

**OECS:**  
**GOALS, CHALLENGES & A WAY FORWARD**

*Marius St Rose*

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Based on the work of the various ECCU  
Commissions*

# Order of Presentation

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# OECS Goals

- Issues are more meaningfully assessed and dealt with in the context of goals.
- OECS goals are (or should be) both quantitative and qualitative, have an evolving long term horizon and meet the peoples' reasonable expectations.
- From our perspective they are:
  - Achieving sustainable economic growth generated by seizing of opportunities through the optimum use of effort and resources.
  - Continually improving the standard of living and quality of life of the citizenry.
  - Ensuring that there is equitable income distribution such that reward is correlated with effort, that peoples potentials are fully utilized but that the challenged are not marginalized but taken care of.
  - Developing a contented society that is caring, participative, involved and inclusive where individual values are in sync with social goals.

# Our Challenges

- Mobilizing the Society towards common and shared core values and an ethos to be productive and caring and to work harmoniously to achieve common causes and goals.
- Achieving much greater efficiency in the management of the public sector.
- Enhancing, considerably, the efficiency of investment.
- Mobilizing more long term savings and making much better use of what is mobilized.
- Removing the noose of the debilitating debt overhang and creating an environment where it will not recur.

# Our Challenges (Contd.)

- While growth is the quantitative imperative the mobilization of society, although an end, is also a critical means to achieving the quantitative goals.
- Because of our size and extreme openness economic growth can only be derived from being internationally competitive and this would require much more efficient use of resources at the national level and gaining of economies of scale through regional functional cooperation and making greater use of the single economic space
- The solution going forward must be more on addressing:
  - Fundamental micro-issues affecting national economic efficiency and less on the manipulation of macro-economic policy which, because of our small size, openness and international commitments, are increasingly outside national control.
  - Long term structural issues that may be politically painful with limited short run positive impacts over the adoption of short term band-aid unsustainable palliatives.
  - Real productive sector issues that can help increase the production pie rather than an undue concern at this stage with too much welfare issues that could serve as disincentives to growth and wealth creation and which may shrink the pie. At least a delicate balance needs to be found to address the two imperatives.
  - Issues from a more holistic perspective than on looking at partial solutions

# Our Challenges: Mobilizing Society

- People are on both sides of the economic equation . They are the means and beneficiary/end of production and are more so in our democratic system with periodic elections.
- To improve the process of going forward the people, who are not very sophisticated, need to be informed, consulted, sensitized to the issues of reconciling needs with wants in the context of scarce resources. This is more so in our politically tribal environment where political and social irresponsibility are exploited for political partisan gains; and not for national progress.
- OECS experience at least in two countries has shown that much can be achieved with serious and structured people mobilization

# Our Challenges: Public Sector Reform

- Public sector reform is most critical to the process of enhancing national economic efficiency because:
  - It is the largest employer and, directly, dominates as much as 50% of the economy, and indirectly the whole economy;
  - It could exaggerate real output as if there is no commensurate value for wages paid then output is inflated with no real returns thus making the environment a high cost one.
  - Of its size and influence, virtually sets the standard and norms for national efficiency as it would be the main recruiting pool for labour;
  - Its actions and activities impact the efficiency of all operating enterprises in the economy and society;
  - It is a monopoly whose goods and services, must be compulsorily acquired, are not tradable and therefore not subject to competitive alternatives;
  - It is an unavoidable cost that society must bear, which, if it works brings great benefits but otherwise could be a serious drag on the economy

# Our Challenges: Efficiency of Investment

- Investment is a *sine qua non* for economic growth and should be synonymous with it.
- According to Lewis' ICOR (his measure of the efficiency of investment) should be between 4 and 5 for developing economies and a forecast growth rate would be derived from ICOR times investment/GDP. Thus a 6% growth based on an ICOR of 5 would require net investments at 30% of GDP.
- For decades the efficiency of our investments has been very low and in the last five years has been associated with both negative growth and burgeoning debt!
- Many reasons for this situation exist . Some include:
  - Poor macro-economic and institutional environment
  - PSIP not cast in medium term economic framework
  - Very poor project design, planning, execution and management with significant time delays and cost overruns.
  - Inadequate attention to capital maintenance leading to reduced project life and less than planned benefits and exaggeration of investments.
  - Imbalances in the composition of the national investment programme



# Our Challenges: Insufficiency and Waste of Long Term Financial Savings

- The traditional popularity and dominance of the commercial banks in our financial system have led to a situation where scarce long term savings mobilized through social security , pension and life insurance funds are channelled into these banks which then use them to finance fiscal and corporate deficits and heavily import biased conspicuous consumption of the household sector.
- The result is:
  - a shortage and/or high cost of long term funds for capital formation since productive investment cannot compete with consumption;
  - An increasingly non-productive and costly commercial bank real sector financed portfolio that is threatening their own capital adequacy and solvency because they do not have the capacity and competence to appraise such projects;
  - increasing dependence on foreign investment and borrowings to finance the nations capital programme leading to rising external debt levels and/or large migrations of capital
- There is also need to periodically review our external reserves policy to ensure its adequacy based on appropriate benchmarks such as import cover instead of a mere percentage relationship between demand liabilities and external assets; its geographical and maturity deployment to optimize income, safety, liquidity and our trade and payment patterns.

# Our Challenges : The Debt Noose

- Given their small size and extreme openness and dependence, most OECS members are at unsustainable debt levels particularly in their shrinking economies.
- The consequences are:
  - Increasing cost of debt as investors seek increasing risk premiums or reluctantly make long term debt available.
  - The natural burden of debt servicing costs places the fiscal deficit in an increasing spiral.
  - Government's capacity to borrow is limited thus constraining public sector investment, asset maintenance and the ability to provide economic stimuli.
  - High and increasing debt cost discourages all investors who would naturally feel that those increasing costs would lead to increasing future taxation and/or government's inability to maintain and stimulate the economy.
  - A possible crowding out of the private sector by making less funding available and/or increasing its costs.

# A Way Forward: Mobilizing Society

- More high level time on visioning, strategising, public outreach and consultations.
- Constitutional changes to :
  - have a nationally elected Prime Minister as head of legislative and executive branches with limited portfolio responsibilities to devote time to management of the executive and public outreach
  - allow elected members more time to represent their constituencies and to be part of the legislative branch
  - have the executive nominated from committed and competent managers with the capacity and commitment from across party lines.
- Establishment of national economic and social councils with wide consultative powers, chaired by the Prime Minister, and representing all important stakeholders to dialogue, discuss and resolve major public issues that affect cross stakeholder relations.

# A Way Forward: Public Sector Reform

- Undertake efficiency audits to assess whether the public sector is streamlined, working efficiently and seamlessly and create an organizational structure to achieve these objectives.
- Need to review the existing legislation governing financial administration and to upgrade, amend, and modernize along the lines recently adopted by Jamaica and to give it a more resource management focus.
- Enshrining targets in legislation for such critical variables that underpin economic activity and investor confidence
- More attention to human resource management issues not only because it is the largest expenditure item in the budget but is also the means by which all public sector activity is executed.
- Clearly specifying the respective roles of the Public Accounts Committee, the Auditor General and ensuring that properly staffed internal audit units exist in all major spending and revenue departments, ministries and parastatals.
- Pursue regional arrangement for procurement, IT, training and specialised areas of activity where scale is critical to feasibility and viability.
- Entitlements should be: carefully considered for sustainability before they are introduced; means-tested to benefit only those in need who can optimally benefit; managed with mechanisms to achieve some cost recovery and minimize abuse and wastage

# **A Way Forward: The Efficiency of Investments**

- Need for Long Term Vision and Strategy to inform Medium Term Economic and Social Strategy which should be the framework for the investment programme which would then be balanced, consistent and interdependent.
- Continually and proactively improving the enabling environment to make it investment friendly and to optimize output generation.
- Designing, planning and managing projects so that they are appropriate for the environment; that they are implemented to minimize time and cost overruns; and managed and maintained to maximize their useful lives and the optimum generation of returns.
- Establishing benchmarks for cost of capital, economic and financial rates of return; and desirable ICOR levels.
- Subjecting all major projects to the rigors of realistic financial, economic and sustainable development analyses for the determination of feasibility/viability; and to techniques such as the Logical Framework, Critical Path, and Balanced Scorecard Framework for facilitating project implementation; and, overall ,to ensure policy consistency.

# A Way Forward: Increasing and Making Better Use of our Long Term Savings

- Establishing a four tier framework to mobilize savings for retirement purposes with the focus on social security and private operational schemes perhaps operating at the regional level to gain economies of scale.
- Managing these resources such that they generate returns that would allow beneficiaries to access adequate real income to meet their retirement needs.
- Establish separate markets for long term and short term funds such that long term funds are allocated to feasible long term output generating projects while short term funds are allocated to consumption and temporary deficit financing; and allow the supply and demand for each set of funds to clear its respective market. This should reduce the rates on capital investment and ensure the availability of more funds for capital formation. The converse would also be true for short term funds.
- Develop a more realistic peg for the fiduciary issue that is based on the local content of national output and imports and use excess reserves to create either a sovereign fund or a local development fund to fund that would invest in feasible high local value added (low import content) productive sector investments that generate attractive returns .
- Peg adequacy of reserves to import cover and ensure that reserves are so invested geographically and in terms of maturity to maximize returns while ensuring adequate liquidity, safety and our external payment financing needs.

# A Way Forward: The Debt Noose

- Countries with unsustainable debt servicing burdens should:
  - Take an inventory of their debt in terms of levels, maturities, costs and required service payment flows
  - Determine the level of debt and servicing costs that they can sustainably meet under current economic management conditions;
  - Translate that level of debt to a weighted average cost and maturity of debt;
  - Develop an adjustment programme to improve the economic management conditions and which would help ensure the sustainability of the agreed level of debt and allow for economic growth;
  - Classify the existing debt into maturity buckets: short, medium and long and develop desired parameters for each such that overall the desired levels, maturities and costs are satisfied
  - Negotiate a debt settlement with all creditors that would proportionately adjust the aggregated debt of all creditors that fall outside the desired limit to that desired limit. Thus if the sustainable debt level is 45% of GDP with an average maturity and cost of 12 years and 5% respectively then all existing debt that have maturities of less than 12 years would be reduced to that level. Hair cuts would only apply to bring the existing level of debt to the desired level and could be avoided and/or minimized by further adjusting maturities and/or costs.
- Countries should only contract new debt that falls within the desired framework of level, cost and maturity and be guided by economic prospects.

# Implementation

- Major distinct processes for consideration of the recommendations:
  - Monetary Councils agreement or otherwise of the various public sector reform proposals and determination of further work that may be necessary.
  - Establishment of a senior ministry at the national level with responsibility and appropriate authority for overall public sector reform.
  - Mandate the regional bodies within their respective authorities and competencies to develop a blue print and time frame for the identification of institutional measures that need to be put in place to expeditiously bring effect to a well functioning Single Economic Space. They should also identify measures and activities that should be best treated as regional arrangements and/or which lend themselves to regional functional cooperation.
  - Institute a public sector reform implementation reporting mechanism to the OECS Authority, or its successor, that would bring ministries of the public service together, periodically and systematically to:
    - Identify, consider and approve regional public sector reform programmes
    - Monitor their implementation;
    - Share public sector reform experiences and to mutually support each other;
    - Assist each other in their implementation of programmes; and
    - Harmonize, or better still, standardize public sector administrative policies, procedures and arrangements across the Single Economic Space to make procedures seamless, standard, customer friendly and as simple as possible.
  - It is important that decisions when taken are carefully thought and analysed and responsibility given to identified bodies for their implementation within a given time frame and that mechanisms exist to monitor progress and review performance.



# Conclusions

- We are at one of the most critical junctures in our history of self rule.
- The internationally acclaimed Professor Diamond, whose specialisation is the study of societies, has in one of his recent books, “Collapse – How Societies Choose to Fail or Succeed”, developed a five point framework of possible contributing factors to societal collapse. He concluded that of the five factors:
  - *“ the society’s response to its...problems **always** proves significant” (page 11 of Collapse. My emphasis)*
  - *“society’s response depends on its political, economic and social institutions and on its cultural values”(page 15 of Collapse)*
  - *“the contrast between Haiti and Dominican Republic... Provides the clearest illustrations that a society’s fate lies in its own hands and depends substantially on its own choices”.*
- **Our fate lies in our own hands.**
- **Thank you for listening.**
- **My contact details:**  
Marius St Rose  
strosem777@gmail.com