analysis done of the risks associated with the PPP contracts as well as whether risks are sufficiently transferred from the government to the private sector.

The leases paid under a PPP are found in the central government budget under the Ministry of Finance’s debt payments. The exception is the desalinization plant which is under the Water Authority.

Clarity of control of budget execution

37. **Basic accounting and internal control procedures are generally in place.** 3.3.1,3.3.3 All budget agency transactions pass through the treasury single account and are managed, recorded and controlled through the central government financial management information system, Smartstream. The system facilitates automated funds control by recording encumbrances, commitments and payments against agency appropriations and checking to ensure that funds are available when commitments are requested. Procedures for purchasing, making supplier payments, recording and paying employee emoluments, invoicing debtors, collecting and banking revenues, the safe custody of cash, financial instruments and accountable forms, the disposal and write-off of assets, and the internal

and external reconciliation of transactions and balances appear to be standardized across central government and well understood by budget agencies.²³ With the present exception of physical asset registration, the government's accounting and management procedures provide an effective basis for internal control.

38. Supplemental appropriations are used to switch spending from one line item to another. The MOF exerts expenditure control over expenditure objects (economic classification) at a detailed level of specification, and virement between these specific line items is not allowed. If a budget agency identifies unused funds under one line item, it is possible to request an increase in spending by this amount for a different line item in a supplemental appropriation. Many budget agencies regard this as administratively cumbersome. For the fiscal year 2005-6 there were 16 supplementaries. Furthermore, according to the FMAA the Minister of Finance "shall as soon as possible after the end of each financial year, introduce into the House of Assembly a Final Appropriation Bill containing any such sums which have not yet been included in any Appropriation Bill." In 2005-06 supplemental appropriations increased from 8 percent at year end to 10.5 percent of total original appropriations when the final accounts were produced. Despite the increase in appropriations, expenditure outturn for 2005-06 was only about 2 percent higher than the approved budget, indicating that most supplementals reallocate across line items rather than increase spending. Reporting on supplemental appropriations is highly aggregated and does not identify how spending is being reallocated.

39. Financial management practices are not well coordinated, nor is there a formal debt management strategy. *3.3.1, 2.1.4* The treasury prepares regular cash flow forecasts on the basis of historical revenue and expenditure patterns and data available from Smartstream. Cash flow statements are now required on a quarterly basis. The government does not at present have a formal debt management strategy, but recent improvements allow for a closer alignment between the projected cash shortfalls and debt issuance. The authorities are presently working on a formal debt management strategy.

40. Internal audit is not undertaken comprehensively because of a lack of resources. *3.3.3* The central government internal audit function is carried out by the Internal Audit Unit (IAU) of the Treasury Department. Only four central agencies have established small internal audit functions (each with a single auditor). The IAU has only four staff—a manager and three auditors—limiting the ability of the unit to comprehensively and regularly audit all agencies in the central government. In the last three years the IAU has conducted on average only five operational audits of central agencies annually. The Unit's primary focus has been on regulatory compliance, rather than assessment of systemic risk. The activities of the Treasury Department are audited on a daily basis, while other agencies are selected on the basis of an annual audit plan or at the request of a senior official. The Treasury has recognized this lack of capacity and has requested CARTAC assistance with the development of a strategic audit plan, an audit manual, and hands-on training of IAU staff. In addition, the Accountant General is looking to increase the level of coordination between the IAU and the four agency

²³ One deficiency in this area relates to the registration and stocktaking of physical assets. The acquisition and subsequent movements in fixed assets have not been recorded in Smartstream by budget agencies. However, as part of the move to accrual accounting, budget agencies have begun the process of stocktaking, recording and valuing their physical assets.

internal audit units. The IAU furnishes its reports to the MOF, agency management and the Auditor General, however the reports are not public. Moreover, the MOF does not have well established mechanisms for formal follow-up of internal audit recommendations, and given the long intervals between audits of individual agencies by the IAU, there is little management incentive to rigorously implement recommendations.

41. Procurement rules and practices are clear and well-known. 3.3.2

The rules governing procurement are found in the FMAA regulations and include procedures to ensure that opportunities for corruption are minimized. The Central Purchasing Department (CPD) is responsible for all procurement over *BD\$*20,000. For purchases between *BD\$* 20,000 and *BD\$*100,000 there must be at least three quotes, and for purchases over *BD\$*100,000 a tender is issued. The CPD assists to ensure that specifications are clear. Tenders are invited by an advertisement in newspapers which includes detailed procedures.²⁴ The Minister of Finance determines the make-up of the eight person tender committee. Once a decision is made, only the winner is informed, with no public posting. Since 1972 there has only been one court case concerning the procurement procedure and decision. The CPD is audited annually by the Auditor General.

42. Civil service employment procedures are clear and well-understood. 3.3.2

The Civil Service Quality Standards is a legal document containing descriptions of the job qualifications for each post in the public service; these are consistent across ministries and do not allow for discretion. There are three service commissions²⁵ which make the final determination from a short list of three provided by the agency head to fill a vacant position. There are no competitive examinations, and senior positions are usually filled first from within the organization or the public service. Promotions are determined primarily by seniority especially for lower level, unskilled jobs. However, the higher the level of the position, the greater the weight placed on merit, given a minimum level of experience. The public service wage scale has been compressed over the years²⁶ so that public sector wages are competitive at the lower end, but not for senior positions. The authorities are in the advanced stages of producing a new Public Service Act which is expected to go to Parliament in 2007. This act covers recruitment, employment, and promotion which will be based on a combination of merit, seniority and job performance. To measure performance, a Performance Management and Development System has been developed and is being piloted in four ministries.

²⁴ Tenders are brought in hard copy to the CPD tender box which normally closes at 4:30 on Wednesdays. Strict procedures are in place to ensure that tenders cannot be seen or adjusted before the tender committee opens the box. Late tenders or resubmissions are not accepted.

²⁵ These are the Public Service Commission, the Police Service Commission, and the Judicial and Legal Service Commission. There may be a fourth one for teachers in the future.

²⁶ The ratio of highest to lowest salaries was 15 to 1 in 1960 and currently is 6.3 to 1.

Clarity of internal control and independence of tax administration

43. **The tax administration has effective internal monitoring and control mechanisms.** 3.3.4 Tax administration is computerized, with different tax departments using different systems with limited interface capacity. Tax administration in each tax agency is organized according to functions rather than by tax which is considered best for ensuring proper controls. An internal audit unit has been established in the Accountant General's office, which carries out audits in Ministries/Departments and Statutory Boards as requested by the MOF.

44. **The tax agencies are subordinate to the Ministry of Finance and are not legally protected from political interference.** Authorities and commissioners and all tribunals are appointed by the Minister of Finance. Tax laws reserve for both the Minister of Finance and the Commissioner the prerogative of interpretation, change, and exemption.

Accounting and reporting on budget execution

45. **The accounting system is capable of producing accurate in-year reports on central government budget outturn, but it does not provide a reliable basis for assessing payment arrears.** 3.3.1 The budget and accounts classifications are mutually consistent for central (core) budget agencies, which facilitates a clear alignment of ex ante and ex post data for this sector. Statutory boards operating within the government sector have discretion in deciding to use the central chart of accounts. While Smartstream has the capacity to provide accurate, automated analysis of supplier payment arrears, payment procedures adopted by the government prevent the production of accurate, automated arrears data from the system.²⁷ Arrears do not appear to be a serious problem, and reporting on them should be rectified given changes in payment procedures since April 1, 2007 to reflect accrual accounting principles (Box 5).

46. **Fiscal reporting is monthly and covers the central government.** Consolidation of general government is difficult since statutory boards operating outside the central government are not required to use the same classification used by the central government. In addition, entities outside the central government do not use Smartstream, and therefore, to produce fiscal reports at the general government or public sector level would require a considerable amount of data collection, collation and consolidation in addition to the harmonization/rationalization of accounting classifications. Neither the monthly nor the annual report contains a statement setting out the institutional coverage of the reports.

47. **The monthly report on consolidated central government contains a wide range of fiscal data.** It includes an analysis of: recurrent revenues (by revenue class) and capital revenues by debt class and donor project; total expenditure by ministry; capital expenditure by ministry; debt repayments by debt class, and by interest and amortization; and loans outstanding and balances of sinking funds formed to redeem loans. The

²⁷ Invoices are processed immediately before payments are made, which means that the real arrears lag is not recorded. Given the present limitation of the system, it is not possible to accurately assess the extent of payment arrears from the system.

monthly report also contains total receipts and payments of the Consolidated Fund and totals for the other funds (loans, deposits, advances, borrowings, bills, Special Funds, trust funds and suspense account); opening and closing balances, and monthly cash flows of the Consolidated Fund; balances of other funds at month end (cash at departments and current accounts, advances, deposits, loans (by borrower); Special Funds (by Fund); Special Fund investments (by Fund) and trust funds; expenditure by sub-program; total current and capital expenditure by economic classification; and sources and applications of temporary borrowings. All statements disclosing revenues and expenditures set out the annual budget, monthly movement and year-to-date balance for each item. The monthly report is not audited.

Box 5. The Transition from Cash to Accrual Budgeting and Accounting in Barbados

The Government of Barbados has begun to move its budgeting, accounting and reporting framework from cash accounting basis to a full accrual basis. Under the new system, the budget and accounting classification systems are symmetrical, and accounting and reporting are done in accordance with international accounting standards. The prime ex ante and ex post documents consist of an operating statement, balance sheet and cash flow statement. In addition, appropriations will be on an accrual basis, although the structure is still being considered. The project also encompasses financial legislation reform and cash management reform. The objectives of the project are to improve accountability and transparency within the public sector, provide information on the total cost of government activities, and standardize accounting for assets and liabilities across the central government. The project commenced in 2003-04 and began implementation in fiscal year 2007-08.

The project Steering Committee is chaired by the Accountant General and includes senior officials from key central departments. Six working groups have been established to consider key issues, namely the accrual budget, tax revenues, asset valuation, legislation and standards, chart of accounts, and training. Much of the foundation work has been completed or is nearing completion: the cultural change and communications strategy has been delivered, much of the policy and procedures framework has been completed, new legislation (the FMAA) has been approved, accrual training has been delivered, fixed asset inventories and valuation has commenced, and the chart of accounts is complete.

The FMIS, Smartstream, will be retained with the key advantage that the required accrual functionality already exists and there is no need to re-engineer the system to produce accrual data. An allied benefit is that all budget agencies have been using Smartstream since 1998 and have a strong familiarity and acceptance of the system, which means that the training and data migration tasks (and associated risks) are considerably reduced. Implementation will initially focus on central government. The second implementation phase will bring statutory bodies within the general government sector into the Smartstream system which will enable reporting on the consolidated general government.

48. **The legislature receives timely in-year reports on budget outturn, but does not undertake a mid-year review.** 3.4.1 The FMAA sets out the structure of the financial statements that the Accountant General must prepare on a monthly basis (see above) and provides that the monthly reports must be tabled before the last day of the succeeding month. Generally speaking the reports are tabled on time. The MOF is not required to prepare a mid-year review of fiscal and economic performance and outlook, and the Parliament does not ordinarily undertake a formal mid-year review.

49. **The audited final accounts are available within nine months of the end of the fiscal year.** 3.4.2 The Accountant General's annual financial report, which is audited by the Auditor General, provides a comprehensive set of financial statements, covering the Consolidated Fund and the other funds, in line with the reporting structures described above. Detailed statements of current and capital expenditures show the original budget, supplementary budget, actual expenditure and annual savings/excess by sub-program. There is a statement of financial assets and liabilities, together with detailed information on public debt on issue, contingent liabilities, advances and loans, deposits, and Trust Fund and Special Fund balances and investments.

Results-oriented budgeting and reporting

50. **The objectives and expected results from government activities are discussed in general terms.** 3.2.2, 3.4.3 Policy objectives are articulated in very general terms in the *Strategic Plan 2005-25* and in the *Economic and Social Reports* that precede the budget process. These objectives are supported by a variety of programs, of which some are included in the budget, and others are financed through extrabudgetary funds. Statements of expected results in policy statements and budget documents are limited, and too general to provide a basis for assessing results. Internal assessments of major programs are made at the beginning of the budget process, but this material is not made available to Parliament in a systematic manner.

C. Public Availability of Information

The coverage and quality of budget documents

51. **The budget documents cover central government fiscal activities with the exception of extrabudgetary accounts and advances to public corporations.** 2.1.1 The institutional coverage is not consistent with the GFSM2001 standard for consolidation of all entities operating within the general government sector. There are two reasons for the inconsistency: (1) the budget estimates do not include all spending by extrabudgetary funds nor do they include advances or on-lending to public enterprises; and (2) the budget estimates do not set out complete estimates of revenues and expenditures for all statutory boards, but only show recurrent and capital transfers to these entities. Defense expenditures are not comprehensively reported in the budget, but are shown only as a capital and current budget transfers for defense.

52. **The *Estimates* document contains a wide range of data on public finances.** A memorandum includes the previous year's estimates and projected actuals, a summary of estimates using various classifications, and information on financing, assets and liabilities, and a 10-year historical series of revenue and expenditure. Various appendices of the *Estimates* document gives a list of supplementary estimates for the current fiscal year, data on the public debt as of December 31, and balances of the sinking funds and the extrabudgetary funds. In addition, budget documents include the *Economic and Financial Policies of Government* and the annual *Report of the Accountant General* which are sent to Parliament at a different time than the *Estimates* document. The content of these reports is described in section B.

Past and forecast fiscal data in the budget

53. **The budget document discloses the actual outturn of the previous year using the same classification as the budget estimates, but there are no outyear estimates.** 2.1.2
The budget estimates are given along side of the original and revised budget for the current year and the actual outturn of the previous year.

54. **A statement on some contingent liabilities is included in the annual Report of the Accountant General.** 2.1.3
The *Estimates* document does not contain a statement of contingent liabilities but the report of the Accountant General provides a full statement of government guaranteed loans, including lender, borrowing entity and amount outstanding. It also provides a full account of contingent liabilities taken over by the central government. Loans taken out by public sector entities which are not guaranteed by the government are not disclosed in the statements. Owing to the absence of a legal framework for PPP arrangements, the details and any explicit or contingent liabilities—particularly for outer years—are not made explicit in policy statements or budget documents.

55. **Budget documentation does not contain estimates of tax expenditures.** 2.1.3
There is no systematic analysis of tax expenditures that is published on an annual basis, but when a new tax policy is introduced, its costs and benefits would be discussed in the budget speech. Nevertheless, tax expenditures are significant, owing to the broad array of incentive schemes (see paragraph 25). The authorities estimated that the total could roughly amount to about 6 percent of GDP or 19 percent of tax revenues for 2005/06. Separate exemptions may be granted by the Ministry of Finance on an individual basis and other tax expenditures are realized from contributions by individuals to extrabudgetary funds—which are deductible in the amount of 100-130 percent of the actual contribution. Each revenue administration conducts some internal analysis of the cost of some tax expenditures.²⁸

56. **Quasi-fiscal activities are extensive, and there are no statements or describing costing quasi-fiscal activities in the budget documentation or in the annual statements of the public enterprises.** 2.1.3
No organization is responsible for reporting on QFAs, and only some enterprises receive budget transfers to cover the ensuing losses. Except in the case of low bus fares for students and the elderly, transfers are not based on the cost of the QFAs. In some cases there seems to be a lack of recognition in the government that regulated prices are far below operating costs, and that public enterprise losses will eventually have to be borne by the budget whether or not it is an intentional policy to maintain prices below cost.

²⁸ For instance, the Inland Revenue Department estimates that the cost of a tax incentive to encourage investment and savings of cooperative societies is BD\$6.3 million and a deduction of home improvement expenditure is estimated to have cost BD\$4.08 million in 2004-5. The Land Tax department estimated that the preferential treatment for various groups of taxpayers cost BD\$40 million last year (assuming 100 percent collection rate) or around 30 percent of total property tax collections.

Publication of data on debt and financial assets

57. **Information on gross public debt for the central government is published monthly and annually; however this may provide only a partial picture of public sector indebtedness.** *2.1.4* The Accountant General's monthly financial report which is tabled in Parliament provides details of debt raised during the month and for the year to date, by debt class and lender/project. The report also provides a detailed composition of debt service for the month and year to date, by debt class. A statement of outstanding loans' sinking funds also is provided. The annual *Report of the Accountant General*, which is audited and tabled in Parliament, provides similar debt information for the year. In addition it provides a detailed analysis of debt on issue and outstanding loans, including interest rate and principal outstanding. The Monthly Digest of Statistics produced by the Barbados Statistics Service provides information on debt charge only. None of the reports provides information on debt arrears and debt swaps, nor do they provide a statement of past and future debt service requirements and strategies to manage the future service requirements.

58. **Information on central government financial assets is published monthly and annually but is incomplete.** *2.1.4* The monthly and annual financial reports of the Accountant General that are tabled in Parliament contain statements of the central government's financial assets, including details of advances, loans made to public sector entities and Special Fund investments. However, the statements do not provide a full picture of all financial assets, such as equity investments in public enterprises. With the shift to accrual accounting, future financial reports will contain a complete statement of government assets and liabilities.

59. **Formal commitments for more regular publication of fiscal data have been made but advance release data calendars are not announced.** *2.2.1, 2.2.2* The FMAA requires the Accountant General to prepare and transmit a set of annual financial statements to the Auditor General within four months of the close of the financial year. The FMAA also requires the Auditor General to report the results of his audits to Parliament no later than nine months after the close of the financial year. Over the past several years, both of these deadlines have been observed in practice. In addition to the Accountant General's monthly report, which is published, a monthly bulletin produced by the National Statistical Service is published regularly. It contains data on capital and current expenditures and current revenue by month according to the functional classification for the latest fiscal year, and annual data for the last three years. Monthly and annual fiscal data is also published on the CBB website.²⁹ Other websites for fiscal data include www.barbados.gov.bb/landtax www.barbados.gov.bb/IRD www.barbados.gov.bb/customs and www.barbados.gov.bb/finance. Barbados participates in the IMF's General Data Dissemination System.

²⁹ See <http://www.centralbank.org.bb/>

D. Assurances of Integrity

Integrity of data processes

60. Budget data are not reliable and the variance between budgeted and actual outturn of the main fiscal aggregates is disclosed to the public. 4.1.1

As noted above, the outturn for previous years' budget is provided in the budget documentation. Outturn of the main taxes was 2 to 6 percent under original budget estimates in 2004-5, while it was 6 to 23 percent higher than original budget estimates in 2005-6. For those same years, actual recurrent primary expenditure was generally 10 to 15 percent higher than original budget estimates, while capital expenditure generally fell below budget estimates. Interest expenditure was well below budget estimates in 2004-5 but higher than original budget estimates in 2005-6. Total actual expenditure increased by 1.8³⁰ percent over original approved expenditure. Visits to ministries and public enterprises receiving budget transfers indicate that some items, especially transfers to public enterprises, are routinely under budgeted. Although the supplementaries require justification, they are generally only debated for three hours in Parliament, and there is no document analyzing the differences between planned and actual outturn.

61. Formal statements on accounting policy are not included in the budget or final accounts documents. 4.1.2

The Auditor General in his *Report for the Year 2005* states that the accounts of government are maintained on a cash basis. Neither the budget nor reports contain formal statements of the accounting principles and policies adopted in the preparation of these documents, or a statement of compliance with the cash accounting standard issued by the IPSASB. There is a central government accounting manual, but it has not been reviewed for many years, and will soon be replaced by a comprehensive manual on accrual accounting policy and procedures for central government. The accrual accounting framework is based on the adoption of international accounting standards issued by the IPSASB.

62. The process of accounts reconciliation and fiscal reporting is effective. 4.1.3

The Smartstream system provides a range of management reports and enquiry functions which assist management with budget execution and control and resource management. The system automatically and continuously reconciles accounting reports with budget appropriations. It automatically validates accounting entries to ensure that accounting classification is in line with budget classification, and automatically performs a range of internal reconciliations to ensure that subsidiary ledgers are reconciled to the general ledger. It also provides for the automatic reconciliation of bank account transactions with banking system records. Normally, the Treasury Department performs the reconciliation of the treasury single account³¹ and the other (around fourteen) central bank accounts on a monthly basis, but at present this has fallen several months behind. Reconciliation of revenue collections to banking records is performed on a daily basis. Reconciliations of

³⁰ Calculated from the first page of the Report of the Accountant General for the Financial Year 2005-2006.

³¹ Some commercial bank accounts are used for revenue collection, but these accounts are swept on a daily basis into the treasury single account.

original and revised budgets with accounting outturns are shown explicitly in the accounting reports.³²

Independent oversight

63. **External audit is independent of the executive branch, and its mandate covers all government activities.** 4.2.1 Section 102 of the Constitution provides that the Auditor General shall be appointed by the Governor General on the recommendation of the Public Service Commission (PSC) after the PSC has consulted the Prime Minister. Section 26 of the FMAA establishes the Auditor General as the auditor of the financial statements of the government. The Auditor General remains in office until he reaches the age of sixty-two. He may be removed from office because of inability to discharge his functions or misbehavior. The Auditor General reports to Parliament. With the recent passage of the FMAA, the budget estimates for the Barbados Audit Office (BAO) are “transmitted to the House of Assembly through the Public Accounts Committee; and the Public Accounts Committee shall consider the estimates in accordance with subsection 4.” As with other central agencies, the BAO must submit its staffing profile to the Ministry of Civil Service for approval.

64. **The FMAA provides the Auditor General with a broad mandate to audit all public accounts including the Consolidated Fund, Special Funds, departmental accounts and statutory bodies which receive all or part of their funds from the Consolidated Fund.** The Auditor General should satisfy himself that all financial laws and regulations have been observed, but he also has a mandate to examine the economical, efficient and effective use of resources of any ministry, department or other government entity.

65. **External audit capacity requires strengthening.** The BAO has 72 staff, 4.2.1 but most positions are clerks and only three are qualified accountants. Although the Auditor General is empowered to engage professionals to assist with the conduct of audits, there is a need to redefine staffing qualifications and to provide further training to enhance the technical capacity of staff. This is especially true with the implementation of accrual-based budgeting and accounting to ensure that international accounting standards are correctly applied.

66. **The BAO generally follows international auditing standards issued by INTOSAI and there is some use of modern systems-based audit tools and practices.** While a number of performance audits have been conducted, the predominant focus is on financial and compliance auditing. The annual report of the Auditor General for the year 2005 does not present any account of the audit strategy and program formulated for the year, nor the principal methodologies, techniques and tools employed.

67. **Compliance with external audit requirements is generally good, but in a few cases documentation is submitted with considerable lags.** The *Report of the Auditor General* notes that in some cases, delays in submitting requested materials amount to

³² Issues related to the reconciliation of government accounts with the central bank and two commercial banks (BNB and First Caribbean International Bank) which were not resolved at the time the Report of the Auditor General was issued largely reflected timing discrepancies and transactions related to advances.

more than a year. As noted above, the accounts of the National Insurance Board at the time the report of the Auditor General was submitted, had not been submitted for five consecutive years. Efforts since early 2006 are reportedly correcting this problem.

68. **The legislature has formal mechanisms to discuss external audit reports but these have not been effective, and follow up on audit findings was lacking until recently.** 4.2.1 All external audit reports are tabled in the Parliament. The Public Accounts Committee (PAC)³³ was established with responsibility for reviewing external audit reports and conducting inquiries into the findings and recommendations contained in these reports. The functioning of the PAC has been strained by controversy over procedural rules, particularly the rules associated with the questioning of, and the taking of evidence from public officials. As a result of this, the PAC was inactive in the past year, but is presently conducting investigations regarding matters raised in the Auditor General's Report. In Barbados, the PAC does not have a secretariat which is another impediment to the effective discharge of its responsibilities. The MOF requires ministries to respond to issues raised in the Audit Report, but there is no formal mechanism for it to monitor and report on the implementation of recommendations made by the Auditor General. The follow up on recommendations has relied mainly on the efforts of the BAO and the Treasury Department's IAU.

69. **The Barbados Statistics Service (BSS) is not given legislative assurance of independence but has technical independence in practice.** 4.2.3 The agency operates under the Ministry of Economic Affairs and Development and has a mandate to collect, compile, analyze, abstract and publish reliable and timely information relating to the social, economic and general activities or conditions of the inhabitants of Barbados (*Statistics Act of 1958*). The BSS performs quality checks on the data received, and if it varies by more than +/- 10 percent from previous years, they will query the agency supplying the data. They also assist ministries to help them correctly compile data, and to harmonize concepts and definitions. From time to time historical series are revised based on new methodologies.³⁴ However, the BSS has only 4 senior statisticians, one IT officer, and 8 statisticians out of a staff of 67. Most of the staff are clerks from the time when data was compiled manually. The agency has requested a redefinition of positions from the Ministry of Civil Service to improve its ability to carry out its mandate.

The BSS observes the United Nation's Fundamental Principles of Official Statistics. These principles require compilation and availability of statistics on an impartial basis; methods and procedures determined solely by the head of the agency according to professional considerations; and entitlement to comment on erroneous interpretation and misuse of statistics. While the BSS would not publicly correct or comment on data of other government agencies, it would comment on misinterpretation or misuse of statistics by journalists in the media. The BSS is responsible for data in numerous publications. Fiscal data can found in publications such as the *Monthly Digest of Statistics* and the data reported in the *Barbados Economic and Social Report* which is published annually. They

³³ The PAC is a joint committee of the House and the Senate, and is currently chaired by the Leader of the Opposition and has independent members.

³⁴ CARTAC is providing assistance in revising GDP data by applying a new methodology.

also launched a new website in October 2006³⁵ and intend to promote the website in the media.

II. IMF STAFF COMMENTARY

70. Barbados meets the requirements of the fiscal transparency code in a number of areas:

- Government involvement in the private sector is conducted in an open and public manner, and on the basis of clear rules and procedures. Tax and nontax revenues have an explicit legal basis, and are accessible and understandable with limited administrative discretion, though complexity is introduced by numerous incentive schemes. There is a code of ethics for public servants that meet the key criteria of the *UN International Code of Conduct for Public Officials* and corruption appears to be limited.
- It is a legal requirement to publish the budget *Estimates*, the annual *Report of the Accountant General* and the annual *Report of the Auditor General*. Data on budget outturn is available from a number of sources including websites. A statement on contingent liabilities is included in the *Report of the Accountant General*, though its scope and analysis could be expanded. Full information on debt and financial assets is published in the budget documents.
- Budget data and outturn are reported on a gross basis according to administrative, economic, functional, and program classifications, though the later two can be improved. The budget and revised budget for the current year and outturn for the previous year are provided in the budget along side budget estimates, according to the same classification. An FMIS is in place which effectively controls revenue collection and expenditures, and a new system of accrual accounting began operation in April 2007. Fiscal reporting includes all central government expenditure excluding extrabudgetary funds, and the fiscal position of the central government is included in the budget documentation.
- Procurement and employment regulations are standardized and accessible. The legislature receives monthly reports on budget execution and the audited financial accounts are presented to the legislature within a year of the end of the fiscal year. Fiscal data is regularly reconciled with both budget and banking data. A national statistics agency is provided with technical independence and verifies the quality of fiscal data.

71. High priority for further improvements in fiscal transparency should be given to:

- Full reporting on the consolidated general government, which also requires better definition of government institutions, as well as monitoring of the public sector;

³⁵ www.barstats.gov.bb

- Providing an analysis and costs of quasi-fiscal activities and tax expenditures in the budget documentation;
- Strengthening audit functions and improving the effectiveness of the Public Accounts Committee; and
- Better analysis and disclosure of information related to public-private partnerships.

These four issues are discussed further below. In addition, while budget implementation practices are sound, some recommendations are provided for the improvement to the legal framework and budget preparation process. It also is important to move forward with plans to develop a debt management strategy. Finally, fiscal transparency could be greatly improved through better use of websites, more user friendly publications, and a stronger effort to disseminate and publicize the availability of fiscal data.

72. High priority should be given to improving fiscal transparency by providing a full view of government activities. This would require the following steps to improve coverage of the statutory boards, extrabudgetary activities, and public enterprises:

- **Extend coverage to noncommercial statutory boards** (nonmarket nonprofit institutions) financed primarily by budget transfers. Although they may not be part of legal government, according to *GFS Manual* (2001) definitions they are considered government entities. Since a large amount of fiscal activities are carried out by these entities, their inclusion in budget coverage would provide a fuller picture of government activities and enable better costing of programs and policies. At present a complete list of statutory boards and other agencies carrying out noncommercial activities financed primarily by budget transfers is not available. A first step would be to carry out an inventory of these entities. Second, new accounting and reporting requirements are needed to ensure that their fiscal reports can be consolidated. Ideally, they would eventually be brought into the Smartstream system.
- **All fiscal activities should be open to public debate as part of the budget process.** Extrabudgetary activities often tend to proliferate, and the recent creation of two new extrabudgetary accounts raises concerns that increasing amounts of activities are not passing through the usual checks and balances of the budget process, and Parliamentary approval. While the authorities argue that it enables them to track the costs of certain programs, this could easily be done with on-budget funds. Similarly, advances to public enterprises should be included in the budget process and approved by Parliament on an annual basis. Even if they remain extrabudgetary, it would be important to present a consolidated general government budget and report, which would include these transactions.
- **Budget documentation should contain full information on proposed budgets and past budgets and outturns for the nonmarket nonprofit institutions and extrabudgetary funds.** The coverage of the general government budget should be clearly specified. A table in the budget estimates should list the institutions that fall within central (legal) government, and government entities outside of central government.
- **Given the high level of quasi-fiscal activities, transparency requires stronger oversight and monitoring of the public enterprise sector.** The budgets of public

enterprises could be attached to the estimates document. Additionally, the public sector balance should be included in the budget and fiscal reports. Since the MOF already receives regular reports from the public enterprises, this should be relatively straightforward to implement. A report on government equity should also be published.

73. **The costs of quasi-fiscal activities should be included in budget reports.** The government may not be fully aware of the extent and cost of quasi-fiscal activities. As a first step, it is important to identify and cost QFAs. A more articulate, transparent treatment of public enterprises charged with carrying out QFAs would permit a more realistic assessment of the cost of existing policies and the extent to which these may or may not be consistent with medium-term debt reduction policies of the government. Where a public enterprise is charged with providing services at prices/rates inconsistent with full cost recovery, transparency requires a transfer from the budget to cover losses. The necessary amount of transfer should be provided in the original budget for each public enterprise with an appropriate explanation. The current system of posting most of the transfer to supplemental budgets, allowing losses to be covered by a build up of arrears to other enterprises, and advances that are not recorded as loans, is not transparent, and perhaps more important, makes meaningful analysis difficult.

74. **Consideration should be given to elimination of QFAs by determining whether there is a more appropriate way to achieve similar goals.** At the moment, below-cost prices are paid by all for a number of utility services, yet wealthy individuals and businesses could afford to pay the market price. If there really is no policy intention to maintain below-cost prices, a pricing mechanism could be developed to allow automatic adjustment relative to input prices. If the policy intention is to assist low-income individuals, a more targeted subsidy could achieve the same purpose for lower cost. Alternatively, if the regulated price is not sufficient to cover costs due to inefficiency, then concrete measures based on sound analysis will be needed to reduce the costs of operation.

75. **A statement on tax expenditures should also be provided in the budget documentation.** Tax expenditures are extensive due to the existence of a variety of incentive schemes. It seems that there is some recognition of the costs of these schemes, and some efforts are underway to estimate tax expenditures in all of the tax administrations. This effort should continue, and a report on the major tax expenditures should be presented with the budget documents. This information will enable policy makers to balance the costs associated with the incentive schemes against the benefits of increased investment. Interestingly, many of the extrabudgetary funds seem to be aimed at promoting similar goals, e.g., small business development. The fragmentation of these different budgetary and extrabudgetary measures makes it difficult to have a full understanding of the policy and its costs.

76. **Both the internal and external audit functions require strengthening in a number of ways.** Effective internal and external audit promote transparency by monitoring practices to ensure that all regulations have been observed, and that money was spent for the purposes for which it was intended.

- **Internal Audit:** The MOF Internal Audit department is too small to carry out its mandate effectively. The authorities could give consideration to strengthening the internal audit function through increased resources, training and compliance with

International Internal Audit standards. An alternative management model would be to establish an internal audit function within each agency, under the direction of an agency audit committees. Under this model, agency audit committees would formulate annual audit programs based on formal risk assessments, oversee implementation of the audit plan, approve audit reports, approve management implementation plans and follow up on management implementation.

- **External Audit:** The General Auditor’s office requires staff with suitable degrees and training which will require redefining the minimum qualifications of staff positions. In addition, the legal requirement that government agencies and statutory boards send their final accounts and reports for audit should be enforced. It is particularly worrying that the NIB pension fund has not had an audited report since 2002 given the large amount of resources invested through this fund. To improve the effectiveness of the Auditor General’s findings, the Executive should be required to respond. Consideration should be given to establishing a follow-up unit in the MOF to report on progress in implementing the Auditor General’s recommendations.
- **Public Accounts Committee:** A properly functioning Public Accounts Committee occupies a central place in public sector fiscal governance. It is one of the primary mechanisms that the Parliament—and the public—employs to hold the Executive accountable for the proper and economical use of resources and to promote fiscal transparency. Given recent difficulties in establishing procedural rules for PAC inquiries, consideration might be given to examining the procedures and regulations in other countries. The PAC should be supported by a well qualified secretariat. A MOF observer and BAO observer should be present at all hearings of the PAC. A unit within MOF should be established to undertake on a quarterly basis the monitoring and reporting of the status of implementation of recommendations made by the BAO and the IAU. Where progress is considered unsatisfactory, the Minister of Finance should write to the responsible minister.

Public Private Partnerships

77. In pursuing public-private partnerships (PPPs), it is important to recognize that while PPPs can potentially be more efficient than traditional public procurement, they also often entail greater risks particularly if any guarantees are granted in the PPP contract. The process itself is risky because it is common for contracts to be renegotiated so that the government may also bear more risk than initially intended. The general recommendation is that if a PPP is to be excluded from public debt, the private partner should bear the majority of the risk. Assessing risk born by the government, however, is a difficult exercise because the complexity of PPP contracts makes them hard to interpret. Furthermore, political pressure on the government to bailout a large (but failing) project or “essential” services means that the government may in fact bear more risk than the contract suggests. PPP contracts have been very costly for some countries. The following actions are recommended to ensure transparency in relation to PPPs:

- Consideration should be given to developing a legal framework that covers roles and responsibilities of PPPs, a clear definition of PPPs and their scope, as well as rules related to procurement, accounting, reporting, and audit of PPPs.

- All forms of guarantees related to PPPs should be disclosed, and an assessment made of their likely fiscal cost. PPP contracts including renegotiations should be publicly disclosed. Standardization and simplification of contracts would be desirable.
- Future payments required under existing PPP contracts should be reported and included in medium-term planning.
- The transfer to accrual accounting should ensure the proper accounting of PPPs and related debt.

Budget framework

78. **Reliance on supplemental budgets should be reduced.** There are no limitations or guidelines on the use of supplemental budgets (*Financial Management and Accounting Act* and the relatively high number of supplementary budgets issued each year are indicative of a process that could be improved. The FMAA also permits the Minister of Finance to approve spending before it has been authorized by Parliament through a Final Appropriation Bill. The absence of virement powers requires the use of supplementary budgets for minor reallocations to an unusual extent. The reliance on supplementary budgets also makes it possible to avoid inclusion in the budget of the full transfer amount to statutory boards and public enterprises. A more reliable budget would be a transparent indicator of government's policy intentions. In the interim, reporting on supplementaries should be enhanced in order to provide enough details to determine where virement is taking place and where an actual overall increase in the budget has been approved.

79. **Consider additional revisions to financial management legislation.** As noted, this legislation could be expanded to cover PPPs, but also could include more general requirements to promote transparency. Consideration might be given to permit virement of a limited amount in order to reduce the number of supplementaries. Finally, as discussed further below, some adjustments to the budget calendar could improve the quality of the budget process.

80. **Efforts to develop a medium-term expenditure framework should continue.** The absence of an appropriate medium-term framework significantly undermines the government's ability to provide the legislature and the public with a realistic assessment of the implications of existing policies for a period beyond the current budget year. Transparency requires that the government reconcile existing policies and their costs with the requirements of fiscal sustainability. In the current context, the absence of such a framework undermines the credibility of the government's commitment to reducing the debt-to GDP ratio. In order for a medium term framework to be effective, however, it will be important to include the myriad of activities performed by public enterprises and extrabudgetary funds, as these clearly form an important aspect of the overall policy program and associated costs.

Budget Preparation

81. **Macroeconomic assumptions should be open to scrutiny throughout the budget preparation process.** The opportunity to review the basis for formulating the budget could bring pressure to ensure assumptions are as accurate as possible. Many MOFs have their own macroeconomic unit, but others use or invite private sector

estimates of key economic variables. The MOF may want to consider these alternatives for producing macroeconomic assumptions.

82. **The MOF could be required to verify the costing of new policy proposals.** At present, budget agencies prepare their own costings of new policy proposals and submit them to the Cabinet without independent verification by the MOF. Important data produced during the process of budget preparation, particularly the analysis of new proposals, could be included in the budget estimates document.

83. **A statement of risks should examine developments that might impede the implementation of the budget and longer term fiscal goals.** This statement should apply sensitivity analysis to key budget assumptions to consider how alternative scenarios would affect the budget. This statement could be combined with the statement of contingent liabilities which should be expanded to cover the public policy purpose of each government guarantee. Other types of implicit and explicit contingent liabilities (bailout of an important public enterprise, for example) should be examined and included in the statement as well.

84. **The budget timetable is tight and in particular, the discussion period for the budget could usefully be lengthened.** Given the intention to implement an MTEF, the period between the issuance of the budget circular and submission of budget requests could be lengthened to allow for the estimation of medium-term revenue and expenditure developments. The time allotted to the House of Assembly and Senate for consideration and debate on the Estimates could be increased to allow a more comprehensive public airing of the Government's policies, past performance and medium term estimates. Adequate scrutiny by Parliament coupled with the activation of the PAC and improved budget documentation could provide the basis for a more meaningful public discussion of the choices that must be made in the interests of fiscal sustainability. In this context, once annual *Estimates* have been tabled, Parliament could establish a number of sub-committees to examine individual Budget agencies' estimates, and take evidence from agencies on program performance. In countries where Senate Estimates committees conduct reviews of estimates, evidence taken from responsible ministers and senior ministry officials is normally on the public record.

III. SUMMARY TABLES

Table 1. A Summary Assessment of Practices

Code Reference	Summary Assessment	Comment
<p>Overall summary Barbados meets a number of good practices on fiscal transparency, and the strong commitment to implementing accrual accounting is commendable. The mission also supports intentions to create a debt management strategy, expand the coverage of Smartstream, and develop a medium term expenditure framework. A number of fiscal reports could be improved in content and coverage as discussed below. In some cases transparency could easily be improved by publishing existing information, particularly with respect to PPPs and extrabudgetary transactions. High priority recommendations are mainly in the area of clarifying roles and responsibilities, but also include strengthening internal and external audit functions.</p>		
<p>Clarity of roles and responsibilities</p>		
1.1.1	General government is not clearly defined although it is largely consistent with Government Finance Statistics (GFS) principles, and is mostly covered in the budget process.	High priority: Take an inventory of all statutory boards to delineate those belonging in government versus nongovernment public sector
1.1.2	The powers and composition of the executive, legislative and judicial branches are clearly defined in the Constitution, and the budget law (the Financial Management and Audit Act (FMAA)) and its regulations set out the fiscal roles of Parliament and the executive branch.	
1.1.3	Mechanisms for the coordination and management of budgetary and extrabudgetary activities are not well defined.	High priority: report on all extrabudgetary operations and consider full incorporation into the budget
1.1.4	Relations between the government and nonfinancial public enterprises are governed by laws that sanction quasi-fiscal activities. Quasi-fiscal activities are extensive in the nonfinancial public sector due to regulated prices.	High priority: Clarify and cost QFAs. Consider alternative pricing to reduce or eliminate QFAs.
1.1.5	Government equity holdings, including fully-owned corporations, are extensive; publicly available information on government equity holdings is limited and the	High priority: Report on public sector finances. Also report

Code Reference	Summary Assessment	Comment
	management of state assets is not clearly defined. Laws and processes governing regulation of the nonfinancial private sector are generally clear and open.	government equity holdings
1.2.1	The legal framework for management of public funds is clear on most major processes of budget management.	Medium term: approve new public finance legislation that incorporates recent reforms and provides a legal basis for PPPs
1.2.2	Taxes are established by law, but there is no formal requirement for taxes to be enacted by law, save for protection of property provided in the Constitution.	
1.2.3	Public servants are subject to a code of conduct which includes the key provisions of the United Nation's <i>International Code of Conduct for Public Officials</i> .	
Public availability of information		
2.1.1	The budget documents cover central government fiscal activities with the exception of extrabudgetary accounts and advances to public corporations.	Expand budget coverage to noncommercial statutory boards; see also 1.1.3 above Medium term: expand coverage of Smartstream to statutory boards and report on general government
2.1.2	The budget document discloses the actual outturn of the previous year using the same classification as the budget estimates, but there are no outyear estimates.	Medium term: continue developing MTEF and include medium term estimates in the budget document
2.1.3	A statement on some contingent liabilities is included in the annual <i>Report of the Accountant General</i> . Budget documentation does not contain estimates of tax expenditures. Quasi-fiscal activities are extensive, and there is no statement describing or <i>costing</i> quasi-fiscal activities in the budget documentation or in the annual statements of the public enterprises.	High priority: Report on the extent and nature of tax expenditures and quasi-fiscal activities. Expand the report on contingent liabilities to cover other types of contingent liabilities
2.1.4	Information on gross public debt for the central government is published monthly and annually; however this may provide only a partial picture of public sector indebtedness. Information on central government financial assets is published monthly and annually but is incomplete.	Develop and publish a debt management strategy

Code Reference	Summary Assessment	Comment
2.2.1, 2.2.2	Formal commitments for more regular publication of fiscal data been made but advance release data calendars are not announced.	High priority: disclose information related to PPPs including contracts. Increase efforts to disseminate fiscal data.
Open budget preparation, execution, and reporting		
3.1.1	A statement on medium-term fiscal policy objectives is not included in the budget document, and fiscal sustainability issues are not presented.	
3.1.2	There are no explicit fiscal rules, but the MOF aims to remain within an overall balance of 2.5 percent of GDP (on GFS basis).	
3.1.3	Budget forecasts and some underlying macroeconomic assumptions are clearly presented.	
3.1.4	Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.	Verify information on costs of new proposals and include them in the budget document.
3.1.5	The sensitivity of budget estimates to changes in economic variables is not assessed nor is fiscal risks discussed with the budget.	Produce a statement on fiscal risks to be included in the budget document.
3.2.1	The annual budget process is clear and reasonably open. The budget classification is broadly consistent with GFS86; and expenditure and revenue estimates are shown on a gross basis.	Consider changes in the budget calendar to permit more time to debate budget proposals in Parliament.
3.2.2	The objectives and expected results from government activities are discussed in general terms.	
3.2.3	The overall balance of central government is the main indicator of the fiscal position in the budget, excluding extrabudgetary activities, which is monitored during the year.	Expand Smartstream to enable reporting on entire general government.
3.3.1	The accounting system is capable of producing accurate in-year reports on central government budget outturn, but it does not provide a reliable basis for assessing payment arrears.	
3.3.2	Procurement rules and practices are clear and well-known. Civil service employment procedures are clear and well-understood.	

Code Reference	Summary Assessment	Comment
3.3.3	Basic accounting and internal control procedures are generally in place. Internal audit is not undertaken comprehensively because of a lack of resources.	High priority: strengthen internal audit functions
3.3.4	Tax administration has effective internal monitoring and control mechanisms. The tax agencies are subordinate to the Ministry of Finance and are not legally protected from political interference.	
3.4.1	The legislature receives timely in-year reports on budget outturn, but does not undertake a mid-year review. Fiscal reporting is monthly and covers the central government.	
3.4.2	The audited final accounts are available within nine months of the end of the fiscal year.	
3.4.3	The objectives and expected results from government activities are discussed in general terms.	
Assurances of integrity		
4.1.1	Budget data are not reliable and the variance between budgeted and actual outturn of the main fiscal aggregates is disclosed to the public.	Consider measures to improve budget realism and reduce the number of supplemental budgets
4.1.2	Formal statements on accounting policy are not included in the budget or final accounts documents	
4.1.3	The process of accounts reconciliation and fiscal reporting is effective	
4.2.1	External audit is independent of the executive branch, and its mandate covers all government activities External audit capacity requires strengthening.	High Priority: Strengthen the external audit office and correct problems associated with the Public Accounts Committee. Create a unit in the MOF to improve follow-up on audit recommendations
4.2.2	Macroeconomic models and forecasts are not open to outside scrutiny	Macroeconomic assumptions should be open to outside scrutiny.
4.2.3	The Barbados Statistics Service (BSS) is not given legislative assurance of independence but has technical independence in practice.	

Table 2. Public Availability of Information—A Summary

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
1.	Central government (CG) budget estimates	Yes	Yes <i>Budget Estimates</i>	51-52	2.1.1
2.	CG Defense Expenditures	Yes—as transfers, so details of items of expenditure are not available	Yes <i>Budget Estimates</i>	51	2.1.1
3.	CG EBFs (including special development funds, social security funds, resource revenue funds)	No	Information on EBF account balances is public, but not information on inflows and outflows	21-22	2.1.1
4.	CG Budget outturns	Yes Monthly and annual outturn is reported to Parliament Revised current year and actual outturn for 2 years prior to budget year	Yes <i>Reports of the Accountant General</i> <i>Budget Estimates</i> www.barbados.gov.bb/finance www.centralbank.org.bb/ www.barstats.gov.bb	46-49	2.1.2
5.	CG Budget forecasts	No, but 5 ministries are piloting medium-term estimates Broad policy goals for the next 20 years are provided in a separate document	No Broad policy goals are found in the <i>Strategic Plan 2005-2025</i>	33 33	2.1.2
6.	CG Contingent liabilities	Yes for government guaranteed loans	Yes <i>Annual Report of the Accountant General</i>	36 and 54	2.1.3
7.	CG Tax Expenditures	No	No	55	2.1.3
8.	CG QFAs	No	No	56	2.1.3
9.	Macroeconomic assumptions	Assumptions for growth, inflation and exchange rate are provided in the Economic and Financial Policies of Government.	Yes	32	3.1.3
10.	Analysis of fiscal risks/sensitivity analysis	No	No	36	3.1.5
11.	CG Debt	Information on gross debt	Yes	57	2.1.4

Table 2. Public Availability of Information—A Summary

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
		of central government is given by month, year to date, and by debt class and lender in monthly and annual statements	Monthly and Annual <i>Accountant General Reports</i>		
12.	CG Financial Assets	Information on financial assets is provided monthly and annually, but excludes equity investments in public enterprises.	Yes Monthly and Annual <i>Accountant General Reports</i>	58	2.1.4
13.	Sustainability Analysis	No	No	33	3.1.1
14.	General government budget estimates	No	No	51	2.1.5
15.	CG Monthly/quarterly reports on fiscal outturn	Yes-- Tabled in Parliament before the last day of the succeeding month	<i>Monthly Accountant General Reports</i>	46-48	3.4.1
16.	General government Monthly/quarterly reports on fiscal outturn	No	No	46	3.4.1
17.	CG Final Accounts	Yes The audited final accounts are available within nine months of the end of the fiscal year	Yes	49	3.4.2
18.	Consolidated general government Final Accounts	No	No	46	3.4.2