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**REPORT OF THE PUBLIC EXPENDITURE REVIEW COMMISSION**  
**(DRAFT)**



November 2012

**EASTERN CARIBBEAN CENTRAL BANK**  
**ST KITTS**

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**REPORT OF THE PUBLIC EXPENDITURE REVIEW COMMISSION OF THE  
EASTERN CARIBBEAN CURRENCY UNION**

Prepared by  
THE PUBLIC EXPENDITURE REVIEW COMMISSION  
Appointed by the Monetary Council of the  
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# TABLE OF CONTENTS

ACKNOWLEDGEMENTS .....	I
LETTER OF TRANSMITTAL AND EXECUTIVE SUMMARY .....	III
INTERPRETATION OF OUR MANDATE .....	1
PROFILE OF COMMISSIONERS .....	66
ABBREVIATIONS AND ACRONYMS .....	75
ANNOTATED OUTLINE OF CHAPTERS .....	78
CHAPTER 1 - Introduction, Mandate and Terms of Reference .....	82
CHAPTER 2 - Executive Approach .....	95
CHAPTER 3 - Impacts Of Government Expenditures .....	99
CHAPTER 4 - An Ideal Government Expenditure Arrangement.....	123
CHAPTER 5 - Existing Government Expenditure Performance and Arrangements in the ECCU Countries .....	144
CHAPTER 6 - Weaknesses in the Existing Government Expenditure Arrangements and Practices in the ECCU.....	169
CHAPTER 7 - Government Expenditure Issues, Practices and Arrangements .....	198
CHAPTER 8 - Existing Legislative Frameworks and Operational Procedures for Public Sector Financial Management.....	207
CHAPTER 9 - Some Generic Operational Measures to Enhance Expenditure Effectiveness .....	217
CHAPTER 10 - Possible General Transitioning Arrangements for the Implementation of the Recommendations.....	238
CHAPTER 11 - Proposed Recommendations and Transitioning Arrangements.....	240
CHAPTER 12 - Costs and Benefits of Proposed Improvements.....	271
CHAPTER 13 - Conclusions and The Way Forward .....	277
BIBLIOGRAPHY .....	281
APPENDICES .....	286



## TABLES AND GRAPHS

	<b>Pages</b>
Table A: Allocation Framework for Current Expenditures by Functional Classification	24
Table 1.1: ECCU Current Expenditure Pattern	88
Table 2.1: Allocation of Responsibilities among Commissioners	96
Table 3.1: ECCU Total Current Revenues, Current Expenditures and GDP per Capita 2000-2011	101
Graph 3.1: ECCU Current Revenues and Expenditures, 2000-2011	102
Table 3.2: Natural Disasters and their Impact on the ECCU/OECS	104
Graph 3.2: Natural Disasters in the ECCU/OECS, 1970-2004	105
Table 4.1: Ideal Revenue, Debt and Debt Service Ratios	126
Table 4.2: Ideal Expenditure Ratios	126
Table 4.3: Appropriate Allocation of Expenditure against Current Revenue	127
Table 4.4: Ideal Input Allocation	130
Table 4.5: The Ideal Governance Arrangement	142
Table 5.1: Selected Fiscal Ratios for the ECCU (In Percentages)	147
Graph 5.1: Current Revenue/GDP Ratios of ECCU Member Countries in 2007, 2009 and 2011	147
Table 5.2: ECCU Current Expenditures Classified by Main Inputs (In Percentages)	151
Graph 5.2: Personal Emoluments as a percentage of Current Revenue in 2000, 2009 and 2011	152
Graph 5.3: Pensions as a percentage of Current Revenue in 2000, 2009 and 2011	154
Table 5.3: ECCU Interest Payments as a percentage of Current Revenue Debt 2000 to 2011	156
Table 5.4: Internal Auditors in Central Government	168
Table 5.5: The Main Economic and Financial features of Parastatals in ECCU Member Countries	170
Table 6.1: Current Expenditure as a percentage of GDP – ECCU Member Countries (2005-2011)	172
Table 6.2: Personal Emoluments and Pensions as a percentage of Current Revenue – ECCU Member Countries (2005-2011)	173
Table 6.3 Personal Emoluments as a percentage of GDP –ECCU Member Countries(2005-2011)	174
Table 6.4: Personal Emoluments as a percentage of Total (Current and Capital) Expenditure –ECCU Member Countries (2005-2011)	175
Table 6.5: Growth in Real GDP (Constant Prices) and Expenditure on Personal Emoluments –ECCU Member Countries (2008-2011)	176
Table 8.1 Status of Legislative Reforms in ECCU Member Countries	211
Table 8.2 Accounting and Audit Staff in the ECCU Member Countries	212
Table 8.3: Summary of Accounting and Auditing Timeliness in the ECCU Member Countries	215
Table 11.1: Net Allocation Framework for ECCU Member Countries	249





## APPENDICES

	<b>Pages</b>
Basic Fiscal Data Series 2000 – 2011	292
Selected Fiscal Ratios in relation to Current Revenue 2000 – 2011	301
Dominica Debt Case Study	310
Case Study on the Public Accounts Committee in Grenada	314
Case Study on the Budget Processes in Anguilla	315
Update by Countries on the Implementation of International Public Sector Accounting Standards (IPSAS)	317
Timeframes - Provision of Birth Certificates, Passports and Drivers' Licenses in ECCU Member Territories	319
Typical Legal Framework Governing Public Sector Finance and Administration	320
Proposed Idealised Salary Structure for the ECCU	321
Excerpt of the report done by the IMF Fiscal Affairs Department entitled "Expenditure Rationalisation for Fiscal Sustainability: A Review of Options	322
Report on Consultations across the ECCU	328
ECCU Participants at Consultations	330
Selected Comments from Participants at Consultations	339



“There can be no economy where there is no efficiency”.

Benjamin Disraeli: Address to his Constituents, 1 October 1868, quoted in the Times of  
3 October, 1868.

“Wherever you have an efficient government you have a dictatorship”.

Harry S. Truman: Lecture at Columbia University, 28 April 1959, quoted in “Truman Speaks”  
(1960)



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The ECCU Monetary Council and the ECCB for the vision in conceptualising the trilogy of Commissions with interrelated and very topical themes long before the current economic and financial crises exploded; for appointing us to serve on this PERC and providing all the financial and administrative support resources for the execution of this initiative; and for being involved in the execution through periodic deliberations and progress reports.

The IMF for letting us have access to the voluminous amount of quality work that they had undertaken on various aspects of the initiative as part of their periodic surveillance activities and other dedicated and specialised work undertaken on the ECCU economies; their willingness to engage us in discussions on their efforts and to give guidance on the execution of our mandate.

The various stakeholders who we encountered and dialogued with during our in-country consultations, and the many special regional groups such as Financial Secretaries, Social Security management, Revenue, Planning and other officials with whom we were able to interact during their periodic sessions with the ECCB and through the use of the video conference medium. We wish to thank, in particular, those who took time out from their busy schedules to voluntarily and actively participate in our in-country fora. Special thanks go to the few who went beyond expectations to submit written, very insightful and high quality memoranda. These anonymous memoranda have been appended to our Report to expose to the general readership the knowledgeable views that exist among our people. These people have demonstrated their commitment and potential contribution, and all that is required is a forum to get their ideas and to give them a listening and responsive ear.

Arranging for the logistics of our country consultations was quite a challenge. We succeeded largely because of the efforts and initiative of the various ECCB Agencies Offices which assisted

in planning the agenda to cater to varying national peculiarities, inviting and following up on participation and providing the necessary accommodation.

We wish to acknowledge the contribution of Ms Zanna Barnard to all aspects of the Commission's work. While she was appointed to serve as the dedicated secretary and administrative support to the Commission, in addition to her regular duties, she went much beyond that remit in her efforts, commitment, dedication and contribution. Her enthusiasm and energy were inspiring and much of what was achieved was due to her untiring support, persistence and quiet encouragement. We also acknowledge the support provided by personnel in the departments of Research and Statistics and the supportive hand of Ms Laurel Bain, from the Governor's Office, who is very familiar with prior works of the Commission. We apologise to the many others who assisted but were not singled out for special acknowledgement; to those we say a genuine thank you.



# LETTER OF TRANSMITTAL AND EXECUTIVE SUMMARY

November 2012

Chairman

Eastern Caribbean Currency Union Monetary Council

Through the Governor of the Eastern Caribbean Central Bank

ECCB Headquarters

Bird Rock Road

Basseterre

St Kitts and Nevis

Dear Sirs

The Eastern Caribbean Currency Union (ECCU) Public Expenditure Review Commission was appointed by you at the Meeting of the Monetary Council on February 8, 2008, but did not commence work before July 2010 because work on the second Commission was still on-going. Given the urgency and importance of the exercise we enthusiastically embarked on it with speed and determination and had intended to complete the assignment within the ambitious period of one year. The difficulties with limited data, human and financial constraints, a packed work load of the Commissioners on other pressing national and regional assignments, challenges in arranging the logistics for Commissioners' meetings and Stakeholder Sensitisation and Preliminary Consultations resulted in the exercise taking longer than we had hoped and wished. Notwithstanding, the work of this Commission was dispatched in the shortest period to date, thanks to greater familiarity with the process and the tremendous support provided by the ECCB secretariat. This time we now submit a Draft Report to you in accordance with your mandate to consult with and sensitise the major stakeholders to the proposed recommendations, to get their views and support on them and their buy-in on the intent, rationale and specifics of the recommendations.

Except for the remote possibility of a windfall discovery of very valuable resources (and even then positive economic outcomes are not assured) and/or, to a lesser extent, if at all, the



dollarization of these economies, the combined economic development of the OECS/ECCU economies is critically dependent on the stability, integrity and public confidence in a common currency which, in turn, is firmly hinged on the countries' individual and joint efforts 'to maintain strict fiscal prudence and a manageable public debt. (The current experience with the Euro zone area is a salutary and poignant reminder of the benefits of a common currency, its contagion effects and its vulnerability to fiscal imprudence and unsustainable debt management). To achieve a strong currency, with its attendant prerequisites in a democratic system with growing needs and rising expectations, will require sustained economic growth at levels that we have not so far enjoyed. As Spence (2011) puts it, "high growth and low growth cannot be explained by strictly economic factors alone. Leadership, politics, governance structures and the effectiveness of government have crucial parts to play in the drama."<sup>1</sup>

It is for this reason that we acknowledge the prescience and commend the wisdom of the ECCU Monetary Council to have the vision to appoint the three Commissions on the critically and inter-related areas of Tax, Pension and Expenditure Reform and Administration even during the boom years and long before the economic and financial crises over the last three years. It is also because all the evidence seems to support the Spence view - that it is not the availability of resources but its management - that has led us to take a broader view of our mandate and to explore peripheral but critical inter-relationships and dimensions to the fiscal problem.

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<sup>1</sup> Page 6 of the book: Spence, Michael (2011): "The Next Convergence – The Future of Economic Growth in a Multispeed World", Farrar, Straus and Giroux/ New York. The book is a by-product of the World Bank's Global Commission on Development, which was chaired by Spence and on which the Governor of the ECCB was a member of the Panel of Experts representing the position, interests and sharing the perspective and knowledge of Small States. The author is a celebrated academic and applied economist who shared the 2001 Nobel Prize in Economics for his work on market functioning structures, performance and particularly on market signalling. The book and the Commission's official report are must-reads for all those leaders, academics and policy makers who have an interest in advancing economic growth in developing countries.



## **INTERPRETATION OF OUR MANDATE**

Helping to resolve the problems of public expenditure can be handled in many ways. If the problem is one of cutting expenditures then it can be done in any of many ways:

A first approach would be to cut expenditures by simply effecting an across-the-board cut. While this may appear on the surface to be the most equitable, simple and quickest to implement and see results, it is, in fact, the most inequitable and least socially and economically desirable approach. This is because the majority of government expenditures is contractual and constitutionally and or conventionally protected which, therefore, places the adjustment burden on the small discretionary proportion of the budget. But the marginal impact of the dollar varies widely among the various expenditure activities, thus possibly resulting in cuts to expenditures that are more socially and economically useful than those that cannot be subject to cuts.

A second approach is to cut expenditures by trimming or cutting back on programmes. This variant of the above suffers from similar limitations in two respects: first, most governments do not operate on a programme basis; second the major components of programmes would still be labour, finance and other specialised costs which are largely contractual and/or, in any case, may be the components that governments wish to safeguard.

A third approach is the rationalisation of expenditures by benchmarking expenditures against best practice norms, e.g. teacher to class- size ratios and patients seen by a doctor per day. This is the useful approach adopted by the IMF in their various national and regional studies on public expenditure rationalisation in the ECCU.

A fourth approach is to thoroughly reform the expenditure system with the objective of optimising value from the use of resources, i.e. ensuring that expenditures are targeted to meet priority objectives and that these expenditures are cost-effectively executed.

The most appropriate approaches and combinations thereof will depend on the imminence and seriousness of the problem and the mandate given.

We do not believe that the Commission has been given the mandate to recommend the level of and direction of cuts to overall expenditures and/or programmes. These are political decisions. The IMF with its international experience is doing a good job identifying best practice expenditure benchmarks and has made a number of recommendations in its various relatively recent reports. We recommend that these be examined carefully and implemented wherever they are useful. Our approach has been more developmental than fiscal: to focus on broad efficiency measures and approaches to make government expenditures more effective through better use of resources to satisfy desired priority outcomes. Our approach will take a longer period to achieve the desired results and will require training and persistence but, in the medium to long term, it will be more lasting and sustainable.

Based on our consultations, observations and analyses we conclude that the ECCU governments can effectively control their public sector expenditures to attain the desired and established benchmarks for revenue, current surplus, capital expenditure, economic growth and even debt at the safer level of 30 per cent of GDP, and still be able to maintain contingency funds and have adequate commercial and/or captive insurance particularly to cover contingencies associated with public infrastructure assets. All of this can be achieved within a reasonable time frame (but varying for countries because of their different current situations and their own efforts at implementing the necessary reforms). The attainment of this goal is conditional upon:

- 1) A systematic rationalisation of the public sector organisational structure; the adoption of best practice governance arrangements for the public sector; the implementation of optimal systems, policies and procedures; and letting decision making be guided only by objective, professional and transparent considerations that are in the national/regional interest.
- 2) Full regional or functional regional cooperation arrangements of many aspects of national economic management, where these are economically, financially and administratively optimal to do so.
- 3) Much better management of all aspects of the investment project cycle along professional, objective and transparent lines and in accordance with international best practice.

- 4) The management of the public sector and economy along professional lines and in accordance with relevant international best practice.
- 5) The adoption of a more all-inclusive and embracing form of government that will encourage all in the society to focus on optimising the national good instead of vested self-interest.
- 6) The targeting of social assistance benefits on a means-tested basis to those who are in genuine need of it, can use it optimally, and who cannot afford it.
- 7) The acceleration of growth, influenced by the creation, facilitation and proliferation of people opportunities that are driven by the proliferation of creative, efficient, innovative and productive use of knowledge.

These can be achieved if there is the political will to implement the necessary measures and if the society at large is prepared to accept the required changes in behaviour, and, for some, the attendant sacrifices.

The timing of this Commission is propitious. This is not only because the region is facing economic contractions, widening deficits and burgeoning debt, but also the fact that such periods are opportune times for review, rehabilitation and deep restructuring. Recessionary times are good times to put houses in order: to repair and re-instate all critical infrastructure (whether physical and/or institutional). Public sector reform is one such critical area and the timing and need is more easily explained as there would be a great deal of empathy for the objectives and a greater willingness for individual and group sacrifice. Recessionary times are not occasions to go against the tide and to spend and promote in a period of waning demand. However, if the domestic system can be rehabilitated to attain greater efficiency, this would impact on international competitiveness. Such efficiencies would help to reduce our per capita costs and even enable us to produce and sell more in better times and during the recessionary period.

Modern macro-economic management principles and techniques and particularly Keynesianism, which was made popular after the Second World War to stimulate the economies of the post war world, had always had limited impact on small open economies like ours. That impact was even more blunted by the fact that all our sovereign countries had either surrendered their major

macro- policies to the maintenance of stability and predictability under regional arrangements, and/or had entered into international and regional agreements that constrained their degrees of freedom, even though it was and is in their best interest. Moreover, our current extreme debt levels and economic openness highlight the importance of macro-economic management. We have to shift to micro-economic avenues to enhance our efficiencies and international competitiveness. It is the extent to which we succeed that will determine our opportunities and ability to insert ourselves more prominently in today's world - or otherwise to languish and be marginalised and perish. Fortunately, such an improvement in our micro-economic performance augurs very well for enhancing macro-economic performance, when the time is opportune for us to use macro-economic management more effectively. In fact, this period of recession is the ideal moment to effect the repairs to our infrastructure, whether they are physical and/or institutional. The speed at which we can do it, relative to other countries, and its impact will not only be beneficial to us when the recovery comes, but may also be helpful to us in gaining market share, even from a contracting global economy.

In keeping with a broadened mandate that is driven by the fact that economic success is dependent not only on economics, but also on other inter- related discipline such as management, sociology and politics, we highlight what we believe are critical challenges that need to be addressed.

## **SOME MAJOR OVERARCHING ISSUES**

### **Political Efficacy of Fiscal Reforms**

Expenditure reform, which comes under the broader framework of fiscal reforms, cannot be examined in isolation of political economy issues. At the national level, there may be consensus on the necessity of fiscal reforms, but there may be lack of political will to implement such reforms if the incumbent government faces a high risk of losing office because of such reforms. Thus, a major issue is whether radical fiscal reforms affect governments' electability at subsequent elections.

Empirical evidence on international economies suggests that fiscal reforms, that is reducing public spending and /or increasing taxes may not be politically suicidal (The Economist, 4

December 2010). Alesina, Carloni and Lecce (2010) studied 19 rich countries over the 33 years between 1975 and 2008, identifying cases whereby governments reduced the primary deficit (i.e. before debt service), adjusted for the stage of the economic cycle, by at least 1.5 per cent of GDP. The paper examined the fate of incumbent governments that faced elections either during the period of fiscal tightening or within two years of its completion. There were 19 such elections, of which seven (or 37.0 per cent) resulted in a change of government. The conclusion was that tightening governments seem to have a survival rate no worse than the average; incumbents were elected out of office in 40 per cent of all elections in rich countries between 1975 and 2008. The authors concluded that a failure to tackle budget problems is far likelier when governments are beholden to interest groups, for instance industries that benefit from tax breaks, homeowners, or those on pensions, rather than the voting public at large. According to Alesina, Carloni and Lecce (2010), confronting the interest groups, rather than the entire electorate, may be the really difficult task for governments that want to make the numbers add up.

Even Caribbean experiences (Dominica, St. Vincent and the Grenadines, St. Kitts and Nevis and Antigua and Barbuda) support the evidence found in international economies. Political analysts at the regional university seem to feel that the results of elections, in general, are not determined primarily on economic issues.

Of the two options, expenditure cuts may be more politically palatable than tax increases. However, expenditure cuts have a greater negative impact on the poor and vulnerable, while the incidence of tax increases is normally more impactful on the rich.

There must be a delicate, judicious and rational balance whereby the population must appear to be sharing in the sacrifice. Taxes must not be so burdensome that it discourages investment which is the engine of growth; and poverty needs to be alleviated to help achieve social harmony, maintain human capital but also to create demand.

The solution is to ensure that:

- 1) The problem is not allowed to get out of hand and is addressed incrementally;

- 2) There is policy consistency and that the major political leadership groups are working towards the long run sustainable interest of the country;
- 3) The population is well informed on the reasons for the measures and are allowed to participate in decision making; and importantly that government is transparent, efficient and cost effective, and that the benefits of the sacrifices are apparent and will accrue to all.

### **Leadership**

Some of the prime functions of the State and hence of government are to give vision, goals and set standards and benchmarks for the economy and society and to manage those processes to attain the desired outcomes. These require not only astute economic management but significant leadership skills to mobilise the society as a whole and to set quantitative macro-economic targets as well as moral standards and values. We cannot say that our culture is being enhanced for our general economic well-being and improvement. According to Goldsmiths elegy, "Ill fares the land, to hastening ills a prey, where wealth accumulates, and men decay".<sup>2</sup>

It may not be easy, or even possible, for the political leadership alone to deliver on these. Since the State is sovereign and supreme then its leadership must take overall responsibility for the successful attainment of the outcomes. That will require cooperation and coordination between secular and non-secular leaders to ensure that goals and values are mutually interrelated and synchronised, are implemented consistently and monitored closely. Quite importantly, not only must the maximum leaders profess the values but must also be seen to live them.

All these are said because they have a significant impact on work ethics, expenditures and overall economic efficiency and ultimately on welfare, standard of living, societal contentment and the growth of the economy itself.

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<sup>2</sup> Oliver Goldsmith (1770)



## **Governance**

Financial crises over the last decade have given the issue of governance much corporate prominence in order to protect the interest of investors and savers, many of whom have choices and are aware of the risks that they take. But governance seems to be taken a lot more seriously in the private sector than it is in the public sector where arguably the need is even greater, because government is the largest monopoly dealing with non- tradable services with considerable leverage, an arsenal of sanctions, and as taxpayers do not have the same sort of choices that investors have. The delineation of roles, accountabilities and responsibilities among corporate shareholders, shareholder appointed boards and board appointed management is much clearer than in the public sector. Despite the protection afforded by the Constitution, parliament enacted laws and statutory regulations, the roles and responsibilities between the political directorate and the permanent public sector management are at best very blurred.

Our many national consultations have revealed that the lack of proper definition, delineation of roles between policy makers and senior management is the cause of a great deal of the problems with our escalating costs and wasteful spending. One almost universal question is: Who is the CEO of the Ministry? Is it the Honourable Minister or is it the Permanent Secretary? Is the Cabinet the Board of Directors for the Ministry or is it for all ministries and, if so, what is the role of the Permanent Secretary and the high level bureaucrats and technocrats. A creep seems to be taking place between what prevailed in colonial days under the Westminster model and the practice today, and it is the source of considerable anxiety, confusion, inefficiency and unnecessary and wasteful cost. There seems to be an urgent need for a very broad-based constitutional review commission with wide consultation, but the recommendations of such commissions should be subject to referenda on selected issues rather than on the constitution as a whole. (Admittedly this has problems as there are possibilities for inconsistencies and conflicts that could take many referenda to resolve.)

Our concern is less about the locus of the respective roles and more about the confusion that exists in the minds of many as to where the respective roles lie. However, we are very mindful that there is a critical gap in the governance structure: maintaining stakeholder relations is seriously neglected. That neglect will loom larger in a reform environment where stakeholder

dialogue, promotion, sensitisation, information, rationalisation, buy-in, consensus seeking and proactive change champions at the highest level are absolute and critical requirements.

A critical governance area is the effective presence of adequate auditing arrangements. Whilst these are almost mandatory in large private sector corporations, they are virtually absent in the public sector even though the Constitution makes some provision for their functioning and the protection of their objectivity and independence. Yet proper and adequate auditing arrangements, with their focus on having proper systems and procedures, checks and balances and their preoccupation with compliance to policies and procedures, are generally an effective bulwark against malfeasance and non-compliance. There is need for adequately resourced auditing units in the major spending and revenue ministries and in the Auditors General Departments, and an effectively functioning and objective Public Accounts Committee. These arrangements, if in place and functioning cost effectively, will go a long way in enhancing the effectiveness and efficiency of government expenditures and contribute multiple benefits in relation to their establishment and operating costs. Additionally, given the dominance of public sector investment in the economy and the popular perceptions of their inefficiency and lack of transparency, it would appear that arrangements to bring more efficiency in that economic activity could also pay handsome returns. The establishment of the Office of the Contractor General, with proper mandates and adequate resources, could be a step in that direction.

The preferential use of insider trading information is something that is closely regulated particularly among the directorate, senior management and middle management in the private sector. But there does not appear to be comparable and parallel arrangements in the public sector, which is the much larger dispenser and provider of public benefits. Instead there is the perception that government benefits e.g. training opportunities and scholarships, preferential sale of real estate and other real property, seem to accrue disproportionately to public servants, their families and acquaintances, and the wider public are sometimes not aware of the existence of these opportunities. Adopting and enforcing those desirable private sector policies would not only minimise the cynicism that the wider public has of the public service, but also harmonise work practices between the two bodies. What is good for the private sector should be even better for the public sector.

## **Efficiency of Investment**

It is indeed an irony, if not a tragedy, that the economic activity - Investment - which the theoretical literature, best practice, and common sense posit as the source and basis of economic growth, and which our economies pursue with a passion is, in fact, not only the main cause of our burgeoning, debilitating and negatively impacting debt but is a direct and indirect contributor to our sluggish and in some years negative growth. That is so, not because the premises are wrong, but the fact that we perform poorly and inefficiently in all stages of the project cycle relating to investment - from project conceptualisation, selection, design, planning, execution and management. Empirical studies by the IMF have confirmed what many analysts and economists have long speculated about - that our investments, particularly at the level of the public sector, contribute to increasing the level of debt while reducing output levels. The same IMF study which used annual data from 1975 to 2005 indicated that the rate of return of ECCU investments was a negative 2 per cent compared with a positive 10.3 per cent and 7.6 per cent for Germany and Greece, respectively.<sup>3</sup> That means that if our cost of capital is 10 per cent and our rate of return is a negative 2 per cent, then we are reducing output by 12 per cent of the level of investment per annum.

The negative return on investments may be explained by a number of factors most of which are either avoidable or can be minimised. Small size leading to diseconomies of scale can be minimised through regional functional cooperation and rationalisation of economic activity at the regional level as far as is possible. The prevalence of natural disasters and their impact on economic activity and investment efficiency can be minimised by either designing for these probabilistic occurrences or, if not, by taking these into account in determining whether it is cost effective to pursue these projects. It can also be minimised by adequate and timely maintenance of assets. Another common contributor to the apparent low rate of return on investment is the misclassification of investments that unnecessarily inflate the level of investment. Activities of a routine current nature that are misclassified as capital expenditure, such as tourism promotion and delayed and deferred routine maintenance wrongly inflate our capital expenditure programmes and serve only to give a false impression of our investment efficiency.

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<sup>3</sup> Source: Roache, S. K. (2007, May). Public Investment and Growth in the Eastern Caribbean. IMF Working Paper. IMF.

The absence of, or under, insurance is another problem. Adequate insurance coverage of assets either through the payment of commercial premia or the establishment of self- or captive insurance funds that are charged to current expenditure, all help to give a truer picture of the efficiency of our investment.

The main avoidable cause of our investment inefficiency lies within the framework of the project cycle. Projects are not cast within the framework of a long term vision and a medium term social and economic strategy, but are selected more on the basis of the whims and fancies of the top decision makers who may be exuberant to deliver and leave a legacy –a legacy which ultimately, in many instances, turn out to be negative and unflattering, but too late for the economy and in particular the debt. Many times analysts make unrealistic assumptions about demand forecasts to justify projects that governments have already determined must be implemented. Inappropriate designs and sketchy planning lead to unnecessarily high current operational costs, on the one hand, and significant variations and cost and time overruns on the other. The cloudiness and sometimes total absence of transparency help inflate project costs either through larger costs and/or inefficiency costs arising from the selection of incompetent contractors. By the time the project is eventually completed with its very inflated costs, the follow up of poor project management leads to a failure in the delivery of intended benefits and an increase in and/or ineffective control of operating costs.

### **Labour and Human Resource Management Issues**

Personal emoluments absorbed about 44 per cent of current revenue in the ECCU at the end of 2011 and ranged from 39 per cent for Dominica and 104 per cent for the special case of Montserrat. Because of its size it is usually the prime target for cuts in wages and salaries, entitlements and employment. Despite the fact that productivity largely stems directly and indirectly from labour and much waste emanates from this source, little sustained effort is ever made to rationalise the use of this input. This may be because of the closeness of our society, the strong influence of trade unions, our democracy involving periodic elections, and an ingrained focus on poverty alleviation and welfare advancement through employment creation. Labour, as a factor of production, is a large potential source for efficiency gains through such means as: setting realistic job descriptions and performance standards and specifying expected outputs;

engaging in objective performance appraisal; rewarding performance and separating for continual inability to deliver on the expected outputs; effective and realistic training; continual mentoring and performance monitoring; ensuring that persons are right fits for the jobs that they are expected to perform; creating a conducive environment for satisfying work; and removal of work environment disincentives to effort.

Unsavory human resource practices such as nepotism and political patronage in securing and protecting employment; abuse of punctuality, irregularity, sick leave; blatant corruption that are ignored and tolerated; the awarding of similar rewards irrespective of performance; costly delays in addressing performance and corruption issues; and appointing persons from outside the career civil service on contract bases to fill positions that competent career civil servants expect to be promoted to - all contribute to a loss of morale and work enthusiasm amongst public sector workers and, particularly in the last case, can lead to reduced cooperation and even sabotage amongst top public sector workers.

### **Relentless Pursuit of Growth**

Economic growth is the only sustainable solution to our fiscal and debt problems. In fact, it is the absence of such growth over a continuous two to three year period that exposed our vulnerabilities and frailties. Whilst these public sector reform exercises, with their focus on optimising efficiencies, are being pursued to create the platform to improve our economic growth and international competitiveness, it is nonetheless an imperative that we engage in the reforms and pursue economic growth in parallel or simultaneously. This is not only because of the urgent need for economic development, but also the fact that it gives the opportunity for our pursuit of growth to benefit from the early reform efforts. It is for these reasons that we have broadened our mandate to include some considerations, opportunities and directions for growth.

The international recession resulting in sluggish global demand does not necessarily mean that there are no opportunities to seize growth initiatives. We need to be like the stockbrokers who are able to make significant stock market gains even when the overall index is flat or declining. A combination of the enterprise of our small but creative artists and artisans and the use of

technology can help us export our skills and cultural industries and gain the foreign exchange that is so critical for our very open economies. But these small industries need to be encouraged and facilitated. They can be encouraged by heralding their achievements through exhibitions and awards, and by demonstrating to others the possibilities that exist and how their peers are exploiting them. They can be facilitated through technical assistance, export promotion, making appropriate financing available, developing incubator parks, and providing the same sort of incentives that are granted to foreign direct investors.

### **Need for Balanced, Coordinated, Integrated, Team Work Approach to National Economic Management**

Our small island economies do not have the luxury of size, which normally would afford the benefits of scale economies, the geographical diversification of risks and the presence of a large market. Much progress has been, and continues to be made, in removing discriminations such as gender; the economic (if not social) benefits are very manifest. Our leadership is making much effort to increase the size and rationalise the use of our very limited resources through such means as pursuing regional initiatives in functional cooperation arrangements and even direct management arrangements. Much has been achieved in the areas of monetary policy, a common currency and central banking; common pharmaceutical procurement; appellate judicial system; free movement of goods and services; and the establishment of most factors for the creation of a Single Economic Space. However, there are many lost opportunities and a lot more scope to achieve much more.

There are still two more frontiers to be breached. The first is the increasing tribalism of party politics which has the countries divided into political camps. While there is nothing wrong with political party affiliations, the problem arises when people subsume the interest of self and the party over that of country; and when recruitment, employment, promotions, contract awards, positions and assistance are distributed on the basis of party affiliations and loyalties. One area of reform that could possibly help in minimising the polarisation and the notion that about half the country are supposed to be opposing government policies and programmes is to do away with the nomenclature of Opposition Party and replace it either with Minority Party or Alternative Government. The nomenclature of Opposition gives justification for opposing for

opposing sake, rather than making constructive criticisms and proposing alternative suggestions for policies and programmes.

The other division is the varying status and related snobbery accorded to certain work occupation and skills. The snobbery associated with manual labour is both driving persons away from such labour intensive sectors as agriculture and construction, and significantly increasing the cost of that factor and hence the un-competitiveness of the affected sectors. Moreover, there are lots of practices that affect the relative productivity of labour - the shortage of such basic functional tradesmen skills as plumbing, refrigeration carpentry, masonry; expensive tertiary education institutions that do not impact positively on these economies, because of their failure to engage in indigenous research and to disseminate their findings to the society to help improve the quality of national discussions; the brain drain; the poor quality of university graduates in terms of their relevance to the world of work; the focus of university graduates on the acquisition of certification rather than the use of the acquired knowledge to improve their job productivity; and the failure to pursue lifelong learning in an environment where change, adaptability and flexibility should be the constants.

### **Social and Economic Entitlements**

The provision of social and economic entitlements in most democratic and socialist economies has been one of the most recent additions to the functions of the State. Financing these entitlements has been one of the fastest growing expenditure items that is increasing faster than the rate of economic growth and/or of overall economic expenditures and is one of the main contributors to the burgeoning deficit and, consequently, the accelerating levels of debt. They include such activities as: free education and school books and payment of examination fees; and the provision of substantial medical, travel, water and energy subsidies and many special assistance packages. In one country the level of expenditures has increased significantly, more than four times in five years and absorbs more than 9 per cent of total current revenues. The difficulty is that these programmes are introduced in good times but are very difficult to roll back in economic trying times. In fact, in hard times there is more a justification for not only maintaining but also expanding them. It is during these difficult economic times, however, that the capacity to finance and sustain them is weakest.

The programmes continue to be essential but their management and administration seem to be the sources of the financial and administrative problems. In true democratic fashion the assistance is provided to all with no targeting through means testing to ensure that only cases that need and can benefit from the programmes are assisted. The entitlements are also not structured and designed to be cost-effectively administered and can sometimes be the source of considerable confusion, duplication and waste. Moreover, more care needs to be exercised to ensure that the programmes are affordable and sustainable and have mechanisms to achieve some cost recovery, prevent abuse and wastage and provide optimal benefit only to those in need.

### **Regional Approaches, Standardisation and Cooperative Functional Cooperation are Prerequisites for the Enhancement of Efficiency and hence of Economy**

The increasing liberalisation in our modern globalised world has made the attainment of international competitiveness a major imperative, particularly for small states such as those of the ECCU that have the natural disadvantages of being small islands in a world of large neighbouring giants, and the inherent consequences of having to be very open if international standards of living are to be enjoyed. For our economies, efficiency is an imperative and it is for this reason that our leaders have expended so much political capital and effort to create the institutional framework for a Single Economic Space. The intent, concept and institutional structure have been established and now urgent effort should be directed at implementing measures to convert the intent into realities that meaningfully improve living standards.

There is no margin for error and/or delay. Fortunately, past initiatives in functional regional cooperation have served us very well - common currency, central bank, supreme and appellate courts, pharmaceutical procurement etc. Our analyses suggest that other areas lend themselves for such treatment. These include:

- 1) A Central Statistical Agency to have responsibility for the collection, collation and analysis of regional and national data. This would not only cost less than it would with separate national statistical departments, but would also deliver more quantitatively and



qualitatively, and, allow for the standardisation of approaches to facilitate inter-regional and international comparisons.

- 2) Joint Foreign Representation at the national and international levels. Joint embassies in major national capitals and common representation at international fora and institutions, would not only save on costs and improve the quality and impact of representation, but also enhance the region's international political leverage and reduce the international perception that we waste resources and are more of a nuisance in terms of engaging with larger countries.
- 3) A Regional High Security Prison that is properly equipped and secured to take care of the more serious, particularly international, offenders involved in narcotics, terrorism, and money laundering.
- 4) Joint procurement of generic goods and services to gain volume discounts, bargaining leverage and optimum inventory management.
- 5) National Policing Services under a Regional Police High Command to supervise the operations of the national police services. The advantages would include lower overall cost of administration, the recruitment of more qualified and competent personnel, the provision of an enhanced career path for senior officers, as well as some independence and insulation from domestic political and other influences.
- 6) A Regional Public Sector Training Centre to identify training needs, develop appropriate programmes, and deliver training courses. The saving on costs, the improved quality of programmes and the sharing of national experiences would help to enrich the training and its impact and assist in standardising administrative and management processes in the Union.
- 7) The identification and encouragement of potential Centres of Excellence, particularly in the areas of science, medicine and technology that have high capital costs and restricted demand at the national level, but which can be developed into viable Centres to cater to regional demands. Oncology centres, specialist cardiology units, forensic labs, agricultural research, for example suggest themselves for such assistance and support.
- 8) Regulatory arrangements for monitoring and supervising financial institutions, utilities and other monopolistic/oligopolistic goods and service providers. This would not only

save on costs and employ the best skills, but also minimise the regulatory arbitrage that could possibly exist in regional arrangements.

The list is only indicative and not near exhaustive.

### **Facilitating Regional Physical and Electronic Movement (Telecommunications and Transportation) is at the heart of the Single Economic Space**

The benefits of the Single Economic Space can only be fully realised if the territories are treated as a functional entity; the prerequisite for this is hassle free and convenient, easy and cheap movement of people, goods and services among the territories. It is only in such an environment that the benefits of economies of scale could be realised. A coordinated and calibrated regional programme is required to help provide:

- 1) Low cost telecommunication services at a standard price throughout the region;
- 2) An efficient regional air transport system that can link all the countries on a daily basis within a time frame not exceeding four hours and using night service as much as is possible and feasible, and with tariffs priced on the basis of marginal cost plus;
- 3) An efficient regional passenger, cargo and vehicle ferry service that would link the countries over a maximum period of two days, spending an average of four hours in port, and priced on the basis of marginal cost plus.

### **Optimum Cost Effectiveness Must be the Main Criterion in the Delivery of Goods and Services**

Governments have many options in terms of the delivery mode to be used in the provision of services. These can be direct as through central and local government and parastatals, and indirect through outsourcing, privatisation and regional arrangements. While there should be no intrinsic differences in efficiency among the various modes, there are differences in operating culture, objectives, popular perceptions and expectations that influence the operating environment of the various modes. Direct delivery modes have slower decision making processes, are more rule based and more concerned with political ramifications than with financial viability and returns. As such, these agencies are concerned more with employment creation than competence, efficiency and productivity; are less vigilant with the collection of

receivables; have difficulty making timely price adjustments to respond to cost increases; are normally poor on customer service and service quality; and in general are inefficient burdens on the public purse.

But efficiency has got to be the name of the game. Therefore, those services that require financial viability and are best driven by market forces should be left to indirect modes where extraneous influences are least; while those that are not so sensitive to these considerations could remain in direct delivery modes. Even in those modes, however, the need for efficiency and cost effectiveness must be given paramount considerations. For instance, the utilities, management of essential/critical infrastructure such as the air and sea ports, commercial services such as banking and insurance, and productive enterprises are best left to indirect modes, but with either a strong transparent and efficient regulatory framework or the control and discipline of competitive market forces.

### **Culture Change: Theory and Management**

Governments have the option of either cutting expenditures by reducing the size of the public service including transfers to parastatals, or by increasing the efficiency and impact of its expenditures to deliver more and better goods and services, or by prioritising, and by eliminating wasteful and not useful expenditures and processes and procedures. The first option has an immediate impact but could be economically and socially disruptive, and may not provide sustainable solutions. The second and recommended option is to enhance the efficiency and impact of expenditures and the productivity of labour. While this option is very desirable, it will be a long and painstaking process before tangible results can be achieved. It will require a sea change in the operating culture of the public service. The culture change must mean that:

- 1) The raison d'etre for, and objective of, the public service is the cost effective, efficient and customer friendly delivery of priority goods and services and not simply employment creation. Employment is the means of delivery and never an end in itself.
- 2) Public sector goods and services are as valuable as any other comparable good and service anywhere else and they must be efficiently deployed to achieve the stated and agreed goals.

- 3) The costs of these goods and services are burdens on the economy and society as a whole and paid for through taxation or through the compulsory annexation of private income, for which all in the economy and society are contributors and which, if not properly and efficiently deployed, can be a disincentive to economic effort, initiative and activity.
- 4) Cost consciousness, efficiency and productivity must be the watchwords in the public service.

To achieve that culture change will require, inter alia:

- 1) The preparation and implementation of a clear programme to inculcate the new culture;
- 2) The acceptance of, and commitment to the new programme by the highest levels of leadership - governance and management in the public service including setting the example at the top;
- 3) The design and celebration of early successes to give encouragement and to stimulate continuing performance improvements;
- 4) The reinforcement of the public service culture change programme by:
  - a) developing and implementing parallel supportive programmes at other levels in the society, particularly in schools;
  - b) publicly encouraging desirable performances and outcomes and sanctioning negative ones; and
  - c) providing continual coaching.

Before we detail our specific recommendations we give Spence (2011) the last word on what has been learnt from the overarching economic issues of the present and future:

- 1) First, “our models and our ability to see into the future are limited and surprises are the norm rather than the exception”.
- 2) Second, “adversity is surprisingly often the birthplace of successful change”.
- 3) Third, “sustainable wealth creation is ultimately built on people, human capital and knowledge, on continuous structural change in an economy, and on systems of economic and political organization that permit the productive deployment of those assets”.
- 4) Fourth “Governance is crucially important. Favourable economic conditions are not enough”.

## **Recommendations**

Our recommendations have been distilled from best practice in the region and elsewhere, from theoretical considerations and our own deliberate assessments of what is possible and desirable in the context of the peculiarities of our economy and culture. At the same time we recognise that, as very small and open economies, we would need to insert ourselves more aggressively in the global economy to gain the market size, scale economies, foreign capital and, importantly, the technology transfers to enhance our efficiencies, productivity and hence competitiveness.

Our recommendations are outlined in the sections that follow. We also indicate the possible and recommended timings for decision-making; determination of policy framework and procedures; and the period for active implementation.

### **Towards a Sustainable Economic Framework: Performance Standards and Benchmarks**

We have been asked to recommend a sustainable economic framework and this we will do. However, it needs to be pointed out that what is a feasible and politically acceptable framework may not achieve the desired sustainability, largely because of two factors: the high level of waste in our operations and the inefficiency in our investments. For instance, a reasonable level of Tax Revenue/GDP at 32 per cent, with public investment at a quarter of that level, will not sustain a growth rate of a minimum desirable level of 6 per cent, because of our low output to capital ratio (below 6 per cent and sometimes negative as in the recent past, as compared with a Lewis recommendation of under 4 per cent and a Spence suggestion of 2.5 per cent). The Framework that we recommend is premised on significant improvements in the use of current resources and a much higher level of efficiency in the selection, execution and management of our investments at both the public and private sector levels.

These are critical issues that need to be addressed by the Growth and Development Task Force.

a) Aggregate Expenditures

- i) Expenditures should be classified and compared in relation to Current Revenues and GDP which are the main sources of financing. This will help identify and highlight the aggregate or particular expenditures in relation to GDP (the aggregate of value added or income for the economy), or in relation to Revenues (the governments' tax take from aggregate value added). It also recognises the limits and constraints to these aggregates.

This is a recommendation that can be both decided and implemented in the short term. All it would require is a decision that it should be done and a directive issued that from thereon that expenditure data should be so classified, and that it also be done for the previous five years to help build a series of data as soon as possible. The benefit would be better information for analytical purposes and decision making on expenditure controls.

- ii) Aggregate current expenditure limits should be set between 22 per cent to 26 per cent of GDP, but with care being taken to accurately classify and distinguish between current and capital expenditures, so that genuine current expenditures are not misclassified erroneously as capital expenditures; and that current expenditures should include provisions for contingencies against economic cycles and natural disasters, adequate maintenance to preserve asset life and enhance the utility and returns from assets; and sufficient commercial and/or captive insurance to ensure the sufficiency and timeliness of asset replacement in the event of unforeseen natural and economic disasters and dislocations.

The recommendation on the reaffirmation is a definite immediate decision. The continuing implementation of the decision by each country could be spread to the

medium term, if necessary, depending on how far away each country is from the stated benchmark.

- iii) Net public sector capital expenditures should be about one-third of national investment, which itself should be about 30 per cent of GDP, in order to have a balanced investment programme - balance between facilitating mainly physical and institutional infrastructure (that are in the nature of public goods) and directly productive investment so as, inter alia, to avoid crowding out the private sector for both financial and real resources.

This decision is one that can be taken in the short term, with the implementation spread over a period not exceeding the medium term limit.

- iv) A further reaffirmation of the Monetary Council's target of a minimum of 6 per cent of GDP for current savings, and for such savings to be used to provide counterpart financing for large capital projects, financing for small projects and debt repayment.

This reaffirmation is a short term decision which should also be implemented in the short term, except where it is clearly inappropriate and difficult to do so.

- v) Governments should develop and implement national programmes to help them attain the benchmarks in this section, say within a three to five year period as most are already close to the desirable levels, but need to work assiduously and diligently in improving efficiency, productivity and hence competitiveness.

Short term decision required to agree to diligently implement the targets well within the stated time frame.

#### b) Current Expenditures by Inputs

- i) Current expenditures should be classified by labour costs (wages, salaries and benefits); interest and other financial costs of debt; rental for accommodation; transfers to social assistance, parastatals, and external agencies; and other goods and

services. Such classification is useful for policy analysis and for determining the current and potential economic impact of expenditures.

As in ai) above, this is a decision to be taken and implemented in the short term for the same reasons and following the same procedures.

- ii) Benchmark expenses for labour at 35 per cent to 40 per cent of current revenues; interest costs at 1.5 per cent to 3.0 per cent of GDP or 6.8 per cent to 11.5 per cent of current revenues; and other input costs at about 90 per cent of the ECCU average.

The benchmarks could be decided in the short term, while the implementation to attain the targets may be spread to achieve them as soon as possible in the medium term and, in the outside limit, to the shorter end of the long term.

- iii) Because of the wide diversity among, and extreme debt levels of, some countries there should be different time horizons for each country to address its debt difficulties. The 2020 deadline, while suitable for the ECCU as a whole and for some countries, may be too short for others. Sixty per cent (60 per cent) of debt to GDP should be considered an interim phase with the ultimate being about 30 per cent. Countries that are close to the interim phase should endeavour to move to the ultimate level within 3 to 5 years to increase the prospects for the ECCU as a whole and to reduce the cost of their debt. A useful rule of thumb is to allow each country a five year adjustment period for each standard deviation the country is away from the ECCU average.

The reaffirmation of the current benchmark is an easy short term decision. In the short to medium term each country should develop and implement its programme to attain the current 60 per cent benchmark in the short, medium to long term depending on the debt levels of the respective countries. The 30 per cent benchmark is a decision that can be taken in the medium term but implemented in the medium to long term and even beyond, depending on the current debt levels and the



sustainability and effectiveness of the various national debt management strategies, bearing in mind that those countries which can implement should do so as quickly as possible to impact positively on the overall ECCU average.

c) Current Expenditures by Functional Classification

- i) Classify current expenditure by function, using an adapted version of the OECD Functional Schema (COFOG) to include the following expenditure heads - Civil Administration or General Public Services; Defence; Public order and Safety; Economic Affairs; Environmental Protection; Housing and Community Amenities; Health; Recreation; Culture and Religion; Education; Social Protection but with the addition of Insurances, Contingencies and Stabilisation. This classification is more in keeping with the functions of the State and gives a clearer picture of the cost of providing the major state services.

This decision is easy to be taken and implemented in the short term, along the same lines and approach as ai) and bi) above and for the same reasons.

- ii) The following is a suggested net allocation framework for the countries:

**Table A: Allocation Framework for Current Expenditures by Functional Classification**

<b>Civil Administration or General Public Services</b>	<b>Maximum of 10 per cent of Current Revenue(RR)</b>
Defence	Maximum of 0.5 per cent of RR
Public Order and Safety	7.0 per cent to 7.5 per cent of RR
Economic Affairs	Maximum of 8.0 per cent of RR
Environmental Protection	Maximum of 1.0 per cent of RR
Housing and Community Amenities	Maximum of 5.0 per cent of RR
Health	Maximum of 16.0 per cent of RR
Recreation, Culture and Religion	Maximum of 1.5 per cent of RR
Education	18.0 per cent to 20.0 per cent of RR
Social Protection	10.0 per cent to 10.5 per cent of RR
Insurances, Contingencies and Stabilisation	7.0 per cent to 10.0 per cent of RR
Contribution to Capital Programmes and Debt Repayments	Maximum of 15.0 per cent of RR

Source: Estimates of the Public Expenditure Review Commission

The allocation decision can be taken in the late short to early medium term after exhaustive national analyses and consultations have been undertaken to determine the most appropriate quantitative framework for each country. However, all countries should endeavour to be asymptotic to an agreed and desirable level for the ECCU. Implementation could be in the medium term depending on how far countries are away from the desired proportions, but some countries should be allowed to go beyond the long term if they are developing credible programmes for speedy convergence to an ECCU benchmark.

- iii) Allocations to beneficiaries for tertiary education, social assistance, housing, costs for medical goods and services need to be means tested using such criteria as household income, wealth and size to ensure that benefits are targeted to those who are in need, cannot afford and would benefit from it.

A decision in principle can be taken immediately, and during the short term the modalities can be worked out for each country and the principles explained to the country and major stakeholders. The implementation can take place in the short to medium term on a phased basis to avoid bunching and too much undue negative effects on particular individuals. Moreover, the decisions must not be made retroactive, and existing beneficiaries should be gradually phased out within a pre-stated and reasonable period.

- iv) Most of the self-insurance and contingency funds proposed are better held as a pool or cooperatively under regional arrangements to help with the diversification of geographic risk, improve returns and help develop the region's money and capital markets even though such funds are basically short term funds. The use of such funds in the financing of sovereign short term treasury bills could reduce the cost of treasury bills and overall financing in the economy, while differential timing of needs could help enhance the maturity of these funds and even release a small proportion for more productive investment use.

This decision is one that can be taken immediately or in the short term. The needs, policy frameworks and modalities can be established by the latter end of the short-term, and this

does not require complicated and expensive actuarial science consultancies to determine and/or to do it. Implementing the recommendation by creating these special funds could commence in the short to medium term, and should be fully functional by the end of the medium term.

### **Public Sector Debt Composition and Levels**

- (i) The benchmark of a 60 per cent debt to GDP ratio is intended to be a maximum and transitional benchmark for countries and not an ideal and sustainable debt level. Countries should endeavour to go below this to a sustainable level, which would depend on the state, soundness and stability of the economy; the cost of debt; and the efficiency of investment. As a rough guide, a debt to GDP ratio of about 30 per cent is a sustainable level, given current debt parameters.

This is a medium-to-long-term decision. Existing benchmarks should be pursued, but those countries that can, should consider earlier adoption of, and try to remain within, the more prudent levels.

- (ii) Considerations which should be taken into account when negotiating the cost and terms of debt include: overall cost of debt to comprise interest, and other finance costs all discounted by maturity; the maturity and capital repayment schedule to minimise overall annual bunching of capital repayment; currency of obligation and the volatility of the currency in relation to our own currency; and the flexibility of the repayment terms, particularly in relation to accelerated repayments.

This is an operational matter that should be implemented immediately as a matter of course. No decision should be required to do what is technically beneficial.

- (iii) Future borrowing to repay debt is widely practiced but could be a dangerous course to follow as it exposes the borrower to the risks of higher cost and/or unavailability of future sources of funding on the desired terms, and encourages injudicious borrowing without too much regard for inter-generational exposure issues and problems. This normally

happens where sinking funds have not been established and where repayment terms are through bullet payments.

A policy decision can be taken in the short term to desist from or minimise the use of this method of debt financing. In terms of modalities, a time schedule could also be established to determine the reducing proportions of new debt that would be financed through such a route. After the decision has been taken and the framework established then the policy can be implemented within the established and agreed framework within a short to medium term time frame.

- (iv) No component of sovereign debt should ever be collateralised and no lender should ever be given security that is different from others. All sovereign debt should be secured by the full faith and credit of the country, be no different from the security offered to all others, and there should be no scope for competitive negotiations or 'beggar my neighbour' policies. The only security offered should be that all debt servicing should be priority charges on the Consolidated Fund.

That recommendation should be a fundamental policy decision to be taken and implemented with immediate effect.

- (v) It is useful to calculate the grant element of donor and IFI and other borrowings that are contracted at below the cost of capital. It is also useful to identify and know the premium cost of commercial borrowings contracted at above the cost of capital.

This is an essential operational matter that needs to be done for greater analytical and comparative transparency of negotiations and management.

- (vi) Sourcing of funding from IFIs is generally more beneficial than from other, particularly commercial sources, despite the longer period to process these loans and the fact that these institutions do not go into loan accommodations. This is because IFI loans are cheaper, are more thoroughly and professionally appraised, normally incorporate some

useful technical assistance and the drawdown procedures are more disciplined and do not burden the borrower with such charges as commitment fee on undisbursed balances.

It would be useful if, in the short to medium term, a debt procurement strategy could be developed and implemented. This would spell out in general terms the modalities for contracting loans from the different lenders. This could involve such aspects as costs, amounts, sectors, technical assistance, nature of project or programme, maturity, payment regimes, exposure levels to get the maximum and most appropriate features from the providers.

- (vii) Indicators of interest payments to GDP and/or to RR are useful parallel or supplemental indicators to monitor debt over time. Debt monitoring should also include future annual costs of debt servicing on the existing stock of debt.

This is an essential operational matter that needs to be done, immediately, as a matter of course and does not require a formal decision. However, its implementation needs monitoring to ensure that important information is available to inform and strengthen decision making.

- (viii) Debt should only be contracted to finance investments that are socially and/or economically feasible; satisfy the cost of capital criterion for the economy; and/or directly generate a rate of return that can at least meet the cost of capital for the country; and/or improve the overall economic and social situation such that the servicing of contracted debt is comfortable.

This is a policy decision that should be taken, adopted and implemented immediately.

- (ix) There should be a fair balance between domestic and external debt. In general, a ratio of 60:40 between domestic and external debt is reasonable. Too high a proportion of domestic debt has the disadvantage of crowding out the private sector either by driving up the costs of its debt and/or making these funds unavailable for their use. On the other hand, too high a proportion of external debt makes the economy very vulnerable,

particularly where the external debt is either not contracted in domestic currency or is in currencies that do not have fixed exchange relationships to the domestic currency.

There is need for an immediate decision in principle, but a reasonable benchmark should be determined and accepted by the end of the short term which would be included in the debt management strategy mentioned earlier. After this is determined, the policy should be implemented to achieve the desired ratios by the medium to long term, depending on the level of variance between actual and desired levels and the rate of debt amortisation.

- (x) It is very important that suitable arrangements be put in place to ensure that what are essentially long term savings are not used to finance short term conspicuous consumption, particularly at high rates that could drive up the cost of borrowings for productive investments. This is like a real sector Ponzi scheme that, similar to such schemes, will implode when the economy cannot develop real resources to finance retirees' real benefits. It should be stressed that it is better to get a lower return on long term investible funds that are channelled into feasible, but low, real return productive investment, than to attract a higher financial return derived from the financing of present consumption.

This is quite an important issue that affects the availability and cost of funds for development purposes. The problem should first be acknowledged as soon as possible and thereafter policies, procedures and modalities should be developed and put in place by the end of the short term to address it. The main set of funds that will be affected will be long term retirement and social security funds.

### **Efficiency of investment**

- (i) The efficiency of investments should be benchmarked and periodically assessed, say annually. Two possible benchmarks are the Incremental Capital-Output Ratio (ICOR), which could be benchmarked at between 4 and 6; and the Rate of Return on Overall Investment which could be benchmarked at the cost of capital for the region, estimated at between 7 per cent and 10 per cent. Such assessments should be thoroughly and carefully

analysed to determine the reasons for variances and deviations from trends. These analyses should be useful in planning future capital programmes.

This is an operational matter for professional technocrats and there should be no need to instruct that it should be done. However, based on work done by the technocrats there should be a decision taken by the authorities on what should be reasonable and acceptable ICOR and ROR benchmarks for the respective countries. In addition, authorities should insist that proposals coming before them have been subjected to these analyses and that project and proposal recommendations are within the agreed guidelines and framework that they have approved. This should be formulated and implemented in the short term.

- (ii) The virtual absence of Cost- Benefit Analysis, the serious underestimation of costs and the significant exaggeration of benefits in the limited cost-benefit analyses, and which obviously lead to unrealistically high appraised rates of return on projects, are the prime reasons for the selection of infeasible projects in the capital programme. All projects should be part of a Medium Term Economic Strategy and a rationalised Public Sector Investment Programme. Major projects/programmes should be subjected to the Balanced Scorecard Analytical Approach, Logical Framework and Project Management Techniques, which would help minimise the problems that are inherent in project selection, design and management. It may also help if an independent Contractor General is appointed to give views to the government and the public at large on the viability of major projects, the selection of contractors, and the independent monitoring of contract performance.

These are operational matters and techniques which professional analysts and technocrats should have and apply in their analytical toolkits; therefore there should be no need for a decision on the application of the techniques. Going forward, decision makers should not approve proposals that do not include the application of, and the results from these techniques. Decision makers need to make a decision as soon as possible, insisting the existence and acceptance of Medium Term Economic Strategy Frameworks and Public Sector Investment Programmes that are consistent with these frameworks and are relevant to them; and that they do not consider and take decisions

on related proposals that are not in harmony with the agreed framework, except in extenuating and well rationalised circumstances. It would be necessary that a decision on, and terms of reference for, a Contractor General be determined and decided in the short to medium term.

- (iii) In addition to the current practice of open tendering for contracts, professional fees should be determined on a fixed cost basis rather than on the current practice of fees based on a per-centage of cost. The percentage approach to the determination of fees leads to much temptation to inflate the cost of projects and/or overdesign projects. In general, the removal of statutory determined fees, either on a percentage or fixed cost basis, should be pursued.

There would be many vested interests in this decision which would, more than likely, apply to all cases of statutorily graduated fees for services including those of attorneys. The decision would need to be carefully considered, well rationalised, broadly articulated after consultation with stakeholders who could possibly be affected, and then fairly, impartially and transparently implemented; this could only be done in the medium term.

- (iv) See section 2.2.1 on Factors Affecting the Efficiency of investment in pages 32-3 of the Tax Reform Report for some of the avoidable reasons for the high inefficiency of our investments, and make efforts to minimise these situations and occurrences.

These are operational matters, but decision makers have a responsibility to ensure that going forward, professional technocrats undertake proper situational and simulation analyses and that these factors are thoroughly addressed in their recommended proposals before they give consideration to making their decisions.

- (v) Inefficiencies in the selection, execution and management of capital programmes are serious contributory factors to the low macro- returns on investments; but these are not all the reasons. The inadequacy of physical and institutional infrastructure; the limitations in the policy frameworks that exist to send right policy signals and inducements to stimulate productive activity; the poor quality of human capital in terms of literacy, numeracy,



creativity, innovativeness, entrepreneurship and risk taking, self-confidence and motivation, work ethic and morality are also major contributory factors. Nobody said sound economic management is easy: It is as complex as it is essential.

The recommendation is that this be noted and always actively considered when economic decisions, particularly on capital projects and programmes, are being considered.

### **Defining Investment**

- (i) Only the creation of new assets that are expected to generate regular returns over the medium to long term should be classified as investments. This would exclude such routine expenditures as tourism promotion, and deferred and/or delayed maintenance costs, which are current costs that are intended to sustain current output and/or preserve the life of the asset and/or generate the full expected returns from the asset. It may be useful to exclude small projects that have high current costs and/or rapid obsolescence from consideration as capital investment projects. To misclassify current expenditures for capital is to inflate the value of capital investments and, correspondingly, to overestimate the true rate of return on investments.

This should be implemented immediately.

- (ii) The returns on investments may or may not be quantifiable but could, and in general, include qualitative and not easily quantifiable social benefits that improve the quality of citizens' lives; economic benefits that increase national value added or output on a recurring basis; and financial benefits that are derived from trading activity. These are usually the last that are captured but the others are of great or sometimes of greater importance and should not be ignored, as projects could be turned down because of an inadequate attention to their aggregates and impacts.

All benefits, whether quantifiable or not, should be identified and considered in decision making; this should be done going forward for all proposals.

## **Governance: Leadership, Legislative, Management and Procedural**

Governance and Leadership are at the heart of progress, growth and development. Experience has shown that this is true of a country, an economy, a corporation, a household and even an individual. Lee Quan Yew in Singapore, Deng Xiaoping in China, Mehta in India, Lula in Brazil, Jefferson (The Financial Secretary) in the Cayman Islands, and some time bound examples in our own region prove the point. Governance and Leadership require the identification of a clear long term vision and ethos that can be shared with the people and be acceptable to them, and one for which they would be prepared to make sacrifice and work towards. It requires people involvement in its determination, clear articulation of the vision, the prospects for it to deliver continuous benefits that will be fairly and transparently distributed on bases that provide opportunities for all, and taking care of those who may not be able to directly benefit from the opportunities. It requires continuous reinforcement and possibly continual tweaking, sterling exemplary behaviour from the leaders, in terms of the sacrifices that they make, and a demonstration that they are in control, are knowledgeable and aware. It must be able to deliver early fruits and promise more in the long run. The leadership must create and sustain the facilitating and enabling framework to ensure continuing successes and gains. Law and order and the rules of the game, speed in the dispensation of justice, fairness and proportionate penalties for compliance failures are integral parts of the framework. Leaders must be self-confident; they must mediate, they must persuade, they must inspire and they must find national consensus - and lead.

Leadership is certainly a challenge in small fledging developing countries like ours. Charismatic, if not messianic, leadership is required whilst the leader has to operate within formal constitutional and bureaucratic structures, which he is expected to bypass when it is advantageous to his adherents and supporters. Those expectations are not as pervasive in many places elsewhere as they are in our democracies.

## **Legislative Framework Governing Public Sector Financial Management**

There is need to review the existing legislation governing financial administration in the countries and to upgrade, amend and modernise it along the lines recently adopted by Jamaica to include, inter alia, the following:

- (i) standardising and harmonising the legislation in structure, scope, nomenclature to be applicable to all the islands, but allowing for sufficient flexibility to cater and accommodate the varying needs of size and complexity that would characterise the ECCU countries;
- (ii) enshrining targets in the legislation for such critical variables that underpin economic activity and investor confidence e.g. debt/GDP; current surplus/GDP; current revenue/GDP; a minimum rate of return on capital employed;
- (iii) clearly specifying the respective roles of the Public Accounts Committee, the Auditor General, the Public Service Commission, the Honourable Minister, the Permanent Secretary and other key functionaries in the management of the public sector;
- (iv) broadening the nomenclature of the legislation to give it a more resource management focus than the current practice of calling it financial administration.

OECS member nations, who have not yet done so, should pass legislation to implement the model FAA passed in St. Lucia.

### **Parastatals and State Owned Enterprises (SOEs)**

- (i) Undertake an objective, independent and professional audit of the parastatals and state-owned enterprises to determine whether:
  - they are still relevant and there is a current need for them;
  - their functions and mandates can be performed more cost effectively by some other entity or arrangement e.g central government, local government, outsourcing, private sector, regional arrangements, functional cooperation arrangements and so recommend;
  - they are still relevant and the medium is the most appropriate executing agency; and
  - effective reforms can be instituted to enhance their efficiencies, cost effectiveness, impact and responsiveness, and their timely reporting.

The implementation of this recommendation covers many phases. In the first phase, which is immediate, the policy makers would decide whether to accept the recommendation in principle. After this, and by the end of the short term, full terms of reference for the exercise should have been approved and consultants identified and/or appointed to undertake the assignment. On the completion of the study by the start of the medium term a decision has to be taken on the consultant's recommendations on what should be done and how to proceed. After that decision is made, whatever is agreed should be implemented in the medium to long term and the performance, policies and procedures closely monitored to determine what tweaking needs to be done to obtain the most optimal outcomes and impacts.

- (ii) Develop and institute a structured and formal supervisory, reporting and monitoring relationship between the SOEs and the Central Government as follows:

A reporting relationship with the relevant sectoral ministry on matters of sectoral policy, strategy and direction; and having formal and structured dialogue periodically between the Chairman of the Board and the CEO on the one hand, and the Minister, Permanent Secretary and relevant technical officers on the other hand. Such formal meetings and dialogue would discuss and set goals, review performance, assess constraints, help design solutions, and establish links with other relevant ministries and agencies to enable the parastatal to function efficiently and have more effective and meaningful links with the sectoral ministry. Reports to Parliament on sectoral matters would be presented by the sectoral minister.

Another reporting relationship between the SOE and the ministries of finance and/or planning on all matters relating to finance, planning, capital programmes, contingent and potential debt liabilities to ensure that SOE programmes are in consonance and optimally aligned with national goals, resource availabilities, and implementation capacities and scheduling.

This one is quite urgent if the efficiencies and impacts of the SOEs are to be realised and, as such, the recommendation is for an immediate decision in principle whilst the policies,

procedures and institutional arrangements are worked out with urgency to arrive at a decision and implement by the end of the short term.

- (iii) Parastatals need to be given explicit objectives, broad policy directives, performance targets, standards, and benchmarks. In addition, they should be required, on the pain of penalties and sanctions, to submit adequate and timely performance reports; subjected to audits at the level of both the internal and external auditor, and/or the auditor general; and mandated to submit detailed current and capital budgets and cost benefit analyses of major capital programmes on a timely basis.

This needs to be decided on and continually monitored closely for effective compliance as a first priority, even before the evaluation exercises recommended above are implemented.

### **Direction, Management and Administration in the Public Sector**

- (i) Be very clear on the importance of, and differences between the respective roles of direction, management and administration in the public sector. Direction, or the highest role, involves creating the vision, ethos, agenda and work programme; articulating and seeking national consensus on the elements; approving the broad policies and strategies to achieve the goals; periodically reviewing performance; and adjusting goals and strategies to adapt to changing circumstances. Management is about being accountable for achieving the desired results. It involves strategising, organising and deploying resources, formulating policies and programmes to optimally achieve the desired results as cost effectively as possible and on a timely basis. Administration is about following pre-set rules and procedures to achieve, usually simple, routine and straight forward outcomes.

Whilst this is critical for effective governance and management and therefore should be subject to an immediate decision, it is an area where there is much blurred vision and confusion. As such it would require a comprehensive sensitisation programme to get persons aware of their roles and to get buy-in. By virtue of this necessity, it is an area that needs to be pursued gingerly but with determination, as unfortunately this is much of a departure from the current culture.

Consequently, it is an area that needs to be relentlessly pursued in the short to medium to long term and even beyond until the desirable behaviour and culture changes are internally accepted and freely practiced.

- (ii) Carefully delineate the roles and responsibilities of the various actors in the public service with respect to the various areas, and ensure that these are clearly enshrined in job descriptions and reinforced by continuous training, periodic performance assessments and communicated expectations.

Unfortunately, all systems seem to focus on administration rather than on the higher value added and essential functions of direction and management.

There is need for administrations to be very clear on the importance of the respective roles of governance, management, administration and operational execution; the positions that are responsible and accountable for each of the areas; actively promote and educate the various stakeholders to get their buy-in of the concept and arrangements and to take a decision in the short term to implement whatever has been agreed. After these have been done and during the end of the short term to the start of the medium term, the legislative and institutional arrangements need to be put in place to optimally effect what has been agreed. By the middle of the medium term to the long term these arrangements need to be implemented, tweaked as necessary and monitored closely for compliance, taking whatever steps are necessary to ensure that the agreements are faithfully executed.

- (iii) There appears to be a level of confusion as to the relative roles and powers of the Permanent Secretary and Director of Finance, and this should be clarified.

### **Accounting and Auditing**

Proper accounting and auditing are unarguably one of the most effective means of controlling government expenditures and ensuring that expenditures are directed to intended purposes. They provide the added benefit of ensuring that policies, procedures and objectives are in place if proper audits are to be undertaken and, hence, provide the opportunity to review the

effectiveness of such policies and procedures and to continually improve on them. Moreover, the presence of efficient accounting and auditing systems, with appropriate checks and balances, is one of the most effective deterrents to fraud and malfeasance in administration. Yet the absence of such is one of the most glaring deficiencies in public administration, particularly at the level of the central government. The following are intended to address these chronic deficiencies:

- (i) Ensure that the major revenue and spending ministries and departments such as Inland Revenue, Customs and Excise, Works, Health and Education have an adequate complement of appropriately trained, qualified and competent accounting staff, working under the departmental head and the central accounting unit, the Treasury, to prepare accurate and timely accounts. They would be required to ensure that adequate accounting and financial control systems are in place and would be accountable and responsible for preparing accurate, timely and meaningful accounts for dissemination to the relevant decision makers.

This is a recommendation that should be decided on and implemented immediately. Decision makers should continually monitor the process to ensure that the required accurate and timely information for optimal decision making are in fact supplied, and, if not, appropriate actions taken to rectify the situation.

- (ii) Provide these same ministries/departments with the adequate complement of competent staff to undertake audits and to perform the comparable internal audit function carried out in the private sector. For independence and objectivity, those internal auditors should report to a committee comprising a senior representative from the ministries of finance, economic planning, auditor general's department, and organisation and methods division, together with the permanent secretary or head of the ministry/department under review. The Committee would review their work, agree on their work programme and budget and determine the follow-up on recommendations made and monitor such follow up.

A decision on this recommendation is as urgently necessary as for the previous recommendation, but may require a lag of a year or two before it is implemented. This is because the accounting

systems need to be put in place and the accounting reports and outputs must be available before the auditors can properly function. Moreover, it is normally felt that it is not wise for auditors to be asked to audit systems that they have established; and, in any case, it would require some time to recruit and train personnel and properly orient them with the requisite skills.

- (iii) Let the Auditor General's Department perform the functions that external auditors perform for corporate bodies in the private sector. This would include the timely preparation and submission of professionally prepared annual general and special audits. Their reports should be reviewed by a sub-committee of the Public Accounts Committee and, on completion the documents should be submitted to the Public Accounts Committee and simultaneously made public for review and comments. The Public Accounts Committee would also approve the Auditor General's work programme and administrative budgets, and monitor the department's performance on behalf of the full committee of parliament.

It is an urgent requirement that this decision, at least in principle, be taken immediately. Thereafter, and with expediency in the short term, the policies and modalities should be identified, explored, discussed and put in place to allow the Committee to function efficiently and effectively. There should be continuing vigilance to ensure that the Committee is functioning efficiently and, if not, urgent measures need to be taken to address any deficiencies that may exist.

- (iv) The Public Accounts Committee of Parliament should be reconstituted to comprise not only members of the government and the minority parties, but also competent independent professionals of integrity in an arrangement such that neither government nor minority party representatives can thwart the constitution of a quorum. The leader of the minority party should continue to be the chairman of the committee, the deliberations of which should be open to the public. Attendance of members at meetings should be reported to Parliament.



There is a need for, at least, an urgent agreement in principle, pending more thorough discussion of the proposal and its modalities, which should all be finalised by the middle of the medium term. Thereafter, the supportive and authorising legislative and institutional arrangements, that are consistent with whatever is agreed, need to be put in place by the middle of the medium term with effective implementation to commence by the beginning of the long term.

- (v) OECS countries should clarify central government's responsibilities for internal controls and internal audit in line ministries, and build a central capability for guidance and monitoring. This is likely to be more cost effective than trying to build internal audit units in all departments.
- (vi) Financial Regulations generally are models of transparency, clarity, and comprehensiveness but are out of date in some respects; they need to be updated to legitimise the use of electronic media.
- (vii) Performance benchmarks should be established for various units and departments of central government so as to provide a basis for the conduct of performance audits.
- (viii) The DOA should conduct at least one performance audit each year. Due to their central coordination roles, the Cabinet Office, the Ministry of Finance and the Attorney General's Office should be targeted for performance audits as soon as feasible.
- (ix) Parliament and not just the Prime Minister should be consulted on the appointment of the DOA.
- (x) Audit department should be subjected to external reviews every three years by a recognised external party.
- (xi) Audit reports should be sent directly to the speaker.

- (xii) A public education exercise should be undertaken to raise appreciation of the importance of the PAC's role among PAC members, parliamentarians, the press and the public in general.
- (xiii) PAC membership could be widened to include members from outside of parliament and the upper house, so as to change the image of an "opposition institution" and allow it to benefit from the presence of experts in Accounting, Banking, Finance and Law. A possible structure for the PAC could be to have the local Bar Association nominate two members and two alternates; the local Accounting Association nominate two members and two alternates; two members and alternates from the NGO community; two members of government; and two members of the opposition. The Leader of the Opposition would continue to serve as Chair.
- (xiv) The rules for forming a quorum should be such that no single political grouping can forestall a meeting of the PAC.

### **Procurement**

It is estimated that between 15 per cent and 20 per cent of the economy's goods and services, excluding contractual wages and interest payments, are procured at the level of the public sector for both current and capital activities. This offers not only considerable scope for savings through better and cooperative procurement methods, but also an opportunity to create market and production centres that are characterised by production efficiencies, internationally acceptable standards and timely deliveries. This can be significantly enhanced if:

- (i) there could be more cooperative procurement not only within a country but across the region, as evidenced by the regional procurement of pharmaceuticals. Volume discounts, leveraging and better skills at negotiations could all contribute to procurement at below average costs;

Need for urgent agreement in principle and to appoint a multi-country technical committee to identify the opportunities for joint procurement and the modalities to obtain optimum results. After that committee's report, which should include a phased programme for implementation, a

decision should be taken to implement the results by the start of the medium term. The programme's performance should be continually monitored and reported on to determine the gains being made and what additional measures need to be incorporated to further improve performance, economies, effectiveness and impacts.

- (ii) procurement procedures should be standardised, made transparent and periodically reviewed and audited to ensure continuing efficiencies and scrupulous compliance;

A decision should be taken in the short run to accept this recommendation in principle, and a multi-country committee appointed, with the assistance of the multilateral financial institutions (MFI) to work out arrangements and modalities that are optimal and realistic for the ECCU. The MFI assistance is to help with generic issues and fundamental principles, and should in no way incorporate donor and MFI specific procurement parameters in the ECCU arrangement. After the modalities are completed, say by the end of the short term, sufficient time should be given for study and dialogue before a decision is taken, and the institutional and legislative arrangements should be put in place so that the system can become operational by the middle of the medium term.

- (iii) a Contractor General could be appointed to supervise the preparation, advertising, tendering, selection and award of major contracts, and monitor their performance. The Contractor General would work through a committee, would be periodically audited by the Auditor General and would be an official of interest for the Integrity Commission;

An agreement in principle can be taken immediately, while technicians are identified to work out the legislative and institutional arrangements and modalities for effective implementation. There would be economies and some harmonisation, if not standardisation, if these arrangements could be developed and/or coordinated by a regional body such as the OECS Secretariat. When these have been eventually agreed to, say by the end of the short term, a decision should be taken to commence the immediate implementation of what has been agreed.

- (iv) special measures could be put in place to ensure transparent procurement during disasters, but bearing in mind the need for fairness and speed of response following disasters, and for reasonable and competitive costs. One possible way of achieving these objectives is to have a pre-selected list of contractors who have worked satisfactorily for the public sector before and who could be rapidly deployed in disaster situations to deliver work on a cost plus basis, with such costs to be assessed by the Contractor General, the Auditor General and by independent quantity surveyors;

Agreement in principle as soon as possible and to appoint a regional body such as the OECS Secretariat, working with representatives of national governments who wish to be involved, to coordinate and/or develop the necessary arrangements and modalities to effect the decision and to facilitate implementation by the end of the short term.

- (v) industrial incubators could be created to supply the regional public sector with such goods as furniture, furnishings, foods, clothing and uniforms. The opportunity would be taken to provide not only the market but also technical assistance in the areas of technology, accounting and management, and to help the suppliers to maintain price competitiveness, international quality standards and timeliness of delivery. A regional approach can be adopted to provide that service. The intention here is to support, facilitate and possibly coordinate small and medium sized enterprises rather than creating public sector owned productive enterprises.

There is need for an early decision in principle on the proposal and to appoint task forces or consultancies to identify possible projects and potential brown field enterprises, to determine how best they can be structured, financed and generally supported, bearing in mind that these enterprises are neither to depend on sustained subsidies or protection, and if at all provided these would be on a phased reduction basis. The beginning of the long term is a useful deadline to have the project fully operational, bearing in mind that over time new initiatives may emerge or pursued. The Eastern Caribbean Enterprise Fund can be requested to assist and support this initiative wherever it is feasible to do so.

## **Information and Communication Technologies**

Information and Communication technologies have been very good for global liberalisation; improving the efficiencies of business and inserting them in the global markets; enhancing the potential efficiencies in the quantity, quality and speed of government services to its various publics; improved networking at the individual and household levels; and is a treasure trove of information and knowledge to all, particularly students. Technology has impacted dramatically on global growth through the speed and ease with which information is made available and the processing efficiencies that come with it. Most governments have paid considerable sums to have the use of the systems, but whilst they have been useful they have not been exploited to the extent that is possible and desirable. The features, power and benefit of the systems are not fully exploited; it may be possible that public sector staff get more benefits from the system than do their employers.

More gains can be achieved if:

- (i) a regional approach could be used in software procurement, development, standardisation, and training. Negotiating leverage, volume discounts, system standardisation, information sharing and back up are only some of the advantages to be derived from this approach or initiative;

If agreed to, at least in principle, the OECS Secretariat can be mandated to pursue this initiative by exploring its possibilities, feasibility and necessary modalities, and to report by the end of the short term for a decision on the scope, phasing and timing. The accepted proposals can be implemented in the medium to long term and continuing as this would be an ongoing exercise.

- (ii) the systems are utilised more intensively to their full potential to generate more, better and speedier information for decision making and/or for customer satisfaction;

This could also be a regional initiative coordinated by a regional body such as the OECS Secretariat which, in the short term, would explore the adequacy and capacity of existing systems and the extent and reasons for their underutilisation; and, in the medium to long term and continuing, would develop and implement programmes aimed at correcting deficiencies.

- (iii) electronic systems are not run in parallel with manual systems, as this process is a wasteful duplication of effort;

This does not require a high level decision but should be left to the management and technocrats to implement in the short run and to report periodic progress to the authorities.

- (iv) computer systems in the public sector should be inter-connected and ‘talking’ to each other to provide all relevant information on a customer’s relationship with the overall government, rather than restricting it to specific departments. Thus, the system should allow departments to know, for example, how customers use or abuse the overall system, their net indebtedness to various government departments and agencies; their eligibility for welfare and the level that they receive. Modern cruise ships have an excellent e-card system that monitors entry and exit from the ship; is used as a payment and credit system; provides selective access to different areas; is a key entry to rooms; and is used for billing, invoicing and the preparation of accounts. A similar e-card can be developed for use at the national level to cover all aspects of civil and public sector financial activities at the individual level.

A partial project is being developed for the OECS, but it could be expanded in the short term or in the medium to long term to make it more robust and comprehensive. If a decision is taken to pursue such an initiative it would be best handled by the OECS Secretariat coordinating the effort and working with knowledgeable consultants and representatives of national governments, who would be given flexible terms of reference, expected deliverables and a specific time frame for completion.

- (v) software are developed and intensely used to manage projects and programmes, administrative and operational systems, human resources, finances, budgets and controls, stocks and inventory movements etc.;

Decision in principle should be taken immediately and the OECS Secretariat coordinated Task Force, with national collaboration, do the same as for mii) above.

- (vi) in general e-government is pursued to make government more accessible and on line with its various publics in the same way that the private sector does. Many more activities, interfaces and transactions should be accommodated on line. This will bring speed and efficiency to customer service and create a greater public confidence in the new technology.

As for (v) above.

### **Budgeting and the Budget Process**

The Annual Budget is, by far, the largest single area of controlled and managed economic activity. It involves and absorbs about 40 per cent of national value added; supports the largest number of employees; provides a wide range of commercial, economic, social and civic services; gives the direction and thrust to the economy; and, if properly managed, has the capacity to moderate and steady the overall flow of national economic activity. As such, its importance cannot be overestimated and should never be underestimated. To optimise its impact the following are necessary:

- (i) A social consensus on a long term vision and broad objectives for the country, which would specify what the country wants to be and achieve in terms of economy, society and values within a period of two decades. These could be reviewed, revised and reaffirmed every two years to ensure that those goals are influenced by reality and emerging needs. The annual budget would be cast within that long term framework, using a 12 to 18 month time capsule of a programme of activities designed to attain the long term goal.

At least one country has engaged its population in trying to determine a vision. The benefits to that country, even though it was a relatively costly and time consuming exercise, seem to be quite apparent. As such, it is an exercise in which all countries should be engaged. A decision in principle on the recommendation can be taken immediately, but the determination of such a vision would be a medium to long term process as it is very consultative, iterative and intensive

to get compromise and consensus. The earlier the start and the more effective is its execution will determine the benefits to be derived.

- (ii) A Medium Term Strategy covering a rolling period of about five years which would outline, justify, rationalise and detail a time phased menu of consistent, integrated and coordinated major policies, strategies and programmes for consideration/implementation during the medium term, with the ultimate aim of achieving the long term goal. Casting the exercise in a Balanced Scorecard Framework is a useful approach to developing a consistent and integrated framework of activities.

The Medium Term Strategy is a virtual requirement for donor and IFI assistance. What is necessary is for this process to be internalised and made a national requirement, even without external assistance, as there should be a lot more national involvement in its preparation. The authorities need to agree immediately that this be done, to monitor it closely and be actively involved in articulating the vision and policies that would guide its preparation. While it should never be cast in stone, it must nonetheless be the main guide for the development of policies and programmes.

- (iii) A Detailed Annual Budget Framework that covers three periods: what was planned and achieved in the past year in terms of activities, results and costs; what should be implemented in the current year in terms of activities, results and costs; and what is expected for the next year. Thus, the budget would always be done on the basis of a continuum that tries to achieve the ultimate long term objective as cost-effectively as possible. At the level of the Annual Budget, only activities that have been subjected to detailed designs, financial feasibility, prioritisation, and ready for implementation would be included. This extended time frame for budget consideration should allow more time to review performance and adjust targets than would be possible when budget considerations are confined to a discrete twelve month period.

This is a recommendation that can be implemented in the short term and rapidly improved over time.



## **Performance Budgeting**

- (i) Apply the modern management tool of performance or programme budgeting to ensure that programmes:
- and expenditures are in alignment with medium term goals and priorities;
  - are the optimal approaches to delivering the required and stated results; and
  - are cost effectively implemented, closely monitored and frequently evaluated for lessons learnt.

The same transitioning as for the previous recommendation is proposed.

## **Public Sector Investment Programme**

Public sector investment is potentially the main direct and indirect driver of growth through its leverage on private sector investment; is the principal reason for contracting debt; is a major contributor to employment; has an important impact on the balance of payments; and its prudent management could be a major stabiliser of economic activity. Its careful management can contribute to positive results, in the same way that poor management could contribute to significant economic problems. Thus, its management must be accorded extreme and careful attention. Towards this end it is recommended that:

- (i) the public sector investment programme be optimally consistent with the medium term strategy and ultimately with the long term vision for the country. Programmes and projects need to be carefully and realistically designed; properly prioritised; thoroughly assessed for feasibility beyond the cost of capital; financed from the most cost-effective source of finance; well integrated with other related initiatives and activities; have adequate supportive resources on a timely basis; and supported by the most appropriate institutional frameworks and social and economic policies.

Whilst this is being perfunctorily done infrequently and normally at the behest of the international institutions, it is not something that is ingrained in the planning culture. The challenge, therefore, is not only to perfect the necessary skills, but also for the authorities to

recognise and accept the critical importance of this exercise in the planning process, and to insist that it be done and faithfully adhered to. The first requirement is for the decision makers and leadership to demand that it be done in the short term and to insist that it be done with continuous improvements; and that the process is an integral part of the management process.

### **Policy Consistency**

Frequent major policy inconsistencies and reversals are time consuming for economic management; costly to implement; send negative signals of uncertainty to domestic private sector and to foreign investors; give an indication of flaws in leadership and direction and are deleterious to overall economic growth and development. On the other hand, policy consistency, irrespective of political administration, gives a rhythm and certainty to economic management. The benefits of policy consistency can be achieved by:

- (i) having a nationally accepted vision for the country; engaging in a national dialogue on national issues, with political leaders trying to achieve social consensus on policies, strategies and programmes for the way forward; educating, explaining, sensitising and rationalising the strategies and programmes to the various stakeholders; and implementing programmes within the framework of the agreed medium term strategy;

This recommendation spans the three time horizons for implementation. In the first instance, in the short term, the authorities should accept that there is need for this exercise, appoint a team to lead the dialogue and consultations, and to give thought to initial objectives and targets for public and stakeholder consideration. The second stage, by the end of the short term, is to begin the consultative process and continually assist in the tweaking of the programme based on feed-back from stakeholders. A consensus on the objectives and targets should be achieved by the middle of the medium term with implementation commencing by the end of the medium term. During the long term and continuing, the programme should be implemented dynamically, subjecting it to necessary adjustments and tweaking but with continual consultations to adapt it to changing circumstances. The whole process will require continual promotion and leadership from the authorities.

- (ii) forming the framework for a Social Partnership involving the main stakeholders: government, private sector, labour, and significant and influential representatives of non-governmental organisations to dialogue and obtain consensus on directions and issues.

A decision needs to be taken from the start of the short term on the need for a consultative panel, its terms of reference and composition. The process, under the chairmanship of the Prime Minister, should commence by the middle of the short term and continue thereafter. Every effort should be made to ensure the effectiveness, impact and relevance of the process to all the participants and to show the benefits to the functioning of the overall economy.

### **Labour and Human Resource Management**

It is worth re-emphasising that not only is labour cost almost 50 per cent of the national budgets, but also that anything or any action that has to be undertaken in the public sector must involve labour directly and indirectly. As a consequence, the focus of reforms must not only be on the overall cost of this input, but even more importantly on its efficiency, productivity and output. Towards this end the following would be required:

- (i) a total review of the whole administrative apparatus of government to ensure that all functions are adequately and efficiently performed and in the right balances to reflect importance and cost; that duplication of structures and effort is avoided; that the work is undertaken seamlessly, cooperatively and in an efficiently integrated way. In other words, there is need to undertake an administrative, organisational and efficiency audit of the systems and structures in the public service.

This is a key recommendation for which an early decision, in the short term, needs to be taken and executed and implemented in the latter part of the short term to the medium term.

- (ii) preparation of efficient job descriptions, accountabilities, deliverables and responsibilities for each position in the public sector, together with a person qualification and attributes profile to effectively perform the identified job.

This timing will emanate from the omnibus study in the recommendation above.

- (iii) the institution of effective goal setting; performance appraisal; job monitoring and mentoring; targeted general and specific training (including periodic refreshers); compensation scale that rewards jobs fairly, based on internal and external comparators for the output in terms of knowledge requirements, necessity to apply that knowledge, supervisory responsibilities, importance of deliverables, complexity of the job and the level of independence and autonomy in executing it; a transparent system to reward for effort, and easy mechanisms to facilitate timely separation between employer and employee when it is clear that the relationship will not work.

There is need for a complete revamp and reorientation of the compensation and performance systems to let the former be determined by the latter. The omnibus study will determine the timing of implementation, but there will be an urgent need, in the short term, to take a decision on whether this route is going to be pursued. After this decision is taken, the modalities for its optimal and effective functioning should be put in place and closely monitored to ensure that it is faithfully adhered to.

- (iv) review of the terms and conditions of employment including such aspects as: terms of employment and separation; retirement, severance and termination benefits; leave entitlements and accretions including study, vacation, casual; working conditions; staff benefits, working hours and flexibility thereof.

In order to facilitate labour mobility and flexibility there is need to take an early decision to review the term of public sector employment, to harmonise and/or standardise it within the regional public sector, and to bring it in line with what prevails in the private sector. The new terms could then be applied to new entrants into the public service and to existing public servants who may wish to convert to the new arrangements. This, when agreed to, would be continually implemented, but an early start would need to be made to agree to and put the structure in place.

### **Minimisation/Elimination of Waste in the Public Service**

Waste and loss of goods and services in the public sector take many forms: shrinkage resulting from misappropriation or theft; spoilage resulting from unscientific ordering of goods; poor inventory management, both in terms of the physical care of the goods and not managing in terms of the goods life cycle; poor ordering practices, such as not ordering the most appropriate and cost effective good and/or service; diversion in the use of goods and services for unintended purposes, mainly for private use; indiscriminate and wasteful use of goods and services such as energy, telecommunication and water, as well as uneconomic or suboptimal use of stationery (poor printing practices); much loss of productive time, resulting from idling and lethargy on the job, unpunctuality, inefficient work execution, job duplication through poor system planning; sub-optimal use of goods and services when acquired resources are not utilised to their full potential, as in the use of such technologies as software and hardware, or not used in accordance with manufactures' specifications, thus reducing the useful life and/or increasing maintenance and operating costs; the considerable loss of time of scarce and valuable high level executive (and functionaries), occasioned by having to participate in poorly planned and conducted meetings domestically and overseas, and the additional high cost of overseas travel when other technological means exist to engage in discussion and fruitful decision making.

The nature and sources of losses and wastage specified above suggest what actions need to be taken to address or minimise them. In addition the following are suggested:

- (i) develop and implement culture change and awareness programmes as most persons are not conscious of wasteful actions even in their own domestic situations, and/or feel that government goods and resources do not have the same value as private or their own goods. Such properly illustrated specialised training and sensitisation should help participants identify and be aware of wasteful actions, the cost to government and society of such waste in aggregation, and the other implications and consequences of such waste to customer service and economic activity in general.

A decision in the short term to allow the development of effective promotional and sensitisation programmes for training by the end of the short term and continuing for refresher and reinforcement.

- (ii) develop and utilise benchmarks, derived from internal or external best practices, to help set product use standards and use these to monitor, compare and evaluate performances.

An early decision would be required to accept the recommendation in principle. This would allow for the identification of relevant best practices and the establishment of standards to be followed and incorporated in training, promotional and sensitisation modules. When in place this will be an on-going initiative but would need continual revision to update and upgrade.

- (iii) undertake periodic special audits to identify and report on instances of major waste in the public service, and to make recommendations for corrective actions, including sanctions and penal actions when such abuse is flagrant and unreasonable.
- (iv) engage in goal setting, job evaluation and performance measurement in terms of both deliverables and resource use.

Agree in principle in the short term and work out the modalities in the short to medium term to effect optimal implementation continually.

## **Benefits and Costs of the Proposed Reforms**

### **Benefits to Public Servants**

Central government employees will benefit from the reforms in direct and indirect ways. The reforms will: increase their potential for pay increases arising from productivity and efficiency gains from the pay for performance system; improve their mobility and flexibility to move between jobs not only within the civil service, but also in the private sector and within the sub-region; and improve their psychic income from the fact that job satisfaction will be enhanced.

Many civil servants pursue graduate degree and other courses to upgrade their skills and enhance their career prospects. While on most occasions they do get promotions and salary increases

because of their qualification, on most occasions they do not get the psychic and financial benefits that those qualifications should provide, because they do not have the scope and opportunity to apply the training and the techniques acquired. Thus, the financial cost and effort of training is not being translated into values that are useful either to them, their employers and/or the economy. It becomes a case of an investment not generating the returns that it should, and is a disservice to the affected public servant. The reforms will help obviate or minimise these deficiencies.

These reforms will also benefit the public servant in at least two other ways. First the individual's skills will become more productive and hence more marketable. Second, to the extent that barriers between public and private sector employment are dismantled and there is standardisation within a harmonised regional public service, then the employee's scope for labour mobility and flexibility is enhanced, and correspondingly, so will be the job security and bargaining leverage, afforded by a much wider market for his services.

Moreover, the introduction of the pay for performance system will give the employee greater scope to enhance his income by his own efforts. In addition, the public sector worker will be moving away from the debilitating system that currently exists where there is hardly any correlation between pay and effort, efficiency and productivity and where there are no incentives for superior performances and separations for consistently inferior work among workers.

### **Public Finance Benefits**

These proposed reforms will have positive direct and indirect benefits on public sector expenditures, revenues and ultimately on the fiscal surplus.

The proposed reforms, if properly conceptualised, structured and executed can be expected to reduce expenditures without negatively impacting objectives by: reducing outlays on entitlements to those who are not in need and/or minimising these same outlays by greater and more efficient use, even by the needy ones; more efficient rationalisation of the salaries and entitlements benefits package in the central government; better inventory management; procurement economies through joint procurement; auditing, which has a positive impact on

resource use and abuse; and the minimisation of the financial costs associated with time overruns.

The reforms would also affect revenues - the other side of the equation. Greater efficiencies should impact positively and directly on revenue collection. The computerised system that lets computer systems within the public sector 'talk' to each other should assist considerably in the raising of revenue, by using the system to identify revenue sources and minimise the extent to which those who are indebted to the system can escape without paying their due share of taxes and/or satisfying their public sector indebtedness. The reforms should also assist the government in paying greater attention to liquidity management and hence optimise the returns from their resources. Moreover and indirectly, to the extent that the reforms impact on efficiency and productivity and help reduce the tax ratio, this should have a favourable effect on investment and growth and, ultimately and consequently, on the absolute level of mobilised revenue.

The combination of reductions in expenditure and growth in revenue will result in a significant increase in the level of the current surplus. Such an increase would allow the government to finance either a larger investment programme and/or a greater proportion of its capital programme thus reducing the need for debilitating debt financing. In turn, reduced debt reduces the absolute and proportionate cost of debt and therefore leaves more resources available for other essential functions. Also, a lower level of debt encourages foreign investment, as foreign investors are not deterred from investing from fear of future tax increases to finance a burgeoning debt burden. Importantly, in the reforms is the allocation of resources for physical contingencies, asset maintenance, insurance and economic seasonality. With resources being made available for pro-cyclicality financing, it ensures that volatility in government programmes and in general economic activity would be minimised.

### **Benefits to Public Stakeholders**

The public expects its government and its institutions to deliver quality service and exemplify good customer care. The reforms are expected to do that and should achieve the faster and more timely delivery of such civil documents as passports, birth certificates, drivers' licenses; and require the completion of simpler forms and the use of more convenient and people friendly



media, such as the internet through e-government, for the completion of such documentation as income tax and customs returns. For instance data already captured in the system do not need to be re-entered as persons' basic data would be automatically completed by the process of a national identifier. All these would provide greater customer convenience and, very importantly, save a great deal of customer time which may well be expended in a better way - at work, leisure or elsewhere.

The attainment of these efficiencies and conveniences may result not only in a better service, but possibly reduced costs for such services and /or a reduction in the taxation burden on the society.

Nobody enjoys paying taxes, but if the public feels that their resources are used efficiently there would be less of an unwillingness to meet their tax obligations.

### **Benefits to the Overall Economy**

It is in the area of overall benefits to the economy that the impact of the fiscal reforms would be most manifested and, through this, indirectly would be additional benefits to other stakeholders.

One of the prime goals of any economy is, or should be, the incessant search for international competitiveness. The public sector is at the centre of attaining this. (See pgs. 12 – 13 for the arguments and the transmission mechanisms). A climate of efficiency and its twin sister productivity create a conducive environment for investment, which has a positive impact on growth. If the reforms, through transparency of policies and procedures, audits and better management and administration, can lead to significant reductions in corruption, which is now one of the biggest challenges facing many governments and economies, then the positive impact on the functioning of the economy would be even more enhanced. Corruption is not only a financial cost to society, but is also a fatal and ever growing cancer in the business climate. Transparency International ranked 182 countries in 2011 on a Corruption scale of 1 to 10, with 10 being the absence of corruption. The score for the following selected countries were as follows: New Zealand (9.5), Singapore (9.2), Barbados (7.8), Jamaica (3.3), Trinidad and Tobago (3.2), Guyana (2.5), and North Korea at (1.0) being the most corrupt. Three OECS

countries: Saint Lucia, St Vincent and the Grenadines and Dominica have been included in the 2011 index, the first two for the first time. The respective scores were (7.0), (5.8) and (5.2).

Reforms leading to efficiencies in the public sector have a demonstration effect on private sector productivity; saves time which is the only ultimate resource that any economy has; results in a reduced dependence on welfare and associated waste, which creates greater social resilience and minimises waste; and because of the public sector's monopoly situation, the better quality of service at possibly lower costs and improved timeliness of delivery have economic and social benefits that go beyond these measures.

### **Financial Costs**

The reforms will involve some outlays particularly for the following:

- The Comprehensive Omnibus Organisational Review and Restructuring Study (COORPS) to ensure a seamless and optimal provision of public services;
- Developing a custom tailored curriculum to train public servants in the desired values and techniques for application in the public service;
- The actual costs of training;
- The development of e-government, through an integrated and seamless software, with appropriate sub-modules to tie the functions of the service and to deliver optimal service efficiently, at least cost and with maximum user convenience.

These costs will be reduced on a per country basis if they are pursued through a joint regional initiative. In any case, the benefits accruing to these initiatives will far offset, in the medium to long term, the financial costs incurred. In the short term the funds could be procured through development grants from friendly donors, or concessionary loans from an International Financial Institution that would incorporate some technical assistance in the proposal. However, care needs to be exercised to ensure that: the best are recruited for the exercise; it is relevant to the region's needs; involves as much local input as possible not only to bring relevance, but also to facilitate as much technology transfer as possible; and that it is reasonably priced in the context of value for money for our situation.

The other aspect of the reform initiatives that will involve some cost is the staffing of the various major revenue and expenditure departments with the appropriate complements of accountants and internal auditors, and the strengthening of the Auditor General's Departments and the Public Accounts Committee. These would be national initiatives requiring domestic resources, but there is great scope for regional collaboration and information sharing. These exercises should be a judicious blend between the use of foreign expertise and local knowledge. Consideration of a regional arrangement for purposes of autonomy and independence could add even more benefits.

### **Psychic, Emotional and Political**

Perhaps the greatest cost associated with the reform exercises is a non-quantitative and non-financial one. It will involve the stresses and disciplines that are attendant on the management of change and whether the leadership is prepared to take on the challenge, stay the course, and bear the consequences as statesmen.

The process should involve:

- With the support of the minority parties, the trade unions and social partners, seeking a Consensus among the population for a Long Term Vision, in terms of economic and social objectives and goals, and desired moral and ethical values to guide the society;
- Developing, collaboratively, a time phased programme to achieve the Vision and Goals; and
- Actively and continually promoting the Vision, including demonstrating continuous commitment and continually expending effort to achieve the goals, and diligently working on the attainment of the programme.

More specifically our leadership needs to:

- establish gradually improving performance standards and insist that they be adhered to;
- help persons, through training, to do their jobs and expect and insist that they perform to the evolving standards set, and where there is difficulty effect a humane separation arrangement;

- insist and demonstrate that performance will be the only criterion for retention and advancement;
- ensure that systems are fair and transparent and that nobody, whether with political, family or network connections, is treated as a favourite;
- continually propagate, rationalise, justify and seek buy-in of the Vision and Programme, and illustrate early results and impacts to encourage support;
- eradicate the incipient concept that political affiliation can provide benefits, protect and/or guarantee employment, and that after an election the victor gets the spoils for distribution in a feudal fashion;
- inculcate the notion that, while elections may be fought on political partisan lines, the act of government will involve all persons in the nation irrespective of political or any other affiliation;
- sell to supporters and to the public that change is in the air, that there are new governance arrangements and that performance is the only guarantee to success; and
- be very vigilant to inculcate and enforce these values, particularly in the initial periods.

Given our small size and very apparent resource constraints, we will only develop to our true and full potential if we use all our resources to the maximum possible and without discrimination of any kind.

### **The Way Forward**

Genuine, efficient and urgent public sector reform is an absolutely critical imperative that can bring immeasurable benefits not only to the public sector, but also to the economy and to the wider society. Given that regional arrangements, as are being proposed under The Single Economic Space, are intended to enhance and accelerate our economic development and, given that it will be the presence and appropriate functioning of institutional arrangements that will help the region optimally exploit these benefits, and given the initiatives that have already been taken in terms of going forward, we identify the following institutional measures that are necessary to support region wide public sector reform:

1. Establishment of a senior ministry at the national level with responsibility and appropriate authority for overall public sector reform. It would identify the necessary reform measures, implement and monitor their implementation, keep the efficiency of the public sector and its use of resources under continuous review, and liaise with other regional governments and bodies, as necessary, to achieve that aim as expeditiously and optimally as possible in a coordinated way.
2. Mandate the regional bodies (The OECS Secretariat and the ECCB within their respective authorities, mandates and competences) to develop a blue print and time frame for the identification and implementation of institutional measures that need to be put in place to expeditiously bring effect to the well-functioning Single Economic Space. It should also identify the measures and activities that should be best treated as regional arrangements and/or which lend themselves to regional functional cooperation arrangements.
3. Institute a regional public sector reform mechanism reporting to the OECS Authority, or its successor, that would bring ministries of the Public Services together, periodically and systematically, to identify and approve regional public sector reform programmes; monitor their implementation; share public sector reform experiences and give moral support to each other; assist each other in their implementation; and harmonise, or better still, standardise public sector administrative policies, procedures and arrangements across the Single Economic Space to make procedures as seamless, standard, customer friendly and simple as possible.

More specifically, the following initiatives have been identified, in order of impact, for national treatment and action, as those with the greatest potential impact on improving the efficiency of government and the use of its resources, and for bringing about current budgetary surpluses without any diminution in the quantity and quality of service provided to stakeholders:

- i) More care in determining what benefits and entitlements to provide taking into account: resource availability and competing demands; sustainability of the provision in difficult times; the extreme political difficulty in reversing perceived entitlements even in difficult times; and the tendency to abuse the service if there does not appear to be a direct cost to the beneficiary. It is also important to ensure that beneficiaries

- of welfare or state assistance are those who need it, will benefit economically and socially from it and cannot afford to pay for it, and that it has, at least, a nominal cost to the beneficiary.
- ii) Undertake fundamental and comprehensive reviews of State Owned Enterprises to determine whether they are still necessary; whether they are still the most appropriate and optimal form of service delivery; whether they are fulfilling their mandates as planned; and whether their original mandates and modalities are still appropriate and optimal. After the review, if they are still essential, reform them to enhance their impact; and to have them reporting to the relevant sectoral ministry on sectoral policy and direction matters, and to the Ministry of Finance and/or Planning on all budgetary, financial, debt and capital expenditure matters to ensure that their programmes are consistent with government's overall programmes, from management and financial perspectives.
  - (iii) Undertake a comprehensive review and detailed audit of the central government to assess the coordination, integration and seamlessness of the overall structure; determine whether the organisational structure is optimally structured to deliver on their mandates; the competence of their personnel; and the suitability and efficiency of their system and procedures. With this done, develop a time phased programme to implement the reforms and closely monitor their implementation.
  - iv) Critically review the current legislative framework for public finance administration in the countries to ensure their relevance, optimality and consistency with modern best practice and with the proposed reforms, and to reform them as appropriate. In particular, examine the labour laws governing public sector employment in relation to labour market flexibility, with respect to separation and costs; the compensation and benefits regime in relation to the economy and what prevails in the private sector; and the inculcation of a culture and systems that retain and reward for performance and productivity.
  - v) Establish an accounting/auditing system in the public sector (central government and public sector enterprises) that parallels what exists in the smaller and even more accountable private sector enterprises. This would involve: the establishment of policies and procedures for these entities; providing competent financial and

- management accounting staff and independent internal audit staff for key revenue and expenditure ministries, and for public sector enterprises; the reconstitution and re-equipping of the Auditor General's Department to serve the functions of the external auditor for the public sector; and re-constituting and resourcing the Public Accounts Committee to serve as an effective and timely watch dog on the affairs and financing of the public sector.
- vi) Improving the efficiency of public sector investments by ensuring that: public investments fall within a well rationalised Public Sector Investment Programme that is consistent with the macro-economic framework for the country; only projects and programmes that satisfy minimum pre-established benchmarks for financial, economic and social feasibility are implemented; projects are implemented efficiently and cost-effectively, and, on completion, are managed and maintained to optimise output and the useful life of the project.
  - vii) Create national and/or regional frameworks for the transparent and competitive procurement of goods and services; and identify those goods and services that would be more beneficially and economically procured through regional arrangements, along the lines as is currently done quite successfully with medical pharmaceuticals, and to implement these arrangements.

These proposals will require the establishment of a new culture, a new *raison d'être* and way of doing things. It will require the leadership to promote a popular vision for the country and to more actively inform, explain, rationalise, inspire and get stakeholder buy-in for major proposals. It will require that more attention be paid to providing the necessary training for persons to implement the programmes; to ensure that programmes under implementation and execution are being cost-effectively monitored and are in line with objectives, targets, costs and timelines; and that there are strict penal sanctions for malicious non-compliance.

The new dispensation should also require that there should be new criteria to measure success. In the past, success seemed to have been measured by the amount of resources that were allocated to programmes. That should no longer be. What should be the success criteria are results: - what has the project achieved in terms of objectives and expectations: impacts: - what

are the quantitative and qualitative changes to value added and national good; and efficiencies: - whether the project is implemented and executed efficiently and within the budgeted cost and time parameters.

## **Conclusion**

We may be idealistic from two perspectives: the scope that we assumed for our mandate and the dreams and visions that we have for our region. But we make no apologies for either. This is because: the policy agenda is broad and complex and needs to be addressed with urgency; the drivers of development are many, varied, integrated and interdependent and need to be looked at and addressed holistically; the need for consultation, sensitisation, information sharing, inspiration, consensus seeking and stakeholder buy-in which, in our democracy, is an imperative for going forward; and because of the central and pivotal need for efficient management and continual performance monitoring and target tweaking.

Setting ambitious and challenging goals and working assiduously to attain and maintain them are what will get us forward in this competitive world and are what our people expect, if not demand particularly from the youth. We need to make and sustain our mark in the world. We, as a region, have been able, despite our small size, to: produce two Nobel Laureates in internationally recognised academic centres of excellence; sustain a multi-country central bank that is a model for and envy of many emerging economies; and contribute to a once great cricket team that was one the best there was. Just as Lee Quan Yew inspired his Singaporean people, only sixty years ago, to show the world that so called Third World Countries can lead rather than follow, why can't we show the world the fact that 'small size' can be used not only to our advantage, but also as a demonstration of an international centre of excellence in public sector administrative efficiency.

With these lofty thoughts, goals and ideals we again thank you for giving us the opportunity to serve.

Sincerely



**Marius St Rose**  
**Chairman**

**Ambassador Wendell Lawrence**  
**Commissioner**

**Clarvis Joseph**  
**Commissioner**

**Professor Simon Jones-Hendrickson**  
**Commissioner**

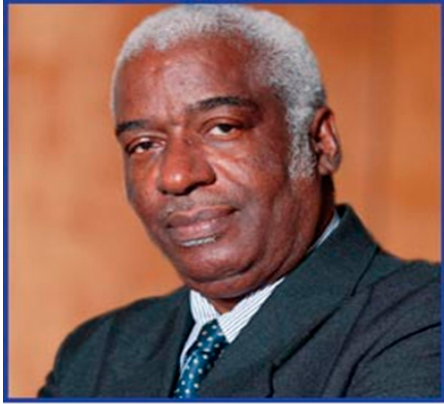
**Swinburne Lestrade**  
**Commissioner**

**Justin Robinson**  
**Commissioner**



## Profile of Commissioners

### Chairman – Mr Marius St Rose



Marius St Rose, retired banker, armchair economist and lifelong educator was born in Antigua in 1943 and is a citizen of Saint Lucia and Jamaica. Educated at primary schools and The Teachers Training College in Saint Lucia, private study and the Mona Campus of the UWI he holds a postgraduate degree and a diploma in Economics and Management respectively. He has worked for the public, private and regional sectors in Saint Lucia, Jamaica and Barbados in the area of education, and in research and management positions in economic development, housing and banking. Joining the Caribbean Development Bank (CDB) in 1975 as an economist, he moved through the ranks to the positions of Assistant Director, Deputy Director, Director of Economics and Programming, to the position of Ranking Vice President of Operations, a position which he held for thirteen years during which he agreed to a secondment to Saint Lucia to assist with the reorganization of the then National Commercial Bank. During his tenure at the National Commercial Bank, he recapitalized and privatized the bank, and later merged it with the state owned local development bank to form a sub-regional financial conglomerate involving entities in universal and offshore banking, insurance and property holding and owned by local, sub-regional and Caribbean investors and structured to serve the OECS sub-region. It is now the largest sub-regionally owned financial group in Saint Lucia and arguably in the Eastern Caribbean and was the second entity to be listed on the Eastern Caribbean Securities Exchange.

Mr St Rose has retired from the CDB and from the East Caribbean Financial Holding Company (ECFH) where he held the position of Group Managing Director. In retirement, he chaired the boards of St Lucia Electricity Services Limited (LUCELEC), Bank of Saint Lucia International (the offshore subsidiary of ECFH), and the OECS Pension Reform Commission. He serves on some corporate boards and is a member of the Rating Committee of the Trinidad-based CariCRIS, the region's only sovereign and corporate rating agency. He was, up to recently,

Chairman of the Agency for Reconstruction & Development in Grenada, a member of the LIAT Board and also a member of the OECS Tax Reform & Administration Commission.

Mr St Rose believes that both an individual and a country are best served if they make productive use of their time and other resources, save generously, invest wisely, aggressively pursue knowledge and optimally and creatively use the acquired knowledge.

### **His Excellency Wendell Everton Lawrence**

His Excellency Wendell Everton Lawrence, who is currently a Financial Consultant and the CEO of Caribbean Governance Consultants Inc, was the Financial Secretary of St Kitts and Nevis for



sixteen years until his retirement from that position at the end of April 2005. Moreover, for five years until April 2005, he was the Chairman of the Eastern Caribbean Regional Debt Coordinating Committee. He was the Chairman of the Board of Directors of St. Kitts-Nevis Cable Communications Ltd for over 15 years, and has held Board positions in a number of other organizations including the Caribbean Development Bank, the

Caribbean Financial Services Corporation and the St. Kitts Urban Development Corporation. He is currently a member of the Board of Directors of the ECCB and a member of the Caribbean Judicial and Legal Services Commission. He has held a number of other senior positions including Director of Audit (Auditor General) and Assistant Comptroller of Inland Revenue of St Kitts and Nevis.

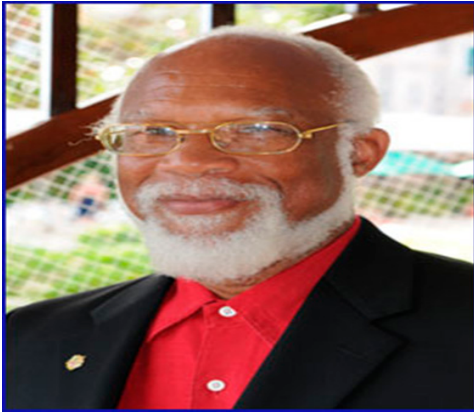
As a Financial Secretary, Mr Lawrence played a leading role in financial and economic management of St Kitts and Nevis. He was also actively involved in regional integration issues and played a significant role in implementing the decisions of regional and international bodies as they pertain to finance, customs, taxation and economic cooperation in St Kitts and Nevis. In this regard, he served as the St Kitts and Nevis Governor and Alternate Governor to the IMF and World Bank respectively throughout much of the 16-year period that he served as Financial Secretary.

Mr Lawrence holds a Bachelor's degree (Management Studies) with first class honours and Master's degree (Accounting) from University of the West Indies, as well as a Master's degree (Financial Economics) from the University of London. He has been a member of the American Institute of Certified Public Accountants for over 18 years and a member of the St Kitts and Nevis Association of Chartered Accountants since its inception over 15 years ago. He was also the recipient of a number of academic awards including the State's Scholarship for St Kitts and Nevis (1975), the Millicent Byron Academic Award (St Kitts and Nevis 1975), the Administrative Society of Jamaica Prize (1979) and the Leonard De Cordova Gold Medal (Jamaica 1979).

Mr Lawrence was a lecturer in Accounting Theory at the Mona Campus of the University of the West Indies (1981) and has been a tutor in the University of the West Indies Extramural and Distance Education Programmes in St. Kitts and Nevis for over 20 years.

Mr Lawrence continues to play a role in regional affairs, having been appointed by the Government of St Kitts and Nevis, in 2005, as Ambassador Plenipotentiary and Extraordinary with accreditation to the OECS, CARICOM and the Association of Caribbean States (ACS) in 2005. In this position, Mr Lawrence carries out special assignments for the Government with respect to regional matters including the negotiation of regional treaties and agreements.

## **Professor Simon Jones Hendrickson**



Professor Simon Jones Hendrickson, Dean and Professor of Economics at the University of the Virgin Islands, St Croix Campus, was born in Sandy Point, St Kitts to Emily Jones and Ernest Hendrickson. He is an alumnus of the College of the Virgin Islands, now the University of the Virgin Islands (UVI). In 1969 and 1970, he earned his Bachelor's and Master's degrees in Economics from Illinois State University, Normal, Illinois, and in 1976 he earned his PhD in Economics from the University of Exeter, Devon, England.

Professor Jones-Hendrickson was a teacher at the Old Road Public School in Old Road St Kitts, 1963-1965. Between 1973 and 1976, he was a lecturer in Economics at the University of the West Indies, Mona, Kingston, Jamaica. He joined the faculty of the UVI in 1976 as an Assistant Professor of Economics.

He has held a number of Administrative positions at UVI, and has gained a number of honors. Professor Jones-Hendrickson is not limited to the University of the Virgin Islands. He has served as External Examiner at all three campuses of the University of the West Indies. Since 1985, he has been involved with the Caribbean Examinations Council (CXC), first as Assistant Chief Examiner and then Chief Examiner in Principles of Business. He is now involved with CXC at the level of CAPE in Economics.

Professor Jones-Hendrickson has served as a consultant to the Organization of Eastern Caribbean States, UNESCO, the Office of Management and Budget Office of the USVI, UN and Government of Montserrat, and as Commissioner on the Task Force to resolve the economic and political issues between St Kitts and Nevis. He was a member of the OECS Tax Reform and Administration Commission. Currently, he serves on a number of boards and committees in St Kitts and Nevis.

Professor Jones-Hendrickson is a prolific writer/scholar having written and or published over 100 articles (see <http://library.uvi.edu>). Among his books are Readings in Caribbean Public

Sector Economics (1981), (co-authored with Fuat Andic, formerly of the University of Puerto Rico); Public Finance and Monetary Policy in Open Economies (1985); Caribbean Visions (1990, Editor); Economic Essays on the OECS Economies (2011); and Economic Essays on St Kitts and Nevis (2011).

From January 2001 to September 2005, Professor Jones-Hendrickson was the Ambassador of St Kitts and Nevis to CARICOM, the OECS, and the ACS. He has received a number of awards including the first UVI Presidential Award for distinguished service to the University of the Virgin Islands.

Dr Jones-Hendrickson and his wife, physician Dr Cora Christian, are the proud parents of two children, Nesha an attorney, and Marcus a biologist and currently a banker. Dr SB, as he is affectionately called, is an avid tennis player. He is a founding member of the Frederiksted Tennis Club.

### **Mr Swinburne Lestrade**

Mr Swinburne Lestrade served in various institutions including the CARICOM Secretariat, the Commonwealth Secretariat and the Caribbean Association of Industry and Commerce. He was



the founding Executive Director of the Eastern Caribbean Investment Promotion Service in Washington DC, before serving as Deputy Chief of the Caribbean Headquarters of the United Nations Economic Commission for Latin America and the Caribbean (UN ECLAC).

He was the first Director of the Economic Affairs Secretariat of the OECS and served as its Director

General from 1996 to 2001.

Mr Lestrade was Dominica's Ambassador to the Organisation of American States and Ambassador-Designate to the USA, before he answered the call to return to Dominica in February 2002 to coordinate the country's programme of fiscal and economic Recovery. In this

capacity, he successfully spearheaded the country's strategy for recovering from its fiscal and economic crisis. This included a three-year IMF-supported PRGF programme and sovereign debt restructuring.



From early April 2006, Mr Lestrade worked as a consultant, and had a stint with USAID's Caribbean Open Trade Support Project. In that capacity, he contributed to improving Dominica's and Antigua and Barbuda's investment and business climate.

He served as Senior Policy Adviser in the Office of the Prime Minister of Dominica for one year from April 2007 to March 2008, during which period he was the principal author of Dominica's Growth and Social Protection Strategy.

Mr Lestrade served for two years as Deputy Chairman of the Dominica Agricultural Industrial and Development (AID) Bank, and for one year as Chairman of the National Bank of Dominica. He currently serves on the Boards of the Invest Dominica Authority and Marpin 2K4.

Mr. Lestrade holds a Bachelor's and Master's Degree in Economics from the University of the West Indies and a Master's Degree in Development Economics from the University of East Anglia in the United Kingdom.

In November 2004, he was awarded Dominica's second highest national honour, the Sisserou Award of Honour, for distinguished national and regional public service.

**Dr C Justin Robinson**



Dr C Justin Robinson is a national of St Vincent and the Grenadines and currently serves as



Senior lecturer and Head of the Department of Management Studies, University of the West Indies, Cave Hill Campus, Barbados. He obtained his PhD in Finance from the University of Manchester, UK. He also holds an MSc in Finance and Econometrics from Florida International University and a BSc in Management Studies (First Class Honours) from the University of the West Indies, Cave Hill Campus, Barbados. Dr Robinson's research interests are

Capital Markets in Developing Countries, Public Finance, Financial Risk Management and Corporate Finance. He has published extensively on these subjects in a number of regional and international journals. Major publications include, An Analysis of the Financial Performance of Statutory Corporations in Developing Countries; The Role and Future of European Derivatives Markets; Capital market Integration in the Caribbean; Stock Price Behaviour in Emerging Markets; Long Term Financing Decisions in the Caribbean; Analyzing Capital Flows to Developing Countries; Commercial Banking in the Year 2000; and Customer Satisfaction with Public Transportation in Developing Countries. Dr Robinson oversees the publication of the "Weekly Caribbean Stock Market Report" and a Quarterly Survey of Consumer Sentiment in CARICOM. Dr Robinson currently serves as a Director of the Central Bank of Barbados, Chair of the National Insurance Scheme Barbados and Vice President of the Barbados Museum and Historical Society. Dr Robinson is happily married to Angela and proud father of Ayana and Ayeshia.

**Mr Clavis Joseph**

Mr Clarvis Joseph served as a teacher at secondary schools in Antigua, Guyana and Jamaica during the formative years (1966–1970) of his career. From 1970, he became the Management Training and Organization Development Officer at the Demerara Bauxite Company, and served in this capacity until 1975. He worked as the Chief of the OECS Training Unit from 1978-1980 and was the Chief Training Officer of the Government of Antigua and Barbuda during the period 1975–1978. He has been the Chairman and Principal Consultant of Lurijos Management Consulting Company since 1980 and chaired the Board of Commissioners of the Antigua Port Authority during the period 2004-2006.

Mr Joseph is the Director of the ABI Bank, Antigua Overseas Bank and ABI Development Co. He serves on The Board of Directors of these companies which form part of The ABI Financial Group. He has been the Chairman of the Board of Commissioners for the Antigua Public Utilities Authority over the past five years. He also holds the post of Managing Director at Caribseas Ltd, a shipping agency in Antigua and Barbuda, which he founded in 1990.

He has worked on a number of assignments in the area of Public and Private Sector Management Training, Organization Development and Change Management. His past assignments include:

- Restructuring the public service of The Commonwealth of Dominica.
- Assuming the role of Principal Management Trainer at the CARICOM Health Sector Management Project.
- Designing and delivering Health Management Training Programmes in CARICOM member countries including Belize, Barbados, Guyana and the OECS member states.
- Designing and delivering a Small Business Management Programme for member chambers of the Caribbean Association of Industry and Commerce (CAIC).
- Designing and delivering Small Business Training Programmes for the National Development Foundation of Antigua and Barbuda; St. Kitts and Nevis; and the Chamber of Commerce in Belize, Barbados, and St. Vincent and the Grenadines.

To date, he has participated in a number of societal activities including President Antigua/Barbuda Chamber of Commerce and Industry; Vice President CAIC; President Antigua

Cricket Association; President Leeward Island Cricket Association; Vice President West Indies Cricket Board; and Executive Vice President West Indies Jaycees

He possesses a BA Hons (UWI) and has received training in various fields including personnel management principles and practices, and organisation design.

## Abbreviations and Acronyms

ABSSB	Antigua and Barbuda Social Security Board
ACS	Association of Caribbean States
AG	Accountant General
AID	Agricultural Industrial and Development
AO	Accounting Officers
BPR	Business Process Reengineering
CAIC	Caribbean Association of Industry and Commerce
CARICOM	The Caribbean Community
CariCRIS	Caribbean Information and Credit Rating Services Ltd
CARTAC	Caribbean Regional Technical Assistance Centre
CEE	Common Entrance Exams
CEO	Chief Executive Officer
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
COFCOR	Council for Foreign and Community Relations
COFOG	Classification of the Functions of Government
CP	Capital Programme
CXC	Caribbean Examinations Council
DOA	Director of Audit
DSS	Dominica Social Security
DUT	Dominica Unit Trust
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECEMP	Eastern Caribbean Economic Management Programme
ECFH	Eastern Caribbean Financial Holding Company
ECLAC	Economic Commission for Latin America and the Caribbean
EDU	Economic Development Unit
EU	European Union
FAA	Finance Administration Act

FAD	Fiscal Affairs Department
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IDB	Inter-American Development Bank
ICOR	Incremental Capital Output Ratio
IFI	International Financial Institutions
II	International Institution
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LUCELEC	St Lucia Electricity Services Limited
MDG	Millennium Development Goal
MFI	Multilateral Financial Institution
MIT	Massachusetts Institute of Technology
MOF	Ministry of Finance
MTSDP	Medium Term Strategic Development Plan
NBD	National Bank of Dominica
NIC	National Insurance Corporation
NIS	National Insurance Service
NGO	Non-governmental organisation
OECS	Organisation of Eastern Caribbean States
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PAHO	Pan American Health Organisation
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PSIP	Public Sector Investment Programme
ROR	Rate of Return
RR	Current Revenue
RS	Current Surplus
SOE	State Owned Enterprise

TOR	Terms of Reference
UK	United Kingdom
UN	United Nations
UNICEF	United Nations Children’s Fund
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
USVI	United States Virgin Islands
UVI	University of the Virgin Islands
UWI	University of the West Indies
VAT	Value Added Tax
WHO	World Health Organisation
WTO	World Trade Organisation
UNESCO	United Nations Educational, Scientific and Cultural Organisation

# ANNOTATED OUTLINE OF CHAPTERS

## **Chapter 1: Introduction, Mandate and Terms of Reference**

Background to Initiative: part of trilogy and conclusions of previous Commissions; regional imperative and rationale - social and economic importance and impact of exercise - source and details of mandate - Terms of Reference and operations of the Commission - Commissioners' understanding and interpretation of mandate.

## **Chapter 2: Executive Approach**

How the work will be organised and executed: determination of framework - allocation of responsibilities by geography, subject and chapters - stakeholder country consultations - required consultancy support (if any).

## **Chapter 3: Impacts of Government Expenditures (with special reference to ECCU countries)**

Analysis of Impacts from a Positive (Actual - what have been) and Normative (Expected - what can be) Perspectives.

Impacts of actual experiences on Government expenditures: economic - urbanisation - natural disasters - concerns of government - increasing incomes - increased international involvement particularly with independence and sovereignty - social consequences and drivers of expenditures - political imperatives that drive expenditures - institutional drivers of expenditures.

Functions of governments - Macro-economic policy tools available to OECS governments - the primacy of fiscal management - Impacts of expenditures on such macro-economic and social aggregates as: net output expansion; net employment creation; net investment; balance of payments; inflation; poverty alleviation and income distribution. Philosophical issues relating to the public and private sectors- what should be expenditure priorities?

## **Chapter 4: An Ideal Government Expenditure Arrangement (Theoretical, Best Practice and Common Sense Model for ECCU Countries)**

State functions - ECCU macro-economic and fiscal model - summarised functions of government - detailed and comparative COFOG with EU countries - ideal current expenditure structures from the perspective of: COFOG and factor inputs - "ideal" governance and legislative framework and institutional arrangements and operating principles for: expenditure management; compensation; increments; individual goal setting and performance appraisal; procurement of goods, services and labour; debt management; and budget management of fiscal and economic cyclicity.

### **Chapter 5: Existing Government Expenditure Performance and Arrangements in the ECCU Countries**

Performance of the economic and fiscal model in the ECCU during the last decade - ECCU and national performances of current revenues; current expenditures; capital expenditures; and debt/GDP - expenditure analysis by major factor inputs: personal emoluments; pensions and terminal benefits; interest payments; purchases of goods and services and contractual expenditures - an analysis of expenditures according to COFOG if data were available - the legal and fiscal framework for financial and fiscal management - operational issues relating to: the budget process; formulation of the public sector investment programme; wage and salary negotiations; pension management with reference to the Report of the Pensions Reform Commission Report; accounting and auditing and the functioning of the parastatals or the second arm of government.

### **Chapter 6: Weaknesses in the Existing Government Expenditure Arrangements and Practices in the ECCU**

The nature and critical importance of weaknesses in expenditure patterns in such selected critical areas as: the wage bill; parastatal entities and central government transfers; social security contingent liabilities to government and to the state; spending on social entitlements as education; health care and social assistance - concerns about the growing proportions; the absence of targeting to the really needy and the duplication and waste in distribution and allocation.



Weaknesses in such expenditure control and financial management issues as: credibility of the budget and its comprehensiveness and transparency; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and auditing.

The case for the need for public expenditure reform, but with the recognition that it is and will be a challenging imperative.

### **Chapter 7: Government Expenditure Issues, Practices and Arrangements**

Some existing expenditure arrangements with examples of selected best practices

### **Chapter 8: Existing Legislative Frameworks and Operational Procedures for Public sector Financial Management**

Financial legislation and regulations governing financial management in the ECCU countries - Roles of Permanent Secretaries and Accountants General in relation to financial management - Progress with and status of legislative reforms - Internal controls and audits and adequacy of staffing and related arrangements - Central government auditing - Role and effectiveness of Public Accounts Committee.

### **Chapter 9: Some Generic Operational Measures to Enhance Expenditure Effectiveness (Productivity and Efficiency Tools, Techniques and Arrangements)**

General issues: reorganisation of the executive - Business Process Re-engineering - Parastatal Review - Use of economic modelling and statistical techniques to improve public sector decision making - Treasury management across the public sector as a means of optimising the use of financial resources - utility of credit ratings - critical importance of audits.

Labour: operational and efficiency perspectives on employment; training; compensation and surveys; job evaluation; structuring a salary scale; performance appraisal, compensation and job retention.

Improving the efficiency of investments through: having a vision and macro-economic framework; policy consistency; linear and dynamic programming; public sector investment programming; use of Balanced Scorecard; project evaluation; use of such techniques as project flow planning and critical path analysis; open competitive bidding for transparent procurement; and preventative care and timely and adequate maintenance of assets.

Making better use of goods and services through procurement; inventory management; and transportation theory.

### **Chapter 10: Possible Transitioning Arrangements for the Implementation of the Recommendations**

This chapter outlines a detailed time phased approach for the decision making, execution and implementation of each recommendation. It also suggests machinery and institutional arrangements that could be adopted at both the national and regional levels to go forward with each accepted recommendation.

### **Chapter 11: Proposed Recommendations and Transitioning Arrangements**

This contains the detailed summary of the recommendations classified by various sections, the rationale for the existence of each; when and what is required to make the respective decisions; and a time phased approach for the implementation and execution of each recommendation.

### **Chapter 12: Costs and Benefits of Proposed Improvements**

The identification of benefits of the reform recommendations to: public servants; the public finances; the public stakeholders, persons who interact with government and users of government services; and the potential impact on the overall economy.

The identification of some of the major costs involved in the reform to cover such areas as financial; and the psychic, emotional and political costs involved in accepting and implementing change - How to optimally implement the required changes.

### **Chapter 13: Conclusions and the Way Forward**

A summary of the way forward.

“I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle”. Winston Churchill 1903

## **CHAPTER 1**

### **INTRODUCTION, MANDATE AND TERMS OF REFERENCE**

## **1.1 Background and Antecedents**

The Monetary Council of the Eastern Caribbean Central Bank (ECCB) has among its prime mandate: the maintenance of the integrity and stability of the banking system, which dominates the regional financial system; the preservation of the domestic and external values of the domestic currency; and, as a residual function, the promotion of the region's social and economic development. The critical importance of the residual function to the attainment of the prime ones is the effective absence of a de jure or de facto institutional arrangement to promote such development; the limited scope for monetary policy as an effective tool for economic management under existing arrangements; and the critical importance of the fiscal authorities in steering both economic and social development. These have forced the governance of the monetary arrangements to pay even greater attention to developmental matters than would normally be the case. The leverage which a Central Bank has, and the need for as much coordination as possible, if not centralisation of decision making, have made this involvement even more strategic. The current international financial and economic crises, its manifest and latent effects on our economies, as well as the region's imminent movement to a single economic space as a necessary response to both the crisis and to sustained development, have made the pursuit of many macro- initiatives imperative by such regional institutions as the ECCB.

It is against this background of creating, deepening and strengthening regional institutional arrangements and reforming the existing systems, not only to modernise them, but also to harmonise and integrate them with the new economic realities facing the region, that the ECCB has been engaged in a number of initiatives during the last decade. One set of initiatives is the reform initiatives which began in 2001.

The first of these initiatives was the establishment, in 2001, of The Tax Reform and Tax Administration Commission. It was a six-member Commission under the chairmanship of Sir Alister Mc Intyre. That Commission which reported in 2004 recommended, inter alia:

- i) Simplification of the tax system;
- ii) Shift from income and trade taxes to more taxes on consumption, through such devices as the introduction of properly designed VAT and property taxes to broaden the tax base and to reduce the too heavy dependence on distortionary taxes on trade which are, in any case, subject to reductions as a result of international agreements;

- iii) Provision of income allowances for such social and economic activities as residential housing, tertiary education, other forms of genuine savings and investment and the income of retirees;
- iv) Centralisation of the taxation systems (establishment of Revenue Authorities) particularly at the national levels, to avoid the large number of institutions that are either inefficient and/or do not communicate effectively with each other;
- v) Establishment of measures to stabilise government's revenue stream and benchmark limits for current revenue and current expenditure in relation to GDP, to provide for a reasonable level of current savings to facilitate the financing of essential capital expenditures and to minimise the deleterious effects of badly designed taxation measures on productive activity; and
- vi) Institution of measures to significantly improve the efficiency in the administration and collection of taxes and to make the processes and procedure more taxpayer friendly.

The recommendations have been generally accepted in principle throughout the countries of the ECCU and one critical measure, the introduction of the VAT, has been implemented in all six independent member countries. One other critical area, the establishment of Revenue Authorities, is under consideration for adoption although on a phased basis.

The second initiative was the establishment of the four-member Pension and Pension Administration Reform Commission in 2007 under the chairmanship of Mr Marius St Rose. That Commission submitted its final report to the Monetary Council in July 2010 and its recommendations are currently being considered and discussed.

The main recommendations include:

- i) The strengthening and/or establishment of a four-tier social assistance and pension structure involving:
  - A first tier of state, corporate and household assistance to the indigent elderly; and skills training and minimum age employment to the unemployed to bring them into the productive work force.
  - A second tier of compulsory participation defined benefit assistance with equal contributions between employer and employee, and commencing from

first employment to a nationally determined retirement age, proposed at whatever age, that would allow for an average retirement period of 15 years from age 65.

- A third tier compulsory defined contributory arrangement to supplement the second tier, with participation for all during working life and with contributions being shared equally between employer and employee. Public sector employees would be covered under a state pension scheme, while private sector employees and the self-employed would be covered under Private Occupational Plans or similar arrangements such that there is full portability, similar provisions and immediate vesting throughout the arrangements.
- A fourth tier of voluntary savings with tax incentives to cover such precautionary and speculative savings and investments for tertiary education for self and dependents, ownership of residential housing accommodation, maintenance of the human capital stock (health provisions), and investment in designated productive activity. This tier also envisages the introduction of Reverse Mortgages to give retired household heads access to some of their net worth in their homes to supplement their retirement income, without the need to either repay and/or leave their homes during their lifetime.

- ii) Scheme designs for tiers 2 and 3 to incorporate essential elements including sustainability, predictability and affordability.
- iii) Autonomous and preferably regional institutional arrangements to improve the administrative efficiency of the schemes in tiers 2 to 4; significantly improve the returns on investments through the use of a broader market and governance arrangements to minimise undue interference in the financial and economic arrangements that could undermine the optimal management of these resources.

- iv) The establishment of government departments at the national level to promote and safeguard the interests and welfare of the increasing proportion and number of elderly persons in the demographic structure.
  
- v) Broader institutional arrangements at the levels of the financial sector and the macro-economy to ensure that:
  - The vast pool of long-term capital is well managed and regulated;
  - The resources are channelled into long term investments that benefit the social and economic development and provide attractive returns to the beneficiaries;
  - The economy is very well managed to ensure that real (rather than nominal) benefits with good returns accrue to beneficiaries at the time of their retirement.

The overall intention of the recommendations is to ensure that: poverty in the society is minimised, if not alleviated, more through individual and corporate efforts rather than state effort; individuals are able to contribute to their welfare and to economic development; long term resources are effectively invested to optimise financial benefits to participants, in addition to social and economic returns to national and regional economies.

During the deliberations of both Commissions it was evident that the interrelated national/regional issues of efficiency, productivity, and maximisation in resource use were the most critical determinants for the survival and growth of small, fragmented, developing economies. Consequently, the public sector had a central role to play in leading the process both through example, direction and guidance of overall policy and programme design. Thus, it was not surprising that the Monetary Council of the ECCB decided on the establishment of a third Commission on expenditure review.

The Monetary Council, at its meeting on 8 February 2008, recommended the establishment of the Public Expenditure Review Commission (Expenditure Commission) to investigate and make recommendations on appropriate ways of rationalising the form and functions of public sector

expenditure in the member countries of the Currency Union. At its 67<sup>th</sup> meeting on 16 July 2010, the Monetary Council approved the Terms of Reference of the Expenditure Commission.

## **1.2 Terms of Reference (TOR) for the Expenditure Commission**

The following is the detailed TOR as approved by the Monetary Council of the ECCB:

### **Background**

Efficient fiscal policy is a prerequisite for macroeconomic stability and economic development. This is being addressed under the Fiscal Reform Programme, which is a component of the Eight Point Stabilisation and Growth Programme. The Fiscal Reform Programme aims at improving the efficiency of the fiscal regimes in the member countries of the Eastern Caribbean Currency Union (ECCU). In particular, member countries are encouraged to generate or increase their level of domestic savings to facilitate economic growth and development.

Most of the member countries of the ECCU have implemented tax reform programmes which have contributed to the growth in government revenues. However, the countries are faced with a rigid expenditure structure and rising government expenditures (Table 1.1). This has contributed to high fiscal deficits and the accompanying increases in public sector debt which is estimated at 90 per cent of GDP for the Currency Union, with some countries recording debt to GDP ratio above 100 per cent. The member countries have agreed to reduce their debt levels to achieve a debt to GDP ratio of 60 per cent of GDP by 2020. There is therefore an urgent need to address the growth in government expenditures, based on consensus on the role of government in the economies of the currency union.

**Table 1.1: ECCU Current Expenditure Pattern**



<b>ECCU</b>									
<b>Current Expenditure Patterns</b>									
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>CURRENT EXPENDITURE (EC\$M)</b>	<b>1,963.4</b>	<b>2,074.7</b>	<b>2,208.5</b>	<b>2,247.0</b>	<b>2,450.5</b>	<b>2,546.8</b>	<b>2,862.3</b>	<b>3,054.7</b>	<b>3,363.8</b>
	As percent of Total Expenditure								
Personal Emoluments	49.7	49.2	47.3	47.5	45.0	44.3	42.4	43.3	43.2
Goods and Services	22.2	23.2	22.0	20.2	21.1	22.2	21.9	22.7	23.8
Interest Payments	14.1	12.7	14.8	15.2	16.2	13.8	14.0	13.6	12.6
Domestic	7.3	7.3	7.1	6.1	5.3	5.7	6.3	6.5	5.9
External	6.8	5.4	7.7	9.1	10.9	8.1	7.7	7.1	6.7
Transfers and Subsidies	14.0	14.8	15.9	17.1	17.8	19.7	21.8	20.4	20.5
Pensions	5.5	5.5	5.8	6.0	6.2	6.5	6.3	7.3	5.4
Current Expenditure Growth		5.7	6.4	1.7	9.1	3.9	12.4	6.7	10.1

Source: Ministries of Finance and Eastern Caribbean Central Bank  
Data as at 12-Jul-10

In this context, the Monetary Council, at its meeting on 8 February 2008 recommended the establishment of the Public Expenditure Review Commission (Expenditure Commission) to investigate and make recommendations on appropriate ways of rationalising the form and functions of public sector expenditure in the member countries of the currency union.

### **The Role and Operations of the Expenditure Commission**

It is proposed that the Expenditure Commission be composed and operated in a manner similar to that of the Commission on Tax Reform and Tax Administration Reform. This involves the holding of consultations with representatives of the public and private sectors throughout the Currency Union to obtain input on the critical issues relating to public expenditure reform.

### **Role of the Commission**

The Commission would:

1. Examine and make recommendations on the role of Government in the ECCU, under the umbrella of the Economic Union.
2. Examine the expenditure structure and trends in the ECCU.
3. Examine the experiences of countries that have undertaken expenditure reforms.
4. Identify best practices in expenditure reform programmes.
5. Review the political, economic and financial context of expenditure reform in the ECCU.

6. Identify areas for cost sharing among the countries of the ECCU.
7. Identify programmes that could be privatised.
8. Make recommendations for improving the efficiency of government expenditures.
9. Make recommendations on the operational efficiency of the public enterprises.
10. Develop a medium term fiscal framework to ensure fiscal sustainability.

### **Composition and Meetings**

The Commission would consist of six eminent persons from the ECCU. A Chairperson would be named from among the members of the Commission.

The members of the Commission are:

(1)	Ambassador Wendell Lawrence	St Kitts and Nevis
(2)	Mr Marius St Rose	Saint Lucia
(3)	Professor Simon Jones Hendrickson	St Kitts and Nevis
(4)	Mr Swinburne Lestrade	Dominica
(5)	Dr Justin Robinson	St Vincent and the Grenadines
(6)	Mr Clarvis Joseph	Antigua and Barbuda

Secretarial support to the Commission would be provided by the ECCB. The Administrative Assistant, designated Secretary to the Commission, would consult with the Chairperson of the Commission on:

1. Notification of Meetings
2. Preparation of Agenda
3. Preparation for Meetings
4. Preparation and Circulation of Minutes

The Administrative Assistant would also undertake other duties as assigned by the Chairperson of the Commission.

### **Operations of the Commission**

The Commission would:

1. Determine the frequency of its meeting.
2. Determine objectives and structure of the Final Report.
3. Based on the structure of the Report, identify and assign areas of research either among the Commissioners or through consultancy.
4. Discuss the issues identified at the regular meetings of the Commission.
5. Hold discussions with representatives of the public and private sectors throughout the Currency Union to obtain input on the critical issues.
6. Consult with the Financial Secretaries and the Committee of Accountants General, Directors of Audit and Directors of Budget.
7. Document deliberations throughout the Currency Union to provide a basis for the Final Report.
8. Circulate the Draft Report to member governments and discuss the Draft Report in consultations with representatives of the private and public sectors.
9. Present the Draft Report, together with input from the above consultations, to the Monetary Council.
10. Prepare a Final Report and present it to the Monetary Council.

### **Institutional Support for the Commission**

The ECCB would provide institutional support for the Commission.

The meetings of the Accountants General, Directors of Budget, Directors of Audit, Coordinators of the Policy Units and the Financial Secretaries would be utilised to discuss technical issues, and where necessary provide technical support to the Commission in undertaking research.

### **1.3 Commissioners' Understanding and Interpretation of Mandate**

The established TOR guided the work and deliberations of the Expenditure Commission.

However these were interpreted and/or understood to reflect the following:

- i. Governments will operate within the following traditional fiscal framework:

- a. The level of current revenue (RR) should be dependent on the level of GDP. There should be social consensus on the proportion of the national output appropriated by the state for the provision of the agreed level of services. The level of revenue appropriated is not unduly deleterious to economic activity, is transparent and equitable within the social consensus and is used efficiently to finance current expenditures (including interest payments while reserving a proportion for emergencies, contingencies, establishing stabilisation funds insurance cost). There should be an agreed current surplus (RS) to provide the financing for small projects and counterpart contributions for large projects financed from borrowings and/or grants.
  - b. The level of current expenditure (RE) will be constrained by the agreed role of the state, the current economic situation, government's agreed distributional policies, efficiencies in administration, but, in any case, would be within the agreed RE/GDP limits after the agreed provisions for the RS, contingencies, provisions, stabilisation and insurances.
  - c. The level of the Capital Programme (CP) should be dependent on the country's absorptive capacity for projects both in terms of implementation capacity and/or the ability to generate projects that provide an economic and/or social return that is at least equal to the country's cost of capital.
  - d. The level and costs of borrowing will be dependent on the level of the CP, the creditworthiness of the borrower/country, and the availability of financing.
  - e. Grant aid for both current and capital activity will only be supplemental to domestic efforts.
- ii. All expenditures will be viewed and expressed in relation to total current revenues and not in terms of total current expenditures as is traditionally the case, in order to focus on current revenues as the main driver of current expenditures. It also places in sharper focus the costs of expenditures in relation to the tax intake (current revenue), and, by extension the cost of the expenditure item in relation to GDP.
  - iii. Only efficiency will determine the mode of delivery of the various services, and not such other considerations as distributional and welfare policies nor employment creation. The latter would be secondary rather than primary considerations. Consequently, in

determining cuts the focus would not simply be on the larger expenditure items e.g. personal emoluments, but more on the comparative efficiency and value added of the service delivery. Against this backdrop, the review of any expenditure would be based on the following (in chronological order):

- a. The optimality of the existing systems and procedures, and of supervision and management; and a determination of those areas which could be improved and at what incremental costs and benefits.
  - b. The level of human, financial and material resource misappropriation either arising from the resource being diverted to non-government use and/or from large scale corruption (inflating and over invoicing) in procurement contracts.
  - c. The targeting and means testing of benefits so that they are delivered to the intended beneficiaries who would receive a value that is at least as great as the cost of providing it.
  - d. A determination of whether the more efficient source of delivery of the service is outside the public sector (outsourcing and/or privatisation) and/or within the public sector, but through common services or functional cooperation to gain scale economies and hence significantly reduce the per capita costs of the service delivery. Each of these would have to be comprehensively assessed in terms of both the quantitative and qualitative costs and benefits.
- iv. Qualitative and quantitative criteria would be used to determine the areas and levels of services to be financed from government revenue. This should ensure that the value added of the marginal dollar spent equates to zero and/or are equal amongst competing expenditures. While these are theoretical positions, the intent is indicative of practical expectations.
- v. Because of the importance of data and other information in decision making on expenditures, special efforts would be directed at expanding and improving the data base to make them more relevant, timely, standardised and comparable; and to establish standards and benchmarks at both the macro- and micro-levels.

More of a systematic and analytical approach would be used to determine government expenditures and its impact on the maximisation of value added, efficiency or productivity while

ensuring that overall expenditure limits are adhered to. This would depart from the easy traditional practice of eliminating expenditures using arithmetic or accounting criteria of simply trying to balance the books by focusing on large expenditure items, usually personal emoluments.

Correcting these deficiencies should significantly reduce the cost to government of providing the existing levels of goods and services to the intended beneficiaries. It may appear that such reductions in government costs may affect the demand stimulus that existing government expenditures provide and hence upset the existing, albeit sub-optimal, aggregate demand equilibrium. However, this would not necessarily be so and would be safeguarded against, as greater efficiency in providing existing services could either result in government providing more and better services and/or in reducing the tax burden, which would serve to substitute corporate and household demand for government demand. Efficiency really means obtaining more value for money spent and should be beneficial for all.

The negative impact of government inefficiencies on the rest of the economy is not often realised and appreciated. The impact is greater than it is for other sectors for a number of reasons including the following:

- i) The government is the largest employer and as such its standards and practices influence, directly, a very large proportion (as much as 40 per cent) of the labour force.
- ii) It is an almost absolute monopolist that deals in services that are non-tradable, non-substitutable services that the rest of the society has to use or else face inconveniences, fines or other legislative sanctions.
- iii) Its costs are passed on as priority claims on others and the economy's output in general.
- iv) Government can increase its salary and wage levels but this would be outmatched by the private sector leading to a spiralling in domestic costs. Moreover, while the private sector would try to rationalise its labour requirements in the face of rising labour costs, the public sector hardly retrenches, thus imposing a burden on the economy.

- v) Productivity in the public sector, particularly in central government, is largely minimised through rule-based systems and procedures, and the tendency for non-encouragement of creativity and innovation.

“A government which robs Peter to pay Paul can always depend on the support of Paul”

George Bernard Shaw 1944

## **CHAPTER 2**

### **EXECUTIVE APPROACH**

The following approach was used to execute the study.

#### **2.1 Establishment of Framework**

The Commissioners met very early in the assignment to understand, discuss and interpret the TOR. Having placed the TOR in its situational context, interpreted and gained sensitivity to the rationale of the exercise, an operational framework comprising the work schedule and associated time frames was established by the Commission.

#### **2.2 Allocation of Responsibilities**

In order to facilitate the work and expedite the process, the Commissioners agreed to take lead responsibilities for the different subject areas, countries and chapters of the Final Report. There was consensus that the responsibilities and attributions would be all shared, unless specific exceptions and/or objections emerged. The agreed listing of lead responsibilities was as follows:



**Table 2.1: Allocation of Responsibilities among Commissioners**

<b>Commissioners</b>	<b>Countries</b>	<b>Chapters</b>	<b>Subjects</b>
Joseph	Antigua and Barbuda Dominica St Kitts and Nevis St Vincent and the Grenadines	Ideal Structure Productivity Enhancements	Transfers Rents
Lestrade	Dominica Grenada Montserrat Saint Lucia	Existing Situation Existing Weaknesses	Personal Emoluments and Pensions Goods and Services
Lawrence	Anguilla Grenada St Kitts and Nevis St Vincent and the Grenadines	Existing Situation Existing Weaknesses	Personal Emoluments and Pensions Capital Expenditures and Debt Service
Jones-Hendrickson	Anguilla Grenada Montserrat St Kitts and Nevis	Macro-economic Impacts Comparative Analyses	Transfers Rents
St Rose	Anguilla Antigua and Barbuda Montserrat Saint Lucia	Ideal Structure, Productivity Enhancements	Personal Emoluments and Pensions Capital Expenditure and Debt Service
Robinson	Antigua and Barbuda Dominica Saint Lucia St Vincent and the Grenadines	Macro-economic Impacts Comparative Analysis Productivity Enhancements	Capital Expenditure and Debt Service, Goods and Services

All the Commissioners were assigned the responsibility to identify the data and information needs and to make the specific and overall recommendations, while the ECCB staff was assigned the responsibilities to collect, collate and analyse the data, as necessary.

### **2.3 Consultations**

A series of consultations were planned to get buy-in and seek views from a wide cross section of the ECCU. At the regional level, video conferencing facilities were used to participate in the regular meetings of Financial Secretaries, Accountants General, Budget Directors, Directors of Audit and Coordinators of Policy Units to provide progress reports, to seek views on the execution of the study and to discuss possible generic fiscal issues and recommendations. At the national level, meetings were held with both private and public sector stakeholders. Country consultations took the form of town hall meeting for the general public. A link to ECCB's

official website was established to keep the public abreast of the progress, findings and possible recommendations of the Commission. The web link was also interactive to get views from the public. The Commission also participated, selectively in various media talk shows to acquaint the public with its work and findings, sensitise them on the urgent need for the exercise and to get their broad views.

The following Periodic reports were submitted to the ECCB and Monetary Council: Inception, Interim, and this Draft Final, with the Final Report expected in August after further articulation of the rationale for the various recommendations, and persuading stakeholders to comment and buy-in.

## **2.4 Consultancies**

This exercise required considerable exploratory and analytical work which part time Commissioners would not have been able to provide, given the time frame (a maximum of twelve months) during which the work had to be undertaken. Areas identified for such closer work included:

- i) Identification of general weaknesses in systems, policies and procedures and in supervision and management that contribute to the high cost and waste in the delivery of public services. Recommend ways for improvement and provide a cost-benefit analysis of each recommended approach.
- ii) Identification of areas and cases of resource misappropriation, arising either from shrinkages in the use of goods and services and/or lapses and infelicities in the procurement of small to major contracts. Obtain recommendations to improve the use and deployment of government resources (labour, finance and material), while highlighting the costs and benefits of each recommendation.
- iii) Identification of criteria and conditions under which it is most preferable to provide a government service or group of services within:
  - a. A government department or agency or level government (such as local/central government);

- b. State enterprise;
  - c. Private enterprise;
  - d. Regional arrangements either through joint provision of services and/or functional cooperation;
- iv) Identification of those services that are best carried out under each of these arrangements and the costs and benefits of doing so.
- v) Identification and documentation of actual and/or potential Centres of Excellence that can be replicated in the delivery of public services or the provision of joint services at the regional level.
- vi) Econometric analysis of trends and relationships among selected fiscal variables in the ECCU.
- vii) Study of the experiences - fiscal practices in comparable small island developing states/countries.

This is a draft of the Final Report. Many sections contain incomplete tables which could not be populated because of the absence of the necessary data. However, the shells have been deliberately retained in the Report to give an indication of the necessary data that should be collected and collated for further analysis.

“Government’s view of the economy can be summed up in a few short phrases: If it moves tax it. If it keeps on moving, regulate it. And if it stops moving subsidize it.”

Ronald Reagan 1986

## **CHAPTER 3**

### **IMPACTS OF GOVERNMENT EXPENDITURES**

**(With Special Reference to the ECCU Countries)**

#### **3.1 Introduction**

This chapter will focus on the impact of government expenditures from two perspectives. The first section is on the normative perspective with a focus on what ought to be. This section is analytical and prescriptive with the focus on consequences and impacts, particularly on economic and social performances. The positive perspective, the second section, will focus on what is and what has been. This section will, inter alia, centre on four principal areas: economic impact, social impact, political impact and institutional impact.

#### **3.2 General Normative Perspective**

The main rationale underpinning the four principal areas is to cover as broad a canvass as possible. In a sense, it will be canvassing the scope of what is conventionally called public policy. Public policy under the umbrella of the impact of government expenditures covers the lives of all who live in society, conventionally defined. The government’s actions by design and default via its judicial laws, its administrative actions and its statutory interpretation of the laws, affect lives in one way or the other for good or for ill. Whether the government is operating at the level of the local government, or the unit/government or territorial level, the island government or at the federal level, all of the actions of government, via its expenditures, impact lives in an intrusive and pervasive manner.

It is vital, therefore, that government expenditures and its impact, are viewed in the context of the underpinning issue of the age-old challenge of scarcity. In the ECCU, like all other similarly-circumstanced societies, decision-makers are faced with a scenario where citizens

desire, and indeed demand, more than the economies are capable and able to deliver. Thus the governments, as the principal decision-makers, have to intervene to make decisions in the nature of public economic policies.

The long-held and oft-discussed notions of the role of government and the role of the private sector are apropos here. The task is not to settle this question. Instead, it characterises government expenditures as seeking to allocate scarce resources among unlimited wants and desires of our societies. In this light, government's public economic policies seek to promote levels of stability in an allocative manner that is welfare enhancing and not welfare retarding. At times, however, the law of unintended consequences enters the picture and results from a given action or government's policy, which is designed to achieve one outcome, is circumvented or short-changed. Methods which were designed to be welfare-enhancing end up sliding or slipping into conundrums of welfare retardation.

All in all, if we consider government's policies in the context of an allocative, distributive or stability inducing manner, the four features of note in this chapter, namely economic, social, political and institutional, are features of primary focus given that they cover the corpus of society and by design permit governments to impact the lives of society.

### **Economic Impact**

For the most part, government expenditures in the OECS are designed to improve the welfare of the citizens of each state or country. This is not to suggest that government expenditure, as manifested via public policies, would always improve societal welfare. Instead the economic impact of government expenditure, given society's welfare maximisation, can be viewed as an endgame. Indeed, while government expenditure can be viewed from an economic point of view, the focus is really about fiscal policy as that concept is generally used. In essence, that is the marrying of public expenditure and revenue accumulation and their resultant impact on economic stability.

The impact of government expenditure from an economic point of view can be seen by merely looking at the trend of government expenditures and revenues over the period 2000 through

2011. The data, which were obtained from the ECCB, indicate that in 2000 the combined current expenditure for the ECCU member countries was \$1,963.4m. By 2011 the figure had risen to \$3,613.3m, at a growth rate of 5.8 per cent per annum. Correspondingly, the combined revenue was \$1,939.8m in 2000 and rose to \$3,547.0m by 2011, at a per annum growth rate of 5.8 per cent. So revenue and expenditure grew at the same rate in the ECCU. At the nation-state levels, there were fundamental differences between these two aggregates. The data for revenues, expenditures and per capita GDP are presented in Table 3.1. Graph 3.1 shows the trend in revenues and expenditures.

**Table 3.1: ECCU Total Current Revenues, Current Expenditures and GDP per Capita 2000-2011**

<b>Years</b>	<b>Per Capita GDP (EC\$)</b>	<b>ECCU Current Revenues (EC\$m)</b>	<b>ECCU Current Expenditures (EC\$m)</b>
2000	14,053	1,939.8	1,963.4
2001	13,923	1,923.0	2,074.7
2002	14,233	2,039.3	2,208.5
2003	14,797	2,171.6	2,247.0
2004	15,603	2,385.6	2,450.5
2005	16,793	2,618.2	2,530.2
2006	18,408	3,005.4	2,707.6
2007	20,398	3,364.6	2,906.8
2008	21,313	3,596.6	3,373.9
2009	20,041	3,310.1	3,455.8
2010	19,445	3,368.7	3,402.5
2011	19,347	3,547.0	3,613.3

**Source: ECCB**

**Data as at 25 May 2012**

The data show that revenues and expenditures trend upwards, as would be expected in a simplistic manner. Graph 3.1 shows the data for revenues and expenditures. There is a high correlation between the revenues and expenditures series. The usual caveat applies here as elsewhere in statistics: correlation does not imply causation. Nevertheless, there are some definite causal links for the increase in government expenditure in the OECS.

Among these are the traditional aspects of increased income; increased regional and international involvement, and the costs associated with that involvement; increased urbanisation; increased dangers as they pertain to natural disasters and the concerns of governments for increased

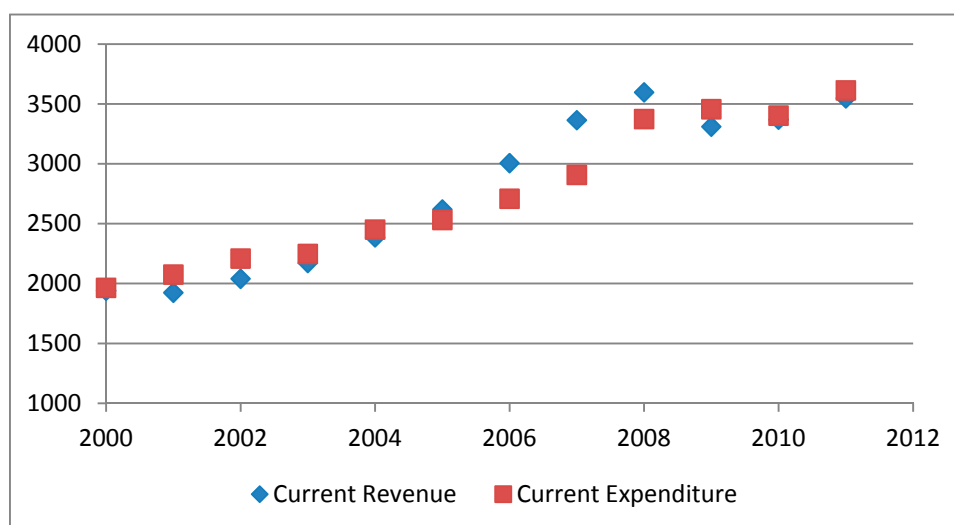
welfare of the people, sourced as that principle is within the Benthamite welfare-maximising matrix.

These four principles could be clearly outlined as follows:

- Increased urbanisation
- Increased dangers due to natural disasters
- Government's concerns for the increased welfare of the people
- Increased incomes, and
- Increased international involvement and exposure.

Graph 3.1 shows the causal links above which will be discussed below.

**Graph 3.1: ECCU Current Revenues and Expenditures, 2000-2011**



Source: ECCB  
Data as at 25 May 2012

## Urbanisation

Over the years the governments of the OECS have had to respond to the movement of its people from the rural areas to the urban areas. As a result, lots of public goods and services are

provided in the urban areas vis-à-vis the rural areas. When people migrate to the urban areas, there is a natural tendency for overcrowding and squatting. These in turn lead to pressures on the general infrastructure of the economies. The consequential impact of this is that an increase in government expenditures tends to become associated with urbanisation. Economies of scale, which would normally be linked with this urban drift, are not generally experienced in the economies.

At the same time, as governments move to contend with the urban drift from the rural to the urban city-centres of the OECS, the governments also had to introduce concepts to develop the second and third towns, or in some instances, the second island developments within the context of a federal system. So, areas outside of the main towns were developed and in some instances people were moved or encouraged to relocate. As a result, the governments had to provide comparable resources and infrastructure in the areas outside of the main, urban city-centres.

The OECS is confronted with twin-island nations and multi-islands states. Here is where the level of infrastructure in the main island has to be replicated in the sister-island or islands, or wards of the main islands as in the case of St. Vincent and the Grenadines. Undoubtedly, the duplication of government efforts is linked to increases in government's expenditures.

Some other costs, as they relate to government expenditures, are associated with excessive traffic congestion in the main towns; air and noise pollution; power black-outs and brown-outs; stressed sewage plants; inadequate garbage collection and garbage dumps versus landfills. All of these cost-inducing characters of development put fiscal stress on the governments and, hence, the public sector has to seek to remedy these situations. At the same time it is imperative to note that these areas of concerns have to be dealt with, since their resolution would tend to enhance the economic prospects of the citizens of the countries and, in train, improve the welfare of the people.

### **Costs Associated with Natural Disasters**

Over the years, but especially over the period 1970 to the present, the OECS and its member countries have experienced some unusual impacts as a result of natural disasters. Hurricanes,



volcanoes, real and threatened, mudslides as a result of urbanisation or excessive building in areas that were once under cultivation, all of these have caused excessive growth of government expenditures.

The International Monetary Fund (IMF) in an excellent book entitled “The Caribbean: From Vulnerability to Sustained Growth,” notes, en passant, that the impact of natural disasters on the Caribbean countries and the countries around the world is of signal importance in the planning in countries. Table 3.2 shows the data for six member countries of the ECCU/OECS. Column two of that table presents the number of natural disasters per capita and column three gives the average number of annual damage from natural disasters as a percentage of GDP.

**Table 3.2: Natural Disasters and their Impact on the ECCU/OECS**

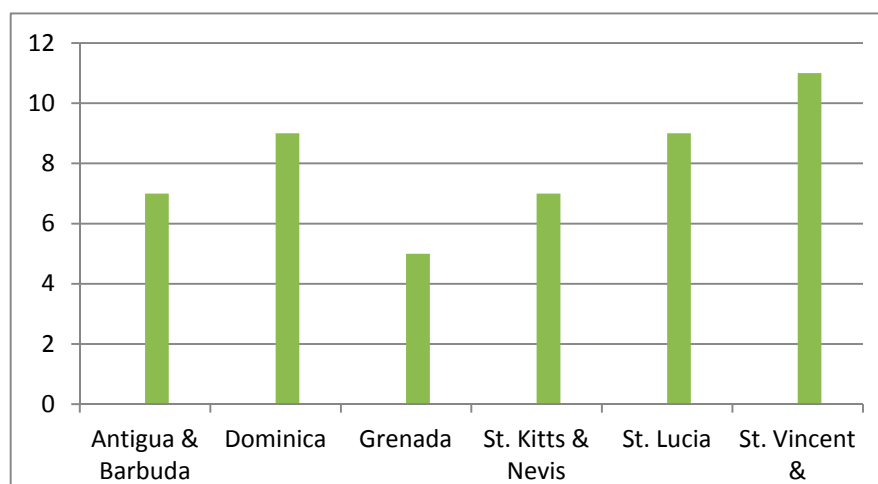
ECCU	Number of Natural Disasters per capita	Average Annual Damage from Natural Disasters ( per cent of GDP)
ECCU-6	747	3.0
Antigua and Barbuda	799	0.7
Dominica	906	3.6
Grenada	393	6.8
St Kitts and Nevis	1,171	4.0
Saint Lucia	459	2.0
St. Vincent and the Grenadines	751	1.0

Source: Ratna Sahay, et. al.(2006).

“The Caribbean: From Vulnerability to Sustained Growth”. (Editors) IMF, Table 5.1, p.124.

Between 1970 and 2004 the ECCU countries experienced 48 natural disasters which affected 448,700 persons at a total cost of over US\$3,251 million. The breakdown of the natural disaster impact is depicted in Graph 3.2:

**Graph 3.2: Natural Disasters in the ECCU/OECS, 1970-2004**



**Source: Sahay (2006)**

The natural disasters span the gamut from 34 hurricanes; one drought; one earthquake; four tropical storms; six floods and two volcanic eruptions.

In a word, the region is deeply prone to natural disasters. Thus, there is a clear need for lines of development such that funds would have to be earmarked to mitigate the effects and impacts of natural disasters. In this regard, the opportunity costs of the use of those set-aside funds could have debilitating impact on the overall budgets. But, the government expenditures for natural disasters and the likelihood of natural disasters are associated with those inevitable costs that must be incurred and thus will be linked to increases in government expenditures.

### **Concerns of Governments**

By and large, the leaders in all governments in the OECS profess to have great concerns for the improvement of the welfare of the people. When this welfare is attended to, many governments spend on infrastructure development as this is the most visible expression of the expenditures. Sometimes the expenditures come in the year of an election, or the months leading up to an election; and sometimes there seems to be no rhyme or reason for the expenditure. But at the end of the day expenditure increases could be linked to infrastructure.

Of signal importance, also, are expenditures on education and human resource development. Human resource development expenditures are those that are devoted to education, health and hospital services, tertiary education as distinct from primary and secondary education, and expenditures geared to the general social welfare or a social security safety net provision for the population. In most countries in the region, the education budget is generally the largest single item in the budget. Generally speaking, the human resources component of government expenditure ranges between 40 per cent and 50 per cent of the overall budgetary expenditures.

In the OECS there is a general perception and a long-held view that the government should provide free education, free health care services, and the rest, in a freeness-mentality. This quasi-socialist approach, no doubt, stems from the Fabian-type socialism that governments in the region inherited from what they thought was in operation in Britain, their former colonial overlord. But while this may have some merit, the reality is, the governments are haemorrhaging in a fiscal sense.

### **Increased Incomes**

It may seem paradoxical to link increased income with increased government expenditure, but as is noted in Table 3.1 above, there is a high correlation between rising government expenditures and rising GDP in the ECCU member states of the OECS. Pragmatically, increasing real income is linked to increasing government expenditure from two points of view. In the first instance, there is a quantitative increase in the economy, namely economic growth or a change in GDP, while there is normally a quantitative shift from primary industries to secondary industries, and to service industries. Indeed, over the last 30 years, the OECS has moved through this development spectrum. Given the fact that governments have assumed the role of the helper of the last resort, governments in the OECS are dominant in the provision of services in the economies.

In the second instance, there is a tendency for service activities to have lower rates of productivity over time. As government workers settle into their jobs, the drive and momentum that were initially associated with their first few months on the job tend to decrease. Workers tend to take it for granted that they are now permanent employees in a permanent position and, hence, there is no need for them to be as creative as when they were newly employed. This is a tendency, we note. Hence, what governments generally have to do is to shift or switch workers from areas of high productivity to ramp up the low productivity areas. In this respect, there is a greater opportunity cost in the shifting incidence from the high to low productivity areas; this results in an increase in government expenditure.

### **Increased International Involvement**

All of the OECS countries are independent with the exception of Anguilla, the British Virgin Islands and Montserrat. What this means is that each of them has to maintain international links with countries and agencies abroad, which require large sums of money and significant proportions of the budgets.

In a COFCOR meeting in St Kitts in 2011 efforts were made by CARICOM members to enhance their coordination of Foreign Policies as far as strategies and costs are concerned. Currently, there are 22 plenipotentiaries accredited to CARICOM. These include Australia; Austria; Argentina; Brazil; Canada; Chile; Columbia; Cuba; the European Union; France; Finland; Germany; India; Italy; Japan; Mexico; Spain; South Africa and Turkey. At the May 4<sup>th</sup> and 5<sup>th</sup> meeting in St Kitts, Slovenia and Azerbaijan applied to have plenipotentiary representation in the region.

In large countries their international portfolio is normally on international defence. In the case of the OECS, increased international involvement is centred on the vast sums of money that the countries have to pay to be part of the international dialogue and decision-making. Whether it is the upkeep of the UN, membership fees in the IMF, the World Bank, UNESCO, WHO, PAHO, or costs associated with embassies and High Commissions around the world, these fees ultimately add up. Thus, funds which would normally be used to address some local or regional issue, with a consequential benefit to the local population, end up being devoted to underwriting the costs of international involvement. At one time, it was estimated that the state of St Kitts and Nevis was paying about US\$10 million per annum for its involvement in international agencies, organisations and what have you.

This international involvement and the associated government expenditures is a chicken and egg scenario. If the countries pay to be part of the international arena, they tend to benefit, when they attend meetings. But they have to attend the meetings or send a representative to be up-to-date with discussions and issues which may affect them. If the countries do not pay or are in arrears, which is usually the case in many Caribbean countries, then whatever decisions are made will impact the countries and the sad part is, there will be no voice from the region to be part of

the decision-making. What has been the social impact of government expenditures, and what are some of the features of the factors that may cause government expenditures to increase?

### **Social Impact of Government Expenditures**

In all economies the social impact of government expenditures could be split in at least two streams. First, there is a positive stream where government expenditures are designed to generate benefits to improve the welfare of the people. These welfare-enhancing benefits derive, for the most part, from the economic impact mentioned earlier. Thus, government expenditures are normally devoted to building roads; railways; bridges; schools; making canals, etc. The presence of these infrastructures tends to augment the quality of life of the society.

Governments in our part of the world tend to spend, if not outright expenditures, derived expenditures a la opportunity costs, by giving multi-year investment incentives, building factory shells; floating bonds backed by the full faith and credit of the government, to assist in building hotels, etc. All of these incentives, bonds, etc are used, ostensibly, to improve the welfare of the people. It is normally assumed that if the government does not put out these kinds of expenditures then the businesses will not come in the first instance, or will not stay in the long run.

The actual expenditure outlay and the derived expenditure from the tax incentives, profit repatriation, etc., are all on the surface geared to generate benefits to improve the quality of life of the citizens. The impact of this type of government expenditure tends to fall into the positive stream as it is supposed to enhance the welfare of the citizens.

On the other hand, government expenditures in the region also come about as a result of negative social events, both from the principal societal development and from the derived law of unintended consequences of business development and operations.

The scenario works as follows. In the OECS, as elsewhere, real GDP is used to approximate a positive social measure. It is assumed, further, that market prices reflect the social value of the output of the society. But when a concrete plant, an oil refinery or a rum distillery produces

concrete, oil and rum, respectively, the social impact is assumed to be positive from the point of view of the revenues to be derived.

However, when these three plants produce dust pollution, carcinogenic smoke pollution, and toxic waste, which may be dumped into the aquifer or pumped into the ocean, thus poisoning the marine life, these externalities are produced by private costs, but they are not absorbed by private costs. The plants do not pay the costs. Invariably, these costs become social costs and these costs become costs, which fall under government expenditures designed to protect human life. If GDP is measured without taking into consideration these costs due to externalities, then it could be overstated estimates and by links, so would be the national income of the countries.

Another part of the negative stream of government expenditures is that part associated with migration, emigration across borders. Over the last few years, the OECS has become the magnet attracting people from the larger islands and nations of the Caribbean. On the face of it, this is a positive development given that the smaller OECS countries need people to augment their labour force. But the flip side is, there is a high density of external pressure on the local economies due to the density of the people, the people to infrastructure, such as roads, etc; the people to health services and education services; all in all these developments tend to create a situation where there is societal stress. The social stress forces the governments to spend to build new schools, improve and build new hospitals, hire more government workers, and the rest. In sum, the government is forced to expand what in many respects may be an already bloated government budget and workforce.

It is possible that the government's budget was in need of expansion, but here again the question that may be asked is this: what was the stimulus of the added government expenditures? Was it clear, germane government planning to promote social development that caused the expenditures in the first place? Or, was it a reaction function due to the social stress from the unplanned absorption of the nationals from outside of the OECS?

### **Political Impact**

The political impact of government expenditures is a reflection of the views of the populace relative to the role of the state and the role of politicians or government leaders. In the Caribbean in general and in the Eastern Caribbean in particular, there are at least two prevailing views.

The first view is that the private sector knows best and that the members of that class of people can run the economies and the government better than those elected to serve the people.

The second view is that governments know best and that they, as the helpers or the last resort, will bail out the private sector and the economy when the private sector makes errors of judgment, or when they are incompetent as far as managerial practices are concerned.

Notwithstanding these two ideological frontiers, the private sector in the OECS depends, to a large extent, on the public sector for its development and the expansion of its businesses. Even though there is the notion of the minimalist role of the state in keeping with the Jeffersonian dictum: “That government is best which governs least”, the fact is, if governments were to reduce their involvement in the running of countries in the OECS, there would be chaos, anarchy and down-right calamity. The non-governmental involvement is an extreme case. In this light, governments will continue to express themselves via government expenditures and specifically in the areas of increasing government expenditures.

The political impact of government expenditures may thus be appreciated, for example, in labour legislations geared to improving the lives of the citizens. Laws pertaining to voting and voting rights; sanitation laws to clean up cities and towns; laws to ensure women’s equal rights in the political process; laws to protect women from abuse; public education to ensure equal access to all in the countries; laws establishing minimum wages and maximum hours of work before overtime pay kicks in; holiday pay; social security benefits; restriction of child labour, etc.

For the most part, many of these actions had their genesis in the political matrix of concerns, but they were manifested in actions that were linked to government expenditures, which were

devoted to ensuring that policy followed form, that form followed action, and that action was linked to practical implementation and substance.

Within recent years given the nature of the debt to GDP ratio in the OECS, in excess of 100 per cent in some countries, and over the proverbial line of demarcation, namely 60 per cent, we hear rumblings from the private sector that approximate John Stuart Mill's idea:

“The business of life is better performed when those who have an immediate interest in it are left to take their own course, uncontrolled either by the mandate of law or the meddling of any public functionary.” [John Stuart Mill, *Principles of Political Economy*, (Ashley Edition), 1932, Book V, Chapter XI, p.952].

This laissez-faire position is often talked about in the region, but at the pragmatic level, political decisions impact where the states go, with whom they associate, what policies they adopt vis-à-vis countries, for instance one-China policy versus a two-China policy. In a nutshell, while most political leaders do not clearly state their philosophies of government expenditures, and whereas we have discovered that there is no margin of degrees in the demarcation between a government that professes to be labour versus one that professes to be democratic, there is a prevailing view that public servants tend to have a greater orientation to look after the public interests, and hence the people's interests, unlike what would be done in the private sector.

Pragmatic decisions seem to be always the pivotal factors that determine the full impact of political actions and their public expenditure outcomes. This is not to say that there have not been the margins for corruption, associated with political actions and political interference. In the long scheme of events, the political impact of government expenditure is normally the response of governments to social demands, demands which are invariably tied to improving the welfare of the people. In fact, it is this notion of improving the welfare of the people that underpins the concept of public goods.

Public goods are those goods and services that can be consumed by all members of society, but which when consumed by one person, cannot be diminished in consumption to the detriment of



others. In other words, the exclusion principle of non-paying members is difficult or impossible to implement. This is where the political impact of government expenditures comes into force.

### **Institutional Impact of Government Expenditures**

This final section, regarding the institutional impact of government expenditures, focuses on the common elements of government whereby the governments seek to have a commonality in service or uniformity in services across the board. A visit to the Health Centre, the Hospital, or the Power Authority, should result in a uniformity of efficient service. There should be open access to service, transparency should be in place, and there should be such a participatory approach to consumers that one feels as if the government is operating at the optimal level as far as service is concerned.

Where these conditions are not in place, and this is the case for the most part, the costs linked to the provision of government services tend to bring about negative externalities. Technically, from an institutional space point of view, governments tend to spend to put into effect systems whereby there is a positive relationship between people, space and institutions. It is expected that if a government airline is to run at a certain time that it will be on time. If a passenger should take five minutes to be evaluated or processed at the airport on entering a given country, it should not take double that time. Once again, where there are departures or significant departures from established norms or best practices, there will be a tendency for government expenditures to increase exponentially and for services to decrease at a rapid rate.

If a birth certificate could be obtained in two days but it is taking two weeks, then from an institutional impact point of view, costs to government will tend to increase. Thus, when all factors are considered, the institutional impact of government expenditures is sourced in the quantitative and non-quantitative features that governments put in place. These features are normally put in place to ensure that government services flow seamlessly. Where there are fundamental departures from the seamless flow of services, it could readily be said that government expenditures will rise exponentially.

If the institutional changes are not embedded in the budgetary process, there will be a tendency for a gap between plans and actions. That, all things being equal, seems to be the biggest challenge as far as institutional impact of government expenditures in the OECS. Institutions are needed, but too often institutions are built and there is a disarticulation of the institution from the budgetary process. Thus costs skyrocket out of place and the law of unintended consequences comes into play.

### **3.3 The Normative and Prescriptive Perspective with Analytical Foci on Implications and Consequences**

#### **Functions of Government**

The role and size of government, since man began organising themselves into communities, have progressively been looming larger, more sophisticated and complex, and, today are critical to the overall modern day economy and society. Beginning with the safeguarding of the sovereignty and territorial integrity of the nation state and defending it against external aggression, an expanded role quickly assumed the functions of maintaining law and order amongst the community to allow for peaceful and harmonious communal existence, and to create a framework within which that community could engage in fruitful economic and social activity, in the knowledge that there are known social rules and speedy and fair means and institutional arrangements for resolving disputes. As the strength of the communities began to be measured, not only by their military strength and conquests but also by their comparative economic size and wealth; and since it required internal economic growth, particularly in reducing reliance on warfare for conquest and growth, not only to advance the economic welfare of the state and its inhabitants but also to sustain the strength, importance and status of the state, increasing attention began to be paid to what today would be called national economic management.

The current expectation is that the state apparatus is the main, if not only, vehicle for giving economic direction, facilitating economic growth and social development and creating the framework for the optimal utilisation of available and potential resources. Others may assist, but the role of the state in giving economic and social leadership is not only expected but mandatory. Creating the facilitating framework involves the preparation and implementation of an optimally coordinated menu of policies, programmes, institutional arrangements (including legal and regulatory) and physical infrastructure that are best provided by the state sector, either because they are natural monopolies (e.g roads and bridges) and/or it is difficult for the investor to capture sufficient of the derived benefits to justify the investment e.g. primary and secondary education, public health, environmental protection.

Today the state's portfolio has the added responsibility to ensure that all contribute to the best of their abilities, but that nobody's basic needs are denied. This has become not only a modern day

challenge, because of global concern for human rights and poverty alleviation, but an imperative where democracy prevails and where political leadership is determined by the majority. It is trying to satisfy this last need that is posing a fiscally balancing challenge for most governments and, to a large extent, is the source and cause of many national economic problems.

Spence in Chapter 38 of his 'The Next Convergence' has characterised the relationship between the private sector and government in the following truncated words:

“The dominant political-economic formula or model that prevails in most of the world involves a division of labour and behavior. In that model the economy is the domain of the pursuit of self-interest, while government and the political process are supposed to take charge of making collective choices in pursuit of the common interest...But by and large, the economy remains the domain of self-interest and decentralization operating in an evolving framework of laws and policies designed to enable contracts and investment and to constrain, influence, and adjust market outcomes to make them socially desirable and acceptable...The genius of the market system is that it does not require micro-level intervention and coordination to work, provided there is a credible government entity that pursues, perhaps imperfectly, the common or collective interest. The government does this in a variety of ways. It provides for enforceable contracts. It identifies externalities and modifies the behavior, or the incentives of the players, to take them into account. It identifies problems in markets that come from informational gaps and asymmetries, and intervenes to close the gaps or constrain the misuse of informational advantage. It invests in public goods that tend to be underprovided with private incentives alone”

### **Macro-economic Policy Tools for National Economic Management**

The policy framework that is normally used in economic management covers the range of the following policies: monetary (controlling the level of the domestic money supply, the cost and availability of credit and possibly the direction of credit); external or exchange rate (the level of domestic prices in relation to external prices and whether it is a fixed, managed, or free floating exchange rate relationship); external trade (the terms and conditions governing the inward and outward movements of goods and services between countries or economies); domestic commercial (involving the policy framework governing domestic production and trade); fiscal

(what governments take in revenues and in what form from the output of the national economy, how these are allocated to the various activities that make up the role of the state, and how government uses its resources to either stimulate or slow down the economy); and labour (the policies governing or surrounding the use and price of the most abundant resource in the economy).

### **Macro-economic Policy Tools Available to National Governments in the OECS**

The fundamental importance of sound and predictable policies and operating under the principle that unity is strength has led the ECCU/ECCB countries to enjoy a potential credit worthiness rating that would be far superior to that of the best rated amongst them, and has inter alia led them to strengthen their regional cooperative arrangements. As such, much of the policy tools that would have been available to national governments have been transferred to regional management arrangements. Moreover, these are being accelerated under the Single Economic Space for the region.

Monetary and exchange rate policies are standardised and handled by the ECCU Monetary Council. It has effectively controlled money supply to be largely dependent on external reserves; has a fixed exchange rate regime that has been in existence for nearly forty years and which has lent much confidence in economic, trading and investment activities in the sub-region; and has strict, prudent and rational guidelines for financial accommodation to the public sector.

Trade policy has departed from the realm of national control as these are now governed under mutual agreements at different levels: OECS for regional trade; CARICOM for broader regional trade and the GATT and WTO for other global trade. Commercial policy is almost more within the realm of the many international agreements that OECS countries individually and collectively have signed to harmonise our region, in line with the goals of and procedures for doing business in the international community, and to make us eligible and attractive for foreign investment.

While labour policies are critical in terms of improving the productivity and international competitiveness of labour, the main resource available to an economy, they have not generally

been used because of the dominance of the trade unions in our democratic systems and a strong relationship with governments. This is a worldwide phenomenon and only one major country, Germany, had the political courage to systematically and rationally address the issue and today is one of the major success stories in Europe, while its determined neighbours and partners such as Greece, Italy and Spain are languishing from major economic problems that stem from irrational labour policies.

As a consequence, fiscal policy is the only major set of policies that are still under the control of national governments. And even here, it is becoming increasingly circumscribed by what is prudent and rational and by the fact that common monetary, exchange rate, commercial and trade policies must mean increasing commonality in the remaining policy area if a degree of overall regional convergence is to be achieved. Significant policy deviations in this area, while it can be temporarily accommodated, can in the medium to long run cause a contagion that compromises the overall integrity if not the solvency of the grouping as a whole. The current situation, involving the solution of the extreme debt burdens of a few countries having an effect on the ability of others to raise new debt, is a topical case in point. But the country is in a better position and situation to handle it in a group setting than if it were to attempt it alone, outside the group.

### **Incremental Public Expenditure on Net Output Expansion**

The output effect of an incremental increase in public expenditure, of say one million dollars, will depend on: the source of the financing (whether from taxation, money creation or external borrowing) and the nature of the expenditure (whether it is for current consumption or capital formation). If it is from incremental taxation, the impact on net output will be dependent on what the taxation would have displaced: private consumption or capital formation. If it is the former, except it is for the maintenance of essential human capital, then the increase in expenditure would have a small combined beneficial multiplier and accelerator effect on output in the short to long runs. If it is the latter, then the net impact on output would be dependent on the relative net output impact of capital formation in the public and private sectors.

If the increase in expenditure is financed from domestic money creation it can serve to debase and weaken the currency, except if the expenditure is for productive capital formation with very limited imports, a situation that is somewhat unlikely given the very openness of our economies particularly in the area of capital formation. Nonetheless, with some deliberate effort, it may be possible to identify some opportunities. Of course, if money is created to finance consumption then the speed with which the currency is debased would be accelerated. If the financing of the increase in expenditure is sourced from external borrowing and is for consumption, there would hardly be a sustained, if any, increase in output to match and finance the attendant current and future debt obligations, leading of course to serious present and future debt problems that could contract the overall economy. If, on the other hand, the borrowing is for productive capital formation that can generate outputs that are greater than the associated financial and operating costs, then the benefits to the economy are positive.

### **Incremental Public Expenditure on Net Employment Creation**

Whether an incremental increase in public expenditure will result in net employment creation depends on whether that increase is to finance consumption or capital formation and, if the latter, the comparative efficiency between the public and private sectors not only in terms of increasing employment numbers, but more importantly, in increasing net productivity and real value added. There is the general feeling that the public sector is more ‘efficient’ at creating nominal employment, but is much less so in creating real value added or productivity. In fact, it is more than likely that the net employment creation in the public sector could lead to reductions in direct public sector labour productivity, and indirectly to reductions in overall productivity for the reasons advanced in the last section of Chapter 1 of this Report.

Of course, if the increase in expenditure is to meet salary increases, as is usually the case when such outlays are large, then there is no increase in public sector employment creation and possibly no increase in public sector productivity; this certainly results in additional cost and/or reduced productivity and/or reductions even in overall net employment creation.

### **Incremental Public Expenditure on Net Investment**

The impact on Net Investment of an increase in public expenditures will depend on the use to which the expenditure is put on the one hand and the source of financing on the other. Such an increase in expenditures on net investment will have different impacts, depending on whether it is for wasteful and conspicuous consumption (that generates no returns); current consumption expenditures that maintain and/or improve human capital (basic education, preventative and curative health care, child nutrition, basic housing); current expenditures that maintain and/or improve the efficiency of the facilitating institutional infrastructure (more accurate and timely record keeping, law and order, regulatory framework); and productive capital formation that indirectly generates inducements for private investment (transportation infrastructure, utilities, secondary and tertiary education, medical facilities). Apart from current expenditures that are either wasteful and/or used on conspicuous consumption, all the other uses described above have positive impacts on net investment but such impacts would vary in terms of magnitude and timing. In general, they all have medium to long run impacts.

The source of financing for such expenditures is also important. If the source is taxation, particularly of the corporate sector that would have used those resources for their own direct investment, the net impact would depend on the relative efficiencies of the two investments. If the source is domestic borrowing that competes with the private sector both in terms of the availability of funding and/or its costs, then the impact on net investment would depend too on the relative efficiencies of public and private sector investments at the time, and the ultimate impact on overall national output.

### **Incremental Public Expenditure on Balance of Payments**

Our region is one of the most open economies in the world with trade to output exceeding 100 per cent. We depend on the rest of the world for most of our consumption, capital formation, and our technology and it is for reasons such as these that the maintenance and preservation of an adequate level of foreign reserves is critical and also why it is important to help develop the foreign exchange-earning sectors. Thus, any autonomous increase in public expenditures would have a direct and immediate impact on our external accounts and/or our reserves, except if the



source of financing for this expenditure was foreign grants with no direct obligations. If the source is foreign borrowing, it would create an external long term and possibly costly claim on future foreign exchange, but if the expenditures can earn foreign exchange rapidly to offset its initial foreign exchange costs then the burden would be neutral.

Our Local Value Added Factor or  $GDP/(GDP + \text{Total Imports})$  is about 90 per cent and is presumably higher on average for capital formation, particularly those that are financed from foreign resources - Chinese, donors and International Financial Institutions. (Incidentally this factor gives an indication of the comfortable fiduciary level in our currency and the lowest level, below which we should not let our external reserves to money in circulation fall). Thus, whether we spend on capital formation or on consumption the burden on the external account will be high and immediate. Depending on whether it is consumption or capital formation will determine whether, in the medium to long run, output and/or foreign exchange would be earned. Thus, consumption is an immediate and permanent drain on the external account with no increase in output. Capital formation for domestic activity is also a drain on the external account, but has the prospect of increasing output. Capital formation for tradable activities such as tourism, export agriculture and industry, and export services increases both output and foreign exchange earnings.

### **Incremental Public Expenditure on Inflation**

Domestic price stability or even very slow movements in domestic prices is essential for maintaining confidence in the monetary, financial and external sectors. Such stability and predictability are necessary for the encouragement of savings and for maintaining international competitiveness, particularly in a fixed exchange rate policy environment. The sources of transmission for domestic price increases are: imported inflation particularly from the country to which our currency is pegged; increases in the prices of some major input such as fuel and food; and of course from overheating in the economy contributed by demand and supply imbalances in

major and significant non-tradable sectors e.g. in domestic transportation, domestic banking, taxes and government services and utilities. Comparatively high costs, associated with basic consumer items such as food, domestic transportation and housing that affect the workforce; and of essential inputs such as energy and transportation costs that are critical, significant and pervasive intermediate input costs, contribute significantly to the international competitiveness or lack thereof of an economy. And any of these can be or is usually contributed by wasteful and inefficient use.

An increase in public expenditures cannot affect prices in the external sector but will affect the level of the external accounts and reserves. Such expenditure increases can affect domestic inflation where it creates demand and supply imbalances that drive up the price of non-tradable goods and services, as where the government is paying too high a price in relation to productivity for skills; or where it imposes a cost or tax that drives up the price of an essential input e.g. import duties on intermediate goods or high work permit fees for essential skills.

### **Incremental Public Expenditure on Poverty Alleviation and Income Distribution**

It is the general consensus that increased taxation reduces income inequalities, while increases in public expenditures are more redistributive of income. Tax is normally on the wealthy and benefits of expenditures are generally distributed to the poor and less affluent. On this premise it can be concluded that, typically, public expenditures are more prone to poverty alleviation and better income distribution. But even that is subject to caveats. This may not happen as welfare benefits are not necessarily properly targeted, and the rich and those who are not as deserving are the ones more likely to benefit from these expenditures as they are more knowledgeable and better placed to seize them, whilst the deserving ones are either not known and/or denied. Moreover the framers and implementers of these poverty alleviation and income distributional policies are public servants who see about their own welfare and that of their class. One controversial instance is with the school feeding programme. Teachers and administrators have made strong representation that if such programmes are targeted at the poor and deserving only, it may not reach them as these children and their parents feel ashamed to be the targeted recipients of what appears to be welfare and will not accept it even in their dire need. Special

measures and programmes need to be devised to ensure that expenditures particularly on poverty alleviation and income distribution go where they are intended and nowhere else.

### **Some Related Philosophical and Operational Issues**

Many issues suggest themselves or emanate from this analysis: How big should government be? Does big government have inherent constraints and challenges particularly in small societies? How much and for how long should governments wait to get the desired private sector responses? Is the marginal dollar in the hand of the private sector more socially beneficial than in the hands of the public sector? The answer will always be 'It depends'. Then the issue is on what, and this could be the beginning of a useful debate.

### **3.4 General Conclusions**

The following guidelines seem useful in managing public expenditures:

- All expenditures need to be carefully planned, properly organised, and skilfully implemented and executed to optimally derive the expected benefits;
- Ceteris paribus, capital expenditures can be prioritised in the following order:
  - Viable projects that directly and/or indirectly, in that order: earn foreign exchange and/or increase output and/or create employment;
  - Viable projects that directly and/or indirectly improve overall social well-being;
- Ceteris paribus, current expenditures can be prioritised in the following order:
  - Cost effectively maintain law and order;
  - Efficiently managed and well-targeted expenditures that improve and/or least maintain the human capital;
  - Cost effectively maintain existing assets, including taking adequate insurance, to expand their useful lives and the derived output from them; and
  - Cost effectively create, develop and maintain the institutional infrastructure to facilitate optimum economic and social activity.

“You cannot legislate the poor into prosperity by legislating the wealth out of prosperity.”

Adrian Rogers 1931

## **CHAPTER 4**

### **AN IDEAL GOVERNMENT EXPENDITURE ARRANGEMENT:**

#### **The Theoretical, Best Practice and Common Sense Model for the ECCU Countries**

##### **4.1 Introduction**

Much is expected of governments as there are core activities that they must fulfil. First, they must preserve the sovereignty and territorial integrity of the state from external aggression. Second, they must maintain domestic law and order to a level that is satisfactory for the safe, peaceful and harmonious coexistence of its citizens; and for the creation of a conducive, predictable, fair and transparent environment for the transaction of business and the regulation of interpersonal and commercial affairs. Third, they must create a conducive and optimal economic climate for the exploitation of opportunities and conduct of business, and must encourage all its citizens to achieve their maximum potential. Fourth, governments have to ensure that citizens who may be economically challenged and/or involuntarily marginalised for whatever reasons beyond their control are still adequately taken care of and living, at least at the poverty line.

These functions and activities are financed through the expenditure budget, but government's responsibilities are as much quantitative as they are qualitative. Since expenditure is financed largely through taxation, or a levy on the citizenry, there is a limit on how much the government can spend. That limit is theoretically set by social consensus and normally depends on the range and quality of services provided. The wider the range and the better the quality of service, the larger would be the amount that citizens would be prepared to part with to finance the essential expenditures. Qualitatively, governments are expected to maintain steady economic growth at a moderate level. This is necessary to improve the economic condition and quality of life of the citizenry in absolute and comparative terms, despite natural disasters and economic dislocations even from exogenous sources. The government itself has to strive for growth that will provide the wider income base for increasing tax revenue without unnecessary inconvenience to the

taxpaying citizens. Moreover, not only must the expenditure budget be the focus of the financing, but it must also be a critical instrument for guiding and optimising economic performance and for creating the economic climate for economic activity and growth. In short, the expenditure budget is an instrument conducive to performance engineering. As such, the budget and its functional components have to be characterised by: productivity, efficiency, optimality, stimulus and innovation.

Government itself, despite its ability to tax without permission, is, or could be seriously constrained for resources. Taxing too heavily tends to shift resources from the private sector, the engine of growth, to the public sector and, as a consequence, has the potential to discourage investment and hence economic activity and growth. Moreover, no matter the level of taxation, citizens expect value much greater than the natural economies of scale that pooling resources normally brings about.

The ideal expenditure budget, suitably divided between current and capital, can be viewed from any or all of the following perspectives:

- Allocations to perform the four core roles of government
  - preserving sovereignty and the integrity of the borders
  - maintaining domestic law and order
  - creating an economic and social climate to optimise output
  - alleviating poverty for the involuntarily marginalised and economically challenged.
  
- Allocations to the various sectoral ministries or groups of activities
  - general institutional: defence, external affairs, law and order, civil administration
  - general infrastructure: roads, bridges, rails, seaports, seawalls, airports and utilities
  - specific economic: agriculture, tourism, commerce and distribution and other economic activities
  - specific social: education, health, housing, community facilities

- Allocations to resource inputs: personal emoluments, pensions, goods and services, interest payments, principal payments with each appropriately subdivided between current and capital, and domestic and external.

## 4.2 Broad Macro-economic Framework

It is generally accepted that there is a rational and optimal relationship between the fiscal and macro-economic aggregates. The Monetary Council of the ECCU has pronounced on what the ideal relationship should be and the rationale for these limits. The ECCU Monetary Council appointed Tax Reform and Administration Commission recommended the following ideals:

**Table 4.1: Ideal Revenue, Debt and Debt Service Ratios**

Current Revenue/GDP	28 per cent to 32 per cent
Current Expenditure/GDP	22 per cent to 26 per cent
Current Surplus/GDP	at least 6 per cent
Total Debt/GDP	not more than 60 per cent
Domestic Debt/GDP	not more than 35 per cent.

Source: Tax Reform and Administration Commission

### Broad Classification by Function

There has been a considerable shift in the functions of government. The preservation of sovereignty and the maintenance of law and order pale in insignificance, in relation to the more recent economic and social functions of maintaining the environment as well as providing civil administration, poverty alleviation and general societal protection. Given the current expectations of governments, an appropriate breakdown of expenditure against current revenue for the ECCU could be as follows:

**Table 4.2: Ideal Expenditure Ratios**

Defence and External Affairs	1.0 per cent– 2.0 per cent
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Public Order and Safety	5.5 per cent - 6.0 per cent
Economic and Social Services	86.0 per cent - 88.5 per cent
Poverty Alleviation	5.0 per cent - 6.0 per cent

Source: Public Expenditure Review Commission

### 4.3 More detailed Classification of Functions of Government (COFOG)

The almost universally accepted OECD's ten-point Classification of Functions of Government (COFOG), which expands on the narrow functions above, will be used to try to identify an ideal framework for government expenditures.

There can be no standard sectoral expenditure allocation formula or benchmark that could be ideally applicable for each country. What is ideal for each country will be dependent on a number of factors including its philosophy of the role of the state, the state of its own economic and social development, its own peculiar circumstances particularly in relation to external threats, external contemporary trends and influences and international agreements. Thus each state has to devise its own sectoral expenditure allocations.

From our perspective, an appropriate allocation of expenditure against current revenue would be as follows:

**Table 4.3: Appropriate Allocation of Expenditure against Current Revenue**

Civil Administration or General Public Services	Maximum 10.0 per cent
Defence	Maximum 0.5 per cent
Public Order and Safety	7 per cent - 7.5 per cent
Economic Affairs	Maximum 8.0 per cent
Environmental Protection	Maximum 1.0 per cent
Housing and Community Amenities	Maximum 5.0 per cent
Health	Maximum 16.0 per cent
Recreation, Culture and Religion	Maximum 1.5 per cent
Education	18.0 per cent - 20.0 per cent
Social Protection	10.0 per cent - 10.5 per cent
Insurances, Contingencies and Stabilization	7.0 per cent - 8.0 per cent
Contribution to capital programmes	Maximum 15.0 per cent

Source: Public Expenditure Review Commission

Such an idealised structure for the ECCU as an aggregation or on average is predicated on the following assumptions:

- a. Focus of governments should be first on the acceleration of economic growth to create the basis for increased income and improved standards of living, and to create a larger income base to either minimise the need for redistribution and/or to have the basis to achieve it. Second, governments should meet the needs of the involuntarily marginalised and economically challenged up to, or at least at, the poverty level.
- b. Social programmes should be directed at creating capacity through functional education and at fostering preventative measures and healthy lifestyles and environments that will minimise the need for rehabilitative prescriptions that are financially costly and contribute to a loss of labour and/or leisure, which can be traumatic.
- c. Social protection should involve more skills training for citizens to be eligible for employment even at the minimum wage. Nobody would be provided with welfare support while idle, except if they definitely cannot engage in any productive income earning activity.
- d. Defence should not be an activity that requires much outlay as there are no significant threats to territorial integrity except through the drug trade. The threat of the drug trade should best be handled through regional cooperation. External support and protective cover/shield should be from such friendly governments, while fostering cost effective diplomatic relations on collaborative and joint bases with other OECS countries as well as other countries in the wider Caribbean.
- e. Expenditure must be characterised as being efficient, productive, optimal, maximising value added and cost-effective.
- f. Much more needs to be expended on law and order to stem the rapid increase in criminal activity, arising from the drug trade and the negative fallouts from socially deviant behaviour, that increases the cost of doing business, discourages investment, seriously affects the critical hospitality sectors and causes fear and anxiety among peace loving persons.
- g. The assault on crime must entail equipping and strengthening the forces of law and order, and inculcating positive values in the citizenry especially the youth.



The values should include: discipline, ethics, morality, charity, understanding and conflict resolution, among others.

- h. Fifteen per cent (15.0 per cent) of current revenues should be specifically set aside for the financing of small capital projects and/or to assist in providing the necessary counterpart contributions to donor-financed capital projects which are large.
- i. A separate heading should be created to finance self or commercial insurance of government assets and to create a contingency fund to help cushion the negative effects of natural or exogenous disasters, thus helping to stabilise economic activity and allowing for more speedy responses to disasters.
- j. Government will maintain a laissez faire philosophy and posture in the ownership of what would be private sector oriented activities. In addition, it should be prepared to consider privatisation of utilities, ports, financial institutions and other commercial entities where feasible and beneficial to do so. Nonetheless, it should also be prepared to enter into joint ventures and outsource activities where necessary and expedient.
- k. Increased sensitivity to sustainable development, given our critical dependence on our fragile environment for economic activity and safer living.
- l. Greater use of regional arrangements such as common services, joint procurement, functional cooperation and integrated services.

#### **4.4 Classification and Allocation from an Input Perspective**

The main inputs/payments in government expenditures are for labour (personal emoluments and pensions), capital (interest and repayment of principal), goods and services and transfers to institutions, households and individuals. Each of these could usefully be further subdivided into domestic and external. This distinction is of great importance as the recipient of payments does have an influence on a country's national output, employment levels and the balance of payments - the larger the outflows (*ceteris paribus*) the greater the negative impact on the identified national aggregates. Expectedly, since the government is the largest service sector provider in the country, labour would be its most significant input and so would its expenditures on personal emoluments and the attendant terminal benefit payments. The impact of government

expenditures on employment go beyond the amount identified for personal emoluments, as transfers, particularly to institutions, have a sizeable personal emoluments component in them. Above all of that is the perception that government is primarily more a source of employment creation than a provider of quality and efficient service.

An "ideal" input structure would be influenced by most of the considerations and assumptions that were applied to the "ideal" COFOG. In particular, and in addition, it would be expected that the provision of cost-effective quality service would be the more important objective than employment creation as an end in itself. In short, governments would provide the required service through the most cost-effective means possible. With the foregoing assumptions a possible ideal input allocation indicator is as follows:

**Table 4.4: Ideal Input Allocation**

Wages and Salaries/Current Revenue (RR)	less than 35 per cent
Of which:	
Expatriate emoluments	not greater than 2 per cent of RR
Terminal and other benefit/RR	less than 4 per cent
Interest payments/RR	less than 12.0 per cent
Of which:	
External	less than 8.0 per cent
Principal repayments/RR	around 15 per cent
Wages, salaries, terminal and other benefit /RR	less than 39 per cent
Wages, salaries, terminal and other benefit, and interest payments/RR	less than 51 per cent
Wages, salaries, terminal and other benefit, interest payments and principal repayments/RR	less than 66 per cent
Contingencies, insurances & reserves/RR	around 8.0 per cent

**Source: Public Expenditure Review Commission**

The first four expenditure items in Table 4.4 are largely contractual and should be carefully monitored and controlled to provide some flexibility in budget management, particularly during times of recession. Similarly, expenditure item 8 should be fixed except in times of emergency when the appropriate drawdown would be made to help stabilise the economy and/or accelerate recovery.

The allocation for expatriate emoluments is, albeit, low, but is present to recognise that some scarce and expensive skills may sometimes be unavailable from amongst local personnel, or because designated personnel are in training and local substitutes are not readily available. In addition, the use of expatriate skills may help broaden the horizon of and set higher standards and may serve as positive demonstrations for local workers. The use of foreign skills could also help to complement the array of local skills. Notwithstanding the foregoing, the employment emphasis will be on locals who meet the work criteria, and every effort should be made to foster the skill set and develop the right attitudes and work ethics from domestic workers. At the same time, nobody should perceive any job as an inalienable right by virtue of nationality.

Based on the recommendations of the Pension Reform Commission, the steady state cost of meeting terminal benefits for public sector workers would devolve to the self-sustaining and financing national social security and to the very independently and regionally managed State Pension Plan, both of which should cost no more than 10 per cent of salary from employer (and an equal amount from employee) to provide an adequate portfolio of benefits for an average retirement period of 15 years for all those who contribute continuously from every pay check.

The maximum outlay for interest payment is predicated on a maximum debt level of 60 per cent of GDP. This assumes an average interest rate of about 6 per cent for a debt portfolio appropriately balanced with concessional funding from donors and IFIs; a fair proportion of borrowings from commercial sources; and the borrower having a reasonable or acceptable credit rating. Two thirds of debt is assumed to be from external sources because this is the likely source of concessional funding, and this should leave a fair amount of financing for the domestic private sector. If savings levels are as expected and channelled to the domestic private sector for productive capital acquisition purposes, then funds would be available to that sector at lower interest rates than currently prevail.

Borrowings will be assumed to have an average life of about 12 years and therefore principal repayments would be about 5 per cent of GDP or 15 per cent of RR. More borrowings can be effected to repay principal repayments as long as the level of Debt/GDP stays within the established criteria. Debt acquired can be productive in generating economic and social returns that cause the economy to grow faster than the rate at which it contracts incremental debt.

The remaining 41 per cent of RR will then be available for the purchase of goods and services for making transfers and, because these will not be contractual, they would provide some flexibility in the management of the expenditure budget.

#### **4.5 "Ideal" Institutional Arrangements for Expenditure Management**

The truism that "if you do not know where you are going then any road gets you there" is relevant to the individual, the corporation and more so that behemoth, the State, which has the responsibility to guide a nation's destiny and optimise its welfare, and for which it compulsorily lays claim to and absorbs about one third of the nation's income. The annual budget and work programme should be an annual exercise that is anchored in some long term goal and framework. Ideally, it should be part of the following process and stages:

1. A long term vision and goal for the country
2. A medium term development programme and strategy
3. The Annual Budget and Work Programme

Each stage should have people participation; cost-effective management; progress reporting monitoring and auditing; and adaptation to lessons learnt and changing circumstances domestically and elsewhere.

The process begins with a determination of the vision for the country. This should be preferably through a process of widespread consultation or by the fiat of a benevolent leadership, that have its ears to the ground; a consensus should be determined as to what the country wants to be in absolute and comparative terms. What standard and quality of life do the people or leaders aspire to? What ethical, moral and cultural values should distinguish them? What ranking amongst the world's countries, all within a certain time horizon, about 20 years? Though time consuming and expensive, the benefit of popular participation is that it is broadly inclusive, gets a wide range of views, informs the public on what is going on and provides an understanding, if not agreement, of the reasons for taking the agreed directions and paths.

Visions are in very general terms and a possible one could be to be a God-fearing people working harmoniously and productively together to attain the highest standard of living that is optimally possible and affordable from available resources and voluntary efforts and, in any case, minimising or eliminating involuntary poverty. Another possibility for a more materially oriented economy that has aspirations towards international recognition and standing is to aspire to be a member of a developed country, by a certain time horizon. This is quantitatively defined and hence more easily targeted.

Vision plans are normally reviewed and adjusted every ten years. That opportunity is taken to review the goals; progress made to attain them; experiences learnt; changes in circumstances based on these developments; and set revised goals to reflect the changed circumstances and/or aspirations.

The vision of a country may be a broad set of generalisations of committed aspirations, but the Medium Term Strategic and Development Plan (MTSDP), which derives from it, should contain or outline the specifics of what needs to be done, albeit for a shorter rolling five year period. The Medium Term Plan (MTP) should provide the objectives and targets that would be expected for the planned period; the strategies to be pursued and the rationale for their adoption; the institutional structures to be established; the laws and regulations to be promulgated; the policies to be put in place and their timing; the details, justifications, costs and timing of the capital programmes to be implemented; the identification and possible sourcing of the human resource (in particular the skilled resources) that would be necessary to successfully implement the overall plan; and performance and monitoring mechanisms, benchmarks and indicators. All of these elements of the plan should have a time frame so that they are in sync with each other and properly integrated to have the most cost-effective impact. The Public Sector Investment Programme (PSIP), with the detailed list of projects, would be central to the overall exercise and particularly critical in the annual budgetary exercise which is the next stage of the process.

The importance of thorough planning must never be underestimated. While funds are spent at the time of project implementation, it is at the planning stage that critical macro-decisions are made. These decisions would be programmatic and thus could be costly for a number of reasons

such as inconsistency and/or inappropriateness of projects and programmes, and the fallout effect on the rest of the integrated and synchronised plan.

The work programme and budget will be the culmination of a three stage process, commencing with the visioning followed by the medium term planning. It is the advanced, virtual and final stage which translates wishes and plans into reality. It would have the benefits of the experiences of the earlier stages and the decisions, when implemented, would become sunk costs. Though a long process, it involves four main stages: Formulation and Approval; Implementation and Execution; Supervision and Monitoring; and Reporting and Evaluation.

The formulation involves various stages starting with the budget call to departments and ministries, and that can commence up to six months before formal approval. It would take into account the budget's philosophy and objectives and must reflect and aim to achieve the latest understanding of the Vision; it must incorporate the latest and detailed policies and programmes with specifications that are fully analysed, calibrated and costed; with all to fit into what is currently ongoing, and with all being able to be realistically accommodated with available financial and human resources and within the time frame of the current budget period. After the approval of the work programme and budget, the main task would be to optimally manage the implementation and execution of new and on-going current and capital programmes. This process would require astute and careful management and supervision to ensure that programmes are executed according to plan, costs are contained and timelines are met; and that deviations are addressed as cost-effectively as possible. The final part of the process is the review and reporting on the performance of the work programmes, highlighting what was planned, achieved, reasons for variance and lessons learnt.

Institutionally the Budget Process would involve:

1. The Budget Formulation and Monitoring Office in the office of the Prime Minister &/or Ministry of Finance that would work very closely with the Economic and Physical Planning Ministry, and of course with all other ministries to perform what the name implies.
2. A Prime Minister chaired sub-committee of the Cabinet to oversee, monitor and review the implementation of the Work Programme and Budget, but with a focus on exception reporting

and on making important and material decisions to facilitate the timely and cost-effective implementation of the overall programme.

3. An Independent Internal Audit Department reporting to the Public Accounts Committee of Parliament. The Department would monitor government expenditures to ensure that they are in accordance with authorisations and are implemented cost-effectively. It would also ensure that the expected benefits are derived, and determine whether more effective implementation measures, procedures and policies are possible and desirable.
4. Mandatory preparation of periodic reports by ministries, departments, statutory bodies and other units in receipt of public funds. The Reports should outline periodic performances against agreed objectives, work programme targets, budgeted resources and the reasons for the deviations and the lessons learnt for future improvement.

#### **4.6 “Ideal” Compensation Principles**

Ideally, compensation should be for the value of work performed and for nothing else. It should include wages and salaries; pecuniary outlays such as pensions, life and medical insurance, accommodation, transportation, communication, clothing, and vacation; and non-pecuniary outlays such as those for job refreshments. Expenses incurred on behalf of the company would not be treated as compensation and where incurred by the employee would be reimbursed as such by the employer. This arrangement would allow for mutual agreement on sharing the burden between employer and employee, as in the case of a vehicle provided by the company but used for personal purposes.

As a matter of policy, governments could establish a differential ratio between the highest and lowest paid employee. In the ECCU region, this could vary between 12:1 and 15:1 in the central government, depending on the size and complexity of the respective administrations in the area. Similarly, the differential ratio could be up to 20:1 in the public enterprises but subject to comparability equivalences with the central government. Thus, the differential ratio would vary depending on the size and complexity of the public enterprise in relation to a comparable entity in the central government. However, it would still enjoy a differential premium above the central government counterpart.

In order to encourage innovation and full employment, it is not proposed that such differentials be legislated or regulated for the private sector. The private sector should have the flexibility to set their compensation at levels that would clear the market for labour.

According to Lewis (1954), and based on the Singapore experience, it is better to aim for full employment even at very low compensation levels, as this ensures that all contribute to national output; acquire work discipline; and are afforded training to improve their skills and productivity. In addition, the employer surplus that is earned is beneficial to the economy as employers have higher propensities to save and invest than do the workers. Of course, full employment reduces the burden of the unemployed on the employed and minimises the negative effects of socially deviant behaviour that may be associated with unemployment. The public sector is a monopolist not subject to market competition, producing non-tradable services and has a moral obligation to set standards for the workforce. In any case, since the private sector is subject to competition and aim for profit maximisation, it will employ workers to the extent that it is profitable to do so.

The minimum compensation for full time employment could be set at 10 per cent above the poverty line for a family of three comprising two adults and a child under the age of five. Such minimum wage would be determined and fixed triennially and of course would take inflation and cost of living into consideration, thus obviating the need to have wage negotiations based on inflation and or cost of living adjustments. The initial compensation scale would start at the determined minimum wage and would have a span of, like the other scales, 20 per cent from minimum to maximum with the mid- point at 110 per cent. Scales would overlap and their mid-points would be 15 per cent apart.

Appendix 9 illustrates an idealised salary structure for a typical ECCU economy and is based on a normalised minimum compensation package of 100.

The length of the scale and the number of levels can be increased, if warranted, by reducing the inter-scale differential from 15 per cent to 12.5 per cent from level 11 and to a further 10 per cent from level 16.



The relative positioning of jobs on the scale would be determined by a Job Evaluation Exercise that would attempt to measure the relative contributions and comparability of jobs, not only within the central government but also the overall economy. The main ingredient for undertaking such an evaluation would be the job descriptions and specifications for all jobs in the comparator analysis and the associated compensation packages. One popular system used in the Caribbean is the Hay System (developed in Canada), which assesses jobs on the basis of the correlated criteria of Know How (the required level of knowledge acquired through formal training and/or experience that are required to perform the job adequately); the Skill, Competencies and Complexity of the job (involving the degree of independence, reference and collaboration in decision making); and General Accountabilities (involving the impact of the job and decision on the corporation and /or the number and seniority of persons supervised).

#### **4.7 Individual Goal Setting and Performance Appraisal**

The overall ethos of the central government should be to efficiently provide the public with timely, quality and high standard State designated goods and services in as professional, cost-effective and customer friendly manner as possible, and consistent with international best practice. Such an ethos should underpin the goals and objectives and work performance of each public servant.

For this to be achieved it is necessary that very clear and explicit job descriptions, specifications, expected output deliverables and performance expectations are communicated to each employee and the relevant training and mentoring provided.

#### **Increments**

Increments in the scale above would vary by scale level at 2 per cent of the minimum of the scale.

In an idealised arrangement:

- a) Compensation would be solely for mutually agreed work done and, at the margin, the level of such compensation would equate to the value added of the effort to the employer;

- b) All work would have quantitatively and qualitatively verifiable indicators of mutually expected and agreed outcomes and deliverables;
- c) Increments would only be awarded for sustained performance efforts above what is expected and mutually agreed for the job. For example, no increments would be due for results that equate to 100 per cent of the mutually expected and agreed results. Performances that are 10 per cent above the expected and agreed performance would receive one increment, if this performance is sustained over two consecutive years. In the year in which the performance is exceeded the employee would be entitled to a bonus of equivalent value. For performances that are less than 90 per cent of expectations for two consecutive years, the employer would either be terminated or demoted to a job where his performance can be maintained at 100 per cent.
- d) An employee's pay will increase as a result of: inflation (when triennial poverty assessments are done); sustained improvements in performances (when there will be movements along his salary scale); and for promotions (when there are movements to higher salary scales).

### **Recruitment and Procurement**

Recruitment and procurement objectives are to obtain objectivity, transparency and non-discrimination in the selection of personnel, goods and services, while ensuring that employees and goods and service providers can deliver within specifications, costs and agreed time lines. The process, which is essentially competitive bidding, applies to contractual and tenured employment, consultancies, current and capital goods, and simple and complex contracts for major projects.

### **4.8 Legislative Framework for Finance and Administration**

The "Ideal" Legislative Framework for Finance and Administration would be a comprehensive omnibus legislative framework covering all of the public sector, including both the central government and state owned enterprises in a seamless and integrated way to extract optimum benefits for the fiscal and the economy. The operations and activities of any public sector entity

would be covered in the Omnibus Act, which would be more appropriately named the Public Sector Financial Management Act to highlight its public sector scope and to distinguish and emphasise a focus on resource management, with its attendant connotation of resource use optimisation rather than on administration which tends to be associated with routine operations within given rules. That document would be the supreme authoritative document after the Constitution to which it must be consistent, but would be supported by Regulations which would be subject to periodic reviews to update particularly quantitative adjustments and organisational changes. In addition other entities, particularly state owned enterprises, would have their specific legislation which would be consistent with and within the framework of the Constitution and the Omnibus Act. Thus, the resource management operations of any public sector entity would be covered by the Act, the Regulations and the specific legislation governing that entity where it exists, and in that order.

The 'ideal' framework would set and include:

- Quantitative targets for very important economic and fiscal drivers and parameters that inspire investor confidence, because of their legislative enshrinement and the attendant notion of performance predictability:
  - Minimum Current surplus /GDP
  - Ranges for Current Revenue/GDP
  - Debt/GDP
  - Public Sector Net Investment/GDP
  - Expected minimum returns on capital employed
- Broad areas to be covered including the policies, procedures and modalities for:
  - Debt Management
  - Treasury Management
  - Inventory Management
  - Procurement of Goods and Services
  - Human Resource Management
  - Reporting and Performance Assessment.
- Responsibilities and accountabilities and inter-relationships between such critical related institutions and functionaries as:

- Parliament
  - Cabinet
  - Minister of Finance
  - Public Accounts Committee
  - Permanent Secretaries
  - Public Service Commission
  - Auditor General
  - Contractor General
- Detailed and clear descriptions of job descriptions, performance expectations and interrelationships among and between:
- Minister who would have
    - overall responsibility for the approval of major policies governing his ministry and/or portfolio, but operating within the framework and agreement of the Cabinet
    - monitoring of ministry and/or portfolio performance
    - dialogue, articulation and rationalisation of policies to various stakeholders as necessary and seeking stakeholder buy-in
  - a Permanent Secretary who would have responsibility and accountability for:
    - the management of the ministry and/or portfolio to deliver its policies and programmes, but working with and within the Public Services Commission framework on human resource management matters
    - formulating, advising or recommending policy measures, programmes and procedures to the minister and/or cabinet for their consideration, and if, necessary, approval
- Policies, procedures and modalities for the management and treatment of:
- The Budget Determination and Allocation Processes from long term goals; medium term frameworks, public sector investment programmes and the three year annual rolling budget
  - The Consolidated fund and special funds

- Appropriations, reallocations, virements, expenditures in advance of approvals, emergency and exceptional situations, payment procedures, surcharges.
- An organogram of the positions, relationships, responsibilities, accountabilities and expectations from the main resource management institutions and actors to include: Parliament, Prime Minister, Cabinet, Minister of Finance and other Ministries, Permanent Secretary Finance and Planning, and other Permanent Secretaries, Cabinet Secretary, Public Accounts Committee, Auditor General, Accountant General and Other Accounting Officers.
- Specifically to identify:
  - The Cabinet Secretary as titular head of the Civil Service, an advisor to the Cabinet on performance management matters, and chairman of the committee of Permanent Secretaries to monitor, coordinate and trouble shoot and resolve implementation issues and to periodically report to Cabinet
  - The Permanent Secretary, Finance and Planning to have total responsibility for the finance and planning matters in the overall public sector, but who would be working where necessary with two Directors each with responsibility for Finance and Planning respectively

#### 4.9 'Ideal' Governance Arrangements

An 'ideal' governance arrangement involving major inputs and activities and the major actors in the process is detailed in Table 4.5. The participants are placed in order of importance for responsibility and accountability, whilst stakeholder consultation is defined as: seeking views and opinions; justifying and rationalising decisions taken and inspiring and persuading buy-in.

**Table 4.5: The Ideal Governance Arrangement**

#	Governance Activities	Governance Actor/Participant
A	Determining Vision, Values and Long Term Goals	2,1,3,4,5,6
B	Promoting vision and Consensus Seeking	2,3,6
C	Ensuring that Vision is Continually Relevant and in Focus	2,5
D	Developing Strategic Options to Attain Vision	5,4,2,3
E	Approval and Promotion of Major Strategies	2

F	Formulating and Developing Major Policy and Programme Options	5,4,2,3
G	Approval of Policy and Programme Options and Stakeholder Consultation	2
H	Planning and Managing Programme Execution	5
I	Monitoring Programme Performance and Corrective and Tweaking actions	2,5
J	Keeping Stakeholders informed and interested	2,4

Key:

#	Governance Actor/Participant
1	General Public and Stakeholders
2	Government
3	Minority Government
4	Think Tanks, Media, Universities and Colleges
5	Top Level and Professional Public Servants
6	High Level Tripartite Consultative Body

Source: Public Expenditure Review Commission

#### 4.10 Debt Management

An ideal debt management framework would involve the following elements:

- a) Determination of a maximum sustainable debt/GDP ratio for the economy and to keep well within that limit, say within 75 per cent of that limit, during normal times. The current ECCU limit has been specified at 60 per cent, but this is more a transitional level than it is a sustainable level. More recent IMF analysis has shown that a 30 per cent Debt/GDP ratio, under current circumstances, is a more sustainable level for such open economies as ours. But this could possibly be enhanced if debt management is improved.
- b) Ensuring that debt is only contracted for feasible capital projects and programmes that are integral parts of the economy's long term goals, fall outside the minimum prescribed economic rates of return and within the cost of capital criterion rate; generate a stream of financial benefits which, together with surpluses generated in the economy, can comfortably service the debt.
- c) That there is a judicious balance between local and foreign debt such that, on the one hand, the public sector does not crowd out the private sector in its natural market by either driving up the cost of private sector debt and/or restricting its availability for private sector use; and on the other hand, that the economy has the foreign exchange capacity to comfortably service its foreign exchange obligations.

- d) The bunching of debt, both in terms of its contraction, and more importantly in terms of its debt servicing, is avoided.
- e) Creating well managed sinking funds possibly on a regional basis for obvious reasons to take care of future debt servicing on a seamless basis. There should also be the avoidance or minimisation of the practice of contracting debt to repay maturing debt.
- f) The use of about four major sources of domestically mobilised funds to help fund capital programmes: central government's current surplus of an annual minimum of 6 per cent of GDP; most of the funds mobilised through Social Security and other Retirement Funds, about 75 per cent of which could fund feasible long term funds, and which could generate at least 8 per cent per annum of GDP shared between the public and private sectors in a 1:2 ratio; the clever and judicious use of the medium term balances in sinking funds, which could be estimated at about say 15 per cent of such balances if used on a regional cooperative basis; and, similarly, a small proportion of the funds that are in contingency, captive self-insurance funds with more being possible and available, the greater the use of regional cooperative arrangement.
- g) The minimisation of external borrowings from donors, IFIs and the international capital market except for concessionary funding, and embedded technical assistance for maintaining a presence and a credit rating in the international capital market.

#### **4.11 Budget Management of Cyclicity**

The maintenance of steady growth is a desirable objective of most governments. It goes beyond Keynesianism as it not only keeps the economy on an even keel, but it also inspires investor confidence because of the predictability of its results and the demonstration that management is in charge. Thus, steady average growth is a much better arrangement for credit rating assessment than uneven and wildly fluctuating growth, even with the same or better overall aggregated outcomes.

The management of cyclicity can be handled in any of two ways: on the public sector side and on the private sector side. An ideal arrangement for the government to manage cyclicity is to maintain contingency funds for emergencies, have adequate commercial and /or captive or self-

insurance to take care of asset rehabilitation following natural disasters; and to have a sufficiently low debt/GDP ratio so that it has the margin to borrow comfortably, at normal rates, to take care of emergencies. The ideal arrangement can even be improved if a cooperative arrangement is put in place to manage these regional contingency funds. This would not only help in risk diversification, improve returns, help ensure the availability of liquidity when necessary and reduce the cost of funds on the regional security market, but could also allow the conversion of short term funds into longer term funds that could be ventured into longer term development financing because of the premise that not all the countries would have a simultaneous demand on these funds.

A long retired Financial Secretary once said that he used variations on import duties on building materials to help stabilise the economy. When private sector demand was sluggish his office reduced the import duties and restored it when the economy was back to normal and, presumably increased it above normal when the economy was overheating. Such an incentive and similar policies can be used to supplement efforts to stabilise the economy.



“If you think health care is expensive now, wait until you see what it costs when it is free”

P.J.O'Rourke 1993

## **CHAPTER 5**

### **EXISTING GOVERNMENT EXPENDITURE PERFORMANCE AND ARRANGEMENTS IN THE ECCU COUNTRIES**

#### **5.1 Fiscal and Debt Background**

##### **Current Revenue**

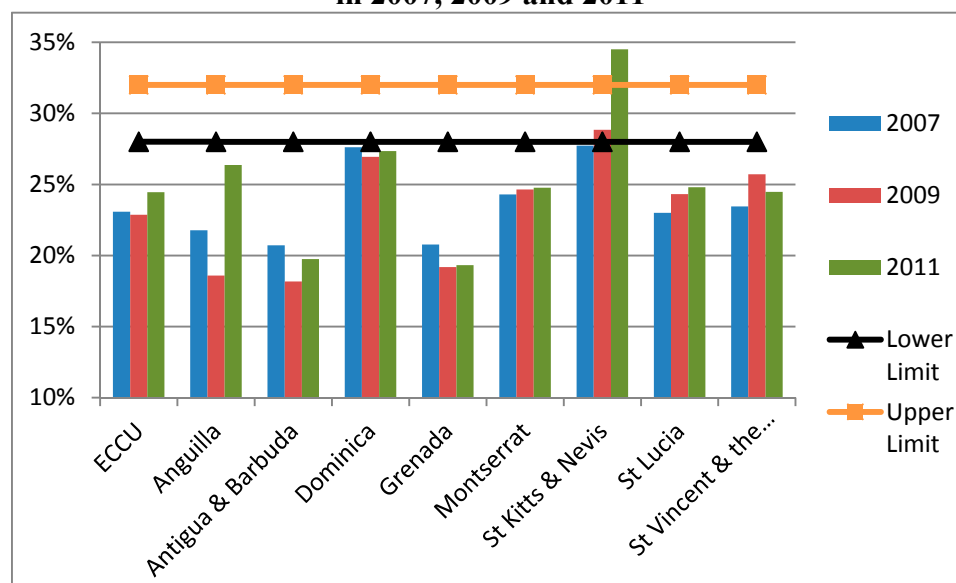
Current revenue of the ECCU countries as a percentage of GDP has been steadily increasing from 21.1 per cent in 2000 to 24.4 per cent in 2011 - towards the acceptable range (28 per cent to 32 per cent). The improvements in revenue intake have been due to a concerted and sustained effort to fall within the acceptable range and this has been achieved largely through the introduction of VAT in most countries. Since the period after 2008 have been difficult years for the ECCU region the Revenue/GDP chart, in relation to acceptable ranges, distinguishes two periods: the year 2007 before the difficult economic and financial situation, and the year 2009 in which the worst performance was recorded since 2007. In 2011 the countries moving towards the range were Anguilla and Dominica, while Antigua and Barbuda, Grenada, Montserrat, Saint Lucia, St. Vincent and the Grenadines, together with the ECCU as a whole were below the range, in some cases significantly, and therefore with more scope for revenue collection. Only St Kitts and Nevis was above the range and hence with almost no scope for further revenue collection. (Graph 5.1)

**Table 5.1: Selected Fiscal Ratios for the ECCU (In Percentages)**

Indicator	2000	2003	2006	2009	2011
Current Revenue/GDP	21.1	21.6	23.0	22.9	24.4
Current Expenditure/GDP	21.4	22.3	20.8	23.9	24.9
Current Surplus/GDP	(0.3)	(0.8)	2.2	(1.0)	(0.5)
Capital Expenditure/GDP	6.0	6.3	8.1	6.1	5.6
Debt/GDP	68.9	90.7	82.3	81.6	86.3
Domestic Debt/	31.6	35.1	36.8	45.4	46.6
External Debt/GDP	37.3	55.6	45.5	36.2	39.7

Source: ECCB  
Data as at 25 May 2012

**Graph 5.1: Current Revenue/GDP Ratios of ECCU Member Countries in 2007, 2009 and 2011**



Source: ECCB  
Data as at 25 May 2012

### Current Expenditures

For the ECCU in aggregate, the current expenditure as a percentage of GDP increased less rapidly than the counterpart revenue ratio and exceeded it after 2009. Current expenditure for the most part seems to be on its own independent trajectory, increasing normally and steadily without any apparent regard to the revenue earning capacity to finance it. This could have been due to the rigidities and inelasticities in current expenditures, in particular, which are less sensitive to the economy's capacity to generate incomes in the same way as revenue does. The

pace of growth of current expenditures has exceeded that of GDP and in some countries that is so in absolute terms. In 2008, for instance, current expenditures for the ECCU grew by 16.1 per cent (\$467.1m), while the nominal increase in GDP was 2.7 per cent (\$318.6m). The comparable figures for 2009 was growth of 2.4 per cent (\$81.9m) in current expenditures at the same time that nominal GDP declined by 5.3 per cent (\$638.1m).

Notwithstanding, from the time of the institution of the targets the various governments have been making strenuous efforts to get the current expenditure to GDP within the benchmark range of 22 per cent to 26 per cent, mainly through increases in revenue as current expenditures, which have large contractual elements, appear to be more inelastic to GDP growth and do not offer much flexibility to allow for greater manipulation/management. Based on 2011 data, all the countries with the exclusion of St Kitts and Nevis, Montserrat, Grenada, St Vincent and the Grenadines were not within the range - Grenada being significantly below, St Vincent and the Grenadines slightly above and St Kitts and Nevis significantly above. Montserrat is significantly above for understandable reasons, while the St Kitts and Nevis' situation is driven by the very heavy debt overhang and the lack of scale economies.

### **Capital Expenditure**

A useful rule of thumb is for the national level of investment to be the desired rate of economic growth times the capital output ratio, and for the government's share of this investment to be in the same ratio as its share of revenue from the economy. Thus, a desired rate of growth of 6 per cent in an economy with capital output ratio of 5 would require a net investment of 30 per cent, of which the government's share would be about 9 per cent of GDP. For the ECCU as a whole, the share of capital expenditure to GDP in 2005 to 2008 was at 7.2 per cent but, as expected, deteriorated significantly by 2011 when only three countries - Dominica, Montserrat and Saint Lucia - were at the desired levels. But even this would have been insufficient as these were gross rather than net investments (which would have taken account of repairs and maintenance and depreciation), and because the region's capital-output ratio was much higher, meaning a much lower efficiency of investment. The emphasis therefore needs to be not only on increasing the level of net investment, but also on significantly increasing the efficiency of investment.

Apart from Dominica, Grenada which was beset with hurricane Ivan in 2004 and needed massive reconstruction, and St Kitts and Nevis in the early years, all the other countries' level of capital expenditures were much too low, volatile and would have been affected by the fact that the important event was investment for the one event of World Cup Cricket, which has left no positive legacy and for which facilities are minimally used and are in a state of abandonment and disrepair.

### **Debt/GDP**

The very high and unsustainable Debt/GDP ratio has been one of the region's most chronic problems. Set at a maximum level of 60 per cent by the Monetary Council, the group as a whole plus many of the individual countries have exceeded this critical limit, but are making concerted efforts including prompt debt servicing; rescheduling and restructurings; seeking debt forgiveness from bilateral creditors; exercising caution and prudence in contracting new debt and in the granting of guarantees to reduce the outstanding debt to more tolerable levels. From a high of 94.4 per cent in 2004, the ECCU has been able to gradually reduce the level to 74.2 per cent by 2008, but notionally increased it to 81.6 per cent the following year as the most indebted countries: St Kitts and Nevis, Antigua and Barbuda and Grenada began to address their debt problems by identifying and collating their obligations, and formally recognising them and converting payables into firm debt. Also in that year, both Anguilla and Saint Lucia were two of the few countries to increase their net debt outstanding obligations by contracting new net debt.

Given the monetary arrangements where currency is virtually 100 per cent backed by foreign assets, the distinction between external and domestic debt is spurious and with little meaning except if it is used to distinguish between source of financing and the possible impact on availability of financing for private sector investment. Even then the classification does not say much as many local institutions - commercial banks and Social Security Schemes - contract domestic debt in foreign currency. The case of the Dominican foreign bond issue, with the major subscribers coming from Dominica, is illustrative of the problem. Notwithstanding, the region during the early period of the last decade had more foreign financing obligations than domestic ones as the ratio moved from a high of 61:39 in 2003 and gradually reversed to roughly 46:54 by the end of 2010. By 2011, not only had debt ratios increased largely because of declining

GDPs, but the domestic to foreign debt ratio also increased further to 54: 46, largely as a result of the presence of Government platform on the Eastern Caribbean Securities Exchange. This platform, with its competitive auction features, has given governments easier access to cheaper capital than what is offered by commercial banks.

Dominica has enjoyed the most successful fiscal turnaround in the ECCU during the last ten years. It undertook a period of structural adjustment and debt restructuring from 2003, when its debt to GDP ratio stood at 101.1 per cent with a current account deficit to GDP ratio of 3.0 per cent and a capital expenditure of only 4.5 per cent of GDP, as a result of a revenue take of 22.2 per cent and a current expenditure level of 25.2 per cent of GDP. The 2002 restructuring reduced its debt to GDP ratio to 66.4 per cent in 2009. Its current account deficit was eliminated in 2004 and it has steadily increased the current surplus to the level of 4.7 per cent in 2009, the year in which most countries sustained the financial and economic shocks which significantly affected their fiscal situations. By 2009, it had increased its revenue take to a high of 26.9 per cent of GDP, while it reduced its current expenditures to 22.2 per cent of GDP. The revenue intake seems to have had political consensus, as the government was returned for two consecutive terms with increased majorities. Moreover, Dominica, with the support of grant inflows, has been able to make a substantial contribution to its capital programme – 11.7 per cent - the highest ECCU (excluding grant-aided Montserrat) proportion even in the difficult 2009 period, and this has contributed significantly, directly and indirectly, to maintaining the economy's growth momentum. It was the only country, with the exception of Saint Lucia, to register positive growth in 2010 and 2011. It should be noted, however, that Dominica has been financing its growth through grants and domestically, as it has chosen not to contract major new debt possibly because of its debt rescheduling and the unilateral renegeing of collateral commitments on its earlier issued bonds. In addition, the burden of the debt rescheduling was largely on Dominicans, as the two largest holders of debt which agreed to the arrangements were Dominican public sector institutions: Social Security and the government majority owned and controlled National Bank of Dominica.

## **5.2 Expenditure Analysis by Major Inputs**

**Table 5.2: ECCU Current Expenditures Classified by Main Inputs (In Percentages)**

<b>Indicator</b>	<b>2000</b>	<b>2003</b>	<b>2006</b>	<b>2009</b>	<b>2011</b>
Personal Emoluments/Current Revenue	50.3	49.2	40.3	45.2	43.6
Pensions/Current Revenue	5.6	6.2	6.0	6.4	7.1
Interest Payments/Current Revenue	14.2	15.8	13.3	12.9	11.9
Goods and Services/Current Revenue	22.5	20.9	18.0	22.9	22.0

Source: ECCB

Data as at 25 May 2012

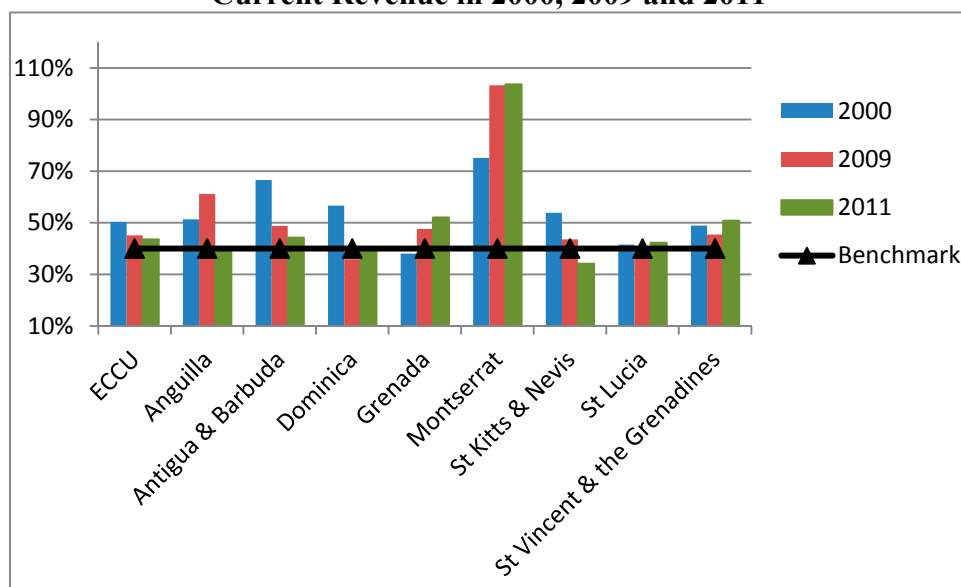
### **Personal Emoluments**

The payment of personal emoluments to public servants by the ECCU countries has been proportionately, by far, the largest charge on current revenue during the period 2000 to 2011 (Table 5.2). All the countries have been making serious efforts to reduce that proportion to the more acceptable level of 40 per cent, from the high of 50.3 per cent that it was in 2000. By 2011, personal emoluments, as a percentage of current revenue, for the ECCU was reduced to 43.6 per cent. Of note, in 2009, the ratio was 45.2 per cent for the ECCU (Graph 5.2), as a result of increases by St Kitts and Nevis, Grenada and Antigua and Barbuda. Most of these increases were largely due to wage awards rather than to increases in employment. These salary increases were rising more rapidly than either government revenue and/or GDP. Saint Lucia, one of the larger economies, had a wage bill that was steadily falling from 48.3 per cent in 2001 to 36.9 per cent by 2008, but it rose to 40.1 per cent in 2009 as a result of generous wage awards. On the other hand, Dominica has been able to rapidly and steadily reduce its proportion from a high of 64.2 per cent in 2002 to 35.9 per cent by 2009, but with this increasing to 38.9 per cent by 2011. This is one of the lowest proportions ever in any of the countries. Of course, these figures do not include the substantial amount of employment that is supported through government subventions to its parastatal bodies e.g., tertiary level education institutions; and independently owned but state supported medical facilities. In fact, it is fair to assume that government employs and pays about 50 per cent of the emoluments of about half of all directly paid employment.

Most of the countries still have some way to go to meet the desirable benchmark, some more so than others, but unfortunately in the recent past the momentum has been held up by a combination of reductions in GDP and revenue and the increasing militancy and competitiveness of trade unions.

Anguilla, Grenada and Montserrat have worse positions in 2009 than in 2000. In 2011 only Anguilla, Dominica and St Kitts and Nevis were at around the desirable 40 per cent benchmark. For the ECCU as a whole, the ratio was 43.6 per cent with Saint Lucia close by at 42.3 per cent in 2011 (Graph 5.2).

**Graph 5.2: Personal Emoluments as a percentage of Current Revenue in 2000, 2009 and 2011**



Source: ECCB  
Data as at 25 May 2012

### Pensions

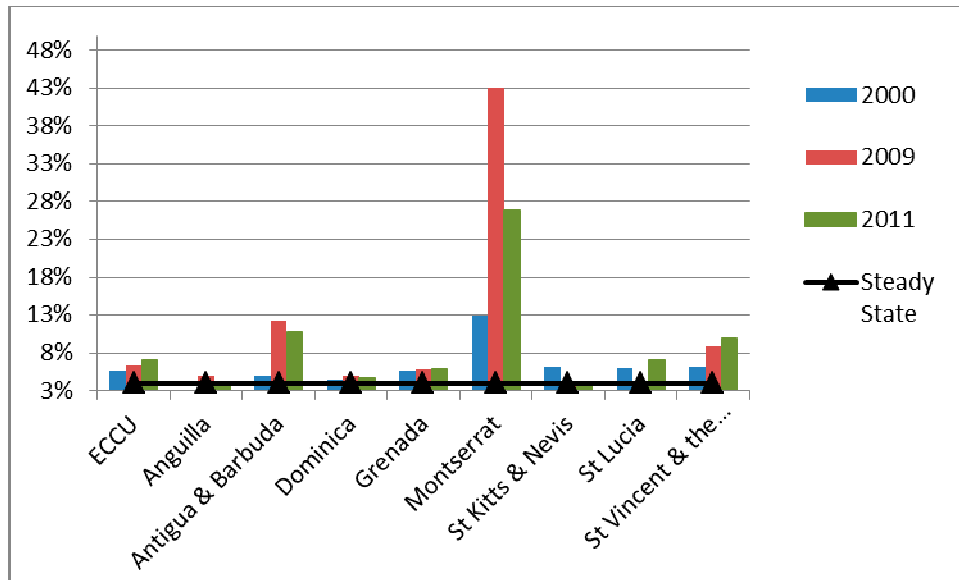
For the ECCU pensions absorbed an average of 6.1 per cent of current revenue during the period 2000 to 2009, but this ratio has been rising from a low of 5.6 per cent in 2000 to a high of 6.7 per cent by 2007 and in 2011 had increased to 7.1 per cent. There was a significant unexplained decline in 2008 to 5.0 per cent, but by 2009 it had shot up again to 6.3 per cent. This increase was taking place while governments were reducing their share of revenue to personal emoluments, thus resulting in increases in the ratio of pensions to personal emoluments from a low of 11.1 per cent in 2000 to a high of 17.0 per cent by 2007. These increases led many governments to rationalise their employment levels and practices, including the suspension of their non-contributory State Pension Schemes for new employees, using the national social security as the only platform for providing retirement benefits to those new employees. These

countries include Grenada, Dominica and Saint Lucia, which adopted the new practice at different times.

Pension schemes in the state sector are non-contributory but inadequate, while gratuity benefits (25 per cent of salary) are generous; and these, together with efforts to rationalise employment and the maturing of the schemes, have contributed to the high outlays and proportions of revenue to terminal benefits. The cost of pensions at over 6 per cent of revenues can be reduced to 4 per cent in a steady state equilibrium situation and yet provide an adequate pension for an average of 15 years of retirement life: if the benefits of the state pension scheme are integrated with that of social security, with both requiring equal contributions from employer and employee; is compulsory from first employment; fully portable with immediate vesting; and well managed at both the institutional level and at the level of the economy (See recommendations from The Pension Reform Commission Report).

**Graph 5.3: Pensions as a percentage of Current Revenue in 2000, 2009 and 2011**





Source: ECCB  
Data as at 25 May 2012

The performances of the various countries vary widely as Graph 5.3 demonstrates. Montserrat, the grant aided member of the ECCU, has the highest ratio of pensions as a percentage of current revenue, varying between a low of 12.9 per cent in 2000 to a high of 43.1 per cent in 2009, but falling to 26.9 per cent by 2011. Dominica has exhibited the most consistency with the narrowest range between 4.4 per cent in 2000 to 5.2 per cent in 2005 and was at the optimal level of 4.7 per cent in 2011. Dominica is followed by Grenada in this regard, with a high and low range of 6.0 per cent and 4.4 per during the period 2000 to 2011. Antigua and Barbuda and St Vincent and the Grenadines were above the ECCU average in 2011 but have enjoyed better performances. Anguilla, which had a low of 1.4 per cent in 2006, has increased that level to 4.9 per cent in 2009 after its recent reform. Saint Lucia's data indicate a low of 0.9 per cent in 2008 and a position of 7.1 per cent in 2011, having increased from 7.4 per cent in 2005, but this needs further investigation. St Kitts and Nevis is also on the decline, from a high of 6.2 per cent in 2000 to a respectable 3.6 per cent in 2008.

## Interest Payments

ECCU governments contract their borrowings from domestic and external lenders. Externally they access the resources of the international financial institutions on concessionary rates to very favourable commercial terms; bilateral donors on very favourable terms and from the market through bonds, investment and commercial bank borrowings at market rates that are determined by competitive rates, in relation to their own credit rating and which are normally higher than for the other sources. Domestic borrowings, which are normally contracted in local currency (EC dollar), is normally sourced through treasury bills of short maturities; commercial bank and other medium to long term borrowings, usually from Social Security, and the issue of bonds.

For the ECCU countries, interest payments as a proportion of current revenue, averaged about 14.9 per cent between 2000 and 2003, and 13.5 per cent during the period 2004 to 2008. By 2011, the proportion had fallen to 11.9 per cent. The rise in the debt level has been the main reason for the increase in debt payments, but these have been significantly tempered by formal debt rescheduling and restructurings in Dominica and Grenada; bilateral debt forgiveness; the entry on and greater use of the ECSE platform for contracting government debt, which have reduced the cost of such debts; the reduced use of the expensive lending services of regional banks; and a general reduction in overall interest rates.

**Table 5.3: ECCU Interest Payments as a percentage of Current Revenue Debt  
2000 to 2011**

<b>Indicator</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total Interest Payments/Current Revenue	14.2	13.7	16.1	15.8	16.6	13.4	13.3	12.3	11.8	12.9	12.6	11.9
Domestic Interest Payments /Current Revenue	7.4	7.9	7.7	6.3	5.5	5.5	6.0	5.9	5.5	6.5	7.5	6.8
External Interest Payments /Current Revenue	6.9	5.8	8.3	9.4	11.2	7.9	7.3	6.5	6.3	6.4	5.1	5.1

Source: ECCB  
Data as at 25 May 2012

Given an average interest cost of 5 per cent from a judicious blend of commercial and concessionary funding and a revenue to GDP ratio of about 30 per cent, the maximum amount of interest payments as a proportion of revenue should be 9.0 per cent.

The experiences of the various countries, with the interest payments to current revenue ratio, differ widely. Antigua and Barbuda started the decade with a high of 34.8 per cent but on average halved the ratio through to 2008 largely as a result of payment arrears and some debt forgiveness. Dominica began the decade with a ratio of 19.9 per cent and by 2003 had brought it to a maximum level of 21.8 per cent. After the 2004 debt restructuring exercise the ratio fell dramatically to 10.1 per cent in 2005 and declined to 6.4 per cent in 2011, as the government has not been contracting new debt. Grenada's ratio accelerated from 8.0 per cent in 2000 to 23.9 per cent by 2004, during which period the government contracted huge sums on the international capital market. A debt rationalisation programme which was facilitated by the disastrous passage of hurricane Ivan brought down that ratio to 7.7 per cent in 2005, where it remained around that level for the next few years as no new debts were contracted. The government's resumption of limited borrowing has seen the ratio rise to 12.1 per cent by 2011.

The ratio for St Kitts and Nevis averaged about 21.7 per cent during the decade (2000-2009) from a low of 16.7 per cent in 2000 to a high of 23.7 per cent in 2008, but falling to 17.5 per cent in 2011. Saint Lucia commenced the decade with a ratio of 5.7 per cent, but maintained an

average of 10.5 per cent during the decade. St Vincent and the Grenadines' performance has been like that of Saint Lucia. The ratio over the decade has been relatively flat, starting at 9.5 per cent in 2000 to 10.9 per cent in 2009.

### **Goods and Services**

Goods and services cover a variety of expenditures many of which are significant. These include the payment of rents, transfers to parastatals and other bodies, repairs and maintenance of equipment and the procurement of operating supplies. The outlays on each of these are not readily available, but it is roughly estimated that each of these constitute about 25 per cent of the total which has remained roughly steady at 22 per cent of revenue over the decade.

### **Contractual Expenditures**

Government's inability to manage and be flexible with their current expenditures stems from the fact that most of these expenditures are contractual and largely non-discretionary. Interest payments and retirement benefits are charges on the consolidated fund and are appropriated before any other expenditure. The public service keeps personal emoluments as sacred and cannot be easily varied, particularly downwards. The only apparently discretionary expenditure items are repairs, transfers, maintenance and the procurement of supplies which (except for transfers, even for which there are some inflexibilities), if not properly financed, would significantly affect the quality of service and the productivity of the public service. Unfortunately, these are the areas that are subject to the easiest cut in moments of crisis. Contractual non-discretionary expenditures account for over 90 per cent of government revenue. The focus of expenditure classification on inputs and the preoccupation with employment creation and welfare considerations, with labour being the dominant input, means that flexibility in expenditure control is further reduced. While it is easy to cut a programme, it is more difficult in a small democratic society to retrench workers.

## **5.3 Expenditure Analysis by Functional Use**

A very worthy area of enquiry is the analysis of expenditures by functional use or classified by the role the state is called to perform. This was highlighted earlier in the “Ideal” Chapter and classified as COFOG. Such an analysis would indicate the level and proportion of resources expended on state functions, facilitate inter temporal, intra-group and even international comparisons and would identify for explanation wide variances between norms.

Unfortunately such analysis could not be undertaken because the requisite data is neither collected and or collated. However, we highlight this as a need which should be addressed with some urgency to facilitate inter-temporal and country comparisons.

#### **5.4 Legal Framework for Financial/Fiscal Management**

##### **Main Provisions of Legal Framework**

All the countries have legislative frameworks to govern their financial administration. For review purposes we examine the Saint Lucia legislative arrangements because it is the most comprehensive and the one that was most recently revised (December 2005).

The legislation and regulations for Saint Lucia are contained in the following three documents:

- Laws of Saint Lucia Finance (Administration) Act Ch. 15.01
- Financial Regulations attachment to the above Act
- Procurement and Stores Regulations

The Act is detailed in 12 parts that are organised in 55 sections and included in 34 pages, while the Financial Regulations are organised in 14 parts and in 106 sections, and included in 57 pages. (The section headings for both the Act and the Regulations are detailed in Appendix 8).

Some of the main provisions of the Act include:

- a. The minister has the policy and operational authority under the Act but must either get prior parliamentary approval for his actions or, in certain circumstances, report unsanctioned actions to parliament for approval within pre-specified time frames.
- b. The Director of Finance and Planning is the main official through which the minister executes his actions.

- c. The Accountant General is the main accounting officer for the receipt, disbursement, safety and accounting of funds from the Consolidated Fund, which is the repository for all public funds for current financing.
- d. The financial year ends in December 31 of each year; a detailed set of public sector accounts as of this period need to have been prepared and submitted to the Director of Audit for a complete audit within a three month period.
- e. The Minister of Finance needs to present current and capital revenue and expenditure budgets as soon as possible and within three months of the end of the financial year.
- f. Permanent Secretaries and Heads of Departments are the recognised accounting officers for their respective areas of supervision, and are responsible to the Public Accounts Committee of the Parliament for the proper management of these funds.
- g. Debt service, retirement benefits to public servants and the salaries of some special posts, as that of the Director of Audit, are direct charges on the Consolidated Fund.
- h. The Minister can establish such different accounts as Special, Trust. Contingency but with the notification to, approval by, and with specified activity reporting to Parliament.
- i. Statutory Bodies must submit annual revenue and expenditure current and capital budgets to the appropriate minister within three months of the end of the financial year and for the appropriate minister to submit his approved budget to the Minister of Finance.
- j. Statutory Bodies must submit their annual reports and accounts to the appropriate minister who in turn will table these reports in Parliament all within specified times.
- k. The Statutory Bodies' estimates of current and capital expenditures and the financing thereof, as approved by the Minister of Finance, who must table it in Parliament at the next meeting, cannot be altered without the approval of the Minister of Finance.
- l. The Director of Finance and Planning has the power to surcharge officers for losses arising from negligence, inefficiencies and malfeasance in the performance

of their duties in complying with the provisions of the Act and its regulations, but has the right to be heard.

- m. A guarantee involving any financial liability is not binding upon Government unless the guarantee is given in accordance with an enactment or unless approved by a resolution of Parliament.
- n. The Minister of Finance has the authority to advance funds in advance of appropriation; wire; reallocate; and to submit supplementary estimates in the interest of the efficient running of state affairs but must seek parliamentary ratification as soon as possible thereafter.
- o. The Act specifies, in very great details, the presentation of the Annual Accounts that have to be submitted to Parliament.
- p. The Act treats the investment of government resources quite casually and is not strong enough to ensure the optimisation of investment return, while paying due regard to liquidity needs and safety of capital.

### **Major Similarities and Differences among the Various ECCU Countries**

All the legislation have similar intent but are not uniform because they were enacted at various times. It would help if they could be made uniform. If this were done, it would remove the inconsistencies in the nomenclature of positions in the various countries. For instance, some countries refer to the Financial Secretary as the chief accounting officer, while others use the nomenclature of Permanent Secretary Finance, with one using the designation of Director of Finance and Planning. In at least one case, the wording is as loose to allow the interpretation that the Minister is the CEO of the ministry, which has become a source of considerable confusion with regard to roles and responsibilities. One other area that could be addressed is to have the same title and scope and coverage, particularly as the countries are evolving to a Single Economic Space.

## **5.5 Operational Analysis**

### **Budget Process**

One country, Saint Lucia, has described its Budget Process as follows:

The Government of Saint Lucia practices the Performance Budgeting technique. This was first introduced in 1997, as part of the Budget Reform exercise. In this approach, objectives, results based performance indicators and targets are defined for each programme. This method of budgeting is 'result outcome' driven and its main emphasis is on getting the most service out of the dollar.

The budget process exercise is undertaken within a twenty-four (24) month cycle, which is followed by year-end reporting. Within the budget cycle there are two phases as follows:

1. Budget Planning and Preparation

The planning and preparation year or the previous fiscal year refers to the year preceding the budget year or the year for which the planning is being done. During this period the following is undertaken:

**Planning Stage**

- a. The Ministry of Finance prepares the macro-economic outlook for the upcoming fiscal year. Macro-economic indicators are reviewed and projections for current revenue, current expenditure, and capital expenditure are formulated.
- b. A request/call for New Initiatives for current revenue, current expenditure as well as capital expenditures are sent to ministries.
- c. The fiscal targets are established and the revenue projections are developed, along with preliminary allocations or spending limits of each agency for the budget year.
- d. The Ministry of Finance issues the Estimates Call. In the circular, the Preliminary Allocations are outlined as well as other requirements of the Ministry of Finance.
- e. The Minister of Finance invites the private sector to submit inputs for the Budget.
- f. The Agencies submit their New Initiatives. The Ministry of Finance reviews the submission and prepares recommendations in consultation with Agencies.
- g. Agencies submit their estimate requests which are then reviewed by the Ministry of Finance.
- h. Several meetings are held with Agencies, within the Ministry of Finance, at the technical Budget Committee and Minister of Finance Budget Policy levels. The Minister of Finance also meets with selective Agencies, where their achievements for the current



year, other significant issues and estimate requests are discussed. Meetings are held, where necessary, between the Ministry of Finance and the various Statutory Authorities.

- i. After extensive reviews and dialogue the Ministry of Finance presents the draft estimates to the Minister of Finance.
- j. The Minister and Finance Officials meet with the Cabinet to finalise the Estimates.
- k. Following the Cabinet meeting, the Ministry of Finance prepares the printed estimates and develops the budget papers.
- l. The Attorney General develops the Appropriation Bill and the Resolution.
- m. The Minister of Finance tables the Resolution in the House of Parliament.
- n. Members of the House then debate the Estimates.
- o. The Bill is then tabled in the Senate.
- p. When passed the Appropriation Act is then presented to the Governor General and Gazetted.

## 2. Budget Implementation and Monitoring

- i) During this phase the Ministry of Finance releases the Allocation to Agencies on a quarterly basis. The release of Allocation is based in part on the revenue performance in the case of current expenditure. Capital expenditure allocation, on the other hand, is determined based on the availability of the loan or grant and the status of the projects.
- ii) Agencies are required to submit monthly revenue reports and quarterly performance to the Ministry of Finance.
- iii) The Ministry of Finance is also required to produce and submit quarterly performance reports to the Minister of Finance.

### **Overarching Issues**

Dominica, like Saint Lucia and Anguilla, has pre-budget consultations as an important dimension in its budgetary process. There are a number of overarching issues across countries and there is a need to:

- a. place the annual budget in a longer term planning framework
- b. review past budget performances in terms of objectives, outcomes and lessons learnt
- c. have budget formulation informed by comprehensive data and information bases

- d. analyse impact of global economy on domestic economic situation
- e. be clear on the role, boundaries and limitations of government
- f. establish a framework for the encouragement of foreign direct investment

Specific summarised Recommendations:

- a. focus on exploiting natural resources and locational advantages
- b. maintain an effective law and order apparatus
- c. liberalise trading and investment climate
- d. modernise the banking sector to focus on domestic finance and investment
- e. exploit the major international and regional markets and their needs
- f. target growth sectors in the international and metropolitan markets
- g. create a well-educated, well trained, highly motivated work force
- h. psychologically re-orient Dominican population for international competitiveness
- i. institute early childhood and parenting programmes
- j. develop a much more efficient medical health system
- k. develop efficient airline links to North America and the Caribbean islands, and local transportation and communication linkages
- l. enhance eco-tourism project
- m. use our diplomatic consulates in foreign capitals as commercial missions.

### **PSIP Formulation**

All the countries formulate medium term public sector investment programmes that cover a period ranging between three to five years. These specify their capital expenditure plans for the period and specify: the name and description of the projects, their justification and rationale, estimated capital cost, implementation period, sector. The level of project and programme detail, particularly in terms of rationale, justification and coherence within an overall programme, is normally sketchy except if the proposed funding is to come from international financial institutions such as the World Bank, European Investment Bank and the CDB, and from such traditional donors as the EU which require more analytical rigour in terms of economic and

social justification and supportive institutional arrangements for project management and execution.

Projects are identified both internally and externally. Internally identified projects normally include: accumulated deferred maintenance, particularly of physical infrastructure projects in transportation, education and health; semi-current projects such as tourism promotion; improvement projects to enhance the qualitative benefit and impact of projects on beneficiaries; expansion projects to meet increased demand; and new projects to open new areas such as in the road network and agricultural feeder roads. Externally identified projects normally emanate from consultancy studies: economic, sector and remedial; and from IFI project identification missions that normally introduce generic projects that have been successful in other neighbouring countries e.g. industrial estate and factory shell projects and development credit. There are very limited occasions when PSIPs have "Big Push" projects that evolve from visionary and new thrust ideas such as opening a development area; going into a new economic activity (e.g. retirement and medical tourism), and making a major shift to alternative energy sources.

The capital programme for the annual budget would be that list of projects that are on-going and/or expected to commence in the budget year. That capital programme does not normally specify the amount that is expected to be expended in the budget year.

The sources of financing for capital expenditures are budget generated resource, funds borrowed on the capital market through bonds and other borrowings; grants and loans from the IFIs.

### **Wage and Salary Negotiations**

For purposes of salary negotiations governments classify their public servants into three groups: Senior Management and Senior Professionals who are not usually unionised; established or tenured workers in the civil service, teachers, police who are generally unionised; and non-established workers. There is no automatic periodicity for salary negotiations with the first group, and when it is done it is normally handled through an independent commission and the recommendations are not bases for negotiations. The recommendations are submitted to

parliament and, if approved, are binding on the employees. Governments normally conduct wage and salary negotiations every triennium with the respective unions, separately, for the second and third groups. The issues that are normally advanced by the unions, where it is in their interest to do so are: the state and performance of the economy and of the government's finances; cost of living movements during the prior three years and projections thereof; salary awards granted by major private sector employers such as in the commercial banks, profitable statutory bodies, and power and telecommunication companies.

Governments, through the Ministries of Finance and the Ministry of Establishment prepare initial negotiating positions which are submitted to and sanctioned by the Cabinet. Cabinets appoint negotiating teams which would usually include representatives of Finance, Establishment and some independent person in a chairing role to negotiate on behalf of government, but with all new positions having to be ad-referendum to and sanctioned by the Permanent Secretary of Finance, who would have continual contact with the Cabinet through the Minister of Finance. The final decision would be that of the Minister of Finance and the Cabinet. Usually because of the number of unions to be negotiated with separately, all negotiations do not follow a common track. However, in general, the group that has completed the first successful negotiations usually influences the outcome for most other groups, no matter how unreasonable these may be.

Negotiations between the parties are mainly on the issue of wages and salaries, but the opportunity is taken by the unions to introduce improvements to fringe benefits which are normally agreed to because they appear to be relatively small negotiating gestures to make, despite their compounding consequences over time. Examples include: study leave provisions, over time and reclassifications. Awards are normally made to cover a three year period and normally have substantial retroactive payments (back pay) component, because negotiations always seem to commence late and are protracted.

### **Debt Management**

Very high and growing debt levels, the potential implications not only for national economic stability but also for significant threats to the external, monetary and financial arrangements of the region, and encouragement from the ECCB, IMF, Commonwealth Secretariat and CARTAC,

have induced the various governments to establish national Debt Monitoring Units under the coordinating role of a regional Debt Coordinating and Oversight Committee. The units through a proprietary software, developed by the Commonwealth Secretariat and used in English Commonwealth countries, monitors the cost, movement, composition and tenure of debt; ensures that debt is promptly serviced; accounts for the movement of debt, particularly ensuring that disbursements and debt service demands are accurate; advises and assists in the contracting of new debt, as part of its overall responsibility to manage the debt portfolio (excluding decisions on contracting new debt).

### **Pension Management**

(See Report of the Commission on Pension and Pension Administration Reform in the ECCU)

### **Accounting and Auditing**

Unlike in the private sector, there are some very false conceptions and perceptions about public sector, and in particular central government, accounting and auditing. It is felt that these are not important; that the focus of these is on financial accounting and auditing, with the latter designed to detect fraud and malfeasance; and that the review of audits is the prime responsibility of the Opposition. Yet the Constitution assigns a great deal of importance to auditing, to the extent that the Internal Audit department is a very independent body protected by the Constitution, whose costs are direct charges on the Consolidated Fund and whose reporting is to the Public Accounts Committee of the Parliament, which is chaired by the Leader of the Opposition.

Public sector accounting is systemically and operationally centralised in the Treasury and/or the department of the Accountant General, and this may be due to the fact that all receipts of central government revenue and payments of expenditures are done through that source. However, recognising the importance of accounting to good governance and timely and accurate reporting, some countries, notably Saint Lucia, have established accountants in the various major revenue and spending departments: Inland Revenue including customs, public works, education and health. The concept and practice of having internal auditors in these major ministries and departments is not in vogue, leaving all audit to be undertaken by what is in effect the 'External' Auditor or the Government's Audit Dept. Thus, the benefits of more thorough and timely audits

are denied and, most importantly, would be the benefit of the impact of the internal audit function on systems improvement, compliance with policies and procedures, enhancement of efficiencies, minimisation of waste, and the discouragement /avoidance of fraud. (A rule of thumb is that in any organization, 10 per cent of the workers would not engage in fraudulent activity with or without sound audit systems, while another 10 per cent would engage in that activity whether there were good systems or not. What proportion of the remaining 80 per cent who would engage in such activities would be dependent on the soundness and checks and balances of the systems in place?)

In a Discussion Paper entitled "Commonwealth Caribbean Public Sector Internal Audit", prepared by Susan Harrysingh on behalf of the Commonwealth Secretariat, the comparative situation of Internal Audit in the Independent OECS and UK Caribbean Dependencies was described as follows:

"Although the numbers and ratios do not paint an accurate picture of the effectiveness of the Internal Audit function, there are some general trends that are consistent with other characteristics that have been observed. Turks and Caicos are now under the rule of the Governor since their House of Assembly has been dissolved, arising out of corruption reported by the Auditor General's Office (presumably out of the United Kingdom). The other British Overseas Territories have Centralised Internal Audit departments and have achieved a greater level of independence, and in two cases (Bermuda and Anguilla) are autonomous.

**Table 5.4: Internal Auditors in Central Government**

Country	Constitutional Status	No. of Internal Auditors	Ratio of Auditors/Pop .( '000)
Antigua and Barbuda	OECS Independent	2	0.022
Dominica	"	3	0.041
Grenada	"	n/a	n/a
St Kitts and Nevis	"	16	0.355
Saint Lucia	"	0	0
St Vincent and the Grenadines	"	3	0.299
Anguilla	OECS UK Dependency	6	0.402
British Virgin islands	"	8	0.266
Montserrat	"	1	0.233

Bermuda	UK Dependency	15	0.241
Cayman Islands	"	9	0.230
Turks and Caicos Islands	"	1	0.007

**Source: Commonwealth Caribbean Public Sector Internal Audit**

The OECS Countries have Internal Auditors in the Ministry of Finance and all have reporting relationships with the Accountant General or other Heads of Department in the Ministry of Finance and have not achieved the level of independence displayed by some of the British Overseas Territories. There were no reports of Audit Committees. While St Vincent and the Grenadines report three Internal Auditors, these positions are not filled. Although there are no positions for Internal Auditors in Saint Lucia, there are persons in the Accountant General's office who have reported that they do some Internal Audit work. St Kitts and Nevis is leading this group based on their numbers and organised training. They have a well established community of practitioners where Internal Auditors meet on a regular basis for training as well as social activities, and this is expected to strengthen (and) support further development."

## **5.6 The Parastatals or State Owned Enterprises**

All the countries have their parastatals which come in different forms: statutory bodies (corporations, authorities, boards, or funds); and limited liability companies. They all arise because governments' wish to perform functions that fall outside the ambit of the central government, and are best handled outside it because of the commercial orientation of these initiatives that make their policies and operational procedures more akin to the private sector; and because some of these may be temporary medium to long term arrangements and not necessarily permanent structures. Major bodies include: Social Security and Health Insurance; State Colleges; Development Banks, Corporations and very specialised developmental financial institutions; Utilities; Ports; Tourism Promotion; Agricultural and other marketing corporations; Town and Village Councils.

The chairmen and boards of these bodies are all appointed by Cabinet based on criteria established in their enabling legislation. The appointment and remuneration of senior management is usually under the authority of the responsible sectoral minister. Enabling legislation usually requires the Board to submit to the responsible minister, within a specified

time frame, an annual report for tabling and discussion in parliament. In addition, the responsible minister is expected to hold high level policy dialogue periodically with the Board Chairman and the CEO, while a senior representative (usually the Permanent Secretary or his nominee) of the responsible ministry would be the ex officio board member. The Ministry of Finance also maintains a close link with the parastatal, particularly on budgetary and financial matters. In fact, it is the Ministry of Finance which recommends the level of transfers and allocations and has to make recommendations for all current and capital borrowings by these entities, as these are explicit and/or implicit liabilities of the central government.

These bodies, in aggregate, at both the national and regional levels are significant parts of the economic, social and institutional landscape. They control a significant share of public sector assets, are very large employers, contribute significantly to GDP value added, but require subventions from the central government and constitute a significant proportion of the public sector debt. Whilst for the most part they are necessary the issue is their cost-effectiveness, whether they are adequately placed and what can be done to improve their performances.

Table 5.5 would have summarised the main economic and financial features of these parastatals. It would have shown their comparative impacts on employment creation; the level of their dependence on central government for budgetary support through transfers; the actual and contingent debt levels relative to central government's own debt and their relative impact on overall public debt; their contribution to GDP which could be compared with their costs; and their significance in the economic structure. Alas the table could not be populated because the data are not formally collected and/or available. However, the shell is retained to, at least, give an indication of what data needs to be collected and collated with a sense of priority.

**Table 5.5: The Main Economic and Financial features of Parastatals in ECCU Member Countries**

<b>Feature</b>	<b>ECCU</b>	<b>ANG</b>	<b>ANT</b>	<b>DCA</b>	<b>GND</b>	<b>MONT</b>	<b>SKN</b>	<b>SLU</b>	<b>SVG</b>
Number									
Employment ('000)									
Asset base (\$m)									
Operating expenditures (\$m)									
Debt Levels (\$m)									



Operating surplus/(deficit) (\$m)									
Net transfers from central govt. (\$m)									
Value added/GDP (per cent)									
Transfers/CG revenue (per cent)									
SOE debt/Total public debt (per cent)									
SOEs/,000 population									

“In general the art of government consists of taking as much as possible from one party of citizens to give to the other”. Voltaire (1764)

## **CHAPTER 6**

### **WEAKNESSES IN THE EXISTING GOVERNMENT EXPENDITURE ARRANGEMENTS AND PRACTICES IN THE ECCU**

#### **6.1 Expenditure Patterns**

Identification of concerns over public expenditure patterns and policies in the ECCU member countries has been considerably facilitated by the series of reviews of the six independent members conducted by the IMF’s Fiscal Affairs Department (FAD) over the past 18 months. These reviews covered Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, Saint Lucia, and St Vincent and the Grenadines.

These studies all focus on six areas of concern, as regards discernible public expenditure patterns, and relate to the following:

1. The Central Government’s wage bill;
2. The parastatal entities;
3. Social Security arrangements;
4. Education spending;
5. Health care spending; and
6. Social assistance spending.

It may be of some concern that in the ECCU region as a whole, current expenditure as a percentage of GDP increased from 21.6 per cent to 24.9 per cent over the period 2005 to 2011.

**Table 6.1: Current Expenditure as a percentage of GDP – ECCU Member Countries (2005-2011)**

	2005	2006	2007	2008	2009	2010	2011
Anguilla	17.0	18.8	17.6	21.4	25.4	25.2	22.4
Antigua and Barbuda	20.8	22.2	21.4	21.0	23.8	21.7	23.7
Dominica	24.3	23.3	23.7	23.7	22.2	24.9	25.0
Grenada	15.9	16.7	16.8	18.4	19.9	19.3	19.1
Montserrat	58.7	59.1	62.7	61.8	60.0	56.6	56.0
St Kitts and Nevis	30.4	28.1	26.9	26.8	28.9	29.2	34.1
Saint Lucia	19.6	14.5	13.1	19.8	20.9	22.2	22.6
St Vincent and the Grenadines	21.8	21.5	20.5	22.9	25.9	26.0	26.8
ECCU Average (excl. Montserrat)	21.4	20.7	20.0	22.0	23.9	24.1	24.8

Source: ECCB

Data as at 25 May 2012

Excluding Montserrat, the ratio in 2011 was highest in St Kitts and Nevis (34.1 per cent) and lowest in Grenada (at 19.1 per cent); the seven-country average for the year was 24.8 per cent (Table 6.1). Three countries – Dominica, St Vincent and the Grenadines, and St Kitts and Nevis - were above the ECCU average (excluding Montserrat) in 2011. However, the real significance of these indicators, in themselves, would need to await further analysis. We turn instead to the components of current expenditure with a view to identifying possible weaknesses and opportunities for improvement.

## 6.2 The Central Government Wage Bill

In all of the countries that were reviewed by the FAD, Government employment and compensation was identified as a most important issue in the context of public expenditure rationalisation and prudent management of the finances of the countries.

**Table 6.2: Personal Emoluments and Pensions as a percentage of Current Revenue – ECCU Member Countries (2005-2011)**

	2005	2006	2007	2008	2009	2010	2011
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Anguilla	33.8	28.5	34.9	44.2	66.1	62.6	43.2
Antigua and Barbuda	58.9	51.6	53.6	48.7	60.9	53.6	55.1
Dominica	47.8	45.4	42.6	40.1	40.8	40.6	43.5
Grenada	46.6	44.8	41.3	48.6	53.4	53.5	58.0
Montserrat	109.6	133.9	139.7	131.2	146.4	141.7	130.5
St Kitts and Nevis	42.5	39.1	41.3	42.7	47.6	48.4	37.9
Saint Lucia	46.0	45.8	41.7	37.8	41.0	50.6	49.4
St Vincent and the Grenadines	54.0	50.8	50.3	49.7	54.2	55.2	60.8
ECCU Average (excl. Montserrat)	47.1	43.7	43.7	44.5	52.1	51.2	49.7

Source: ECCB

Data as at 25 May 2012

The issue is that in all of the countries, compensation of central government workers accounts for a very large share of total government outlays. This high level of compensation has the effect of reducing the fiscal space that governments are allowed for purposes of spending on programmes to expand economic growth and reduce poverty, not to mention providing space to make fiscal provision for responding to exogenous shocks, including natural disasters. The objective of achieving a desirable primary surplus target is also placed in jeopardy.

For the ECCU region as a whole, personal emoluments and pensions accounted for an average of 50.7 per cent of current revenue in 2011 and 49.7 per cent, excluding Montserrat, (Table 6.2). In 2011, St Vincent and the Grenadines had the highest ratio at 60.8 per cent, while St Kitts and Nevis had the lowest at 37.9 per cent. The average of 49.7 per cent is above the 39 per cent ratio established by the ECCB as the top of the “acceptable range” for this ratio. Indeed all of the countries, except St Kitts and Nevis, were significantly above the top of this “acceptable range”.

When interest payments are added to personal emoluments and pensions, the combined ratio becomes 62.6 per cent of current revenue in 2011. In 2011 most countries, except Anguilla and Dominica, were above ECCB’s “acceptable range” of less than 51 per cent.

The ratio of personal emoluments to GDP for each of the eight islands is provided in Table 6.3. In 2011 these ratios ranged from (at the low end) 8.7 per cent in Antigua and Barbuda to 12.4 per cent in St Vincent and the Grenadines at the high end (not including Montserrat). The IMF indicates that “the regional average for the Caribbean Commonwealth was 12.5 per cent in

2009”.<sup>4</sup> Table 6.3 indicates that the average for all countries in 2011 was 12.5 per cent, and all countries were operating below this level.

**Table 6.3 Personal Emoluments as a percentage of GDP –ECCU Member Countries (2005-2011)**

	2005	2006	2007	2008	2009	2010	2011
Anguilla	6.6	6.4	7.1	8.7	11.4	12.0	10.4
Antigua and Barbuda	9.3	8.7	8.8	8.2	8.9	8.8	8.7
Dominica	11.1	10.5	10.4	9.6	9.7	10.0	10.6
Grenada	8.0	8.1	7.7	8.9	9.1	9.4	10.1
Montserrat	22.6	25.2	25.8	25.1	25.5	27.4	25.7
St Kitts and Nevis	11.3	10.0	10.2	10.6	12.6	12.3	11.8
Saint Lucia	9.1	9.3	8.3	9.1	9.8	10.3	10.5
St Vincent and the Grenadines	10.7	10.4	10.2	11.0	11.7	12.2	12.4
ECCU Average	11.1	11.1	11.1	11.4	12.3	12.8	12.5

Source: ECCB

Data as at 25 May 2012

In terms of personal emoluments as a percentage of the countries’ total expenditure (Table 6.4) three countries were above the ECCU average in 2005, while there were two countries above the average in 2011. The average ratio fell marginally to 32.2 per cent in 2006, and remained relatively stable for the next two years, followed by an upward trajectory in 2009 and 2010; in 2011 the ratio fell by 1.5 percentage points to 35.9 per cent. The increases over the review period were more marked in Anguilla, Grenada, Montserrat, Saint Lucia and St Vincent and the Grenadines.

<sup>4</sup> IMF, “St Lucia, Improving the Efficiency of Government Spending.”

**Table 6.4: Personal Emoluments as a percentage of Total (Current and Capital) Expenditure –ECCU Member Countries (2005-2011)**

	2005	2006	2007	2008	2009	2010	2011
Anguilla	27.8	26.1	29.9	34.4	42.6	46.8	43.9
Antigua and Barbuda	38.5	29.9	32.5	30.3	30.4	37.4	35.0
Dominica	36.8	33.4	30.9	26.7	28.6	26.8	26.8
Grenada	32.5	26.2	28.4	32.0	35.8	38.6	40.1
Montserrat	29.1	34.8	31.9	29.7	30.8	36.2	35.3
St Kitts and Nevis	31.5	30.9	31.6	34.1	37.4	34.5	30.6
Saint Lucia	31.2	39.2	40.8	35.7	35.9	38.7	34.1
St Vincent and the Grenadines	38.9	37.3	37.0	36.8	36.8	40.2	41.2
ECCU average	33.3	32.2	32.9	32.4	34.8	37.4	35.9

Source: ECCB

Data as at 25 May 2012

One has to be careful in drawing across-the-board inferences from the sets of statistics in Table 6.4. Expenditure on personal emoluments is perhaps close to parametric, characterised as it is by a much lower level of variability than is the case with GDP performance.

Looking deeper, Table 6.5 compares rates of growth of real GDP and expenditure on personal emoluments over the period 2008 to 2011.

**Table 6.5: Growth in Real GDP (Constant Prices) and Expenditure on Personal Emoluments –ECCU Member Countries (2008-2011)**

	2008		2009		2010		2011		Annual Average (2008-2011)	
	GDP	P.E.	GDP	P.E.	GDP	P.E.	GDP	P.E.	GDP	P.E.
Anguilla	(0.3)	22.4	(16.5)	8.2	(6.0)	(2.3)	(2.5)	(9.2)	(6.2)	4.8
Antigua and Barbuda	1.5	(2.8)	(10.4)	(3.2)	(8.9)	(6.2)	(5.5)	(3.2)	(5.8)	(3.9)
Dominica	7.8	2.2	(0.7)	4.6	0.3	1.6	1.2	8.7	2.1	4.3
Grenada	1.7	26.8	(5.7)	(4.8)	(1.3)	4.3	1.1	11.1	(1.0)	9.4
Montserrat	2.9	3.5	1.0	5.5	(5.6)	3.0	3.4	0.2	0.4	3.1
St Kitts and Nevis	4.0	11.8	(5.6)	10.3	(2.7)	(4.4)	(2.0)	(0.7)	(1.6)	4.2
Saint Lucia	5.3	14.2	0.3	7.2	0.6	8.9	1.0	2.6	1.8	8.2
St Vincent and the Grenadines	(0.6)	9.5	(2.3)	2.5	(1.8)	4.6	0.0	4.2	(1.2)	5.2

Source: ECCB  
Data as at 25 May 2012

In most countries, with the exception of Antigua and Barbuda, the average rate of growth of personal emoluments over the period 2008 to 2011 was higher than the growth of GDP. Apart from Antigua and Barbuda, the two rates were closest in Dominica. This may be indicative of scope in most of the countries for reining in increases in expenditure on personal emoluments, and an opportunity for a national effort at keeping such increases more in line with the country's growth performance over an agreed time frame. While it is argued above that the size of the total compensation does not allow considerable room for variability, governments would want to monitor it carefully to ensure that it does not get out of hand and pose a bigger threat than it does at present to the fiscal space available for achieving important government goals, in particular the attainment of growth and poverty reduction.

In this connection, there are a number of areas that governments would want to look at carefully (these will be elaborated later in this Report) including: streamlining benefits and allowances, implementing or continuing wage and hiring freezes, eliminating duplication of functions, reducing overtime costs, carrying out functional reviews of the entire central government, undertaking a payroll audit, possible outsourcing of non-core government functions, strengthening the link between wage increases and public sector productivity, and integrating

established and non-established employees into a unified civil service with equal pay and benefits for equal work.<sup>5</sup>

### 6.3 Parastatal Entities

The case of Antigua and Barbuda provides a good illustrative basis for discussing issues affecting parastatal entities. The IMF study provides a neat summary of the issues affecting parastatal bodies in that country.<sup>6</sup> The background considerations are the following:

- i) The number of statutory bodies has increased steadily over the last few years;
- ii) Statutory bodies account for a significant amount of public employment and spending. At the time of the review there were possibly more than the 28 bodies identified and their total spending was at least “40 per cent of budgetary primary spending” and much financial information was missing;
- iii) Transfers from the budget to statutory bodies were expected to reach 2.1 per cent of GDP in 2010. Transfers have been growing to current levels from 0.2 per cent of GDP in 2007.

The authors of the study identified the following as the main issues affecting statutory bodies in Antigua and Barbuda:

- i) Statutory bodies did not fully comply with the reporting requirements of the FAA. In 2012 only 12 statutory bodies reported financial information. “Corporate plans, annual reports, and financial statements are not available on a timely basis for most bodies. In addition, audited financial statements have a lag of four to five years and thus have not been submitted to the Parliament as required under the legislation.”
- ii) The available financial information is incomplete and not sufficiently reliable to determine the financial condition of the entities. Available information mostly relate to the budget of the entities. Detailed execution information for previous years on revenues, expenditures and reconciliation with financing is absent for most bodies.

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<sup>5</sup> See, IMF, “Antigua and Barbuda: Options for Expenditure Rationalisation,” (June 2010).

<sup>6</sup> IMF, *op cit*.



- iii) Given the growing importance of these bodies and the significant spending they undertake on behalf of the government, the level of monitoring of parastatal entities seemed insufficient to safeguard their budgets from contingent liabilities (including from the running of arrears), and to determine whether existing transfers to these bodies and, more generally, the bodies themselves were meeting their intended goals in a cost-effective manner.
  
- iv) Country experiences have shown that establishing new agencies and companies can create inefficiencies and loss of fiscal control if appropriate governance arrangements and reporting requirements are not in place. This can lead to:
  - a. A multiplicity of institutions with related responsibilities but no mechanism to prioritise and avoid duplications. This can generate high overhead costs and waste limited public resources;
  
  - b. A reduction in budget discipline. Statutory bodies may be used to circumvent regular budget procedures and the checks and balances implied by them, resulting in reduced transparency, a loss of control over spending, and the potential creation of significant contingent liabilities; and
  
  - c. Reduced credibility to meet budget deficit and debt targets. When entities do not have the financial capability to cover their spending needs or service debt, the government may need to intervene in ways that move away from the debt target, by issuing supplementary budgets or assuming off-budget debt.

This concern with the functioning of parastatal entities is common to all the countries under review, albeit generally to a lesser extent than is the case with Antigua and Barbuda.

In Dominica, for example, this has been one obvious area of improvement over the years – oversight from the Ministry of Finance is fairly strong; the statutory bodies are generally well run; reports and financial statements are presented to the Parliament with close-to-annual

regularity. Some of the statutory bodies do lag behind schedule, but the Ministry of Finance has been making every effort to have all reports tabled on time and most of them are up to date. On financial and, in particular borrowing matters, approval (or “no objection”) is required from the Minister for Finance. Only two of the 10 identified parastatals receive government transfers, and transfers to parastatals are less significant (0.3 per cent of GDP) than in other ECCU countries. However, government guaranteed debt of parastatals amounted to 13.6 per cent of GDP at end-2010, down from 17.3 per cent in 2006.

In Saint Lucia, budgetary transfers to parastatals amounted to 1.7 per cent of GDP in 2010. These transfers have been increasing steadily in recent years and have grown by 28 per cent since 2006. The debt of parastatal entities represented 4.9 per cent of GDP and 7.0 per cent of total public debt in 2009. Virtually all of the debt is owed to domestic financial institutions. In 2009 slightly less than half the debt was guaranteed. “All guaranteed debts are properly accounted for in the budget and transparently disclosed in the budget documentation.”<sup>7</sup>

Parastatals’ compliance with reporting obligations appears to be weak: “... these entities do not submit their audited financial statements to the Director of Audit, despite the fact that they are required to do so under the Audit Act. Only a few of them submit their audited accounts. Even in these cases, there is a long lag in reporting. With the exception of one, the latest audited financial statement of any parastatal available to the Director of Audit pertains to 2003 or before”.

The situation is more or less the same in the other islands: insufficient oversight and reporting pose a threat to fiscal consolidation. In at least one of the countries, St Vincent and the Grenadines, there appears to be no legal requirement for state-owned enterprises to report on their financial operations to the Ministry of Finance.

#### **6.4 Social Security Arrangements**

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<sup>7</sup> IMF, “Improving the Efficiency of Government Spending,” (June, 2010, p.62.)

The discussion of social security arrangements will focus in the main on the situation in Antigua and Barbuda, for which the IMF's study on Antigua and Barbuda: Options for Expenditure Rationalisation, (June 2010) is the prime source.

“Public pension schemes in Antigua and Barbuda include a national scheme and a scheme for civil servants. The national pension scheme is a defined benefit pension system providing old age, disability, and survivor benefits in addition to other age benefits. The scheme “is funded by mandatory payroll contributions from employers and workers”. It has “relatively good coverage of formal employment and the old age population due to the high levels of government and formal sector employment”. “The civil service pension scheme is non-contributory and is financed directly from the budget. It covers all civil servants of pensionable age and provides old age benefits in addition to those provided through the ABSSB, (Antigua and Barbuda Social Security Board)”.<sup>8</sup>

Both these schemes are characterised by pressing issues of sustainability, which are reflected in the following:

- i) The finances of ABSSB have deteriorated significantly due to substantial government arrears on contributions and interest. For several decades now, the Government has made virtually no contributions for government workers and paid only a limited amount of interest on government debt held by the ABSSB, which constitutes a large portion of the ABSSB portfolio. In addition, during the period up to March 2004, the Government made repeated demands on the ABSSB to provide funding for various purposes. Indeed the ABSSB has been running cash deficits since 2007.
- ii) Actuarial analysis of ABSSB's provisions clearly indicated that system parameters were unsustainable. Under broadly unchanged policies, spending on benefits would rise from 2.3 per cent of GDP in 2007 to 10.4 per cent of GDP by 2066 due to population ageing; ABSSB would begin running losses in 2019; and reserves would be depleted by 2029.

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<sup>8</sup> IMF, “Antigua and Barbuda: Options for Expenditure Rationalisation,” (June 2010, p.27)

- iii) Updated baseline projections reaffirmed that the system is unsustainable and indicated that the moderate deficit in 2009 would become large in just a few years. The actuarial deficit, which over the 2009-50 period, was estimated at 151 per cent of GDP, suggested that the system was not viable over the longer term without fundamental changes.
- iv) The scheme's sustainability problems arose primarily due to a low contribution rate and retirement age. Antigua and Barbuda had a relatively low retirement age, compared with several other Caribbean countries including some ECCU countries, and a low combined contribution rate for its social security scheme.
- v) ABSSB administrative expenses, at about 17 per cent of contributions, were among the highest in the region and constitute a significant drag on the effective return that ABSSB could provide to contributors.
- vi) The current approach for computing an individual's average earnings resulted in significant inequities and reduced the insurance value of old age pensions. Currently, the average earnings on which an individual's pension is based are calculated over the best five years of earnings out of the last 10 years, thus reducing the insurance value of age pensions, since an individual's pension is highly susceptible to fluctuations in his or her earnings in the final years before retirement.
- vii) Also the current front-loaded accrual rates strongly favour persons with short wage histories. Under the current system, pension benefits are front-loaded with workers accruing a replacement rate of 25 per cent after only 10 years of contributions, and only a 1 per cent annual increase thereafter. Pension systems with front-loaded accrual rates tend to generate inequities in rates of return among contributors, with contribution periods of different lengths, and providing higher rates of return for contributors with shorter work histories. This is further complicated by the ad-hoc nature of adjustment of pensions after they are set at retirement.

- viii) Invalidity pensions are a small share of expenditure for the long-term branch, partly because these benefits provide relatively little protection for young workers. Since the eligibility conditions for invalidity pensions are usually more subjective than those for age pensions or survivor pensions, more individuals who fall into a “grey zone” of invalidity may begin to use invalidity pensions as a means to early retirement. This, in turn, would increase the need for clear and enforceable qualification criteria.
- ix) ABSSB’s financial position is highly vulnerable to Antigua and Barbuda-specific shocks, due to the lack of an internationally diversified investment portfolio. Weaknesses in investment policy are also evident, given the low real rate of return on reserves and the significant illiquidity of the portfolio. This puts ABSSB in a vulnerable position to pay pension obligations.
- x) The value of the wage ceiling appears to be low.

The Civil Service pension scheme was also characterised by a number of weaknesses and, in particular, by issues of sustainability:

- i) Expenditure on government pensions is significant and rising. Under current policies and assuming an ageing process similar to the one experienced by the ABSSB system, the dependency ratio of the civil service scheme will worsen and pension expenditure would continue rising, eventually reaching 3.5 per cent of GDP by 2020.
- ii) The Benefit provisions for government pensions are quite generous, inequitable, and not well integrated with ABSSB benefits. Government employees make no contributions to their pensions, yet receive pensions that when combined with their ABSSB pensions can reach 116.7 per cent of their pre-retirement salary. In some cases, combined ABSSB and government pensions can in effect reach up to more than 132 per cent of pre-retirement income, given possibilities permitted in the legislation to qualify and draw two civil service pensions, in addition to the ABSSB pension.

- iii) Current pension arrangements can create adverse labour market incentives and complicate civil service reform.
- iv) The civil service scheme also suffered from many of the weaknesses of the national scheme. This included low contribution rates; low retirement ages, especially for some special groups (teachers, parliamentarians and police); the problematic approach to computing earnings based on a short wage history; and the practice of adjusting pensions in an ad-hoc fashion. Unlike the national scheme, however, information on beneficiaries and pension levels was not easily available and the scheme has not been subject to an actuarial review for many years.

Antigua and Barbuda is not the only member country of the ECCU where social security arrangements face issues of sustainability.

The IMF's Fiscal Affairs Department found that "The recent reforms (2005) are short of what is needed to restore the long-term financial sustainability of the Dominica Social Security (DSS). The reforms allowed the DSS to run surpluses for 2-3 additional years and pushed back the year when reserves are projected to be depleted by about 8 years. Notwithstanding, benefits already exceeded contributions in 2010 and the DSS will be in deficit in 2011".<sup>9</sup>

The report suggested that "under current policies, decreasing fertility rate and improving life expectancy will reduce the ratio of contributors to pensioners from 4.4 in 2010 to 1.7 in 2050. Moreover, the ratio of average benefits to GDP per capita will increase from 0.54 in 2010 to 0.8 in 2050, as the average replacement rate converges to its ceiling of 60 per cent. DSS's overall balance is projected to deteriorate from a surplus of 1.4 per cent of GDP in 2009 to a deficit of 10.3 per cent of GDP in 2050, and its reserves are projected to be exhausted by 2027".

Very recently the Government implemented certain reforms, additional to those put into effect in 2005. These included: an increase in the retirement age from 60 to 65; an increase in the contribution rate by 0.25 per cent every year commencing January 2012 up to the year

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<sup>9</sup> DOMINICA: "Towards Sustainable Expenditure." (May 2011).

2031; and an increase of the contribution ceiling in keeping with the movement in average wages. These reforms will go some way towards placing the Scheme on a more sustainable footing but it is doubtful that they go far enough.

In Dominica also, administrative expenses were found to be relatively high compared to other countries in the Region. Other issues identified were that (in common with other countries in the ECCU):

- i) DSS's methodology for calculating an individual's average earnings was inequitable and reduced the insurance value of age pensions;
- ii) The current accrual rates gave very high rates of return to individuals with short wage histories; and
- iii) DSS's financial position was highly vulnerable to Dominica-specific shocks due to the lack of an internationally-diversified investment portfolio, with more than 90 per cent of DSS's investment portfolio invested in domestic assets, including domestic bank deposits, loans, equities, real estate and government debt.

Very similar concerns have been raised about the long-term sustainability of the social security schemes of St Kitts and Nevis and St Vincent and the Grenadines. Grenada's National Insurance Scheme "has built up substantial reserves and its finances are expected to continue to show surpluses until 2022", but there were still "concerns about long-term sustainability of the NIS". In the case of Saint Lucia's National Insurance Corporation, the IMF also expressed concerns about long-term sustainability, even in the face of recent reforms -- "the NIC has built up substantial reserves and its finances are expected to show surpluses for the next two decades".

## **6.5 Education Spending**

The IMF Study on St Vincent and the Grenadines is illustrative of the issues that affect education spending in the member countries of the ECCU.<sup>10</sup> The following issues were identified:

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<sup>10</sup> IMF, "St Vincent and the Grenadines: Options for Expenditure-based Fiscal Consolidation." (June 2011).

- i) Spending on education was relatively high. At 7.1 per cent of GDP in 2009, it was much higher than the ECCU average of 5.8 per cent. St Vincent and the Grenadines was spending nearly 25 per cent of GDP per capita per pupil on primary education and about 23 per cent for secondary education. Primary education spending per student as a share of GDP per capita was higher than in any other country within the same income quintile. “Despite this high level of spending educational outcomes measured by CEE test scores have shown some deterioration in recent years, due in part to a prolonged decline in the ratio of trained teachers in recent years.”
- ii) The pupil-teacher ratio in both primary and secondary education was low and declining. There has been some decline in the number of teachers in the primary level in recent years, but the decline in primary school students was even larger, leading to a fall in the ratio. At the secondary level, the number of teachers increased as a result of the policy on universal access to secondary education. While enrolment at secondary levels also increased, this was not enough to prevent a decline in the pupil-teacher ratio.
- iii) The large increase in public spending on education was due to rapidly increasing wages and salaries. The wage bill accounted for 96 per cent of current spending on primary education and 92 per cent on secondary education during 2006-09. These were among the highest in the ECCU Region. Approximately 80 per cent of the increase in public spending on education was due to increases in the wage bill.
- iv) Administration expenditures rose by 47 per cent in nominal term over 2006-2010, outpacing nominal GDP growth. When measured as a share of current expenditure in education, this amounted to 7.7 per cent on average during the period. This compared with the average of 5 per cent in Latin America and the Caribbean region (World Bank, 2005). The share of administrative expenses in current expenditure has remained at this level since the early 2000s, imposing a very high fixed cost to the system.



- v) The cost of providing tertiary education was rising rapidly, in spite of a high emigration rate among people with tertiary education. During 2006-09, spending on tertiary education more than doubled as a share of GDP.<sup>11</sup>

In St Lucia also, spending on education was slightly above the ECCU average at 6.5 per cent of GDP, although it is said that “this significantly exceeds the level of spending in OECD countries and Latin America and Caribbean”; however, it was somewhat below that of other small island economies. In per capita terms, spending was in line with other small island countries but below the average of other ECCU countries. In per capita terms, education spending was in line with that of other countries in the region with similar levels of GDP per capita. The bulk of the spending was on current expenditure, with capital spending amounting to only 1.0 per cent of GDP.

Wages and salaries constituted the largest share in education current spending and increased steadily over the past years. Spending on wages and salaries was growing and crowding out other spending. Owing to the growing share of wages and salaries in total current expenditures, spending on other important inputs, such as supplies and materials, operating and maintenance services, and teacher training were declining. Under-provision of these inputs can have a detrimental impact on the quality of education.

Demographic changes were resulting in low and decreasing student teacher ratios for primary and secondary education. The student-teacher ratio for primary education declined from 23.8 in 2005/2006 to 17.5 in 2009/2010. In secondary education this ratio declined from 18.0 to 14.5 over the same period. The current levels of student-teacher ratios were low by most international standards. These ratios were substantially below those of other ECCU countries (slightly above 20) and other small island economies.

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<sup>11</sup> According to the World Development Indicator (WDI) database, the ratio (emigration among tertiary educated, especially among trained nurses), was 85 per cent in 2000, relative to the ECCU average of 75 per cent.

The lack of adequately trained teachers leads to reduced efficiency and higher dropout rates. A large proportion of secondary school teachers are not adequately trained. Only 59 per cent of secondary school teachers have received adequate training.

Cost recovery in tertiary education was low. In 2008/2009 government transfers to Sir Arthur Lewis Community College, equivalent to 0.5 per cent of GDP, accounted for as much as 79 per cent of this college's total revenue, with the remaining revenue being collected from tuition and other fees. Given this level of subvention from the public sector, tuition and fees have remained low relative to the size of its operating costs. The quintile distribution of students of tertiary education indicates that a large number of rich students benefit from below-cost recovery rates, while only 11.4 per cent of the students were poor.

Access to secondary education for the poor was low. Because poor households tend to have a larger number of children than better-off households, the incidence of education spending was highly progressive. The distribution of primary education's net and gross enrolment was slightly progressive across income groups. Yet the difference between primary education's net and gross enrolment across income groups was significant in secondary education.

Similar issues characterise education spending in the other islands.

## **6.6 Health Care Spending**

Our examination of health care spending focuses on the situation in St Kitts and Nevis, as reported in the review of public expenditure in that country by the IMF conducted in 2010-2011.<sup>12</sup> The situation in St Kitts and Nevis is broadly similar to that in the other countries. Among the issues that need to be brought out are the following:

- i) The user fee policy and perceived differences in the quality of care create incentives for patients to seek primary care at outpatient wards in secondary care hospitals. Since user fees for primary health facilities are only slightly lower than for secondary hospital care, many people use public hospitals and private doctors more than community health

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<sup>12</sup> IMF, "[St Kitts and Nevis: Options for Expenditure Rationalisation](#)." (February 2011).

centres for their first contact with the health system. This results in both under-utilisation of primary health care facilities and a higher cost of providing primary health care at hospitals.

- ii) User fees do not reflect the cost of providing health services. The schedule of user fees bears little relation to costs. Such low fees increase demand for health services. This is especially important for hospital services, since hospitals are only allowed to charge a small fraction of the total costs of providing the services. The low user fees have contributed to increased spending on medical supplies and pharmaceuticals. These are among the main cost drivers for budgetary current health expenditure in recent years.
- iii) Health facilities face significant difficulties in collecting fees. While user fees should typically be paid before service is provided, in practice no health facility can deny care if user fees are not paid. As a result, hospitals have faced difficulties collecting fees from patients after services are provided. Moreover, even if user fees could be collected, broad exemptions from user fees would still result in significant revenue losses. Children under 16, adults over 62, and all persons suffering from chronic diseases are exempt from user fees.
- iv) Compensation of health personnel has grown in recent years. Health compensation expenditures have grown 0.2 per cent of GDP between 2006 and 2009. In St. Kitts this seems to have been mainly driven by an average increase in salaries in real terms in the period 2006–09. However, in Nevis, the compensation spending increase seems to have been mostly due to an increase in the number of positions which grew about 21 per cent between 2006 and 2010.
- v) Health facilities are insufficiently maintained. Growing spending on compensation and on supplies and material, is crowding out spending on operations and maintenance. This is likely to have adverse medium term cost implications through deterioration of health care infrastructure and may affect the quality of care.

- vi) Public health options to prevent disease are not sufficiently exploited. There is a shared perception among several health professionals that certain diseases that lead to high drug consumption, such as diabetes and hypertension, could be most cost effectively combated by public health education campaigns starting at the school level to inform the population of the risk factors and how to prevent them.
  
- vii) Hospital occupancy rates are low, generating high costs. In particular, occupancy rates for St. Kitts' main hospital, the Joseph N France General Hospital, have been between 40 per cent and 45 per cent in 2006-09 compared to the international average of 60 per cent to 90 per cent. While occupancy rates in other hospitals were not available, discussions with officials suggest they may also be low.
  
- viii) The costing of health services and drugs provided in the benefits package and formal processes to examine their cost effectiveness are deficient, contributing to weak cost control. While health information system modules related to admissions, discharges, and billing have recently been installed in hospitals, information is still not available on the cost of providing specific types of treatment. Primary health care centres are still not covered by the health information system, thus limiting possibilities to improve cost effectiveness. This has resulted in expenditure overruns, as the use of medical services is not optimised, and contributed to arrears to suppliers.
  
- ix) Public spending on health care is likely to rise at a faster rate in the future, underscoring the need for effective cost control. Non-communicable diseases, which can be more expensive to treat than infectious diseases, have become a bigger share of the disease burden in St Kitts and Nevis and in the region more broadly. This trend is likely to continue. In addition, the ageing of the population will also lead to higher healthcare costs.

Generally, efficiency and cost of the delivery of health care would appear to be the main issues identified in the countries of the ECCU region, where the issues identified in the IMF studies are almost identical. Government expenditure on health in Dominica as a share of GDP was found

to be among the highest in the ECCU region. Healthcare in Dominica is provided predominantly by the Government and is financed mostly through general revenue. During 2006-2009, the average public spending on health was about 3.7 per cent of GDP, of which current expenditure accounted for 96 per cent of the total spending. For 2010, spending was projected to be at 4.0 per cent of GDP.

In Saint Lucia the majority of health financing is provided by the public sector, but the private sector also plays an important role, accounting for slightly less than half of total health spending. While “health outcomes are above average in relation to other ECCU countries and other small island economies”, Saint Lucia does share with the other ECCU members some of the concerns identified above. In particular, “health care costs are projected to rise in the future with an ageing population raising concerns regarding the sustainability of the current health financing system”.

## **6.7 Social Assistance Spending**

Our discussion of social assistance spending is taken up mainly with the case of Grenada, although as elsewhere, the issues are broadly the same as in the other countries. The key issues are the following:

- i) Social assistance spending in Grenada was about 2.5 per cent of GDP in 2008. This is slightly higher than in other ECCU countries and also higher than the average of the Latin American and Caribbean region. Social spending increased steadily from 2005 until 2008. The decrease in expenditure in 2009 reflected a convergence to trend levels precipitated by shortfalls in public revenue related to the financial crisis. However, performance of Grenada’s social assistance programme in combating poverty is poor. Despite large and increasing social assistance spending, poverty increased by 5.6 percentage points to 37.7 per cent between 1998 and 2008. Although progress was made in reducing the indigence rate, Grenada’s headcount poverty incidence is still one of the highest in the region.
- ii) Grenada has a plethora of social assistance programmes that are not underpinned by a coordinated social protection strategy. As a result, it was not clear how the various

programmes fitted together in achieving an overall objective. Budgeted social assistance spending was not linked to specific objectives, and there were no mechanisms for fiscal prioritisation of programmes. Spending envelopes were essentially determined by previous budget allocations and did not reflect changing needs and priorities.

- iii) The eligibility criteria for public assistance (the main social assistance programme) are numerous and prone to errors. The programme was found to be poorly targeted, with both large inclusion and exclusion errors. Eligibility was determined through a means test and a set of subjective and difficult-to-verify criteria that excluded the working poor. Beneficiaries tended to stay on the public assistance list for life, regardless of improvements in their social conditions as reviews were not conducted systematically. This limited the opportunities for new poor to enter the list, and to expand the amount of assistance per capita for indigent people.
- iv) The majority of other programmes were based on categorical targeting and covered very few beneficiaries. In 2009, these programmes covered roughly 6,500 people. Assuming perfect targeting, this still only covered 40 per cent of the total poor and indigent population. Programmes financed by the central government targeted specific population groups such as the disabled or the elderly. In most cases, there was no means testing so that the possibility of leakage to non-poor groups was considerable. The recent Poverty Assessment indicated that only 6.5 per cent of the beneficiaries were poor. Effectiveness of these programmes had not yet been evaluated.
- v) Social assistance programmes were implemented by different government agencies with little or no coordination. This tended to lead to duplication of benefits and beneficiaries on the one hand, and high administrative costs on the other. This increased operating costs of the social safety net.
- vi) Programmes lacked the capacity to respond to shocks. Like other countries in the region, Grenada is vulnerable to shocks (natural disasters). However, since most programmes

are based on categorical targeting, they are not designed to protect the poor and vulnerable from these shocks.

vii) Programmes emphasised protection rather than building human capital. Almost all programmes provided some sort of income transfer to ameliorate immediate needs of beneficiaries. With the exception of the school feeding programme, none of the benefits was conditioned on behaviours that improved the asset base of recipients.

viii) Monitoring and evaluation mechanisms were weak and there were no procedures in place to ensure accountability. The lack of computerisation reduced greatly the ability to monitor delivery of social assistance, and there were no internal controls on the reliability of data provided by social assistance field officers. Policy and procedures were not fully documented. Thus decisions were mostly at the discretion of field staff. There was no formal appeal mechanism for applicants denied assistance.

In Saint Lucia social assistance spending amounted to about 2 per cent of GDP in 2009, “slightly higher than that in other ECCU countries and higher than in other small island economies”. The Government completed a social safety net assessment in 2009, with assistance from the World Bank, UNICEF and UNIFEM. It identified weaknesses in the social safety net programmes and made recommendations for improving their design. The concern had been that social assistance programmes in Saint Lucia did not cohere into or derive from a clearly articulated social protection strategy. There was the need to develop a new strategy, based on the recent safety net assessment.

Other identified weaknesses were the following:

- i) Social assistance programmes were implemented by different government agencies with little or no coordination;
- ii) Weak targeting of some programmes resulted in considerable leakage to non-poor households;
- iii) Means-tested welfare assistance covered less than nine per cent of poor households;

- iv) Social assistance programmes lacked flexibility to respond to shocks; and
- v) Monitoring and evaluation mechanisms were weak.

As indicated above, the findings were essentially the same in all the countries. This section concludes with some of the findings reported in St Kitts and Nevis:

- i) Programmes did not appear to be underpinned by a clearly articulated social protection strategy – the social safety net was comprised of a set of disjointed programmes;
- ii) Social assistance programmes were implemented by different government agencies with little or no coordination;
- iii) Errors of inclusion and exclusion were significant;
- iv) Programmes lacked the capacity to respond to shocks;
- v) Monitoring and evaluation mechanisms were weak; and
- vi) Programmes emphasised income protection rather than building human capital.

St Vincent and the Grenadines had over 30 publicly implemented social assistance programmes and Dominica 20. Social assistance expenditures were higher in St Vincent and the Grenadines than in other countries in the region. In 2008-09 such expenditures were estimated at about 2 per cent of GDP. This compared with an average of 1.8 per cent in OECS countries and 1.4 per cent in Latin America and the Caribbean. These programmes appeared to have contributed to a decline in the poverty headcount index to 30.2 per cent in 2007/08 from 37.5 per cent in 1995/96.

In most of the countries the Government also provided financial support for some programmes implemented by non-governmental organisations.

## **6.8 Expenditure Control and Public Financial Management Issues**

At around the same time that the IMF's round of expenditure rationalisation studies were being carried out, a Public Expenditure and Financial Accountability Study was being prepared for Dominica, sponsored by the European Union.<sup>13</sup> The Commission is of the view that the recommendations from this study are applicable, to varying degrees, to the other member

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<sup>13</sup> Ecory Macro Group, "Dominica -- Public Expenditure and Financial Accountability." (June 2010).



countries of the ECCU. The focus of these assessments is on public financial management systems.

The integrated assessment of PFM (public financial management) focused on six areas:

#### 1. Credibility of the Budget

The issues identified here included: a poor match between expenditure out-turn figures and the budget estimates. There were a number of technical and accounting issues identified here, although in the words of the report “there was a strong suggestion of an overall credible budget”. However, there was the need to develop stronger links between the budget and the sector development plans and strategies; and there was scope for improved handling, accounting for and integrating of grant funds into the budget process.

#### 2. Comprehensiveness and Transparency

The issue identified here was the absence of “clear explanation of new policy initiatives with estimates of the budgetary impact of all major revenue policy adjustments”.

#### 3. Policy-based Budgeting

While some important elements of multi-year budgeting were in place, these elements had not been fully integrated into an effective multi-year budget process; statements of sector strategies existed but not all were fully costed; where these were done, costings were not in line with aggregate fiscal forecasts, hence a weak link between the budget and sector strategies.

#### 4. Predictability and Control in Budget Execution

The two areas of concern were: there was weak monitoring of, and reporting on, the stock and collection of tax arrears, and the planning and monitoring of tax audit programmes. Another concern had to do with procurement – “while effective controls exist for each of the main steps of the expenditure cycle, procurement remains less than fully effective”. There was also an issue with internal audit, which was found to be “in its infancy”.

## 5. Accounting, Recording and Reporting

The report found that monthly expenditure returns were comprehensive; they distinguished commitments and expenditures, advances and payments and allowed direct comparison to the original budget. However, there was no routine reporting on resources disbursed; nor were public expenditure tracking surveys carried out. Also there was not yet full disclosure on accounting principles and standards employed.

## 6. External Scrutiny and Audit

The Office of the Director of Audit was found to fall short of complete independence (by international standards). There was also found to be inadequate follow-up on audit findings. The Public Accounts Committee could have been said to be “fully functioning”.

The same report took a look at the public expenditure system from the perspective of what it termed the three main objectives of a sound PFM (public financial management) system, i.e. aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services. Dominica scored best on the third score, efficient delivery of services, and less well on the first two.

As one reflects on some of the various PFM recommendations that have been made for the ECCU countries, it is germane to reflect on the issue of the capacity of the countries to implement the package of measures proposed. This issue is not lost on the authors of Dominica’s PFM report. They mention “capacity constraints” as one of the three factors that colour PFM in Dominica, where “for several functions the responsible unit is a single-person unit, which raises questions about sustainability and the capacity to undertake significant reform”. The other two factors that colour PFM in Dominica were found to be the country’s small size and population, and the lack of effective internal review procedures and the weakness in external scrutiny and oversight.

A separate assessment on Strengthening Strategic Budgeting in Dominica, sponsored by CARTAC, was published in January 2011.<sup>14</sup> It sought to deal with three areas where strategic

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<sup>14</sup> CARTAC, “Strengthening Strategic Budgeting in the Commonwealth of Dominica,” (January 2011).

budgeting could be improved: (a) budget prioritisation; (b) programme and performance management and (c) within-year budget discipline.

Under the first, the report called for rolling three-year budgets and forward estimates; strengthened procedures for approving new spending proposals, for example, ministries should be required to set out detailed costs, objectives, justification and expected results from new spending; ministries should be required to provide savings and revenue-increasing options along with new spending proposals; preparation of a budget planning scorecard and a budget expenditure reconciliation table.

A number of specific recommendations were made in regard to the other two areas; these are of a very specific, perhaps technical, nature and are intended to improve the transparency and efficiency of the budgeting and expenditure processes.

In this area also, one assumes that the findings and conclusions are essentially the same and the recommendations are dissimilar.

## **6.9 Public Expenditure Reform - A Challenging Imperative**

The list of possible weaknesses in public expenditure management in the ECCU countries is hardly exhausted. They include issues of a structural, systemic nature, requiring reform that is structural, administrative or of a capacity-enhancing nature. Fortunately, action is being taken; adjustments are being made in most of the countries of the OECS, in particular those that have raised their level of engagement with the international financial community. The truth is that governments are under considerable pressure in these small islands to increase public expenditure, in particular social spending.

At the same time, as in all the other countries of the OECS (and Barbados and the rest of the world) public expenditure has been coming under severe pressure. Public expenditure reform is a difficult challenge; it is also an imperative of our time.

This Commission's purpose is not to instil fear or panic or to provide fodder for the local politics. The point is that the countries have to be alerted to regional and global realities. Some islands have withstood the global crisis better than others. The times going forward will not be easy: the prognosis for the developed countries is not encouraging. The US may well recover, depending on whose forecasts one is attracted to, but the ECCU countries are going to have to fight their own battles and take charge of running their affairs with competence. Hopefully, leaders are slowly coming to terms with the dawning reality that the efforts must be internal and domestic, while making new friends, establishing new relationships and forging new economic alliances.

This has to be accompanied by taking good care of business at home. Countries, through their leaders have to do better. Leaders have to take account of the findings and proposals in the various studies that have been carried out on economic and fiscal management in the countries. They have to be careful about how much is spent, on what and how much and how efficiently it is spent. Everyone has to "cut the coat to suit the cloth" and needs to do all of these things now. The fiscal situation is showing signs of strain, as the effects of the global crisis continue to be felt. Revenue collection is below projections and has been so for some time. Prospects in that area are not the brightest. There have already been cutbacks in public expenditure, but more may be needed. The governments have not been able to meet key fiscal targets over the last couple of years; it has been a difficult challenge in the face of natural and external adversity.

The message is simply to call attention to the imperative of reining in public expenditure and to ensure that it is efficient, well prioritised, controlled and properly accounted for. Behaviours and attitudes will have to change, among politicians, public servants and the public alike. Social assistance spending in particular will have to come under serious if not surgical review.

Much of what governments do is a result of societal pressure. It is a result of constituency pressure, where constituency is not necessarily defined geographically, but in the sense of friends, allies, cronies, pressure groups, rent-seeking practitioners. Such are the pressures on good governance, exacerbated in a context of the very small places that make up our Union. This is where the work and modus operandi of this Commission become relevant and useful. It

is the public at large that has to be educated to the imperatives of sound management of the public finances so they can both better understand and apply the correct kind of pressure that needs to be put on the authorities. The assumption is that a better informed public will be more willing to accept the ramifications of measures by the government to rein in public expenditure and engage in judicious management of the economy.

This Chapter focused on particular areas that cry out for attention, but there are others. More could have been said about procurement, for example. In some of the countries, Government outsourcing is not as transparent as it should be and this situation can compromise the efficiency of public expenditure. Outsourcing will only work efficiently in a climate of transparency and competitive bidding among contenders for these contracts. Otherwise a government can be held hostage to escalating costs and other anti-competitive behaviours on the part of contractors.

The Social Security imperative has received considerable attention in this Chapter. Action must definitely be taken to ensure its long-term viability. In some cases recommended reforms are still awaiting action by the authorities. Careful attention also needs to be paid to the allocation of the scheme's investible resources – investments must be well aligned with the need for a prudent mix of security, profitability and developmental impact.

Social spending on a whole is another area requiring close attention. Social spending in all the islands has been mounting, raising questions about the extent to which the State can sustain (or reduce) this going forward, especially if the economies continue to lack dynamism and the public finances become shaky. Another issue is the extent to which this spending satisfies the criteria of equity and efficiency. Who benefits most – persons in genuine need or those who “shout the loudest”?

An area that has been identified in the studies conducted on the budget process has to do with budget discipline – holding the line on budget allocations; protecting the integrity of the budget and budget process; reducing the use (abuse?) of supplementary budgets; etc.

Generally, there is more than cause for concern going forward. The fiscal situation does not look like it would improve in the near-term, as actual revenues are below projections. In particular, the take from the VAT appears to have peaked and has been flat for some time. This will only grow as the economy grows. When all is said and done, and as grant receipts are now on a downward trajectory, this surely places public expenditure rationalisation at the centre of fiscal policy and management in the ECCU member countries.

“What one person receives without working for ...another person must work for without receiving.” Adrian Rogers 1931

## **CHAPTER 7**

# **GOVERNMENT EXPENDITURE ISSUES, PRACTICES AND ARRANGEMENTS**

### **7.1 Introduction**

Government Expenditures issues in the ECCU area are, for the most part, centred on the desires of government and governmental leaders, collectively called decision-makers, to deliver goods and services to the people at large. In their thrust to fulfil this goal, however, there is a tendency for the decision-makers to assume that there is an endless supply of money (revenue) and that everything that the people want, the people should get: that every demand should be fulfilled; that every request could be satisfied because, after all, it is the government in charge, and the governmental leaders were elected to ensure that the people’s wishes are to be satisfied. But, as one saying goes, “if wishes were horses, beggars would ride”.

Theoretically, governments in the ECCU start out on the correct path of trying to have balanced budgets. Seldom do the Ministers of Finance present unbalanced budgets. By law they should have balanced budgets. Invariably, however, what happens is the fact that the budgets tend to be static in their thrust whereas the operations of the budgets are dynamic. In a simple case, budgets are merely set to have a fixed amount equal to another fixed amount. Anticipated revenues are moved from one Head to another Head in a one to one basis. However, what is normally not considered are the differential multiplier effects on the respective budgetary allocations. Thus, when the government is introducing a tax such as Value Added Tax (VAT), it is imperative that the impact is fully understood or that it is properly simulated before the tax is introduced. This tax would have a different multiplier effect on the economy than if the government were to have an increase in expenditure. The Balanced Budget Multiplier is pivotal in the government’s role of spending and taxing. The multiplier of taxes is different from the

multiplier of government spending. Thus, depending on what scenario the government introduces, the overall impact on the economy could be productive or counterproductive.

In a nutshell, this social perspective that everything is possible because government could provide it, and this technical challenge of decision-makers and sometimes policy-makers not fully understanding the dynamics of the impacts of various multipliers, have been among the many features that have caused government expenditures in the ECCU to be “outlandishly” high relative to the requisite revenues to balance the budgets. It is not by design that these things happen. Often it is by default. Decision-makers assume that things will remedy themselves or that there will be windfall revenues, or other “god-father” and “mother-country” benefits which could be used to stop the gap, or alleviate the expenditure haemorrhage.

In the general theoretical sense, government expenditure issues in the ECCU fall under the umbrella of the well-known concept of public goods, sometimes called collective goods. By definition, public goods are those goods and services that are provided by the government and consumed by society, but they are such that one member’s consumption of the goods does not reduce the consumption of another member.

In contemporary economic systems, examples of public goods and services are national defence, police services and overall security. National security types of public goods are, by their very nature, sacred cows. Politicians are afraid to touch them; that is, they are afraid to cut the expenditure on these types of public goods as they relate to security, police service, etc. Politicians tend to be afraid of the outcry from the public that they are undermining the safety and welfare of the people. Yet, there are many studies which tend to indicate that increasing police expenditures do not minimise the incidence of crime.

Because of the “free-rider” issues in public goods, governments have to spend to guarantee that the public goods are provided. The government thus becomes a coercive agent to spend for the people. This situation puts the governments in a moral hazard situation. In the long run governments’ expenditure tends to “get out of hand” and to balloon out of proportion and move above the levels that were anticipated.



## 7.2 Existing Arrangements

Under the existing arrangements in the contemporary ECCU, governments spend to cover a variety of goods and services under the precept that they are mandated to do so. Thus, expenditures are devoted to pay for the afore-mentioned national defence, security, education, health care delivery, housing, roads, fire service protection, seaports and airports and general welfare. Increasingly, parks, sports and general recreation fall under the aegis of governments and are therefore subsumed under the public sector or government expenditure budget. The pivotal issue under the existing arrangements is the answer to the burning questions: “who pays for the delivery of the public goods and services?” “Who pays for those other goods and services that may be termed, under normal circumstances, private goods and services?”

In the ECCU it is the contention of some people, decision makers and others, that the governments are crowding out the private sectors in the procurement and provision of goods and services. The empirical evidence to substantiate this contention is not abundantly strong. What is clear in the nature of the debate is really the role of government. It is the view of many who are in regional governments that “government is the engine of growth.” As a consequence, governments should be involved in the provision of investments in areas such as housing, tourism, hotel plant, and the rest, where the private sector is not doing an adequate job, or not doing a professional job, or doing a job with a decided class-bias.

On the other hand, the private sector contends that it can do a better job than the governments, the amorphous public sector.

In many discussions with members of the ECCU private sector, the members were decisive in their condemnation of the public sector in terms of their “poor” expenditure policies. Many of them were of the view that they were saddled with people in the respective governments whose decision-making was dubious at best and dangerous at worse. Dubious because the leaders “did not know” what they were doing, and “dangerous” in that the governmental leaders’ actions tended to handicap the economies and the countries in “outrageous” Debt to GDP ratios, as a result of the profligacy in public expenditure.

In this debate of government expenditure and the role of government versus the role of the private sector, the question still remains, “who pays for the expenditure in the short and long run?”

When revenue is utilised for public goods, good though the benefits from these goods may be, there is still the question of the opportunity cost of the funds devoted to the public goods. In addition, since there often is no full-scale cost benefit analysis done on these public goods before they are purchased and distributed or put in place, the issue of opportunity costs takes greater precedence. So, the question is consistently on the agenda of concerns: what other investments could have been made with the expenditures devoted to the public goods?

The question of who pays for public goods presupposes that there are gainers and losers. Pragmatically, this would seem to be the case. But, in the end, public expenditures under the existing arrangements in the OECS depend upon the tax structures in vogue; the critical decision-making or lack of decision-making; propitious circumstances, such as the discovery of an economic natural resource, for example oil and gas; one-off natural disasters such as mudslides, volcanoes, earthquakes, or persistent, annual events such as hurricanes. Excessive public expenditures are also a function of poor management of governmental administration, and there is evidence that there has been much of this in the ECCU over the last 20 years.

In light of the existing conditions, what best practices will enable the ECCU to manage public expenditure growth and or excesses? What strategies could be put in place to minimise the Debt to GDP ratios of the countries, that is keep the Debt/GDP ratio below 60 per cent, and thus enhance the investment opportunities of the countries in the region?

### **7.3 Best Practices in Public Expenditures**

Over the years there have been various types of budgetary approaches, as they relate to public expenditure implementation and controls. But, from theoretical analyses and our observations across countries, critical expenditure planning and serious forecasting is the best practice that

will enable the region to rein in excessive public expenditure and, at the same time, give the decision-makers the latitude to control the trajectories that governments may assume as far as public sector/governmental spending is concerned. The intertwining of expenditure planning and forecasting makes it fairly predictable in terms of the scenarios that governments could suggest as they move forward.

By expenditure planning one means the development, formulation and implementation of goals, objectives and policies over specified time periods. Forecasting, in a companion sense, means a look into the future, bearing in mind the vicissitudes of risks and uncertainty. One does not expect to get a plan of action from forecasting, but serious forecasting enables decision-makers to evaluate different scenarios and thus have a grasp of the opportunities available for development and expenditure controls. In this light, the states' decision-makers should view expenditure planning and forecasting as guidelines of the future.

From a practical point of view, one of the best practices of expenditure planning is to set it within the matrix of development of the country, as well as locate it within the overall budgetary process. In this regard, the planners could establish the whys of expenditures, the relevant and appropriate growth rate of expenditures, and the impact on the economic base of the country. It is pivotal also to determine how resources would be mobilised to facilitate the expenditure growth, or what steps ought to be implemented to assist in expenditure reduction. In this way, the expenditure becomes a mechanism that permits decision-makers to look in a real-time perspective and use a continuous approach to look into the future. This suggests that there cannot be lapses in looking into the future and data should be available and up to date if analyses are to be done properly. Expenditure planning, therefore, is to be operationalised as a critical component of the budgetary process, but with the proviso that it is continuous, dynamic, with elements of disaggregation, and not cast in stone such that it cannot be changed if changing circumstances so dictate. The traditional budgets are one-year or two-year instances; in the case of expenditure planning, it should be within a multi-year framework and, indeed, in a rolling-budget system. Benchmarks should be linked to these multi-year cases, and adjustments would be expected to be made as each benchmark is attained or not attained.

How does a best practice approach to expenditure planning work? In the first instance, decision-makers have to do some preliminary prior assessments of what would be the likely outcomes of the impact of public expenditure on the various sectors and departments of the government. This suggests that there ought to be close coordination, collaboration and team work among decision-makers in the state. Here it is important that persons such as the Permanent Secretaries meet on a regular basis so that they are all fully conversant with the overall expenditure of the government, and can all, from a consensus point of view, buy-in to the expenditure profile.

Second, there ought to be some awareness of the nature of the expenditure increases, decreases, or other variations in the expenditure profile. It is instructive that an average three-year expenditure profile be used as a guide for any deviations. One standard deviation above and below should be the approximate expenditure limits to consider increases and or decreases. If there are expenditures above or below one standard deviation, a serious analysis and justification should be provided for the departure.

Third, there should be critical links to the service associated with the expenditure that will be undertaken; there should also be goals and objectives linked to the expenditure, and finally there should be a cost and time spectrum, taking into account the limits, noted above, of plus/minus one standard deviation.

Fourth, a focus group of the Permanent Secretaries should run scenarios of the planning expenditures at least one year in advance such that they can get a feel of the challenges to be addressed, and get a hearing of the statistical noise that may be in the expenditure profile. Where governments do not have the critical skills readily available to perform these tasks, regional help should be sought. As a matter of fact, one of the salient points that was noted in regional meetings was the need for closer collaboration of the use of technical skills across the region. This would be a case in point.

Given the expenditure, the next step would be the forecasting. The implicit idea here is to seek to get a handle on the economy by looking into the future, given a series of scenarios. Of course there are normally risks and uncertainties associated with such a plan. In the traditional sense of

the word, risk is the potential that a given action, a particular activity or non-activity, will lead to a loss or gain. There are three types of risk profiles: risk lover, risk averse, and risk neutral. Countries would most likely adopt risk neutral profiles, even though the expenditure outcomes may fall in the spectrum of risk lover. In the context of uncertainty, reference is to the limits of accuracy in future planning. This is hard to categorise. But it is important to note that all of the expenditure planning and the associated forecasting must take risks and uncertainty into consideration. The decision-makers must be fully cognisant of these precepts and must be on target to shift positions accordingly.

One of the principles and features of expenditure planning and forecasting is to make sure that decisions are operationalised in a coordinated fashion, not in an ad-hoc, arbitrary manner. In other words, expenditure planning and forecasting must be done in a holistic framework of reference. The linkages in the economy, the symmetries between and among Ministries, and the implications and impact on current and future expenditures must all be factored in the matrix of operations. If, as was observed in some countries, there are asymmetric stances between Ministries, there will be chaotic expenditures and poor long-term planning.

One last note on public expenditure planning in the scope of best practices is this; there should be regular evaluations, surveys, and tests of the planning parameters. This will require careful focus. Fortunately, today there are a variety of computer planning models that will take the drudgery out of this process, via a simple planning algorithm; in this regard, the expenditure planning could be monitored on a regular basis.

In the essence of forecasting as it relates to expenditure planning, it should be borne in mind that forecasting is not a single event or single number. Furthermore, forecasting is normative in its thrust and not positive in its orientation. In other words, forecasting deals with what ought to be not what is. Thus, forecasting associated with public expenditure planning enables the decision-makers to systematically project what ifs, what could be, and what may not be, under various expenditure and economic growth profiles. In the context of governmental forecasting, there are always the instances of too rosy a forecast or too pessimistic a forecast. There are “blue sky” forecasts where agencies and departments shoot for the sky on the assumption that what they ask

for in their budgets will fall in the trees from the sky. In the long run, after a five-year, continuous strategic planning process, the decision-makers should be able to get a good feel of forecasts which are overly optimistic versus those which are overly pessimistic. Forecasting is 20-20, that is with hindsight one sees much better. But, the only way to know if the forecasting works is to go through the process. It should be noted that a best practice approach to forecasting and public expenditure planning is to structure it so that a single approach can be made and a multiple approach can be made. For example, in the ECCU there are parameters for economic growth, unemployment and inflation. Each of these could be forecasted or there could be trade-offs between two parameters. Whatever approach is used, however, forecasting is best practiced when it is done at a disaggregated level.

Finally, it is best to do forecasting on short periods and then test the forecast for stability and reliability; and after that, then move on to longer periods. In this case it is good to forecast over one-year, three-year and then five-year periods. Forecasting is best practiced when the data for the period of forecasts are at least equal to the time horizon of the forecasts. In other words, to use an extreme case, it is unprofessional and would end up being problematic, from a planning point of view, if a forecast for a five-year period is made based on three years of observations. How successful expenditure planning and forecasting are depend upon how programmatic, comprehensive, and detailed policy-makers want to be in ensuring that the targets or the zones of projections are expected to be. The levels of objectivity, the degrees of accuracy and reasonableness in estimates, and the clear understanding and acceptability of all participants in the planning and forecasting process will tend to ensure that the expenditure planning and forecasting are meaningful. Any significant departure from these parameters would be a recipe for disaster or an exercise in futility.

All things being equal, government expenditures, as scoped in the context of best practices, must always take into account the economic and political drivers in the economy. Factors of demand, personal income, taxes, interest rates, degrees of freedom that decision-makers have, etc, are all pivotal. Expectations of the future, unemployment rates, in essence the entire macroeconomic and microeconomic environment, have to be given serious thought if government expenditures are to be meaningfully put in place and seriously forecasted. Large swings in the local economy

and, increasingly, massive dislocations in the external economies could seriously disrupt local expenditure and forecast. But, these factors should not deter best practices in government expenditure and long-term planning. At the end of the day, if best practices are put into effect on a continuous basis, the practice will be institutionalised as a long-term best option.

“The government cannot give to anybody anything that the government does not first take from somebody else.” Adrian Rogers 1931

## **CHAPTER 8**

### **EXISTING LEGISLATIVE FRAMEWORKS AND OPERATIONAL PROCEDURES FOR PUBLIC SECTOR FINANCIAL MANAGEMENT**

#### **8.1 The Existing Framework and Status of Financial Legislation**

In all ECCU member nations, there is a detailed and comprehensive legal framework outlining the accounting and audit requirements for central government and government owned entities. The definitive guidelines on government financial management are contained in each country’s Finance Administration Act (FAA), Audit Act and subsidiary legislation such as financial regulations and stores and procurement regulations.

The FAA of each member nation contains provisions relating to management and control of public finance; the principal officials responsible for managing government finances; definitions of consolidated funds and other public funds; and general procedures for government accounting, authorization of expenditure, payments, bank accounts, investments and deposits, management of public debt, abandonment of claims and write-offs of public moneys and stores, surcharges, and financial management of state-owned enterprises.

In all member states, all monies received are paid into the consolidated fund, unless the law states they are payable into some other fund. Under the FAA, the Minister of Finance is responsible for supervising the finances of the government and ensuring a full account to parliament. The Minister delegates supervision responsibilities to the Financial Secretary, such as disseminating and enforcing financial management regulations, laws and instructions.

The office of Accountant General (AG) is established in the FAA of each member nation and the function combines the responsibilities of Chief Accountant and Treasurer for the state. The FAA



specifies the AG's duties as including: pre-auditing all payments to ensure that they remain within the amounts appropriated by parliament; refusing payments that are not in order or do not comply with relevant laws and regulations; acting as a custodian of all securities; implementing internal controls to prevent fraud and embezzlement; and managing the cash flow of the government. The FAAs of all member nations are explicit in specifying that the AG must account for all revenues and expenditures, prepare monthly and annual financial statements, and present annual statements to the Director of Audit for examination.

The FAA Acts designate Permanent Secretaries of Ministries and Heads of Departments as Accounting Officers (AOs) for the state, and specify that AOs are answerable to the Public Accounts Committee for the efficient management of, and accounting for, the public funds entrusted to them. The Acts also state that each AO is responsible for ensuring that: the funds entrusted to him/her are properly safeguarded, and applied only for purposes intended by Parliament and without waste; all payments and votes are properly authorised; financial records are properly maintained in accordance with financial regulations; and these records are properly stored and presented to the director of audit when requested. The Acts are very clear that even where there is delegated authority, the AO remains personally responsible for any expenditure that is improperly incurred.

The FAA provides a set of "Financial Regulations" which are detailed provisions for the application of the FAA and, in particular provides detailed internal control arrangements, which typically cover:

- Commitment accounting and other checks designed to avoid not only unauthorised expenditures, but also, accidental or deliberate commitments beyond budget approvals;
- Pre-audit of payment vouchers and instruments to ensure compliance with regulations;
- Surprise inspections to deter fraud, embezzlement and negligence;
- Detailed regulations for the maintenance of vote accountants;
- Security of account;
- Preparation of estimates;
- Detailed rules covering every aspect of receipts and payments, and their accounting.

For example, a person signing a payment instrument must ensure that:

- The service specified has been satisfactorily delivered;
- Proper authority has been obtained for the expenditure;
- Prices charged either accord with approved scales, or are fair;
- Computations and costs have been verified and are arithmetically correct;
- The person named in the instrument is entitled to receive payment; and
- Goods purchased have been correctly received and put to use, or taken on charge.

All of the ECCU member countries have gone through and are in the process of legal reform in terms of the FAA. The main driving force behind this initiative has been the CIDA- sponsored Eastern Caribbean Economic Management Programme (ECEMP). The ECEMP procured the services of a Legislation Specialist to prepare a model Financial Administration Act and provided assistance to St. Lucia to facilitate its enactment there, and the Act has in fact been implemented in Saint Lucia. Other member countries are yet to pass the model Act as has been done in Saint Lucia.

**Table 8.1 Status of Legislative Reforms in ECCU Member Countries**

<b>ECCU Country</b>	<b>Status</b>
Anguilla	Financial Administration and Audit Act 2004
Antigua and Barbuda	Finance Administration Act 2006
Dominica	Finance (Administration) Act 1994 and Financial Regulations Amendments (1995)
Grenada	Finance and Audit Act 1964
Montserrat	Finance (Administration) Act Revised Edition 2002
St Kitts and Nevis	Finance Administration Act 2007
Saint Lucia	Finance (Administration) Act 2005; the Finance Administration Amendment Act was passed in 2011 and is viewed as the most modern in the ECCU.
St. Vincent and Grenadines	Finance Administration Act 2004

**Source: Ministries of Finance**

**Data as at 25 May 2012**

## **8.2 Internal Controls and Internal Audit**

The level of internal controls in the public sector in the ECCU stands in stark contrast to the detailed and comprehensive legal framework outlining the accounting and audit requirements for

central government and government owned entities. Our research suggests that except for the MOF and other revenue departments, an accounting or internal audit function is largely non-existent in most departments of government, or where such a function exists it is grossly understaffed (Table 8.2). Our research suggests that except for the MOF and other revenue departments, an internal audit function is conspicuously non-existent. For example, in most member nations the Education and Health Ministries command the largest share of the budget but do not have formal internal audit or accounting functions. The evidence suggests that the vigilance of the Accounting Officers is the sole internal audit device in the vast majority of government departments. This is in contrast to a number of other jurisdictions where there is a formal internal audit function in the various ministries, although this may not be cost effective for ECCU member countries.

**Table 8.2 Accounting and Audit Staff in the ECCU Member Countries**

<b>ECCU Country</b>	<b>No. of Accounts Staff</b>	<b>No. of Audit Staff<sup>15</sup></b>	<b>Government Expenditure Budget</b>	<b>Expenditure per Accounts Officer</b>	<b>Expenditure per Audit Officer</b>
Antigua and Barbuda	51	24			
Dominica	126	18			
Grenada	54	18			
St. Kitts and Nevis	28	15			
Saint Lucia	161	26			
St. Vincent and Grenadines	47	28			
<b>Total</b>	<b>467</b>	<b>129</b>			

Source: Departments in ECCU member governments

### **8.3 Central Government Auditing**

All ECCU member countries have an Audit Act which provides a detailed and comprehensive legal framework for the audit of governments' financial statements. The constitution and Audit Act of each of the ECCU countries provide for the office of Director of Audit (DOA). The Acts are very similar and clearly lay out the mandates of the DOA. The Acts specify that the DOA has to satisfy himself/herself:

<sup>15</sup> These figures represent audit staff as reported by persons in the Government departments of ECCU member territories.

- That all monies that have been appropriated by Parliament and disbursed have been applied to the purposes for which they are so appropriated, and that the expenditure conforms to the authority that governs it (i.e. a compliance and internal control audit); and
- At least once in every year, audit and report on the public accounts of the country (financial statements audit).

In practice, these two mandates have led to the preparation of an audit report in two volumes, one focusing on compliance and the other on the financial statements. The DOA in member countries now tends to perform a compliance audit, and the findings are reported in Volume One, and at a later date when the financial statements are received, they are presented in Volume Two.

The Audit Act of member countries allows the DOA, at any time to undertake a “Special Audit,” and submit a “special report” on any matter considered to be so important or urgent that it should be addressed prior to the preparation of the Annual Report. In other jurisdictions, this mandate in the Audit Act is typically used to enable the DOA to undertake “Performance Audits”, where the performance of a government unit or department is audited against previously established benchmarks. There is no evidence of such audits in the ECCU. Special audits in the ECCU have been used as a means of investigating suspected malfeasance, rather than as management devices. The development of performance benchmarks in a variety of areas in the public sector would go a long way towards facilitating the conduct of performance, as opposed to purely compliance audits. Similarly, investigations did not turn up any evidence of an audit department in the ECCU being externally reviewed on its methods and standards. Therefore, the audit departments have no objective evidence that their methods and standards conform to international best practice. A requirement that audit department be subject to periodic peer reviews by external entities would help to ensure that the various audit departments in the ECCU remain on the cutting edge of best practice.

The various Audit Acts appear to ensure that the DOAs have good constitutional independence from the executive, except at the time of appointment. In all member countries, the Prime

Minister needs to be consulted. The spirit of the legislation establishing the DOA seems to suggest that the DOA is a servant of parliament. If this interpretation is correct then parliament, as distinct from the Prime Minister, should be consulted on the appointment of the DOA. The Audit Acts are unclear as to whether or not audit reports go directly to the speaker or through the leader of the Lower House. To ensure that the DOA is and appears to be independent, all audit reports should go directly to the Speaker and not through the hands of any auditee.

Therefore, in terms of the audit of central government, with the exception of a few areas highlighted in this study, the legislative framework appears to be adequate. However, in the execution of duties, the audit function has focused almost exclusively on compliance, as opposed to performance audits, and there is no external review of audit methods and standards. Table 8.3 should have provided a summary of the timeliness of the financial reporting function in the ECCU member states for the most recent financial period. The framework of the table is presented to encourage the compilation of this data.

**Table 8.3: Summary of Accounting and Auditing Timeliness in the ECCU Member Countries**

<b>ECCU Country</b>	<b>Fiscal Year Ending</b>	<b>Date Corrected/ Certified Accounts were Submitted by Accountant General / MOF to DOA</b>	<b>Date of Submission by DOA to MOF with Certification</b>	<b>Date of Transmittal by MOF/ Laying in Parliament</b>
Antigua and Barbuda				
Dominica				
Grenada				
St Kitts and Nevis				
Saint Lucia				
St Vincent and the Grenadines				

#### **8.4 Public Accounts Committee**

The Public Accounts Committee (PAC) is seen as a crucial mechanism for ensuring transparency and accountability in government financial operations, having been described by Professor Peter Hennessy as “the queen of the select committees...[which]...by its very existence exert[s] a cleansing effect in all government department”. The recommendation for the creation of a committee to oversee government accounts was first put forward in 1857 by a small group of interested Members of Parliament led by Sir Francis Bearing.

The structure and function of the PAC date back to reforms initiated by William Ewart Gladstone, when he was British Chancellor of the Exchequer in the 1860s. The first Public Accounts Committee was established in 1861 by a resolution of the British House of Commons: There shall be a standing committee designated "The Committee of Public Accounts"; for the examination of the Accounts showing the appropriation of sums granted by Parliament to meet the Public Expenditure, to consist of nine members, who shall be nominated at the commencement of every Session, and of whom five shall be a quorum. 31 March 1862.

This structure has been replicated in all Commonwealth countries. All of the countries have some provision- either constitutional or parliamentary- for the establishment of a PAC. The

composition of PACs varies from country to country, with the minimum number of members being between three and five. In accordance with the Standing Orders of the Lower House or similar provisions, the PAC is typically headed by the Leader of the Opposition, or some other opposition member. The remaining members tend to reflect the party composition of the lower house, provided this is not overwhelmingly dominated by a single party.

As a governance mechanism, the PAC is part of the parliamentary infrastructure that seeks to ensure that governments account for their use and management of public resources; as such, it is a most important entity within a country. The legislation in all member nations specifically require the PACs to report to the House any cases where excess or unauthorised expenditure of public funds have been made, the reasons for such expenditure and any measures they consider necessary in order that public funds are properly spent. The legislation also requires the PAC to perform such other duties as the House may direct, and the Acts are explicit in stating that all agency heads, as Accounting Officers, are answerable to parliament through the PAC for the management and accounting of the public funds entrusted to them. In the previous section we discussed the role of the DOA, and there is a crucial link between the PAC and the DOA. In fact, the proper functioning of the PAC depends to a fair extent on the quality of work done by the DOA, because the PAC relies on the audited financial reports presented by the Department of Audit (DOA) to carry out its mandate.

However, the evidence from our research is that the PACs in the ECCU member countries have largely been inactive, and can be construed as generally ineffective as a means of ensuring that the executive undertakes public expenditure with propriety, efficiency, transparency and effectiveness. In a number of ECCU member countries PACs are rarely constituted, and where they are constituted they seldom meet. In cases where the PACs do meet, they are typically reviewing outdated information due to weakness in the financial reporting process in government.

The reasons for this sorry state of affairs, with this most crucial governance mechanism, are many and varied. While the legislation is clear that the PAC is intended to provide a check on the implementation of government policies, as distinct from critiquing the policies themselves,

this not seem to be well understood by members of parliament or the public. Due to this misunderstanding, the PAC is viewed and seems to view itself as an opposition institution seeking to embarrass the majority party. This perception is reinforced by the fact that the PAC is typically chaired by the Leader of the Opposition. The forming of a PAC has been constrained in a number of cases by the membership requirements. To be eligible for membership of the PAC one has to be a member of parliament, but not a member of the executive. Hence PAC membership is limited to members of the opposition and “backbenchers” of the majority party. In a number of cases the PAC was not constituted because of inadequate opposition and “back bench” members of parliament. In cases where a PAC has been formed, meetings of the PAC are often derailed by an inability to form a quorum. The quorum rules are such that members of the majority party forestall meetings of the PAC by simply “not showing up”. The weakness of the financial reporting function in member states often means that audited accounts are often late, which implies that where PACs are actually constituted and meet they are forced to review out-dated information. PACs in the ECCU member countries have never reviewed the accounts of Statutory Bodies even though they are tabled in the House and a Standing Order of the House requires the PAC to do so, because Ministers of Finance have not proposed motions that they be referred to PAC. The evidence also suggests that where the PAC is constituted, members may possess certain skills deficits, especially in the area of analysing financial reports.

It is clear that the constitutions of the ECCU member states regarded the PACs as a crucial governance mechanism, providing legislative oversight over government financial activity. The fact that the PACs appear to be rather ineffectual is a matter of grave concern and needs to be urgently addressed.



## **8.5 Overview of Current Arrangements**

The current state of comparative government expenditure practices and arrangements in the ECCU points to relatively comprehensive constitutional and legal arrangements, which are being applied in a rather indifferent manner. In particular, the accounting and internal control functions appear to be weak in line ministries. The evidence is that except for the MOF and other revenue departments, an accounting or internal audit function is largely non-existent in most departments of government, or where such a function exists it is grossly understaffed. Also, one of the key governance mechanisms for monitoring public expenditure, the PAC, functions poorly in member states. If one of the goals of public expenditure reform is to ensure that public expenditure is undertaken with due propriety, efficiency, transparency and effectiveness, then it is critical that urgent steps be taken to improve the audit function and the working of the PAC.

“The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessings of socialism is the equal sharing of the misery”. Winston Churchill

## **CHAPTER 9**

### **SOME GENERIC OPERATIONAL MEASURES TO ENHANCE EXPENDITURE EFFECTIVENESS:**

#### **Productivity and Efficiency Tools, Techniques and Arrangements**

##### **9.1 General**

##### **Reorganisation of the Executive**

Trying to bring about efficiency in the public sector has to be effected from top to bottom and should more usefully commence from the top. It will set the tone and demonstrate the seriousness of the intention and process and show that no holes are barred in what has to be done to achieve efficiency.

At present the structure of the Executive lacks permanence and sometimes even logic, with regard to efficiency. The size of the Cabinet, the number of ministers, the determination and configuration of portfolios vary from country to country, time to time, and even from time to time within a country. The common determination of Cabinet size seems to be the number of elected members from the successful political party after an election, the interests of the elected members and the Prime Minister's own determination as to how he would distribute or allocate and configure the overall portfolio. The objective, to put it frankly, seems to be making jobs for those from the governing party which has been successful at the polls. But this has financial costs and implications for efficiency and productivity. It affects costs, not only the direct and indirect costs of those directly elected, but also the supporting personnel at all levels that would be required for the structure. There are costs in terms of accommodation and supplies and in terms of preparing new signage and stationary, while destroying what existed before. It creates a sense of confusion not only in the minds of the public that have to be served, but also in the

minds of the workers who take time to absorb the change; this sometimes leads to confusion in terms of responsibilities and duplication of effort, with the consequential waste of resources.

The problems could be minimised and efficiency enhanced if the executive is of a fixed size, with a fixed, predetermined and standard portfolio, and a hierarchy of top level personnel. For example, there could be a Prime Minister with overall responsibility for the government and with direct responsibility for those areas that impact directly on his responsibilities: Finance and Planning. Senior Ministers, each of whom would have a Permanent Secretary, could be appointed for such major areas as: Social Services (Education, Health and Other Human and Social Services); Production (Agriculture, Tourism, Industry, Other Economic Services); Physical Infrastructure, Works and Utilities (Transportation, Communications, Energy, Water); External Affairs and Foreign Trade and Commerce; Home Affairs and Defence; and the Attorney General and Government's Chief Legal Counsel. Ministers reporting to the Senior Ministers and/or Permanent Secretaries could be appointed for such major portfolios as Education, Health, Finance, Utilities and Transportation.

Whilst this may require constitutional changes it may be useful to consider reforming the governance arrangements to allow the Prime Minister to choose his Cabinet from elected and non-elected members with the competence, willingness and confidence to best manage the portfolio. Success at the polls should not be the sole consideration for selection to the Cabinet. It should be based on ability. Elected members have the great responsibility to represent their constituencies and to determine the legislative framework for the country, and should be adequately rewarded for this awesome responsibility.

### **Business Process Reengineering**

Business Process Reengineering, which has replaced the management concept and practice of Organisational Methods, begun in the early 1990s; it is now widely practiced in many large and progressive organisations that are seeking efficiency, competitiveness, and better responsiveness to satisfying customer needs. It departs from the old practice of systems improvement, lately, through the application of technology to a comprehensive review of both the enterprise's goals,

the value added in its delivery and identifying the processes: the most cost effective systems and processes to achieve the identified goals.

A definition, overview and brief history of the concept from Wikipedia gives insights on the possibilities for the use of this technique:

"Business Process Reengineering (BPR) began as a private sector technique, to help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world class competitors. A key stimulus for reengineering has been the continuing development and deployment of sophisticated information systems and networks. Leading organizations are becoming bolder in using this technology to support innovative business processes, rather than refining current ways of doing work."

### **Parastatals**

Governments are required and expected to perform and provide a wide range of services and to be intricately involved in the organisation and management of the economy. The traditional apparatus for this involvement is the permanent civil service. However, there are many instances where the civil service structure is inadequate to deliver on these services and this is so for many reasons: the need to have a structure and ethos similar to that in the private sector e.g. banking and commercial enterprises; it may be for a temporary duration and best handled outside the civil service e.g. promotion of national savings in Jamaica; it does not fit in the civil service structure in terms of compensation e.g. National Statistics and Economic Planning, operating modalities or some other aspect; it has to be independent of the civil service e.g. central bank and monetary authority. Whatever the reasons, rationale and structure, there would be specific legislative provisions governing the respective operations.

These bodies are usually necessary but for them to operate effectively they need to be:

- a. initially subjected to intense and thorough evaluations to determine the most appropriate structures and modalities for their efficient and cost effective delivery of service;
- b. structured and regulated in compliance with their legislation;
- c. regularly monitored by parliament, the media and the public;
- d. closely supervised by the related sectoral ministry on technical and sectoral policy matters, and by the Ministry of Finance and or Planning on all financial, budgetary and capital investment matters;
- e. providing the functions as envisaged in terms of output, quality and cost with strong accountability to the governance and management, and with breaches of performance either subject to effectively punitive sanctions and continuing failures leading to finding alternative means of service delivery; and
- f. terminated after their purposes have been served and/or when they are no longer effectively serving their original and currently expected purposes.

### **Economic Modelling and Use of Statistical Techniques**

Most tertiary level education in applied social and economic sciences, and in business studies have curricula with a fair offering of statistics, econometrics and some operation research techniques, but these are hardly used in the workplace even though opportunities exist for their use. Many of these techniques can be applied to: trend analysis and forecasting, establishing quantitative behavioural relationships between variables, analysing the workings of corporations, industry, sectors and even the company that could prove very useful guides to decision makers, policy makers and analysts. But for reasons that may relate to the fact that these are not well taught to appreciate their potentially useful applications in real life; supervisors own ignorance and lack of appreciation of the utility and functionality of these techniques to demand their use; or inertia on the part of graduates to apply their acquired skills to work applications. Whatever the reasons, it is a loss to the economy from at least three respects: costly training is sub optimally used and not having the expected impact; persons with the acquired skills are being compensated for their superior training even though the results are not manifested; and possible improvements to decision making are not being utilised.

## **Cash and interest Rate Management**

Government, together with its agencies and parastatals is, by far, the largest business in town and as such it has a great deal of leverage to obtain the best rates, terms and conditions for its borrowings, but through proper management it can optimise the returns on the vast amount of liquid funds that it would have at any one time, through the many accounts and the large balances that are held on these accounts, mainly in commercial banks. While giving some preferential treatment to national and domestic banks it has the leverage to play the other, particularly foreign banks, not only to seek the best rates but also to influence the policies of these banks in the national interest. Thus, the government can optimise its returns through three sources: minimising the need for borrowings by a judicious use of its various liquid balances held on deposits; getting better returns on its liquid balances by aggregating them and negotiating better returns on these aggregated funds; and negotiating and leveraging its position and resources to get the best rates on its borrowed funds.

For these to be achieved there will be need for central management and/or monitoring of these funds; preparation of a continuous and daily cash flow of the aggregated liquid resources available to, and required by, the various entities; and sensible negotiation by leveraging the resources held by the central government and its agencies, the involvement in the banking sector, via the national bank, and the policy prescriptive powers of the government itself.

## **Credit Ratings**

Sovereigns and corporates normally seek credit ratings when they are approaching capital markets to source debt financing. Such ratings give an independent assessment of the credit worthiness and debt servicing capacity of the assessed entity, and since it is based on the probability of default is used to determine the cost of the specific debt instrument being proposed. But the true benefit of a credit rating rests not only in the probabilistic and quantitative assessment but also, more importantly, on the analysis of the detailed rating rationale and the discussions with the rating agency. It gives the rating entity an insight into how investors could possibly perceive the overall credit worthiness of the sovereigns or corporates through the eyes of independent and impartial professional analysts. The rating agency can be requested to engage in dialogue, not only to identify and diagnose but also to prescribe

recommendations that could remove or minimise the identified flaws and shortfalls in the assessment.

### **Audits**

Audits have two main advantages. It forces an entity to document its policies and procedures because these are the bases for the audits. In the process it also helps the policy maker and/or auditor to keep the policies and procedures under continuous review, and to make recommendations for improving those policies and procedures based on internal experience and external best practice.

The other advantage of audits is that they deter malfeasance and corruption. The presence of systems, policies and procedures, compounded with the knowledge that compliance is being continually monitored, normally serves as a useful deterrent to non-compliance. And the more thorough is the monitoring and the more severe is the penalty for non-compliance, the greater the degree of compliance that is obtained.

## **9.2 Labour**

Labour incurs the highest cost in the budget, sometimes as much as 50 per cent of current expenditures, and much higher if parastatals are included. Government is the largest employer and its compensation levels, practices and work culture have a significant influence on the cost and quality of private sector employment and on the level employed. But labour's influence and importance goes far beyond its costs, and the level employed. Essentially, the whole function of government – the provision of public services - is labour-based and executed. The timeliness and efficiency of service delivery; how efficiently systems are selected and deployed; the attitude to service; the empathy towards the public; the overall management of the system, all originate from labour. Labour is at the crux of public service management, resource use and delivery, and overall public service efficiency is essentially dependent on the use and deployment of labour. How labour is used in the public sector has a tremendous influence on the efficiency, cost and productivity of the public sector and on the overall economy.

### **A Perspective on Employment**

To many, employment is an end. In the language of efficiency and productivity it is (or should be) a means to achieve desired outcomes as cost effectively as possible. This does not negate the intention to use employment maximising strategies as long as these ensure that the benefit to cost ratio is optimised. That means that employment should be based on efficiency and productivity and not nepotism and/or employment for its own sake. To achieve this requires that the employment process involves:

- 1) The efficiency and seamlessness of the overall system in which that unit of labour is to be employed, such that every aspect is properly integrated and has net positive value added without duplication of activity.
- 2) That the employed unit of labour:
  - a. has the appropriate job fit in terms of skills, aptitudes and attitudes for the assignment;
  - b. is given very clear details on the goals of the assignment: what has to be done, desired qualitative and quantitative outcomes and timing of delivery;
  - c. is properly inducted and is being closely monitored particularly during the initial period of the assignment;
  - d. is subject to regular performance appraisal not only to assess performance against goals but, even more importantly, to give feedback and guidance on what needs to be done to improve such performance;
  - e. is provided with regular training to continually upgrade skills, update on new technologies and to equip and empower for more productive positions; and
  - f. is adequately compensated and given incentives for superior performance, and is prepared for separation if performance is below what is being compensated for.

### **Perspective on Training**

The State and public servants spend a great deal of time and financial resources on training – both external and internal. The limited statistics available do not give a near true picture of the cost of this training: man days foregone directly and the time and cost for replacement, the cost of the training, and the cost of direct remuneration and for replacements during such training.



Nor do the statistics give an estimated assessment of the benefits of such training. In fact, it would be most unusual if this assessment is ever done.

On the basis of casual empiricism, it seems that the training provided has very limited focus, provided only because offers are made available by friendly governments, or determined by applicants who wish to upgrade their certificated qualifications for purposes of gaining career advancements that are largely propelled by certificated training. On qualification or after certification, there is limited, if any, attempt to try to maximise the benefit and impact of the training on the work at hand and/or to ensure that persons are given the opportunities to make more optimal use of the training acquired. The problem seems to originate from a variety of sources: the quality and relevance of training provided; placement personnel and/or supervisors' knowledge and awareness of the skills acquired through training and how best these can be utilised; training beneficiaries are not seeing and applying the tools of their training to improve their work performance. In short the on-the-job application of training provided falls far short of the costs incurred in providing such training and/or the true potential of such training.

While the acquisition of training should eventually improve individual and overall organisation performance, the cost is such that it should be more focused and targeted to optimise the benefits of such training. This could possibly be done by: ensuring that state supported training meets an identified current and/or future felt need; and that rewards for training come not from successful certification but from adequate job performance, with incentives and further rewards for above average and superior performance.

### **Perspective on Compensation**

Two issues are examined in this section. The first is the efficacy, for employment, of establishing and enforcing a minimum wage for private sector employment, while the second is determining a compensation structure for public sector employment.

Many governments around the world, the ECCU included, establish minimum wages for private sector employment, rather than leaving it to the market to determine the appropriate wage that would clear the market for labour where marginal supply equals marginal demand. This practice

is like establishing price controls, or going to the market with a large supply of perishables and setting a minimum price at which they must be sold. While there may be a social imperative to ensure that labour is adequately compensated to meet the basic needs of self and household, it is not for the market to perform that function. The role of government instead is to provide targeted subsidies, tax rebates, income supplements and entitlements, and/or to provide training to improve the marginal productivity of labour and hence the level of wages. This is more beneficial if gaining full employment is the goal. Establishing minimum wage could be inconsistent with a policy of trying to reach full employment. This was Arthur Lewis' recommendation, which was very successfully implemented in South East Asian economies where today not only has full employment been attained but those countries are importing labour, while their average wages are much higher than those in neighbouring countries that did not practice the policy. This is because, Singapore in particular, used the policy of market determined initial low wage to get full employment, with the consequential opportunity of full employment being used to provide work discipline and continual on-the-job training to enhance productivity, and hence the ability and justification for higher wages. Establishing minimum wages may benefit those who are lucky enough to get employment, but this will be at the expense of full employment and the unemployed and will place pressure on the State to provide employment at the public sector level. In fact, in many economies unemployment would have been higher but for the fact that wages, lower than the minimum, are readily and happily accepted by labour. The only limitation is that there is no concerted programme to inculcate work discipline and provide training.

Compensation at the margin should be determined on the basis of value added to the organisation. This, in turn, would normally be influenced by a combination of the complexity of the job and what the market offers for comparable skills. Thus, a proper Compensation System would involve Job Evaluations, Compensation Surveys and a Corporate Salary Scale.

### **Job Evaluation**

Job Evaluations are normally done to assess the internal significance, impact and comparability of jobs within an organisation, with some comparisons with outside comparators. Some, the Hayes System for instance, does the evaluation on the inter-related assessments of Knowledge

and Experience required; Skills required to perform the job, which would depend on the job's complexity, problem solving requirements, and innovativeness and independence in decision making; and the Level of Accountability in terms of the impact of the job's decision making on the institution and/or the level and seniority of persons supervised. All jobs are evaluated and classified in a hierarchy, with the most complex and important job at the top and the most junior and less significant at the bottom. Such job evaluations are performed periodically, say once every four years, but kept under continuous review for periodic adjustments.

### **Compensation Survey**

Compensation Surveys are undertaken periodically, say every one to two years to determine what compensation the market provides for comparable skills in the organisation. It does not specifically and directly come to its conclusions on the basis of inflation or cost of living increases, as seem to be Caribbean practice, but instead does that indirectly by trying to be market competitive to attract and retain the necessary skills. If done infrequently, the result would be either overcompensating for the necessary skills or losing them. Compensation surveys include all salary compensation, and the quantification and aggregation, in money terms, all allowances, terminal benefits, leave entitlements and other pecuniary perquisites of the job. The result is that there is economy-wide compensation comparability, which allows for the free movement of skills between public and private sectors and within countries. Compensation is for the job done and comparable with what is paid in the market place, and not dependent on what the organisation can pay. As a consequence, it is helpful for the economy and minimises the occurrence of the Dutch disease which is so debilitating for overall economic activity.

### **Structuring a Salary Scale**

With a hierarchy of jobs there is need for a salary scale into which to fit those jobs. A possible scale could be structured along the following lines:

- i) An overall salary scale with the lowest mid-point at 100 and with an overall range of 12 to 1 between the highest and the lowest paid employees.
- ii) Each scale level having a range of 20 per cent below the midpoint and 20 per cent above the mid-point.

- iii) Each increment within the scale would be 2.5 per cent of that scale's mid-point with 16 increments within a scale
- iv) A 15 per cent difference between the mid-points of scale
- v) An overlap between scales to allow three increments at each end of the scale.

The movement along a scale to earn a permanent increment would be determined on the basis of a sustained improvement in performance, say over a period of two years. Other annual movements in performance would be rewarded through annual bonuses, but if the performance is sustained to the following year the permanent increment(s) would be justified.

Salary movements for employees would result when:

- a) Performance appraisals show sustained improvements over a two year period in the quality and/or quantity of output;
- b) A periodic compensation survey shows that comparable positions outside the organisation are earning more than what is currently earned; and
- c) There are promotions within the scale for sustained more than superior performance or between the scales for promotions to higher level jobs.

### **Performance Appraisal, Compensation and Job Retention**

An employer can get very good performance from an employee if the tasks to be performed and the expected outcomes and results are clearly spelt out to the employee; the employee's performance is periodically monitored or appraised and honest, meaningful and realistic feedback is promptly provided in a friendly and coaching environment, and provisions made to help the employee improve the performance; and the employee is adequately compensated for performance.

Performance appraisals should be frequently undertaken but avoided at times when compensation increases are due to avoid the possibility of animosity, depression, stress and resentment.

Compensation should be adequate for the job performed. The output to be associated with performance should be clear and agreed to in advance. Better than expected performance should

be rewarded through commensurate bonuses, but where such performances are sustained from year to year the bonus should be substituted by movements along the scale.

Where performance is below standard on a continual basis, despite training and coaching provided, the poorly performing individual could either be red circled or terminated. Tolerating continuous poor performance could encourage poor performances from others and the development of an undesirable culture of accepting mediocrity.

### **9.3 Improving the Efficiency of Investments**

Countries, institutions and individuals invest to generate a positive return that could grow output, wealth and the economy. Both the public and private sectors in the ECCU member countries invest heavily, at proportions that are above the levels of both developing and developed economies. Unfortunately, the growth of these economies is much lower than their levels of investment would suggest. They have a low output to capital ratio and over the last decade the situation has been worsening to the point where that ratio is negative. A recent IMF study has confirmed casual empiricism that regional investment is contributing to debt and not to the growth that could service that debt. Whilst investment in Germany and Greece generates returns of 9 per cent and 7 per cent respectively, our returns are a negative 7 per cent. Thus a dollar of investment in Germany would increase net output by seven cents per year, but in the ECCU that same dollar gives a return that shrinks the investment by 7 cents per year - making the economy much worse off and burdened by the debt that was contracted to finance that investment.

Many factors contribute to this poor performance: small size and diseconomies of scale; frequency of natural disasters; poor project selection, design, execution, implementation; inadequacy of timely maintenance; etc. Most of these can either be avoided or mitigated. Small size leading to diseconomies can be mitigated by designing projects within a regional integration perspective to serve a broader market. Frequency of natural disasters cannot be avoided, but can be mitigated by designing projects to minimise the effects of such disasters and/or ensuring the adequacy of insurance. A regime of regular preventative maintenance can also go a long way in ensuring that the project generates the required and expected benefits through its useful and

expected designed life. While maintenance is regularly neglected, the areas where these are more so, with costly consequences, are in transportation and building investment projects.

The overarching requirement for the optimisation of investment efficiencies is the adequacy and policy consistency of the macro-economic framework for the country.

### **Macro-economic Framework**

The Policy Framework on Growth, Debt, Fiscal and Employment, as approved by the Monetary Council, should be adopted and implemented by members bearing in mind the need for tweaking by individual countries, given their varying situations. For instance:

- i) The Growth Target of 6 per cent is only satisfactory if per capita income is already at a reasonable level, and that target will only be attainable if the level of investment is adequate and/or efficient.
- ii) A maximum debt ratio of 60 per cent is an extreme limit, but is also influenced by the average cost and maturity of that debt and on the efficiency and the growth-inducing impact of the investments which the debt financed; and the adequacy of financial and/or foreign exchange earning capacity of those debt financed projects and/or of the overall economy to service the attendant obligations.
- iii) A minimum current fiscal surplus of 6 per cent must also assume that current revenue to GDP does not exceed the range between 28 per cent and 32 per cent; that all essential services, particularly those of security and support to the productive sectors, especially functional education, are given priority attention, and that entitlements and welfare distributions are well targeted to the needy and where it would have the greatest social and economic impact.
- iv) A maximum 6 per cent unemployment can only be attained if the policy framework is conducive and consistent; the appropriate supportive infrastructure is in place to support entrepreneurship and productive activity; the markets are stimulated and buoyant, including the quality and price of labour, together with the ready availability of other inputs at reasonably competitive prices and of appropriate and satisfactory quality and reliability e.g. energy inputs.

## **Policy Consistency**

Policy consistency is critical in trying to achieve goals as efficiently as possible. Unfortunately it is very easy to achieve policy inconsistency and contradictions. Many exist but only a few very common and glaring ones would be highlighted here:

- i) A very common and costly one is trying to achieve “full employment” with a minimum wage policy in an environment of militant and irrational trade unions. For this to be achieved it must mean that the minimum wage must be at a market clearing level and is flexible; in which case a minimum wage level is meaningless.
- ii) An economy, which is short of capital for investment, imposing punitive taxes on savings that can be channelled to long term investment for productive capital formation.
- iii) Similarly, is the policy of imposing higher rates and more levels of taxes on high risk capital, such as equity, compared to low risk capital borrowings. Many of our economies impose two levels of taxation, first on corporate profits and, secondly, on dividends, while there is only one level on borrowings, the interest expense on which is treated as a non-taxable expense.
- iv) The imposition of progressive income tax (desirable) but allowing very generous income tax allowances and even generous welfare entitlements for those with high incomes, who are the ones in any case that can and make use of these allowances and entitlements. (The recent case of a US multinational declaring global profits of US\$24b and filing a 57,000 page return that justified the payment of no taxes and which is generating the ire of the “Occupy Movement”.) In our own jurisdictions there would be many instances of high paid individuals whose income tax burdens are much lower than lower income counterparts.
- v) Granting generous tax allowances for what appears to be long term savings, but what in fact turns out to be funds used for consumption. The generous tax allowances provided to individuals for life insurance savings, but which savings are really used to fund the high administrative costs of insurance agents and insurance companies and whose excess reserves are invested in commercial banks that can use them for short term purposes including conspicuous consumption, is a case in point.

- vi) Having an objective to decentralise the availability of secondary education and building schools to support that policy, while continuing with policies that allow student candidates to select the schools of their choice instead of restricting such selections to the nearest available schools in zones or communities.
- vii) Acquisition of expensive but very efficient crane and cargo handling equipment, but guaranteeing the lifetime employment of the many displaced workers in the same occupations/activities when options exist to give them terminal benefits and retrain them to be employed in other occupations.
- viii) Encouraging and actively supporting the development of agriculture in the absence of land zoning for the ordered and sustainable development of the country, thus causing arable lands to be lost to expensive real estate and making the land cost for agriculture prohibitive.
- ix) Meeting the cost of utilities for poor households, which results in the abuse of the facility and a much higher cost than would have been normal to the government. A more cost effective method would be the setting of limits to the level of usage and/or giving the subsidy in cash to the welfare recipient.
- x) Governments encourage foreign investment and spend some money to attract it. Yet, efforts are not made to attract the captive profits of existing foreign investors by granting a lower tax rate for profits that are ploughed back into the economy, and/or imposing a withholding tax on locally generated profits that are immediately repatriated. The profits of foreign banks are a case in point

The costs of policy inconsistencies are so great that it would be useful for governments to appoint policy analysts to review the cost and inconsistencies of existing policies and how they can be minimised, and going forward, to look for possible inconsistencies in policy proposals and keep the whole policy regime under continual review.

Linear and Dynamic Programming using Linear and Dynamic Optimisation Programming Techniques has many advantages. It gives a focus on an objective or goal. It is about efficiency through trying to find optimum solutions to meet the objective and the true resource or input costs of alternative approaches. It requires an understanding of the workings of whatever is



being analysed and can be used at many levels: the economy, sector, industry and even enterprise. Thus at the economy level, one can specify a country's objective, e.g. the maximisation of foreign exchange, employment or GDP, and determine what combination of sectors would best achieve the desired outcomes. The specification would need estimates of availability of the scarce inputs, usually skilled labour and foreign exchange. The contributions to and requirements from sectors (the input-output or inter-industry matrix), need to be formulated which would provide an understanding of the inter-relationships among sectors. The results show not only what sectors need to be pursued and at what levels, but also the true economic cost of resources. The results can only be indicative and their value would be dependent on the quality of the data used.

### **Public Sector Investment Programming**

The Public Sector Investment Programme is a list of the programmes, projects and technical assistance that a country intends to implement over a period, usually 3 to 5 years. It contains the name, cost, source of financing, timing and implementation period of the various projects. But the critical importance of the PSIP rests not in the existence of the list but in the process, features, characteristics and modalities in putting the list together. The projects in the list should be feasible; affordable; consistent with overall objectives, each other and with existing macro-economic policy and infrastructure (both physical and institutional); as integrated as possible; with adequacy of resources to implement them without any undue heating of the economy during the implementation period; and overall would have the maximum impact on the economy in the medium to long run.

### **Balanced Scorecard**

The recently introduced Balanced Scorecard is a useful comprehensive analytical assessment framework or technique for analysing implementation activity and prerequisites in an economy, corporation, programme or major project. It looks at four dimensions of the activity:

- i) Economic and Financial - Goals and Objectives in quantitative and qualitative terms.  
What needs to be achieved from the activity?
- ii) Customer - Target Market Intervention. What must be done or delivered to the target market to achieve the desired objectives and goals?

- iii) Internal - What areas of internal activity would be necessary to achieve the objectives and meet the market needs?
- iv) Learning and Growth – What does the entity have to do to itself to help it meet the objectives and satisfy market needs.

### **Project Evaluation**

Since the reduction in foreign aid and project financing by the international financial institutions, rigorous project evaluation has lost its prominence in decision making on project selection. Today, governments depend a lot more heavily on programme financing and market borrowings which, in general, do not depend on project or even macro-economic evaluations of project impact and broad economic capacity to pay.

The traditional and still useful approach is to undertake cost-benefit analyses at the financial and economic levels. At the financial level, the project should generate a stream of financial returns that will meet its operating costs, including capital depreciation, and then generate an average annualised return that is at least greater than the financial cost of capital and better yet greater than the economic cost of capital that is usually set at 10 per cent. In short, evaluations of financial and revenue generating projects, based on realistic assumptions, should generate a financial return that is greater than or equal to 10 per cent.

At the economic level the projects, both revenue generating and/or social projects, should have an economic return (which factors in economic and social benefits using economic criteria) that is above the economic cost of capital. A revenue generating project should satisfy both criteria, while a social project must generously satisfy the economic criterion even though the financial criterion may not be met. In such cases though, it is necessary that the overall economy can generate the capacity to service the associated debt and other current obligations. This would be the reason for ensuring that there is an appropriate balance between productive and social projects in a PSIP, and social projects, no matter how necessary, do not dominate the PSIP beyond the economy's capacity to service the attendant debt and foreign exchange obligations.

### **Detailed Project Flow Planning and Critical Path Analysis**

Time and cost overruns are very common outcomes of project implementation today. That these arise is due largely to poor project planning: ill-defined projects; not properly detailed and designed from the start of implementation; not subject to sufficient scenario, sensitivity and simulation analyses to come up with the best fit for the project before project commencement; the failure to use and proactively stick to realistic project flow planning and critical path analyses. A delayed project has two undesirable results: the delay in accruing project benefits and an increase in financial costs, arising from longer periods for interest payments and the possibility of operating costs being affected by inflation. The recent experience of the world's largest cruise ship being subjected to detailed planning over a period of four years, being implemented over a period of under three years at the estimated cost of US\$1,200m, and having sold up to six months in advance its maiden and subsequent voyages which went on without a hitch and on schedule, is instructive. The moral of the story and the lesson to be learnt are to spend a lot more time in planning and then implementing according to schedule.

### **Open Competitive Bidding for Transparent Procurement**

It has already been mentioned that the level of public sector investment in the countries is quite high. At the same time there has been some public disquiet in some countries about the failure to adhere to the established procedures for the award of contracts and the process by which contracts are awarded. Admittedly, the failure to adhere to established procedures sometimes happens in emergency situations, but this is not always the case. Since the established procedures are generally acceptable, the solution to the problem seems to be the insistence that the procedures be followed, sanctions applied if they are not, and the possible appointment of a very well qualified Contractor General of impeccable integrity who would have full and independent responsibility for applying the procedures and making the selection. Such an Office should be subject to periodic and stringent audits and reporting directly to parliament.

### **9.4 Preventative Maintenance and Care**

Infrastructure is at the heart of development and output generation and expansion. Such infrastructure is both physical and institutional. The physical relates principally to buildings; improvements to the physical environment as in road networks, bridges, sea and airports, land reclamation and retention etc; and machinery and equipment and embodied technology. To

obtain the optimal output from each, they have first to be appropriately designed cost-effectively to suit the environment and the purpose of their various uses and applications; and secondly they need to be faithfully and properly maintained to extend their useful lives, minimise long run maintenance costs and support the level of output and activity for which the investment was made.

Unfortunately, the failure to properly design and maintain is one of the major weaknesses with our investments. Drainage, the nemesis of a road network, is either insufficient or not sufficiently maintained to facilitate the easy and unobtrusive flow of water; equipment is ordered and installed without knowing the equipment's capacity, or making adequate provisions for maintenance, and ensuring that critical supportive supplies are readily available when needed; there is no regular schedule for building maintenance, with this being particularly neglected during times of austerity.

Similar issues apply to institutional infrastructure. The arrangements need to be seamlessly structured with appropriate policies, and adequately staffed and financially resourced. They need to be periodically reviewed for continuing relevance and optimality, and all issues addressed on a timely basis.

## **9.5 Goods**

### **Procurement**

In aggregate the public sector is probably the largest purchaser of goods in the various economies and expends a considerable amount of resources on such purchases. Stationary, office supplies and equipment, medical supplies, food, toilet supplies, clothing, bedding, laundry material, crockery, cutlery, haberdashery for institutions are just a small sample of public sector purchases for in-house use. Yet, there does not seem to be a concerted and systematic effort to gain economies on these transactions. Purchases are by individual units with no attempt to gain bargaining power by having well thought out purchasing and procurement policies and by aggregating and managing such transactions. Moreover, there is the tendency among suppliers and providers to inflate prices and bribe procurers.

The success of the regional pharmaceutical purchase arrangements gives a great deal of insight on the gains that can be made with the adoption and effective implementation of systematic arrangements. Governments can:

- i) improve the scope for more systematic, transparent and competitive procurement arrangements;
- ii) consider using its procurement arrangements to stimulate local economic activity, not only in terms of offering a ready local market for domestic producers by practicing import substitution where it is appropriate to do so, but also inculcating production discipline and international competitiveness by insisting and helping to attain cost efficiencies and international competitiveness in terms of quality. In other words, governments should insist on getting internationally competitive prices and standards for local goods purchased;
- iii) examine possibilities for joint procurement on a regional basis; and
- iv) leverage their procurement of goods policy to put pressure on domestic importers/distributors to be efficient in their operations and to pass on economies to consumers.

### **Inventory Management**

Governments maintain a great deal of inventory. Poor inventory management could, on the one hand, result in costs arising from wastage particularly of goods with a short shelf life, obsolescence, spoilage and storage costs; and on the other, the unavailability of essential inputs at critical times. Techniques and formulae that involve the manipulation of data on shelf life, storage costs, unit price of goods, frequency distribution of use/demand, ordering and delivery times, essentiality of the input and the availability of near substitutes, etc., exist to manage inventory and these could be used effectively to control inventory holding costs, while assuming a reasonable availability of supply.

## **9.6 Services**

### **Queuing Theory**

Governments provide a considerable range of service to its publics and most of these require queuing for the receipt of these services. These may be the paying of bills, the receipt of mail,

the receipt of goods and subsidies, the clearing of Christmas barrels at customs, the collection of civil documents such as passports, birth certificates and identity cards. A lot of potentially leisure and productive time is lost unnecessarily in the receipt and delivery of such services. Many of that time could be minimised by systematically organising to deliver them. The use of queuing theory can help in delivering a more efficient, less costly and customer friendly service, but this would involve planning, responsiveness and the derivation of data on the frequency of service use to develop the appropriate delivery models.

### **Transportation Theory**

At a time when the cost of transportation equipment and fuel is so high, there does not appear to be a sufficient consciousness of the need for efficiency in transportation. The receipt and delivery of interdepartmental packages, the movement of personnel between departments and geographical regions, the movement of children between/among schools, external travel arrangements, etc. do not seem to be done through a system that is conscious of providing cost effective service. Transportation theory, common sense, and committed consciousness to cost effectiveness, offer solutions that can help in the cost effective delivery of transportation and routing services.

## **CHAPTER 10**

### **POSSIBLE GENERAL TRANSITIONING ARRANGEMENTS FOR THE IMPLEMENTATION OF THE RECOMMENDATIONS**

The current situation requires such urgent solutions that all the recommendations would need to be considered and implemented as early as possible for three reasons: they reinforce each other; combined they bring benefits that are greater than the sum of individual pursuits and efforts; and they create a more serious atmosphere that reform is in the air, and success feeds on itself. Moreover, the problem requires a concerted, coordinated and integrated package of solutions to be implemented as urgently as possible. Alas, no matter how desirable, this may not be possible for a number of reasons. The capacity to conceptualise and implement may be a challenge. Some recommendations need more analysis, more concrete formulations and certainly more consultations to bring about greater buy-in from the public and the specific stakeholders to be impacted/affected/involved to help with a smoother implementation. And, as in everything else, there has to be prioritisation, as all things cannot be equally critical and important.

Bearing these constraints and considerations in mind, we recommend a time-phased approach covering three time segments as follows: the short term to cover a period of one year for specific action to be defined and taken; the medium term to cover an elapsed period of four years; and the long term for an elapsed period of seven years. The recommended time frames are not for the commencement of decisions but for the conclusion of the implementation. This means that all the recommendations should be under immediate consideration, for at least agreement in principle. The extended time frames are to cover more refined conceptualisation of programmes and policies, mobilising the necessary financial and importantly skilled resources, and for broader and more intense stakeholder promotion and sensitisation. Therefore, those in the short term would be those that can bear immediate results without much or any resources; are necessary early planks in the implementation of the overall programme (example creating a statistical base) but just requires the decision to implement. The medium term would be to

facilitate more consultation and analytical work on programme outline and development, statement of objectives, structural constraints and solutions, identification and development of appropriate and optimal institutional structures, supportive policies, costing, benchmarks and standards, and operating procedures and modalities. The long term activities would include all that has to be done in the medium term in addition to such longer term activities as: trying to effect culture change, mobilising and developing the necessary resources both human and financial, and recognising that for some targets (e.g. some countries debt levels) it would not be possible to achieve the desired benchmarks within the medium term.

In order to avoid repetition we have included, in Chapter 11, the transition and time-phased implementation proposals in red under the relevant section of the recommendations to which it applies.

In addition, we would recommend that each country appoint and give full responsibility for its public sector reform including these recommendations to a dedicated Public Sector Reform Czar, at the level of a senior cabinet minister. The Vaughn Lewis administration in Saint Lucia in 1997 did have such a person at a ministerial level to undertake the necessary reform, but the time was too short to achieve results. The just elected administration in Saint Lucia has done something similar with the appointment of a minister with responsibility for public sector reform. Public sector reform is so critical for the success of these countries and economies that the Saint Lucia initiatives are something worthy of emulation by others.

Given that the ECCU is engaged in developing a single economic space, it would be useful to establish a regional meeting of ministers with responsibility for the public sector and/or its reform to develop joint programmes for implementation at both the national and regional levels; engage in performance monitoring of both national and regional programmes; compare notes on performance and exchange ideas on good and bad practices; and use that medium to encourage each other to proceed to success. Ultimately, it is hoped that such a mechanism would help establish the framework for a harmonised or standardised public service across the region.



“When half the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that is the beginning of the end of any nation.”

Adrian Rogers 1931

## CHAPTER 11

### PROPOSED RECOMMENDATIONS AND TRANSITIONING ARRANGEMENTS

Our recommendations have been distilled from best practice in the region and elsewhere; theoretical considerations; and our own deliberate assessments of what is possible and desirable in the context of the peculiarities of our economy and culture. At the same time, we recognise that as very small and open economies we would need to insert ourselves more aggressively in the global economy to gain the market size, scale economies, foreign capital and, importantly, the technology transfers to enhance our efficiencies, productivity and hence competitiveness.

We recommend as follows:

#### **Towards a Sustainable Economic framework: Performance Standards and Benchmarks**

We have been asked to recommend a sustainable economic framework and this we will do. However, it needs to be pointed out that what is a feasible and politically acceptable framework may not achieve the desired sustainability, largely because of two factors: the high level of waste in our operations and the inefficiency in our investments. For instance, a reasonable level of Tax Revenue/GDP at 32 per cent with public investment at a quarter of that level will not sustain a growth rate of a minimum desirable level of 6 per cent, because of our low output to capital ratio (below 6 per cent and sometimes negative as in the recent past, as compared with a Lewis recommendation of under 4 per cent and a Spence suggestion of 2.5 per cent). The Framework that we recommend is premised on significant improvements in the use of current resources and a much higher level of efficiency in the selection, execution and management of our investments at both the public and private sector levels.

These are critical issues that need to be addressed by the Growth and Development Commission.

### **Aggregate Expenditures**

- (i) Expenditures should be classified and compared in relation to Current Revenues and GDP which are the main sources of financing. This will help identify and highlight the aggregate or particular expenditures in relation to GDP (the aggregate of value added or income for the economy) or in relation to Revenues (the governments' tax take from aggregate value added). It also recognises the limits and constraints to these aggregates.

This is a recommendation that can be both decided and implemented in the short term. All it would require is a decision that it should be done and a directive issued that from thereon that expenditure data should be so classified, and that it also be done for the previous five years to help build a series of data as soon as possible. The benefit would be better information for analytical purposes and decision making on expenditure controls.

- (ii) A reaffirmation of the aggregate current expenditure limits of 22 per cent to 26 per cent of GDP set by the Monetary Council, but with care being taken to accurately classify and distinguish between current and capital expenditures so that genuine current expenditures are not misclassified erroneously as capital expenditures; and that current expenditures should include provisions for contingencies against economic cycles and natural disasters, adequate maintenance to preserve asset life and enhance the utility and returns from assets; and sufficient commercial and/or captive insurance to ensure the sufficiency and timeliness of asset replacement.

The recommendation on the reaffirmation is a definite immediate decision. The continuing implementation of the decision by each country could be spread to the medium term, if necessary, depending on how far away each country is from the stated benchmark.

- (iii) Net public sector capital expenditures should be about one-third of national investment, which itself should be about 30 per cent of GDP, in order to have a balanced investment programme - balance between facilitating mainly physical and institutional infrastructure

(that are in the nature of public goods) and directly productive investment so as, inter alia, to avoid crowding out the private sector for both financial and real resources.

This decision is one that can be taken in the short term, with the implementation spread over a period not exceeding the medium term limit.

- (iv) A further reaffirmation of the Monetary Council's target of a minimum of 6 per cent of GDP for current savings, and for such savings to be used to provide counterpart financing for large capital projects, financing for small projects and debt repayment.

This reaffirmation is a short term decision, the execution of which to be implemented also in the short term except where it is clearly inappropriate and difficult to do so.

- (v) Governments should develop and implement national programmes to help them attain the benchmarks in this section, say within a three to five year period, as most are already close to the desirable levels but need to work assiduously and diligently in improving efficiency, productivity and hence competitiveness.

Short term decision required to agree to diligently implement the targets well within the stated time frame.

### **Current Expenditures by Inputs**

- (i) Current expenditures should be classified by labour costs (wages, salaries and benefits); interest and other financial costs of debt; rental for accommodation; transfers to social assistance, parastatals and external agencies; and other goods and services. Such classification is useful for policy analysis and for determining the current and potential economic impact of expenditures.

As in (i) above, this is a decision to be taken and implemented in the short term for the same reasons and following the same procedures.

- (ii) Benchmark expenses for labour at 35 per cent to 40 per cent of current revenues; interest costs at 1.5 per cent to 3.0 per cent of GDP, or 6.8 per cent to 11.5 per cent of current revenues; and other input costs at about 90 per cent of the ECCU average.

The benchmarks could be decided in the short term, while the implementation to attain the targets may be spread to achieve them as soon as possible in the medium term, and in the outside limit to the shorter end of the long term.

- (iii) Because of the wide diversity among, and extreme debt levels of, some countries there should be different time horizons for each country to address its debt difficulties. The 2020 deadline, while suitable for the ECCU as a whole and for some countries, may be too short for others. Sixty per cent of debt to GDP should be considered an interim phase with the ultimate being about 30 per cent. Countries that are close to the interim phase should endeavour to move to the ultimate level as quickly as possible to increase the prospects for the ECCU as a whole, and to reduce the cost of their debt. A useful rule of thumb is to allow each country a five year adjustment period for each standard deviation the country is away from the ECCU average.

The reaffirmation of the current benchmark is an easy short term decision. In the short to medium term each country should develop and implement its program to attain the current 60 per cent benchmark in the short, medium to long term, depending on the debt levels of the respective countries. The 30 per cent benchmark is a decision that can be taken in the medium term but implemented in the medium to long term and even beyond, depending on the current debt levels and the sustainability and effectiveness of the various national debt management strategies, bearing in mind that they who can should implement as quickly as possible to positively impact on the overall ECCU average.

### **Current Expenditures by Functional Classification**

- (i) Classify current expenditure by function, using an adapted version of the OECD Functional Schema (COFOG) to include the following expenditure heads: Civil Administration or General Public Services; Defence; Public Order and Safety; Economic Affairs; Environmental Protection; Housing and Community Amenities; Health; Recreation, Culture and Religion; Education; Social Protection, but with the addition of Insurances, Contingencies and Stabilisation. This classification is more in keeping with the functions of the State and gives a clearer picture of the cost of providing the major state services.

This decision is easy to be taken and implemented in the short term, along the same lines and approach as (i) above and for the same reasons.

- (ii) The following is a suggested net allocation framework for the countries:

**Table 11.1: Net Allocation Framework for ECCU Member Countries**

Civil Administration or General Public Services	Maximum of 10 per cent of Current Revenue(RR)
Defence	Maximum of 0.5 per cent of R.R
Public Order and Safety	7.0 per cent to 7.5 per cent of RR
Economic Affairs	Maximum of 8.0 per cent of RR
Environmental Protection	Maximum of 1.0 per cent of RR
Housing and Community Amenities	Maximum of 5.0 per cent of RR
Health	Maximum of 16.0 per cent of RR
Recreation, Culture and Religion	Maximum of 1.5 per cent
Education	18.0 per cent to 20.0 per cent of RR
Social Protection	10.0 per cent to 10.5 per cent of RR
Insurances, Contingencies and Stabilisation	7.0 per cent to *10.0 per cent of RR
Contribution to Capital Programmes and Debt Repayments	Maximum of 15.0 per cent of RR

\* Commission's Estimates

The allocation decision can be taken in the late short to early medium term, after exhaustive national analyses and consultations have been undertaken to determine the most appropriate levels for each country. However, all should endeavour to try to be asymptotic to an agreed and desirable level for the ECCU. Implementation could be in the medium term depending on how far countries are away from the desired proportions, but that some countries should be allowed to go beyond the long term if they are developing credible programmes for speedy convergence to an ECCU benchmark.

- (iii) Allocations to beneficiaries for tertiary education, social assistance, housing, costs for medical goods and services need to be means tested using such criteria as household income, wealth and size to ensure that benefits are targeted to those who are in need, cannot afford and would benefit from it.

A decision in principle can be taken immediately, while during the period of the short term the modalities can be worked out for each country and the principles explained to the country and major stakeholders. The implementation can take place in the short to medium term on a phased basis to avoid bunching and too much undue negative effects on particular individuals. Moreover, the decisions must not be made to be retroactive, and existing beneficiaries should be gradually phased out within a pre-stated and reasonable period.

- (iv) Most of the self-insurance and contingency funds proposed are better held as a pool or cooperatively under regional arrangements to help with the diversification of geographic risk, improve returns and help develop the region's money and capital markets, even though such funds are basically short term funds. The use of such funds in the financing of sovereign short term treasury bills could reduce the cost of treasury bills and overall financing in the economy, while differential timing of needs could help enhance the maturity of these funds and even release a small proportion for more productive investment use.

This decision is one that can be taken immediately or in the short term. The needs, policy frameworks and modalities can be established by the latter end of the short term, and this does not require complicated and expensive actuarial science consultancies to determine and/or to do it. . Implementing this recommendation by creating these special funds could commence in the short to medium term and should be fully functional by the end of the medium term.

### **Public Sector Debt Composition and Levels**

- (i) The benchmark of a 60 per cent debt to GDP ratio is intended to be a maximum and transitional benchmark for countries and not an ideal and sustainable debt level. Countries should endeavour to go below this to a sustainable level which would depend on the state, soundness and stability of the economy; the cost of debt; and the efficiency of investment. As a rough guide, a debt to GDP ratio of about 30 per cent is a sustainable level given current debt parameters.

This is a medium to long term decision. Existing benchmarks should be pursued, but those who can should consider earlier adoption of, and trying to remain within, the more prudent levels.

- (ii) Considerations which should be taken into account when negotiating the cost and terms of debt include: overall cost of debt comprising interest, and other finance costs all discounted by maturity; the maturity and capital repayment schedule to minimise overall annual bunching of capital repayment; currency of obligation and the volatility of the

currency in relation to our own currency; and the flexibility of the repayment terms, particularly in relation to accelerated repayments.

This is an operational matter that should be implemented immediately as a matter of course. No decision should be required to do what is technically beneficial.

- (iii) Future borrowing to repay debt is widely practiced but could be a dangerous course to follow as it exposes the borrower to the risks of higher cost and/or unavailability of future sources of funding on the desired terms, and encourages in judicious borrowing without too much regard for intergenerational exposure issues and problems. This normally happens where sinking funds have not been established and where repayment terms are through bullet payments.

A policy decision can be taken in the short term to desist from or minimise the use of this method of debt financing. In terms of modalities, a time schedule could also be established to determine the reducing proportions of new debt that would be financed through such a route. After the decision has been taken and the framework established, then the policy can be implemented within the established and agreed framework within a short to medium term time frame.

- (iv) No component of sovereign debt should ever be collateralised and no lender should ever be given security that is different from others. All sovereign debt should be secured by the full faith and credit of the country, be no different to the security offered to all others, and there should be no scope for competitive negotiations or 'beggar my neighbour' policies. The only security offered should be that all debt servicing would be priority charges on the Consolidated Fund.

That recommendation should be a fundamental policy decision to be taken and implemented with immediate effect.



- (v) It is useful to calculate the grant element of donor and IFI and other borrowings that are contracted at below the cost of capital. Similarly it is also useful to identify and know the premium cost of commercial borrowings contracted at above the cost of capital.

This is an essential operational matter that needs to be done for greater analytical and comparative transparency of negotiations and management.

- (vi) Sourcing of funding from IFIs is generally more beneficial than from other, particularly commercial sources, despite the longer period to process these loans and the fact that these institutions do not go into loan accommodations. This is because IFI loans are cheaper, are more thoroughly and professionally appraised, normally incorporate some useful technical assistance and the drawdown procedures are more disciplined and do not burden the borrower with such charges as commitment fee on undisbursed balances.

It would be useful if, in the short to medium term, a debt procurement strategy could be developed and implemented. This would spell out in general terms the modalities for contracting loans from the different lenders. This could involve such aspects as costs, amounts, sectors, technical assistance, nature of project or programme, maturity, payment regimes, exposure levels to get the maximum and most appropriate features from the providers.

- (vii) Indicators of interest payments to GDP and/or to RR are useful parallel or supplemental indicators to monitor debt over time. Debt monitoring should also include future annual costs of debt servicing on the existing stock of debt.

This is an essential operational matter that needs to be done immediately, as a matter of course, and does not require a formal decision. However, its implementation needs monitoring to ensure that important information inform the decision making.

- (viii) Debt should only be contracted to finance investments that are socially and/or economically feasible; satisfy the cost of capital criterion for the economy; and/or directly generate a rate of return that can at least meet the cost of capital for the country;

and/or improve the overall economic and social situation such that the servicing of contracted debt are comfortable.

- (ix) There should be a fair balance between domestic and external debt. In general, a ratio of 60:40 between domestic and external debt is reasonable. Too high a proportion of domestic debt has the disadvantage of crowding out the private sector either by driving up the costs of its debt and/or making these funds unavailable for their use. On the other hand, too high a proportion of external debt makes the economy very vulnerable, particularly where the external debt is either not contracted in domestic currency or is in currencies that do not have fixed exchange relationships to the domestic currency.

There is need for an immediate decision in principle, but by the end of the short term to determine and accept a reasonable benchmark which would be included in the debt management strategy mentioned earlier. After this is determined, the policy should be implemented to achieve the desired ratios by the medium to long term, depending on the level of variance between actual and desired levels and the rate of debt amortization.

- (x) It is very important that suitable arrangements be put in place to ensure that what are essentially long term savings are not used to finance short term conspicuous consumption, particularly at high rates that could drive up the cost of borrowings for productive investments. This is like a real sector Ponzi scheme that, like such other schemes, will implode when the economy cannot develop real resources for retirees. It should be stressed that it is better to get a lower return on long term investible funds that are channelled into feasible, but low real return, productive investment than to attract a higher financial return derived from the financing of present consumption.

This is quite an important issue that affects the availability and cost of funds for development purposes. The problem should first be acknowledged as soon as possible and thereafter policies, procedures and modalities should be developed and put in place by the end of the short term to address it. The main set of funds that will be affected will be long term retirement and social security funds.

## **Efficiency of Investment**

- (i) The efficiency of investments should be benchmarked and periodically assessed, say annually. Two possible benchmarks are the Incremental Capital Output Ratio (ICOR) which could be benchmarked at between 4 and 6; and the Rate of Return on Overall Investment which could be benchmarked at the cost of capital for the region, estimated at between 7 per cent and 10 per cent. Such assessments should be thoroughly and carefully analysed to determine the reasons for variances and deviations from trends. These analyses should be useful in planning future capital programmes.

This is an operational matter for professional technocrats and there should be no need to instruct that it should be done. However, based on work done by the technocrats there should be a decision taken by the authorities on what should be reasonable and acceptable ICOR and ROR benchmarks for the respective countries. In addition, authorities should insist that proposals coming before them have been subjected to these analyses and that project and proposal recommendations are within the agreed guidelines and framework that they have approved. This should be formulated and implemented in the short term.

- (ii) The virtual absence of Cost Benefit Analysis, the serious underestimation of costs and the significant exaggeration of benefits in the limited cost-benefit analyses, which obviously lead to unrealistically high rates of return on projects, are the prime reasons for the selection of infeasible projects in the capital programme. Ensuring that projects are part of a Medium Term Economic Strategy and a rationalised Public Sector Investment Programme and that major projects/programmes are subjected to the Balanced Scorecard Analytical Approach, Logical Framework and Project Management Techniques, would help minimise the problems that are inherent in project selection, design and management. It may also help if an independent Contractor General is appointed to give views to the government and the public at large on the viability of major projects, the selection of contractors, and the independent monitoring of contract performance.

These are operational matters and techniques which professional analysts and technocrats should have and apply in their analytical toolkits; therefore there should be no need for a decision on the application of the techniques. Going forward, decision makers should not approve proposals that do not include the application of, and the results from these techniques. Decision makers need to make a decision as soon as possible to insist that Medium Term Economic Strategy Frameworks and Public Sector Investment Programmes are in existence and accepted and that public sector projects are consistent with these frameworks and are relevant to them; and that they do not consider and take decisions on related proposals that are not in harmony with the agreed framework, except in extenuating and well rationalised circumstances. It would be necessary that a decision on, and terms of reference for, a Contractor General be determined and decided in the short to medium term.

- (iii) In addition to the current practice of open tendering for contracts, professional fees should be determined on a fixed cost basis rather than on the current practice of fees based on a percentage of cost. The percentage approach to the determination of fees leads to much temptation to inflate the cost of projects, and/or overdesign projects. In general, the removal of statutory determined fees, either on a percentage or a fixed cost basis, should be pursued.

There would be many vested interests in this decision which would, more than likely, apply to all cases of statutorily graduated fees for services including those of attorneys. The decision would need to be carefully considered, well rationalised, broadly articulated after consultation with stakeholders who could possibly be affected, and then fairly, impartially and transparently implemented; this could only be done in the medium term.

- (iv) See section 2.2.1 on Factors Affecting the Efficiency of investment on pages 32-3 of the Tax Reform Report for some of the avoidable reasons for the high inefficiency of our investments and make efforts to minimise these situations and occurrences.

Again these are operational matters, but decision makers have a responsibility to ensure that going forward, professional technocrats undertake proper situational and simulation analyses and

that these factors are thoroughly addressed in their recommended proposals before they give consideration to making their decisions.

- (v) Inefficiencies in the selection, execution and management of capital programmes are serious contributory factors to the low macro- returns on investments; but these are not all the reasons. The inadequacy of physical and institutional infrastructure; the limitations in the policy frameworks that exist to send right policy signals and inducements to stimulate productive activity; the poor quality of human capital in terms of literacy, numeracy, creativity, innovativeness, entrepreneurship and risk taking, self-confidence and motivation, work ethic and morality are also major contributory factors. Nobody said that sound economic management is easy: It is as complex as it is essential.

The recommendation is that this be noted and always actively considered when economic decisions, particularly on capital projects and programmes, are being considered.

### **Defining Investment**

- (i) Only the creation of new assets that are expected to generate regular returns over the medium to long term should be classified as investments. This would exclude such routine expenditures as tourism promotion, and deferred and/or delayed maintenance costs, which are current costs that are intended to sustain current output and/or preserve the life of the asset and/or generate the full expected returns from the asset. It may be useful to exclude small projects that have high current costs and/or rapid obsolescence from consideration as capital investment projects. To misclassify current expenditures for capital is to inflate the value of capital investments and, correspondingly, to underestimate the true rate of return on investments.
- (ii) The returns on investments may or may not be quantifiable but could, and in general, include qualitative and not easily quantifiable social benefits that improve the quality of citizens' lives; economic benefits that increase national value added or output on a recurring basis; and financial benefits that are derived from trading activity. These are usually the last that are captured, but the others are of great and sometimes of greater

importance and should not be ignored as projects could be turned down because of an inadequate attention to their aggregates and impacts.

A note of caution, that all benefits, whether quantifiable or not, should be identified and considered in decision making and that this should be done going forward for all proposals.

### **Governance: Leadership, Legislative, Management and Procedural**

Governance and Leadership are at the heart of progress, growth and development. Experience has shown that this is true of a country, an economy, a corporation, a household and even an individual. Lee Quan Yew in Singapore, Deng Xiaoping in China, Mehta in India, Lula in Brazil, Jefferson (The Financial Secretary) in the Cayman Islands, and some time bound examples in our own region prove the point. Governance and Leadership require the identification of a clear long term vision and ethos that can be shared with the people and be acceptable to them, and one for which they would be prepared to make a sacrifice and work towards. It requires people involvement in its determination, clear articulation of the vision, the prospects for it to deliver continuous benefits that will be fairly and transparently distributed on a basis that provides opportunities for all, and taking care of those who may not be able to directly benefit from the opportunities. It requires continuous reinforcement and possibly continual tweaking and sterling exemplary behaviour from the leaders, in terms of the sacrifices that they make, and a demonstration that they are in control, are knowledgeable and aware. It must be able to deliver early fruits and promise more in the long run. The leadership must create and sustain the facilitating and enabling framework to ensure continuing successes and gains. Law and order and the rules of the game, speed in the dispensation of justice, fairness and proportionate penalties for compliance failures are integral parts of the framework. Leaders must be self-confident; they must mediate, they must persuade, they must inspire and they must find national consensus - and lead.

Leadership is certainly a challenge in small fledging developing countries like ours. Charismatic, if not messianic, leadership is required whilst the leader has to operate within formal constitutional and bureaucratic structures, which he is expected to bypass when it is

advantageous to his adherents and supporters. Those expectations are not as pervasive in many places elsewhere as they are in our democracies.

### **Legislative Framework Governing Public Sector Financial Management**

There is need to review the existing legislation governing financial administration in the countries and to upgrade, amend and modernise along the lines recently adopted by Jamaica to include, inter alia, the following:

- (i) standardising and harmonising the legislation in structure, scope, nomenclature to be applicable to all the islands, but allowing for sufficient flexibility to cater and accommodate the varying needs of size and complexity that would characterise the ECCU countries;
- (ii) enshrining targets in the legislation for such critical variables that underpin economic activity and investor confidence e.g. debt/GDP; current surplus/GDP; current revenue/GDP; a minimum rate of return on capital employed;
- (iii) clearly specifying the respective roles of the Public Accounts Committee, the Auditor General, the Public Service Commission, the Honourable Minister, the Permanent Secretary and other key functionaries in the management of the public sector;
- (iv) broadening the nomenclature of the legislation to give it a more resource management focus than the current practice of calling it financial administration.

### **Parastatals and State Owned Enterprises**

- (i) Undertake an objective, independent and professional audit of the parastatals and state-owned enterprises to determine whether:
  - they are still relevant and there is a current need for them;
  - their functions and mandates can be performed more cost effectively by some other entity or arrangement e.g. central government, local government, outsourcing, private

- sector, regional arrangements, functional cooperation arrangements and so recommend;
- they are still relevant and the medium is the most appropriate executing agency;
  - effective reforms can be instituted to enhance their efficiencies, cost effectiveness, impact and responsiveness, and their timely reporting.

The implementation of this recommendation covers many phases. In the first phase, which is immediate, the policy makers decide whether to accept the recommendation in principle. After this, and by the end of the short term, full terms of reference for the exercise should have been approved and consultants identified and/or appointed to undertake the assignment. On the completion of the study by the start of the medium term a decision has to be taken on the consultant's recommendations on what should be done and how to proceed. After that decision, whatever is agreed should be implemented in the medium to long term and the performance, policies and procedures closely monitored to determine what tweaking needs to be done to obtain the most optimal outcomes and impacts.

(ii) Develop and institute a structured and formal supervisory, reporting and monitoring relationship between the SOE's and the Central Government as follows:

-A reporting relationship with the relevant sectoral ministry on matters of sectoral policy, strategy and direction, and having formal and structured dialogue periodically between the Chairman of the Board and the CEO on the one hand, and the Minister, Permanent Secretary and relevant technical officers on the other hand. Such formal meetings and dialogue would discuss and set goals, review performance, assess constraints and help design solutions and establish links with other relevant ministries and agencies to enable the parastatal to function efficiently and have more effective and meaningful links with the sectoral ministry. Reports to Parliament on sectoral matters would be presented by the Sectoral minister;

-Another reporting relationship between the SOE and the Ministries of Finance and/or Planning on all matters relating to finance, planning, capital programmes, contingent and potential debt



liabilities to ensure that SOE programmes are in consonance and optimally aligned with national goals, resource availabilities and implementation capacities and scheduling.

This one is quite urgent if the efficiencies and impacts of the SOEs are to be realised and as such, the recommendation is for an immediate decision in principle whilst the policies, procedures and institutional arrangements are worked out with urgency to arrive at a decision and implement by the end of the short term.

- (iii) Parastatals need to be: given explicit objectives, broad policy directives, performance targets, standards, and benchmarks. In addition, they should be required, on the pain of penalties and sanctions, to submit adequate and timely performance reports; subjected to audits at the level of both the internal and external auditors and/or the auditor general; and mandated to submit detailed current and capital budgets and cost benefit analyses of major capital programmes on a timely basis.

This needs to be decided on and continually monitored closely for effective compliance as a first priority, even before the evaluation exercises recommended above are implemented.

### **Direction, Management and Administration in the Public Sector**

- (i) Be very clear on the importance of, and differences between, the respective roles of direction, management and administration in the public sector. Direction, or the highest role, involves creating the vision, ethos, agenda and work programme; articulating and seeking national consensus on the elements; approving the broad policies and strategies to achieve the goals; periodically reviewing performance; and adjusting goals and strategies to adapt to changing circumstances. Management is about being accountable for achieving the desired results. It involves strategising, organising and deploying resources, formulating policies and programmes to optimally achieve the desired results as cost effectively as possible and on a timely basis. Administration is about following

pre-set rules and procedures to achieve, usually simple, routine and straight forward outcomes.

Whilst this is critical for effective governance and management and therefore should be subject to an immediate decision, it is an area where there is much blurred vision and confusion. As such, it would require a comprehensive sensitisation programme to get persons aware of their roles and to buy-in. By virtue of this necessity, it is an area that needs to be pursued gingerly but with determination, as unfortunately this is much a departure from the current culture. Consequently, it is an area that needs to be relentlessly pursued in the short to medium to long term and even beyond until the desirable behaviour and culture changes are internally accepted and freely practiced.

- (ii) Carefully delineate the roles and responsibilities of the various actors in the public service with respect to the various areas, and ensure that these are clearly enshrined in job descriptions, and reinforced by continuous training, periodic performance assessments and communicated expectations.

Unfortunately, all systems seem to focus on administration rather than on the higher value added and essential functions of direction and management.

There is need for administrations to be very clear on the importance of the respective roles of governance, management, administration and operational execution; the positions that are responsible and accountable for each of the areas; actively promote and educate the various stakeholders to get their buy-in of the concept and arrangements and to take a decision in the short term to implement whatever has been agreed. After these have been done and during the end of the short term to the start of the medium term the legislative and institutional arrangements need to be put in place to optimally effect what has been agreed. By the middle of the medium term to the long term these arrangements need to be implemented, tweaked as necessary and monitored closely for compliance, taking whatever steps are necessary to ensure that the agreements are faithfully executed.

## **Accounting and Auditing**

Proper accounting and auditing are unarguably one of the most effective means of controlling government expenditures and ensuring that expenditures are directed to intended purposes. They provide the added benefit of ensuring that policies, procedures and objectives are in place if proper audits are to be undertaken and, hence, provide the opportunity to review the effectiveness of such policies and procedures and to continually improve on them. Moreover, the presence of efficient accounting and auditing systems, with appropriate checks and balances, is one of the most effective deterrents to fraud and malfeasance in administration. Yet the absence of such is one of the most glaring deficiencies in public administration particularly at the level of the central government. The following are intended to address these chronic deficiencies:

- (i) Ensuring that the major revenue and spending ministries and departments such as Inland Revenue, Customs and Excise, Works, Health and Education have an adequate complement of appropriately trained, qualified and competent accounting staff, working under the departmental head and the central accounting unit, the Treasury, to prepare accurate and timely accounts. They would be required to ensure that adequate accounting and financial control systems are in place and would be accountable and responsible for preparing accurate, timely and meaningful accounts for dissemination to the relevant decision makers.

This is a recommendation that should be decided on and implemented immediately. Decision makers should continually monitor the process to ensure that the required accurate and timely information for optimal decision making are in fact supplied, and, if not, appropriate actions taken to rectify the situation.

- (ii) providing these same ministries/departments with the adequate complement of competent staff to undertake audits and to perform the comparable internal audit function carried out in the private sector. For independence and objectivity, those internal auditors should report to a committee comprising a senior representative of the ministries of finance, economic planning, auditor general's department, and organization and methods division, together with the permanent secretary or head of the ministry/department under review,

who would review their work, agree on their work programme and budget and determine the follow-up on recommendations made and monitor such follow up.

A decision on this recommendation is as urgently necessary as for the previous recommendation, but may require a lag of a year or two before it is implemented. This is because the accounting systems need to be put in place and the accounting reports and outputs must be available before the auditors can properly function. Moreover, it is normally felt that it is not wise for auditors to be asked to audit systems that they have established; and, in any case, it would require some time to recruit, train and properly orient the requisite skills.

(iii) Letting the Auditor General's Department perform the functions that external auditors perform for corporate bodies in the private sector. This would include the timely preparation and submission of professionally prepared annual general and special audits. Their reports should be reviewed by a sub-committee of the Public Accounts Committee, and on completion, the documents should be submitted to the Public Accounts Committee and simultaneously made a public for review and comments. The Public Accounts Committee would also approve the Auditor General's work programme and administrative budgets and monitor the department's performance on behalf of the full committee.

It is an urgent requirement that this decision, at least in principle, be taken immediately. Thereafter, and with expediency in the short term, the policies and modalities should be identified, explored, discussed and put in place to allow the Committee to function efficiently and effectively. There should be continuing vigilance to ensure that the Committee is functioning efficiently and, if not, urgent measures need to be taken to address any deficiencies that may exist.

(iv) The Public Accounts Committee of Parliament should be reconstituted to comprise not only members of the government and the minority parties, but also competent independent professionals of integrity in an arrangement such that neither government nor minority party representatives can thwart the constitution of a quorum. The leader of

the minority party should continue to be the chairman of the committee, the deliberations of which should be open to the public. Attendance of members at meetings should be reported to Parliament.

Need for, at least, an urgent agreement in principle pending more thorough discussion of the proposal and its modalities, which should all be finalised by the middle of the medium term. Thereafter the supportive and authorising legislative and institutional arrangements, that are consistent with whatever is agreed to, need to be put in place by the middle of the medium term with effective implementation to commence by the beginning of the long term.

### **Procurement**

It is estimated that between 15 per cent and 20 per cent of the economy's goods and services excluding contractual wages and interest payments, are procured at the level of the public sector for both current and capital activities. This offers not only considerable scope for savings through better and cooperative procurement methods, but also an opportunity to create market and production centres that are characterised by production efficiencies, internationally acceptable standards and timely deliveries. This can be significantly enhanced if:

- (i) there could be more cooperative procurement not only within a country but across the region as is evidenced by the regional procurement of pharmaceuticals. Volume discounts, leveraging, better skills at negotiations could all contribute to procurement at below average costs;

Need for urgent agreement in principle and to appoint a multi-country technical committee to identify the opportunities for joint procurement and the modalities to obtain optimum results. After that committee's report which should include a phased programme for implementation, a decision should be taken to implement the results by the start of the medium term. The programme's performance should be continually monitored and reported on to determine the gains being made and what additional measures need to be incorporated to further improve performance, economies, effectiveness and impacts.

- (ii) procurement procedures could be standardised, made transparent and periodically reviewed and audited to ensure continuing efficiencies and scrupulous compliance;

A decision can be taken in the short run to accept this recommendation in principle, and a multi-country committee appointed, with the assistance of the multilateral financial institutions (MFI) to work out arrangements and modalities to come up with arrangements that are optimal and realistic for the ECCU. The MFI's assistance is to help with generic issues and fundamental principles and should in no way incorporate donor and MFI specific procurement parameters in the ECCU arrangement. After the modalities are completed, say by the end of the short term, sufficient time should be given for study and dialogue before a decision is taken, and the institutional and legislative arrangements should be put in place so that the system can become operational by the middle of the medium term.

- (iii) a Contractor General could be appointed to supervise the preparation, advertising, tendering, selection, award and monitoring the performance of major contracts. The Contractor General would work through a committee, would be periodically audited by the Auditor General, and would be an official of interest for the Integrity Commission;

An agreement in principle can be taken immediately while technicians are identified to work out the legislative and institutional arrangements and modalities for effective implementation. There would be economies and some harmonisation, if not standardisation, if these arrangements could be developed and/or coordinated by a regional body such as the OECS Secretariat. When these have been eventually agreed to, say by the end of the short term, a decision should be taken to commence the immediate implementation of what has been agreed.

- (iv) special measures could be put in place to ensure transparent procurement during disasters but bearing in mind the need for fairness, speed of response following disasters and for reasonable and competitive costs. One possible way of achieving these objectives is to have a pre-selected list of contractors who have worked satisfactorily for the public sector before and who could be rapidly deployed in disaster situations to deliver work on a cost

plus basis, with such costs to be assessed by the Contractor General, the Auditor General and independent quantity surveyors;

Agreement in principle as soon as possible and to appoint a regional body such as the OECS Secretariat, working with representatives of national governments who wish to be involved, to coordinate and/or develop the necessary arrangements and modalities to effect the decision and to facilitate implementation by the end of the short term.

- (v) industrial incubators could be created to supply the regional public sector with such goods as furniture, furnishings foods, clothing and uniforms. The opportunity would be taken not only to provide the market, but also technical assistance in the areas of technology, accounting, management, and helping the suppliers to maintain price competitiveness, international quality standards and timeliness of delivery. A regional approach can be adopted to provide that service. The intention here is to support, facilitate and possibly coordinate small and medium sized enterprises, rather than creating public sector owned productive enterprises.

There is need for an early decision in principle on the proposal, and to appoint task forces or consultancies to identify possible projects and potential brown field enterprises, to determine how best they can be structured, financed and generally supported, bearing in mind that these enterprises are neither to depend on sustained subsidies or protection and if at all provided these would be on a phased reduction basis. The beginning of the long term is a useful deadline to have the project fully operational, bearing in mind that over time new initiatives may emerge or pursued. The Eastern Caribbean Enterprise Fund can be requested to assist and support this initiative wherever it is feasible to do so.

### **Information and Communication Technologies**

Information and Communication technologies have been very good for: global liberalisation; improving the efficiencies of business and inserting them in the global markets; enhancing the potential efficiencies in the quantity, quality and speed of government services to its various publics; improved networking at the individual and household levels; and is a treasure trove of information and knowledge to all, particularly students. Technology has impacted dramatically

on global growth through the speed and ease with which information is made available and the processing efficiencies that come with it. Most governments have paid considerable sums to have the use of the systems, but whilst they have been useful they have not been exploited to the extent that is possible and desirable. The features, power and benefit of the systems are not fully exploited and it may be that public sector staff gets more benefits from the system than do their employers.

More gains can be achieved if:

- (i) a regional approach could be used in software procurement, development, standardisation, and training. Negotiating leverage, volume discounts, system standardisation, information sharing and back up support are only some of the advantages to be derived from this approach or initiative;

If agreed to, at least in principle, the OECS Secretariat can be mandated to pursue this initiative by exploring its possibilities, feasibility and necessary modalities and to report by the end of the short term for a decision on the scope, phasing and timing. The accepted proposals can be implemented in the medium to long term and continuing as this would be an ongoing exercise.

- (ii) the systems are utilised more intensively to their full potential to generate more, better and speedier information for decision making and/or for customer satisfaction;

This could also be a regional initiative coordinated by a regional body such as the OECS Secretariat which, in the short term, would explore the adequacy and capacity of existing systems; the extent and reasons for their underutilisation; and, in the medium to long term and continuing, would develop and implement programmes aimed at correcting deficiencies.

- (iii) electronic systems are not run in parallel with manual systems, which is a wasteful duplication of effort;

This does not require a high level decision and should be left to the management and technocrats to implement in the short run and to report periodic progress to the authorities.



- (iv) computer systems in the public sector should be inter-connected and ‘talking’ to each other to provide all relevant information on a customer’s relationship with the overall government, rather than restricting it to specific departments. For instance, the system should allow departments to know how customers use or abuse the overall system, their net indebtedness to various government departments and agencies; their eligibility for welfare and the level that they receive etc. Modern cruise ships have an excellent e-card system that monitors entry and exit from the ship; is used as a payment and credit system; provides selective access to different areas; is a key entry to rooms; and is used for billing, invoicing and in the preparation of accounts. A similar card can be developed for use at the national level to cover all aspects of civil and public sector financial activities at the individual level.

A partial project is being developed for the OECS, but it could be expanded in the short term, or in the medium to long term, to make it more robust and comprehensive. If a decision is taken to pursue such an initiative, it would be best handled by the OECS Secretariat coordinating the effort and working with knowledgeable consultants and representatives of national governments, who would be given flexible terms of reference, expected deliverables and a specific time frame for completion.

- (v) software are developed and intensely used to manage: projects and programmes, administrative and operational systems, human resources, finances, budgets and controls, stocks and inventory movements etc.;

Decision in principle should be taken immediately and the OECS Secretariat coordinated Task Force, with national collaboration, to do the same as for mii) above.

- (vi) in general e-government is pursued to make government more accessible and on line with its various publics, just as the private sector does. A lot more activities, interfaces and transactions should be accommodated on line. This will bring speed and efficiency to customer service and create a greater public confidence in the new technology.

As for (v) above

### **Budgeting and the Budget Process**

The Annual Budget is, by far, the largest single area of controlled and managed economic activity. It involves and absorbs about 40 per cent of national value added; supports the largest number of employees; provides a wide range of commercial, economic, social and civic services; gives the direction and thrust to the economy; and, if properly managed, has the capacity to moderate and steady the overall flow of national economic activity. As such, its importance cannot be overestimated and should never be underestimated. To optimise its impact the following are necessary:

- (i) A social consensus on a long term vision and broad objectives for the country, which would specify what the country wants to be and achieve, in terms of economy, society and values, within a period of two decades. These could be reviewed, revised and reaffirmed every two years to ensure that those goals are influenced by reality and emerging needs. The annual budget would be cast within that long term framework, using a 12 to 18 month time capsule of a programme of activities designed to attain the long term goal.

At least one country has engaged its population in trying to determine a vision. The benefits to that country, even though it was a relatively costly and time consuming exercise, seem to be quite apparent. As such, it is an exercise in which all countries should be engaged. A decision in principle on the recommendation can be taken immediately, but the determination of such a vision would be a medium to long term process as it is very consultative, iterative and intensive to get compromise and consensus. The earlier the start and the more effective its execution will determine the benefits to be derived.

- (ii) A Medium Term Strategy covering a rolling period of about five years, which would outline, justify rationalise and detail a time phased menu of consistent, integrated and coordinated major policies, strategies, and programmes for consideration/implementation during the medium term, with the ultimate aim of achieving the long term goal. Casting

the exercise in a Balanced Scorecard Framework is a useful approach to developing a consistent and integrated framework of activities.

The Medium Term Strategy is a virtual requirement for donor and IFI assistance. What is necessary is for this process to be internalised and made a national requirement, even without external assistance, as there should be a lot more national involvement in its preparation. The authorities need to agree immediately that this be done, and monitor it closely and be actively involved in articulating the vision and policies that would guide its preparation. While it should never be cast in stone, it must nonetheless be the main guide for the development of policies and programmes.

- (iii) A Detailed Annual Budget Framework that covers three periods: what was planned and achieved in the past year in terms of activities, results and costs; what should be implemented in the current year in terms of activities, results and costs; and what is expected for the next year. Thus, the budget would always be done on the basis of a continuum that tries to achieve the ultimate long term objective as cost-effectively as possible. At the level of the Annual Budget, only activities that have been subjected to detailed designs, financial feasibility, prioritisation and are ready for implementation would be included. This extended time frame for budget consideration should allow more time to review performance and adjust targets than would be possible when budget considerations are confined to a discrete twelve month period.

### **Performance Budgeting**

- (i) Apply the modern management tool of performance or programme budgeting to ensure that:
  - programmes and expenditures are in alignment with medium term goals and priorities;
  - programmes are the optimal approaches to delivering the required and stated results;
  - they are cost effectively implemented, closely monitored and frequently evaluated for lessons learnt.

### **Public Sector Investment Programme**

Public sector investment is potentially the main direct and indirect driver of growth through its leverage on private sector investment; is the principal reason for contracting debt; is a major contributor to employment; has an important impact on the balance of payments; and its prudent management could be a major stabiliser of economic activity. Its careful management can contribute to positive results, in the same way that poor management could contribute to significant economic problems. Thus, its management must be accorded extreme and careful attention. Towards this end it is recommended that:

- (i) the public sector investment programme must be optimally consistent with the medium term strategy and ultimately with the long term vision for the country. Programmes and projects need to be carefully and realistically designed; properly prioritised; thoroughly assessed for feasibility beyond the cost of capital; financed from the most cost-effective source of finance; well integrated with other related initiatives and activities; have adequate supportive resources on a timely basis; and supported by the most appropriate institutional frameworks and social and economic policies.

### **Policy Consistency**

Frequent major policy inconsistencies and reversals are time consuming for economic management; costly to implement; send negative signals of uncertainty to domestic private sector and to foreign investors; give an indication of flaws in leadership and direction and have deleterious to overall economic growth and development. On the other hand, policy consistency, irrespective of political administration, gives a rhythm and certainty to economic management. The benefits of policy consistency can be achieved by:

- (i) having a nationally accepted vision for the country; engaging in national in national dialogue on national issues, with political leaders trying to achieve social consensus on policies, strategies and programmes on the way forward; educating, explaining, sensitising and rationalising the strategies and programmes to the various stakeholders; and implementing programmes within the framework of the agreed medium term strategy;

- (ii) forming the framework for a Social Partnership involving the main stakeholders: government, private sector, labour, and significant and influential representatives of non-governmental organisations to dialogue and obtain consensus on directions and issues.

### **Labour and Human Resource Management**

It is worth re-emphasising that not only is labour cost almost 50 per cent of the national budget, but also that anything or any action that has to be undertaken in the public sector must involve labour directly and indirectly. As a consequence, the focus of reforms must be not only on the overall cost of this input, but even more importantly on its efficiency, productivity and output. Toward this end, the following would be required:

- (i) a total review of the whole administrative apparatus of government to ensure that all functions are adequately and efficiently performed and in the right balances to reflect importance and cost; that duplication of structures and effort is avoided; that the work is undertaken seamlessly, cooperatively and in an efficiently integrated way. In other words, there is need to undertake an administrative, organisational and efficiency audit of the systems and structures in the public service.
- (ii) preparation of efficient job descriptions, accountabilities, deliverables and responsibilities for each position in the public sector, together with a person qualification and attributes profile to effectively perform the identified job.
- (iii) the institution of effective goal setting; performance appraisal; job monitoring and mentoring; targeted general and specific training (including periodic refreshers); compensation scale that rewards jobs fairly, based on internal and external comparators for the output in terms of knowledge requirements, necessity to apply that knowledge, supervisory responsibilities, importance of deliverables, complexity of the job and the level of independence and autonomy in executing it; a transparent system to reward for

effort, and easy mechanisms to facilitate timely separation between employer and employee when it is clear that the relationship will not work.

- (iv) review of the terms and conditions of employment including such aspects as: terms of employment and separation; retirement, severance and termination benefits; leave entitlements and accretions including study, vacation, casual, etc.; working conditions; staff benefits, working hours and flexibility thereof.

### **Minimisation/Elimination of Waste in the Public Service**

Waste and loss of goods and services in the public sector take many forms: shrinkage resulting from misappropriation or theft; spoilage resulting from unscientific ordering of goods, poor inventory management, both in terms of the physical care of the goods and not managing in terms of the goods life cycle; poor ordering practices, such as not ordering the most appropriate and cost effective good and/or service; diversion in the use of goods and services for unintended purposes, mainly for private use; indiscriminate and wasteful use of goods and services such as energy, telecommunication and water, as well as uneconomic or sub-optimal use of stationery (poor printing practices); much loss of productive time, resulting from idling and lethargy on the job, unpunctuality, inefficient work execution, job duplication through poor system planning; sub-optimal use of goods and services when acquired resources are not utilised to their full potential, as in the use of such technologies as software and hardware, or not used in accordance with manufactures' specifications thus reducing the useful life and/or increasing maintenance and operating costs; the considerable loss of time of scarce and valuable high level executive (and functionaries), occasioned by having to participate in poorly planned and conducted meetings domestically and overseas, and the additional high cost of overseas travel when other technological means exist to engage in discussion and fruitful decision making.

The nature and sources of losses and wastage specified above suggest what actions need to be taken to address or minimise them. In addition the following are suggested:

- (i) develop and implement culture change and awareness programmes as most persons are not conscious of wasteful actions even in their own domestic situations, and/or feel that

government goods and resources do not have the same value as private or their own goods. Such properly illustrated specialised training and sensitisation should help participants identify and be aware of wasteful actions, the cost to government and society of such waste in aggregation, and the other implications and consequences of such waste to customer service and economic activity in general.

- (ii) develop and utilise benchmarks derived from internal or external best practices to help set product use standards and to use these to monitor, compare and evaluate performances.
- (iii) undertake periodic special audits to identify and report on instances of major waste in the public service, and to make recommendations for corrective actions including sanctions and penal actions when such abuse is flagrant and unreasonable.
- (iv) engage in goal setting, job evaluation and performance measurement in terms of both deliverables and resource use.

“A government big enough to give you everything you want, is strong enough to take everything you have.”

Thomas Jefferson

## CHAPTER 12

### COSTS AND BENEFITS OF PROPOSED IMPROVEMENTS

#### **Benefits**

##### **Benefits to Public Servants**

Central government employees will benefit from the reforms in direct and indirect ways. The reforms will: increase their potential for pay increases arising from productivity and efficiency gains from the pay for performance system; improve their mobility and flexibility to move between jobs not only within the civil service, but also in the private sector and within the sub-region; and improve their psychic income from the fact that job satisfaction will be enhanced.

Many civil servants pursue graduate degree and other courses to upgrade their skills and enhance their career prospects. While on most occasions they do get promotions and salary increases because of their qualification, on most occasions they do not get the psychic and financial benefits that those qualifications should provide, because they do not have the scope and opportunity to apply the training and the techniques acquired. Thus, the financial cost and effort of training are not being translated into values that are useful either to them, their employers and/or the economy. It becomes a case of an investment not generating the returns that they should, and is a disservice to the affected public servant. The reforms will help obviate or minimise these deficiencies.

These reforms will also benefit the public servant in at least two other ways. Firstly, the individual's will become more productive and hence more marketable. Secondly, to the extent that barriers between public and private sector employment are dismantled and there is standardisation within a harmonised regional public service, then the employee's scope for labour mobility and flexibility is enhanced and, correspondingly, so will be the job security and bargaining leverage, afforded by a much wider market for his services.



Moreover, the introduction of the pay for performance system will give the employee greater scope to enhance his income by his own efforts. In addition, he will be moving away from the debilitating system that currently exists, where compensation is not closely correlated with effort, initiative, innovation, efficiency, productivity and value added; and no matter what your effort may be the pay is the same among workers.

### **Public Finance Benefits**

These proposed reforms will have positive direct and indirect benefits on public sector expenditures, revenues and ultimately on the fiscal surplus.

The proposed reforms, if properly conceptualised, structured and executed can be expected to reduce expenditures without impacting objectives by: reducing outlays on entitlements to those who are not in need and/or on minimising these same outlays by greater and more efficient use, even by the needy ones; more efficient rationalisation of the salaries and entitlements benefits package in the central government; better inventory management; procurement economies through joint procurement; auditing which has a positive impact on resource use and abuse; and the minimisation of the financial costs associated with time overruns.

The reforms would also affect the other side of the equation: revenues. Greater efficiencies should impact positively and directly on revenue collection. The computerised system that lets computer systems within the public sector talk to each other should assist considerably in the raising of revenue, by using the system to identify revenue sources and minimise the extent to which those who are indebted to the system can escape without paying their due share of taxes and/or satisfying their public sector indebtedness. The reforms should also assist the government to pay greater attention to liquidity management and hence optimise the returns from their resources. Moreover and indirectly, to the extent that the reforms impact on efficiency and productivity and help reduce the tax ratio, this should have a favourable effect on investment and growth and consequently on the absolute level of mobilised revenue.

The combination of reductions in expenditure and growth in revenues is a significant increase in the level of the current surplus. Such an increase would allow the government to finance either a larger investment programme and/or a greater proportion of its capital programme, thus reducing the need for debilitating debt financing. In turn, reduced debt reduces the absolute and

proportionate cost of debt and therefore leaves more resources available for other essential functions. Also, a lower level of debt encourages foreign investment, as foreign investors are not deterred from investing from fear of future tax increases to finance a burgeoning debt burden. Importantly in the reforms is the allocation of resources for physical contingencies, asset maintenance, insurance and economic seasonality. With resources being made available for pro-cyclicality financing, it ensures that volatility in government programmes and in general economic activity would be minimised.

### **Benefits to Public Stakeholders**

The public expects its government and its institutions to deliver quality service and exemplify good customer care. The reforms are expected to do that and should achieve the faster and more timely delivery of such civil documents as passports, birth certificates, drivers' licenses; and require the completion of simpler forms and the use of more convenient and people friendly media, such as the internet through e-government for the completion of such documentation as income tax and customs returns. For instance, data already captured in the system do not need to be re-entered as persons' basic data would be automatically completed by the process of a national identifier. All these would provide greater customer convenience and very importantly, save a great deal of customer time which may well be expended in a better way, at work, leisure, or elsewhere.

The attainment of these efficiencies and conveniences may result not only in a better service, but possibly reduced costs for such services and /or a reduction in the taxation burden on the society.

Nobody enjoys paying taxes but if the public feels that their resources are used efficiently there would be less of an unwillingness to meet their tax obligations.

### **Benefits to the Overall Economy**

It is in the area of overall benefits to the economy that the impact of the fiscal reforms would be most manifested and, through this, indirectly would be additional benefits to other stakeholders.

One of the prime goals of any economy is, or should be, the incessant search for international competitiveness. The public sector is at the centre of attaining this. A climate of efficiency and its twin sister productivity create a conducive environment for investment, which has a positive

impact on growth. If the reforms, through transparency of policies and procedures, audits and better management and administration, can lead to significant reductions in corruption, which is now one of the biggest challenges facing many governments and economies, then the positive impact on the functioning of the economy would be even more enhanced. Corruption is not only a financial cost to society but is also a fatal and ever growing cancer in the business climate.

Reforms leading to efficiencies in the public sector have a demonstration effect on private sector productivity; saves time which is the only ultimate resource that any economy has; results in a reduced dependence on welfare and associated waste, which creates greater social resilience and minimises waste; and because of the public sector's monopoly situation the better quality of service at possibly lower costs, and improved timeliness of delivery have economic and social benefits that go beyond these measures.

## **Costs**

### **Financial**

The reforms will involve some outlays particularly for the following:

- The Comprehensive Omnibus Organisational Review and Restructuring Study to ensure a seamless and optimal provision of public services;
- Developing a custom tailored curriculum to train public servants in the desired values and techniques for application in the public service;
- The actual costs of training;
- The development of e-government through an integrated and seamless software, with appropriate sub-modules to tie the functions of the service and to deliver optimal service efficiently, at least cost and with maximum user convenience.

These costs will be reduced on a per country basis if they are pursued through a joint regional initiative. In any case, the benefits accruing to these initiatives will far offset, in the medium to long term, the financial costs incurred. In the short term the funds could be procured through development grants from friendly donors or concessionary loans from an International Financial Institution that would incorporate some technical assistance in the proposal. However, care needs to be exercised to ensure that: the best are recruited for the exercise; it is relevant to the region's needs; involves as much local input as possible not only to bring relevance but also to

facilitate as much technology transfer as possible; and that it is reasonably priced in the context of value for money for our situation.

The other aspect of the reform initiatives that will involve some cost is the staffing of the various major revenue and expenditure departments with the appropriate complements of accountants and internal auditors, and the strengthening of the Auditor General's Departments and the Public Accounts Committee. These would be national initiatives requiring domestic resources, but there is great scope for regional collaboration and information sharing. These exercises should be a judicious blend between the use of foreign expertise and local knowledge. Consideration of a regional arrangement for purposes of autonomy and independence could add even more benefits.

The costs involved with pay for performance is not a large outlay and will be recouped from improved performances, particularly if targets are set, as they should be.

### **Psychic, Emotional and Political**

Perhaps the greatest cost associated with the reform exercises is of a non-quantitative and non-financial one. It will involve the stresses and disciplines that are attendant on the management of change and whether the leadership is prepared to take on the challenge, stay the course, and bear the consequences as statesmen.

The process should involve:

- i. With the support of the minority parties, the trade unions and social partners, seeking a Consensus among the population on a Long Term Vision, in terms of economic and social objectives and goals, and desired moral and ethical values to guide the society;
- ii. Developing, collaboratively, a time phased programme to achieve the Vision and Goals; and
- iii. Actively and continually promoting the Vision, including demonstrating continuous commitment and continually expending effort to achieve the goals, and diligently working on the attainment of the programme.

More specifically our leadership needs to:

- i. establish gradually improving performance standards and insist that they be adhered to;
- ii. help persons, through training, to do their jobs and expect and insist that they perform to the evolving standards set, and where there is difficulty effect a humane separation arrangement;
- iii. insist and demonstrate that performance will be the only criterion for retention and advancement;
- iv. ensure that systems are fair and transparent and that nobody, whether with political, family or network connections, is treated as a favourite;
- v. continually propagate, rationalise, justify and seek buy-in of the Vision and Programme and illustrate early results and impacts to encourage support;
- vi. eradicate the incipient concept that political affiliation can provide benefits, protect and/or guarantee employment, and that after an election the victor gets the spoils for distribution in a feudal fashion;
- vii. inculcate the notion that, while elections may be fought on political partisan lines, the act of government will involve all persons in the nation irrespective of political or any other affiliation;
- viii. sell to supporters and to the public that change is in the air, that there are new governance arrangements and that performance is the only guarantee to success; and
- ix. be very vigilant to inculcate and enforce these values, particularly in the initial periods.

Given our small size and very apparent resource constraints, we will only develop to our true and full potential if we use all our resources to the maximum possible and without discrimination of any kind.

## **CHAPTER 13**

### **CONCLUSIONS AND THE WAY FORWARD**

Genuine, efficient and urgent public sector reform is an absolute critical imperative that can bring immeasurable benefits not only to the public sector but also to the economy and to the wider society. Given that regional arrangements, as are being proposed under The Single Economic Space, are intended to enhance and accelerate our economic development, and given that it will be the presence and appropriate functioning of institutional arrangements that will help the region optimally exploit these benefits; and given the initiatives that have already been taken, in terms of going forward, we identify the following institutional measures that are necessary to support region-wide public sector reform:

- i) Establishment of a senior ministry at the national level with responsibility and appropriate authority for overall public sector reform. It would identify the necessary reform measures, implement and monitor their implementation, keep the efficiency of the public sector and its use of resources under continuous review, and liaise with other regional governments and bodies as necessary to achieve that aim as expeditiously and optimally as possible in a coordinated way.
- ii) Mandate the regional bodies (The OECS Secretariat and the ECCB within their respective authorities, mandates and competences) to develop a blue print and time frame for the identification and implementation of institutional measures that need to be put in place to expeditiously bring effect to the well-functioning Single Economic Space. It should also identify the measures and activities that should be best treated as regional arrangements and/or which lend themselves to regional functional cooperation arrangements.
- iii) Institute a regional public sector reform mechanism reporting to the OECS Authority or its successor, that would bring ministries of the Public Services together, periodically and systematically, to identify and approve regional public sector reform programmes; monitor their implementation; share public sector reform experiences and give moral support to each other; assist each other in their implementation; and harmonise, or better still, standardise public sector administrative policies, procedures and arrangements across the Single Economic Space to make procedures as seamless, standard and simple as possible.

More specifically, the following initiatives have been identified, in order of impact, for national treatment and action, as those with the greatest potential impact on improving the efficiency of government and the use of its resources, and for bringing about current budgetary surpluses without any diminution in the quantity and quality of service provided to stakeholders:

- a) More care in determining what benefits and entitlements to provide, taking into account: resource availability and competing demands; sustainability of the provision in difficult times; the extreme political difficulty in reversing perceived entitlements even in difficult times; and the tendency to abuse the service if there does not appear to be a direct cost to the beneficiary. It is also important to ensure that beneficiaries of welfare or state assistance are those who need it, will benefit economically and socially from it, cannot afford to pay for it, and that it has, at least, a nominal cost to the beneficiary.
- b) Undertake fundamental and comprehensive reviews of State Owned Enterprises to determine whether they are still necessary; whether they are still the most appropriate and optimal form of service delivery; whether they are fulfilling their mandates as planned; and whether their original mandates and modalities are still appropriate and optimal. After the review, if they are still essential, reform them to enhance their impact; and to have them reporting to the relevant sectoral ministry on sectoral policy and direction matters, and to the Ministry of Finance and/or Planning on all budgetary, financial, debt and capital expenditure matters to ensure that their programmes are consistent with government's overall programmes, from management and financial perspectives.
- c) Undertake a comprehensive review and detailed audit of the central government to assess the coordination, integration and seamlessness of the overall structure; determine whether the organisational structure is optimally structured to deliver on their mandates; the competence of their personnel; and the suitability and efficiency of their system and procedures. With this done, develop a time phased programme to implement the reforms and closely monitor their implementation.
- d) Critically review the current legislative framework for public finance administration in the countries to ensure their relevance, optimality and consistency with modern best practice and with the proposed reforms, and to reform them as appropriate. In particular, examine the labour laws governing

public sector employment in relation to labour market flexibility with respect to separation and costs; the compensation and benefits regime in relation to the economy and what prevails in the private sector; and the inculcation of a culture and systems that retain and reward for performance and productivity.

- e) Establish an accounting/auditing system in the public sector (central government and public sector enterprises) that parallels what exists in the smaller and even more accountable private sector enterprises. This would involve: the establishment of policies and procedures for these entities; providing competent financial and management accounting staff and also independent internal audit staff for key revenue and expenditure ministries and for public sector enterprises; the reconstitution and re-equipping of the Auditor General's Department to serve the functions of the external auditor for the public sector; and re-constituting and resourcing the Public Accounts Committee to serve as an effective and timely watchdog on the affairs and financing of the public sector.
- f) Improving the efficiency of public sector investments by ensuring that: public investments fall within a well rationalised Public Sector Investment Programme that is consistent with the macro-economic framework for the country; only projects and programmes that satisfy minimum pre-established benchmarks for financial, economic and social feasibility are implemented; projects are implemented efficiently and cost-effectively and, on completion, are managed and maintained to optimise output and the useful life of the project.
- g) Create national and/or regional frameworks for the transparent and competitive procurement of goods and services; and identify those goods and services that would be more beneficially and economically procured through regional arrangements, along the lines as is currently done quite successfully with medical pharmaceuticals, and to implement these arrangements.

These proposals will require the establishment of a new culture, a new *raison d'être* and way of doing things. It will require the leadership to promote a popular vision for the country and to more actively inform, explain, rationalise and get stakeholder buy-in for major proposals. It will require that more attention be paid to providing the necessary training for persons to implement the programmes; to ensure that programmes under implementation and execution are being cost-effectively monitored and are in line with objectives, targets, costs and timelines; and that there are strict penal sanctions for malicious non-compliance.



The new dispensation should also require that there should be new criteria to measure success. In the past, success seemed to have been measured by the amount of resources that were allocated to programmes. That should no longer be. What should be the success criteria are results - what has the project achieved in terms of objectives and expectations; impacts - what are the quantitative and qualitative changes to value added and national good; and efficiencies - whether the project is implemented and executed efficiently and within the budgeted cost and time parameters.

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# APPENDICES

## Appendix 1 (a): ECCU Basic Fiscal Data 2000 – 11

ECCU Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>1,939.84</b>	<b>1,923.01</b>	<b>2,039.33</b>	<b>2,171.62</b>	<b>2,385.60</b>	<b>2,618.23</b>	<b>3,005.38</b>	<b>3,364.55</b>	<b>3,596.55</b>	<b>3,310.17</b>	<b>3,368.72</b>	<b>3,546.98</b>
Tax Revenue	1,658.77	1,652.34	1,753.19	1,890.83	2,107.89	2,356.92	2,700.73	3,036.21	3,217.18	2,972.70	2,937.23	3,067.97
Taxes on Income and Profits <sup>1/</sup>	428.35	423.67	414.95	418.88	418.91	516.20	577.18	639.44	744.08	742.23	669.00	664.34
of which:												
Personal <sup>2/</sup>	148.10	151.33	150.54	148.89	161.19	203.80	245.13	269.08	287.13	280.77	275.87	302.28
Company	250.29	241.61	230.53	229.59	215.45	277.30	290.75	309.71	407.88	413.21	326.00	288.04
Stabilization Levy	-	-	-	-	-	-	-	-	-	-	-	8.20
Taxes on Property	25.71	28.32	43.77	43.22	45.16	46.76	59.47	64.20	62.82	61.21	61.74	58.05
Taxes on Domestic Goods & Services	302.12	318.14	349.77	379.60	475.92	497.83	689.19	974.48	1,103.48	976.71	1,079.12	1,256.85
of which:												
Accommodation Tax	58.26	67.69	62.84	66.62	89.37	98.15	106.55	77.58	66.33	40.70	50.08	54.17
Licenses	49.60	43.27	54.88	58.10	77.86	67.44	85.88	89.39	102.68	88.83	84.29	78.73
Sales Tax <sup>3/</sup>	12.48	16.74	17.53	23.83	32.60	37.69	10.73	197.52	238.29	204.33	179.46	197.34
Stamp Duties	57.74	62.11	80.39	77.13	115.31	129.50	203.92	179.91	179.60	116.82	122.45	137.37
Consumption Tax <sup>4/</sup>	50.23	43.44	42.09	46.81	45.92	47.29	51.97	50.55	49.91	45.54	15.68	7.91
Value Added Tax <sup>5/</sup>	0.27	0.16	-	-	-	-	69.02	189.61	267.87	270.05	400.28	410.60
Taxes on International Trade & Transactions	902.58	882.21	944.69	1,049.13	1,167.89	1,296.12	1,374.90	1,358.07	1,306.81	1,192.55	1,127.37	1,080.53
of which:												
Import Duties	280.01	250.88	250.24	288.30	310.01	367.68	402.41	463.24	478.83	402.39	417.91	425.11
Foreign Exchange Tax <sup>6/</sup>	11.32	8.35	8.40	11.38	12.71	3.32	2.36	0.80	(0.00)	-	-	0.01
Consumption Tax <sup>7/</sup>	403.71	416.87	459.26	482.27	521.13	547.73	532.30	413.59	345.64	390.65	220.34	154.16
Customs Service Charge <sup>7/</sup>	121.68	132.69	146.66	172.01	192.96	231.98	260.93	282.66	282.53	212.50	182.83	189.29
Non-Tax Revenue	281.08	270.68	286.14	280.79	277.71	261.31	304.64	328.34	379.36	337.46	431.49	479.01
									467.10	81.85		
<b>CURRENT EXPENDITURE</b>	<b>1,963.38</b>	<b>2,074.70</b>	<b>2,208.51</b>	<b>2,247.02</b>	<b>2,450.50</b>	<b>2,530.22</b>	<b>2,707.64</b>	<b>2,906.81</b>	<b>3,373.91</b>	<b>3,455.75</b>	<b>3,402.45</b>	<b>3,613.32</b>
Personal Emoluments	976.08	1,021.74	1,044.45	1,067.34	1,101.87	1,128.07	1,212.28	1,322.47	1,451.67	1,494.62	1,512.93	1,546.09
Goods and Services	435.59	482.28	486.31	454.66	516.79	565.80	539.94	613.39	809.04	758.02	708.07	780.99
Interest Payments	276.14	263.12	327.44	342.37	396.92	350.38	399.67	415.14	424.13	425.64	423.99	420.18
Domestic	142.83	151.16	157.55	137.54	130.88	144.75	180.68	197.30	198.66	215.27	252.52	240.31
External	133.31	111.97	169.90	204.83	266.03	205.63	219.00	217.84	225.47	210.37	171.48	179.87
Transfers and Subsidies	275.57	307.55	350.31	383.96	435.09	485.96	555.75	555.81	689.07	777.47	757.47	866.06
Pensions	108.31	113.90	127.79	133.77	152.46	164.93	179.84	224.51	180.69	207.05	251.74	253.29
<b>Current Account Balance</b>	<b>(23.54)</b>	<b>(151.68)</b>	<b>(169.18)</b>	<b>(75.41)</b>	<b>(64.90)</b>	<b>88.01</b>	<b>297.74</b>	<b>457.74</b>	<b>222.64</b>	<b>(145.58)</b>	<b>(33.74)</b>	<b>(66.34)</b>
Capital Revenue	14.92	11.19	36.48	33.69	35.33	43.41	18.59	46.97	99.00	22.85	27.27	23.59
Grants	214.25	199.88	212.05	258.81	298.07	841.43	357.96	240.70	341.64	361.46	382.37	359.64
Capital Expenditure and Net Lending	548.54	619.48	782.41	638.64	621.98	772.11	1,056.76	1,071.10	1,077.19	892.06	700.43	843.70
Of which: Capital Expenditure	550.77	621.49	737.11	633.66	594.52	779.95	1,056.23	1,058.88	1,062.90	885.47	696.60	817.31

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

Notes:

/1 Taxes on Income & Profits are not collected in Anguilla.

/2 Included is a Social Services Levy which is applied in St. Kitts and Nevis. Not collected in Antigua and Barbuda.

/3 Includes data for Dominica and Antigua and Barbuda

/4 Excludes Anguilla, Antigua and Barbuda and Montserrat

/5 Includes Dominica, Grenada and St Vincent and the Grenadines

/6 Includes data for Anguilla and Montserrat only.

/7 For all territories except Anguilla.



## Appendix 1(b): Anguilla Basic Fiscal Data 2000 – 2011

Anguilla												
Central Government Fiscal Accounts												
All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>71.64</b>	<b>72.67</b>	<b>83.94</b>	<b>85.44</b>	<b>117.43</b>	<b>126.83</b>	<b>181.33</b>	<b>210.37</b>	<b>204.38</b>	<b>148.33</b>	<b>155.93</b>	<b>205.04</b>
Tax Revenue	58.53	58.32	63.81	65.95	96.90	102.42	153.83	164.28	155.26	111.60	115.91	180.71
Taxes on Income and Profits												
Taxes on Property	0.38	0.63	0.49	0.59	0.61	0.54	0.60	0.69	0.61	1.49	1.50	2.85
Taxes on Domestic Goods & Services	18.14	23.05	28.95	28.14	48.78	43.92	78.89	66.32	61.53	44.66	53.95	104.16
Taxes on International Trade & Transactions	40.02	34.64	34.37	37.22	47.51	57.96	74.34	97.27	93.12	65.44	60.46	65.50
Non-Tax Revenue	13.11	14.35	20.13	19.49	20.53	24.40	27.50	46.09	49.13	36.74	40.02	24.33
<b>CURRENT EXPENDITURE</b>	<b>71.54</b>	<b>77.74</b>	<b>80.97</b>	<b>82.96</b>	<b>93.92</b>	<b>105.87</b>	<b>145.23</b>	<b>170.35</b>	<b>206.74</b>	<b>202.40</b>	<b>186.27</b>	<b>173.85</b>
Personal Emoluments	36.79	39.60	41.06	42.39	36.33	40.82	49.12	68.51	83.89	90.74	88.62	80.46
Goods and Services	31.52	34.14	33.76	33.65	34.55	35.28	52.22	53.75	59.83	48.41	39.23	38.74
Interest Payments	0.53	1.85	3.37	3.48	3.24	4.69	6.31	7.11	8.02	8.28	10.97	9.12
Domestic	0.34	1.44	2.76	2.61	2.32	4.04	5.46	6.29	7.43	6.60	8.78	2.65
External	0.19	0.41	0.61	0.87	0.92	0.65	0.85	0.82	0.59	1.68	2.18	6.47
Transfers and Subsidies	2.70	2.15	2.78	3.44	19.80	25.09	37.59	40.98	55.00	54.97	47.45	45.52
Pensions	1.30	1.39	1.62	1.73	1.81	2.04	2.60	4.88	6.40	7.27	8.93	8.11
<b>Current Account Balance</b>	<b>0.11</b>	<b>(5.07)</b>	<b>2.97</b>	<b>2.48</b>	<b>23.51</b>	<b>20.95</b>	<b>36.10</b>	<b>40.02</b>	<b>(2.36)</b>	<b>(54.07)</b>	<b>(30.34)</b>	<b>31.19</b>
Capital Revenue	-	-	-	16.50	-	0.01	0.08	3.38	9.83	0.00	-	-
Grants	9.76	6.17	2.05	2.65	1.52	4.42	14.79	-	9.19	-	33.83	-
Capital Expenditure and Net Lending	15.29	12.40	3.32	12.58	41.72	40.92	43.17	59.02	36.94	10.58	3.13	9.55
Of which: Capital Expenditure	15.29	12.40	3.32	12.58	41.72	40.92	43.17	59.02	36.94	10.58	3.13	9.55
<b>Principal Repayments</b>	<b>0.44</b>	<b>0.25</b>	<b>0.78</b>	<b>3.29</b>	<b>5.36</b>	<b>2.03</b>	<b>20.59</b>	<b>3.87</b>	<b>32.30</b>	<b>42.74</b>	<b>204.87</b>	<b>2.69</b>
Domestic	-	0.05	0.39	1.90	4.90	1.58	19.96	2.84	31.28	41.99	183.85	-
External	0.44	0.20	0.39	1.39	0.47	0.45	0.63	1.03	1.02	0.75	21.02	2.69

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(c): Antigua and Barbuda Basic Fiscal Data 2000 – 11

Antigua & Barbuda Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>325.60</b>	<b>356.68</b>	<b>387.62</b>	<b>422.85</b>	<b>472.34</b>	<b>493.68</b>	<b>602.68</b>	<b>724.66</b>	<b>736.01</b>	<b>595.85</b>	<b>639.58</b>	<b>596.32</b>
Tax Revenue	283.70	317.34	347.98	383.15	427.22	455.05	567.61	690.87	692.36	573.39	576.45	551.36
Taxes on Income and Profits	37.49	47.60	61.42	62.61	46.39	63.79	111.51	100.93	111.46	98.01	92.44	69.67
Taxes on Property	4.70	5.95	7.86	11.07	10.00	10.53	11.26	8.94	14.11	14.85	17.72	16.04
Taxes on Domestic Goods & Services	59.76	68.23	70.40	83.89	96.79	100.53	120.04	281.65	321.58	252.57	222.78	234.64
Taxes on International Trade & Transactions	181.75	195.56	208.30	225.59	274.03	280.20	324.80	299.35	245.21	207.95	243.51	231.00
Non-Tax Revenue	41.90	39.34	39.64	39.70	45.12	38.63	35.07	33.79	43.65	22.46	63.13	44.96
<b>CURRENT EXPENDITURE</b>	<b>477.59</b>	<b>482.57</b>	<b>547.46</b>	<b>497.44</b>	<b>553.03</b>	<b>563.27</b>	<b>684.07</b>	<b>749.62</b>	<b>766.27</b>	<b>781.74</b>	<b>676.23</b>	<b>714.67</b>
Personal Emoluments	216.78	225.20	236.75	250.15	251.12	252.81	268.19	309.05	300.38	290.66	272.58	263.89
Goods and Services	94.58	130.02	153.05	95.93	109.89	110.97	126.21	147.56	185.00	171.04	125.49	125.74
Interest Payments	113.19	75.28	94.83	77.47	109.06	89.26	98.09	104.49	102.57	95.65	72.64	77.26
Domestic	41.78	45.16	49.71	32.67	37.75	33.91	37.26	35.61	32.36	39.62	54.76	44.76
External	71.41	30.12	45.12	44.80	71.30	55.36	60.82	68.89	70.21	56.03	17.88	32.50
Transfers and Subsidies	53.04	52.07	62.83	73.88	82.96	110.22	191.59	188.52	178.31	224.40	205.52	247.78
Pensions	16.31	17.53	22.60	31.22	32.74	38.18	42.93	79.53	57.96	72.49	70.00	64.82
<b>Current Account Balance</b>	<b>(151.99)</b>	<b>(125.89)</b>	<b>(159.84)</b>	<b>(74.59)</b>	<b>(80.70)</b>	<b>(69.59)</b>	<b>(81.39)</b>	<b>(24.96)</b>	<b>(30.25)</b>	<b>(185.89)</b>	<b>(36.65)</b>	<b>(118.36)</b>
Capital Revenue	6.35	1.37	3.35	3.04	22.11	18.00	5.04	5.14	4.31	2.51	2.97	2.98
Grants	71.57	10.21	28.59	11.18	48.51	568.68	75.25	20.00	30.00	-	44.91	22.86
Capital Expenditure and Net Lending	38.95	90.82	99.66	65.45	55.22	94.21	213.65	200.50	225.00	175.03	53.64	67.55
Of which: Capital Expenditure	38.63	90.31	98.98	65.45	55.22	94.21	213.65	200.50	225.00	175.03	53.64	40.10
<b>Principal Repayments</b>	<b>63.87</b>	<b>104.08</b>	<b>72.96</b>	<b>58.50</b>	<b>87.98</b>	<b>480.28</b>	<b>148.51</b>	<b>98.00</b>	<b>140.90</b>	<b>87.05</b>	<b>149.96</b>	<b>69.32</b>
Domestic	17.10	71.20	50.05	32.98	48.88	36.41	92.71	41.95	27.28	37.88	77.40	60.64
External	46.77	32.88	22.91	25.52	39.10	443.87	55.80	56.05	113.62	49.17	72.56	8.68

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(d): Dominica Basic Fiscal Data 2000 – 11

Dominica Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>213.73</b>	<b>202.32</b>	<b>192.90</b>	<b>204.30</b>	<b>234.58</b>	<b>255.10</b>	<b>269.03</b>	<b>312.24</b>	<b>337.77</b>	<b>350.07</b>	<b>351.88</b>	<b>357.44</b>
Tax Revenue	182.09	162.91	161.96	179.44	205.20	229.26	247.87	285.46	307.36	320.57	327.94	311.98
Taxes on Income and Profits	64.09	44.48	41.63	45.17	39.18	50.66	50.50	53.19	52.22	55.94	62.40	55.82
Taxes on Property	2.48	2.42	2.58	1.93	4.67	6.89	7.53	9.30	10.32	9.14	8.65	8.03
Taxes on Domestic Goods & Services	26.87	30.32	32.37	40.16	55.87	59.25	123.21	162.66	176.08	185.93	184.03	178.08
Taxes on International Trade & Transactions	88.65	85.69	85.38	92.17	105.48	112.46	66.63	60.31	68.73	69.56	72.86	70.05
Non-Tax Revenue	31.64	39.41	30.94	24.86	29.38	25.84	21.16	26.78	30.42	29.50	23.94	45.46
<b>CURRENT EXPENDITURE</b>	<b>230.11</b>	<b>238.19</b>	<b>230.59</b>	<b>231.50</b>	<b>233.07</b>	<b>237.43</b>	<b>244.25</b>	<b>267.93</b>	<b>295.64</b>	<b>288.45</b>	<b>316.84</b>	<b>326.21</b>
Personal Emoluments	121.13	123.74	123.91	115.63	109.34	108.53	109.64	117.53	120.15	125.69	127.71	138.86
Goods and Services	28.69	32.34	29.98	29.57	38.29	49.99	46.72	64.40	87.34	84.37	99.29	96.94
Interest Payments	42.53	40.23	40.14	44.56	41.60	25.86	34.62	28.18	24.49	14.06	21.01	23.02
Domestic	28.13	21.80	19.00	17.14	12.21	7.87	14.42	8.56	5.68	4.20	8.03	6.86
External	14.40	18.42	21.14	27.42	29.39	17.99	20.20	19.61	18.81	9.86	12.99	16.16
Transfers and Subsidies	37.76	41.88	36.56	41.74	43.84	53.05	53.26	57.83	63.65	64.33	68.84	67.39
Pensions	9.47	10.15	10.84	11.74	11.96	13.33	12.51	15.48	15.12	17.12	15.08	16.58
<b>Current Account Balance</b>	<b>(16.38)</b>	<b>(35.87)</b>	<b>(37.69)</b>	<b>(27.21)</b>	<b>1.51</b>	<b>17.67</b>	<b>24.79</b>	<b>44.31</b>	<b>42.13</b>	<b>61.62</b>	<b>35.03</b>	<b>31.23</b>
Capital Revenue	1.92	3.35	1.84	1.35	2.61	17.10	0.85	0.94	0.38	0.40	1.63	1.47
Grants	25.98	25.85	13.96	33.23	36.16	8.02	63.84	57.21	78.18	61.73	38.88	31.65
Capital Expenditure and Net Lending	55.84	62.38	36.59	38.79	79.14	54.46	80.41	112.17	153.24	150.76	157.18	192.02
Of which: Capital Expenditure	58.42	64.90	39.73	41.36	82.31	57.78	83.61	113.05	154.31	151.75	159.08	192.51
<b>Principal Repayments</b>	<b>15.287</b>	<b>13.259</b>	<b>16.701</b>	<b>11.8898</b>	<b>30.1966</b>	<b>9.27723</b>	<b>20.2896</b>	<b>26.9241</b>	<b>29.3332</b>	<b>15.1857</b>	<b>12.50</b>	<b>25.77</b>
Domestic	9.687	8.35	10.02	2.47	2.78	3.32	7.07	6.02	10.65	2.24	2.47	12.88
External	5.6	4.91	6.68	9.42	27.42	5.96	13.22	20.91	18.68	12.94	10.04	12.90

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(e): Grenada Basic Fiscal Data 2000 – 11

Grenada Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>300.28</b>	<b>284.88</b>	<b>292.52</b>	<b>323.57</b>	<b>300.82</b>	<b>359.74</b>	<b>386.03</b>	<b>428.44</b>	<b>464.51</b>	<b>401.80</b>	<b>414.90</b>	<b>425.71</b>
Tax Revenue	262.75	256.63	262.41	298.30	279.50	343.89	359.98	402.83	433.78	379.94	389.89	403.03
Taxes on Income and Profits	51.93	57.36	43.47	47.49	43.02	57.71	56.03	74.83	94.56	87.23	73.19	73.89
Taxes on Property	9.36	10.04	18.03	16.96	16.40	15.36	22.62	29.04	25.96	18.84	17.40	14.92
Taxes on Domestic Goods & Services	51.98	45.38	49.62	59.03	51.97	59.95	69.01	71.27	78.66	75.97	178.19	189.79
Taxes on International Trade & Transactions	149.48	143.85	151.29	174.82	168.12	210.87	212.32	227.68	234.60	197.89	121.12	124.43
Non-Tax Revenue	37.53	28.25	30.11	25.27	21.31	15.85	26.05	25.61	30.74	21.87	25.01	22.67
<b>CURRENT EXPENDITURE</b>	<b>230.43</b>	<b>258.37</b>	<b>283.29</b>	<b>285.68</b>	<b>320.76</b>	<b>301.11</b>	<b>317.45</b>	<b>346.04</b>	<b>413.60</b>	<b>416.65</b>	<b>408.55</b>	<b>420.76</b>
Personal Emoluments	114.29	127.88	124.64	130.36	147.56	150.84	153.96	158.40	200.81	191.24	199.43	221.59
Goods and Services	43.85	52.60	47.54	40.52	46.10	67.91	66.10	79.08	84.68	85.95	91.89	75.09
Interest Payments	24.15	27.89	51.78	63.05	71.84	27.76	29.03	33.02	34.88	45.31	43.01	51.60
Domestic	11.69	13.28	12.69	17.22	13.81	13.91	8.66	11.22	9.72	14.47	8.80	18.02
External	12.46	14.61	39.09	45.83	58.03	13.85	20.36	21.79	25.15	30.84	34.21	33.59
Transfers and Subsidies	48.14	50.00	59.33	51.75	55.25	54.60	68.37	75.55	93.24	94.14	74.21	72.48
Pensions	16.94	14.22	14.01	14.19	17.57	16.94	18.94	18.72	24.93	23.35	22.67	25.34
<b>Current Account Balance</b>	<b>69.85</b>	<b>26.51</b>	<b>9.23</b>	<b>37.89</b>	<b>(19.94)</b>	<b>58.63</b>	<b>68.58</b>	<b>82.39</b>	<b>50.91</b>	<b>(14.85)</b>	<b>6.36</b>	<b>4.94</b>
Capital Revenue	0.72	0.46	2.73	0.27	1.24	0.32	0.12	0.09	0.10	0.14	0.17	0.11
Grants	32.60	45.19	23.54	59.23	90.75	160.52	104.67	19.85	51.54	29.15	50.65	60.08
Capital Expenditure and Net Lending	135.20	162.60	244.45	155.44	104.97	163.64	271.28	211.27	213.88	117.07	107.95	131.53
Of which: Capital Expenditure	135.20	162.60	244.45	155.44	81.87	163.64	271.28	211.27	213.88	117.07	107.95	131.53
<i>Principal Repayments</i>	<i>31.14</i>	<i>31.41</i>	<i>40.73</i>	<i>30.73</i>	<i>23.84</i>	<i>18.13</i>	<i>16.68</i>	<i>53.29</i>	<i>44.37</i>	<i>72.18</i>	<i>47.91</i>	<i>200.68</i>
Domestic	15.36	12.50	15.50	11.18	9.58	3.86	0.16	30.52	10.30	45.38	10.13	170.94
External	15.78	18.91	25.23	19.55	14.26	14.26	16.52	22.78	34.07	26.80	37.79	29.74

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(f): Montserrat Basic Fiscal Data 2000 – 11

Montserrat Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>27.44</b>	<b>25.22</b>	<b>29.18</b>	<b>30.58</b>	<b>32.41</b>	<b>34.61</b>	<b>34.49</b>	<b>35.77</b>	<b>40.15</b>	<b>40.08</b>	<b>38.56</b>	<b>41.23</b>
Tax Revenue	25.54	23.56	27.18	26.57	30.57	32.48	31.79	31.56	34.43	35.82	33.57	36.64
Taxes on Income and Profits	9.62	11.92	11.03	12.79	13.12	13.02	13.47	14.35	14.96	16.83	16.36	18.14
Taxes on Property	0.82	0.14	0.84	0.47	0.98	1.38	1.45	1.39	0.99	1.06	0.95	0.78
Taxes on Domestic Goods & Services	3.58	3.09	2.89	2.60	3.22	3.34	3.45	3.44	3.72	3.69	2.68	3.17
Taxes on International Trade & Transactions	11.52	8.41	12.42	10.71	13.25	14.74	13.42	12.38	14.75	14.24	13.58	14.54
Non-Tax Revenue	1.90	1.66	2.00	4.01	1.84	2.13	2.70	4.21	5.72	4.26	4.99	4.59
<b>CURRENT EXPENDITURE</b>	<b>49.58</b>	<b>51.20</b>	<b>64.10</b>	<b>77.21</b>	<b>89.78</b>	<b>78.66</b>	<b>83.44</b>	<b>92.34</b>	<b>96.76</b>	<b>97.31</b>	<b>88.10</b>	<b>93.17</b>
Personal Emoluments	20.62	22.93	24.48	25.03	25.88	30.30	35.53	37.91	39.23	41.40	42.64	42.72
Goods and Services	23.17	22.24	17.85	27.28	29.82	24.57	25.69	30.82	31.49	23.90	18.29	19.78
Interest Payments	0.66	0.03	0.60	0.17	0.17	0.10	0.07	0.11	0.10	0.09	0.11	0.04
Domestic	0.62	-	0.05	0.10	0.05	0.05	0.05	0.05	0.05	0.05	0.08	-
External	0.04	0.03	0.54	0.07	0.12	0.05	0.02	0.06	0.04	0.04	0.03	0.04
Transfers and Subsidies	5.13	6.00	21.18	24.73	33.90	23.69	22.15	23.50	25.94	31.92	27.06	30.63
Pensions	3.55	4.84	6.95	6.81	12.13	7.63	10.66	12.08	13.43	17.28	11.99	11.10
<b>Current Account Balance</b>	<b>(22.14)</b>	<b>(25.98)</b>	<b>(34.92)</b>	<b>(46.63)</b>	<b>(57.37)</b>	<b>(44.05)</b>	<b>(48.95)</b>	<b>(56.56)</b>	<b>(56.61)</b>	<b>(57.23)</b>	<b>(49.54)</b>	<b>(51.94)</b>
Capital Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Grants	45.65	53.89	79.81	98.89	92.34	51.39	63.63	75.96	78.65	100.19	81.95	100.46
Capital Expenditure and Net Lending	18.72	24.52	38.92	32.90	32.95	25.35	18.65	26.55	35.49	37.09	29.79	27.81
Of which: Capital Expenditure	18.72	24.52	38.92	32.90	32.95	25.35	18.65	26.55	35.49	37.09	29.79	27.81
<b>Principal Repayments</b>	<b>0.20</b>	<b>2.19</b>	<b>2.24</b>	<b>1.67</b>	<b>1.12</b>	<b>0.12</b>	<b>0.12</b>	<b>0.12</b>	<b>0.12</b>	<b>0.12</b>	<b>0.09</b>	<b>0.12</b>
Domestic	-	2.00	-	-	1.00	-	-	-	-	-	-	-
External	0.20	0.19	2.24	1.67	0.12	0.12	0.12	0.12	0.12	0.12	0.09	0.12

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(g): St. Kitts and Nevis Basic Fiscal Data 2000 – 11

St. Kitts & Nevis Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>254.30</b>	<b>267.24</b>	<b>299.06</b>	<b>321.39</b>	<b>365.38</b>	<b>433.73</b>	<b>491.52</b>	<b>516.14</b>	<b>542.91</b>	<b>536.39</b>	<b>507.82</b>	<b>650.10</b>
Tax Revenue	188.00	194.61	212.07	233.87	281.88	344.13	374.12	399.57	420.72	394.46	342.97	408.21
Taxes on Income and Profits	59.19	57.72	61.95	64.10	80.36	101.58	98.44	115.95	134.76	147.60	92.60	87.29
Taxes on Property	3.92	4.42	4.54	5.22	5.06	5.03	8.72	7.42	6.35	8.89	9.36	8.75
Taxes on Domestic Goods & Services	31.03	38.21	41.29	45.22	56.01	68.06	90.83	84.11	83.86	69.67	84.39	207.79
Taxes on International Trade & Transactions	93.86	94.26	104.29	119.34	140.46	169.46	176.12	192.09	195.76	168.30	156.61	104.37
Non-Tax Revenue	66.30	72.63	86.99	87.51	83.49	89.60	117.40	116.57	122.18	141.92	164.85	241.89
<b>CURRENT EXPENDITURE</b>	<b>295.07</b>	<b>306.97</b>	<b>323.53</b>	<b>333.14</b>	<b>381.45</b>	<b>439.85</b>	<b>478.23</b>	<b>500.09</b>	<b>536.18</b>	<b>537.62</b>	<b>530.14</b>	<b>641.91</b>
Personal Emoluments	137.05	140.28	144.19	144.09	159.72	163.11	169.51	189.72	212.11	233.89	223.50	221.99
Goods and Services	87.09	79.51	78.86	79.00	95.85	114.66	129.43	140.38	136.58	123.26	118.09	210.24
Interest Payments	42.56	52.44	66.88	74.47	81.56	95.81	109.21	115.89	128.86	121.38	131.03	113.48
Domestic	28.96	33.98	35.28	30.96	33.75	48.44	67.52	76.86	86.41	77.69	90.47	86.80
External	13.60	18.46	31.60	43.52	47.81	47.36	41.69	39.03	42.45	43.69	40.56	26.68
Transfers and Subsidies	28.37	34.74	33.59	35.57	44.33	66.26	70.08	54.10	58.63	59.09	57.52	96.20
Pensions	15.79	17.08	19.44	16.73	21.22	21.09	22.71	23.62	19.53	21.38	22.06	24.13
<b>Current Account Balance</b>	<b>(40.77)</b>	<b>(39.73)</b>	<b>(24.46)</b>	<b>(11.75)</b>	<b>(16.08)</b>	<b>(6.11)</b>	<b>13.29</b>	<b>16.05</b>	<b>6.72</b>	<b>(1.24)</b>	<b>(22.32)</b>	<b>8.19</b>
Capital Revenue	4.29	3.69	6.52	2.22	4.61	4.03	5.60	36.44	62.00	18.24	12.85	9.66
Grants	8.35	22.35	28.33	6.10	4.06	32.23	27.01	28.37	28.25	67.56	53.96	80.38
Capital Expenditure and Net Lending	98.45	95.74	167.55	76.42	78.07	78.81	77.00	113.78	101.76	95.26	124.15	83.85
Of which: Capital Expenditure	98.45	95.74	115.92	62.51	66.72	78.84	70.99	100.68	86.40	87.69	118.42	84.42
<b>Principal Repayments</b>	<b>24.63</b>	<b>23.11</b>	<b>35.42</b>	<b>48.92</b>	<b>50.55</b>	<b>62.32</b>	<b>99.94</b>	<b>90.06</b>	<b>83.70</b>	<b>81.15</b>	<b>87.22</b>	<b>191.15</b>
Domestic	4.60	4.70	8.04	4.63	5.05	6.36	41.27	19.16	27.43	20.70	24.42	98.06
External	20.03	18.41	27.38	44.29	45.50	55.96	58.68	70.90	56.27	60.45	62.80	93.09

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## Appendix 1(h): Saint Lucia Basic Fiscal Data 2000 -11

Saint Lucia Central Government Fiscal Accounts All figures in Millions of Eastern Caribbean Dollars												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>486.31</b>	<b>442.32</b>	<b>448.47</b>	<b>465.26</b>	<b>537.76</b>	<b>576.87</b>	<b>647.77</b>	<b>703.40</b>	<b>781.26</b>	<b>770.85</b>	<b>776.24</b>	<b>816.52</b>
Tax Revenue	430.53	397.41	404.95	431.01	495.71	540.83	603.82	659.05	725.32	724.04	729.02	764.29
Taxes on Income and Profits	134.53	133.74	107.60	109.71	116.45	139.64	148.42	176.61	225.72	226.26	223.19	245.16
Taxes on Property	1.79	1.26	6.92	4.26	4.95	4.01	4.66	4.86	2.27	4.22	3.26	3.97
Taxes on Domestic Goods & Services	59.30	54.46	68.48	60.69	93.33	89.51	105.59	119.72	132.24	107.43	125.13	125.73
Taxes on International Trade & Transactions	234.92	207.95	221.95	256.35	280.98	307.67	345.16	357.86	365.09	386.13	377.44	389.43
Non-Tax Revenue	55.78	44.92	43.53	34.25	42.05	36.04	43.94	44.35	55.93	46.81	47.23	52.23
<b>CURRENT EXPENDITURE</b>	<b>368.42</b>	<b>400.97</b>	<b>405.49</b>	<b>466.59</b>	<b>490.39</b>	<b>480.16</b>	<b>399.53</b>	<b>401.62</b>	<b>627.39</b>	<b>661.83</b>	<b>723.18</b>	<b>745.24</b>
Personal Emoluments	202.02	213.46	211.14	220.56	227.06	222.68	255.06	252.38	288.26	309.01	336.64	345.42
Goods and Services	75.12	75.71	64.67	90.78	95.67	91.01	19.00	22.70	133.08	135.02	148.71	141.82
Interest Payments	27.81	40.78	43.76	51.32	61.89	70.00	79.13	81.07	78.39	89.85	92.82	100.18
Domestic	19.49	22.93	22.25	20.48	18.26	21.09	27.10	34.77	33.20	44.21	50.37	58.36
External	8.31	17.85	21.51	30.84	43.64	48.91	52.03	46.30	45.20	45.64	42.46	41.83
Transfers and Subsidies	63.47	71.03	85.92	105.24	105.92	96.47	46.33	45.47	127.66	127.94	145.00	157.82
Pensions	28.95	31.22	33.02	31.63	35.27	42.42	41.40	41.04	6.67	6.97	55.73	58.21
<b>Current Account Balance</b>	<b>117.89</b>	<b>41.35</b>	<b>42.98</b>	<b>(1.33)</b>	<b>47.37</b>	<b>96.71</b>	<b>248.24</b>	<b>301.78</b>	<b>153.86</b>	<b>109.02</b>	<b>53.07</b>	<b>71.28</b>
Capital Revenue	0.26	1.30	21.26	8.64	0.87	-	0.93	0.04	6.72	0.10	8.64	0.53
Grants	10.67	17.51	29.00	43.04	6.02	4.20	3.27	9.27	20.68	25.91	64.03	34.73
Capital Expenditure and Net Lending	151.01	122.86	138.11	181.45	154.81	234.11	251.32	216.31	179.91	200.24	146.19	268.37
Of which: Capital Expenditure	150.97	122.86	138.11	181.45	154.81	234.11	251.32	216.31	179.91	200.24	146.19	268.37
<b>Principal Repayments</b>	<b>19.35</b>	<b>93.00</b>	<b>120.87</b>	<b>65.87</b>	<b>96.57</b>	<b>32.77</b>	<b>40.02</b>	<b>55.08</b>	<b>78.34</b>	<b>83.43</b>	<b>197.88</b>	<b>91.98</b>
Domestic	5.58	41.55	73.67	48.85	63.42	2.64	18.90	2.53	10.63	16.40	69.64	20.02
External	13.77	51.45	47.21	17.02	33.15	30.13	21.13	52.55	67.71	67.03	128.24	71.96

**Source: Eastern Caribbean Central Bank**

**Data as at 25 May 2012**

## Appendix 1(i): St. Vincent and the Grenadines Basic Fiscal Data 2000 – 11

**St. Vincent & the Grenadines**  
**Central Government Fiscal Accounts**  
 All figures in Millions of Eastern Caribbean Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>CURRENT REVENUE</b>	<b>260.53</b>	<b>271.69</b>	<b>305.63</b>	<b>318.24</b>	<b>324.89</b>	<b>337.67</b>	<b>392.52</b>	<b>433.52</b>	<b>489.55</b>	<b>466.79</b>	<b>483.80</b>	<b>454.62</b>
Tax Revenue	227.62	241.57	272.82	272.54	290.90	308.86	361.71	402.59	447.95	432.89	421.47	411.74
Taxes on Income and Profits	71.50	70.85	87.86	77.00	80.39	89.81	98.80	103.57	110.39	110.35	108.81	114.36
Taxes on Property	2.27	3.46	2.51	2.73	2.50	3.03	2.63	2.57	2.20	2.72	2.90	2.70
Taxes on Domestic Goods & Services	51.46	55.41	55.77	59.87	69.96	73.26	98.17	185.31	245.82	236.78	227.96	213.49
Taxes on International Trade & Transactions	102.39	111.85	126.69	132.93	138.06	142.76	162.11	111.13	89.54	83.04	81.80	81.19
Non-Tax Revenue	32.92	30.12	32.81	45.70	33.99	28.81	30.81	30.93	41.59	33.90	62.33	42.88
<b>CURRENT EXPENDITURE</b>	<b>240.64</b>	<b>258.70</b>	<b>273.08</b>	<b>272.51</b>	<b>288.10</b>	<b>323.87</b>	<b>355.44</b>	<b>378.82</b>	<b>431.32</b>	<b>469.75</b>	<b>473.15</b>	<b>497.51</b>
Personal Emoluments	127.40	128.65	138.28	139.13	144.84	158.98	171.27	188.97	206.83	211.99	221.81	231.15
Goods and Services	51.57	55.72	60.60	57.93	66.61	71.40	74.57	74.71	91.02	86.07	67.07	72.64
Interest Payments	24.72	24.64	26.08	27.84	27.56	36.91	43.21	45.27	46.81	51.02	52.40	45.49
Domestic	11.82	12.57	15.80	16.36	12.73	15.45	20.20	23.94	23.80	28.44	31.23	22.87
External	12.90	12.07	10.28	11.48	14.83	21.46	23.01	21.33	23.01	22.58	21.17	22.62
Transfers and Subsidies	36.96	49.69	48.12	47.61	49.09	56.59	66.38	69.86	86.65	120.68	131.87	148.23
Pensions	16.00	17.47	19.32	19.73	19.75	23.30	28.09	29.17	36.66	41.20	45.28	45.01
<b>Current Account Balance</b>	<b>19.89</b>	<b>12.99</b>	<b>32.56</b>	<b>45.73</b>	<b>36.79</b>	<b>13.80</b>	<b>37.08</b>	<b>54.70</b>	<b>58.23</b>	<b>(2.96)</b>	<b>10.65</b>	<b>(42.89)</b>
Capital Revenue	1.38	1.02	0.78	1.67	3.89	3.95	5.97	0.94	15.66	1.47	1.01	8.84
Grants	9.67	18.72	6.78	4.49	18.71	11.98	5.50	30.04	45.16	76.91	14.16	29.47
Capital Expenditure and Net Lending	35.09	48.15	53.81	75.61	75.09	80.60	101.28	131.49	130.97	106.02	78.40	63.01
Of which: Capital Expenditure	35.09	48.15	57.69	81.98	78.92	85.09	103.56	131.49	130.97	106.02	78.40	63.01
<b>Principal Payments</b>	<b>14.00</b>	<b>16.12</b>	<b>19.49</b>	<b>24.63</b>	<b>26.98</b>	<b>28.41</b>	<b>39.77</b>	<b>48.31</b>	<b>60.74</b>	<b>64.73</b>	<b>114.21</b>	<b>69.55</b>
Domestic	3.10	3.44	3.95	5.69	5.72	3.25	3.88	8.46	12.00	17.82	58.64	17.55
External	10.90	12.68	15.53	18.94	21.26	25.16	35.89	39.86	48.74	46.91	55.57	51.99

**Source: Eastern Caribbean Central Bank**  
**Data as at 25 May 2012**



**Appendix 2(a): ECCU Select Fiscal Ratios in relation to Current Revenue (RR) 2000 -11**

ECCU												
Central Government Fiscal Accounts												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.50	0.53	0.51	0.49	0.46	0.43	0.40	0.39	0.40	0.45	0.45	0.44
Personal Emoluments and pensions/RR	0.56	0.59	0.57	0.55	0.53	0.49	0.46	0.46	0.45	0.51	0.52	0.51
Interest Payments, PE and Pension/RR	0.70	0.73	0.74	0.71	0.69	0.63	0.60	0.58	0.57	0.64	0.65	0.63
Pensions/RR	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.05	0.06	0.07	0.07
Interest Payments/RR	0.14	0.14	0.16	0.16	0.17	0.13	0.13	0.12	0.12	0.13	0.13	0.12
Domestic Interest Payments/RR	0.07	0.08	0.08	0.06	0.05	0.06	0.06	0.06	0.06	0.07	0.07	0.07
External Interest Payments/RR	0.07	0.06	0.08	0.09	0.11	0.08	0.07	0.06	0.06	0.06	0.05	0.05
Goods and Services/Recurrent RR	0.22	0.25	0.24	0.21	0.22	0.22	0.18	0.18	0.22	0.23	0.21	0.22

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

**Appendix 2(b): Anguilla Select Fiscal Ratios in relation to Current Revenue 2000 - 11**

<b>Anguilla</b>												
<b>Central Government Fiscal Accounts</b>												
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Personal Emoluments/RR	0.51	0.54	0.49	0.50	0.31	0.32	0.27	0.33	0.41	0.61	0.57	0.39
Personal Emoluments and Pension/RR	0.53	0.56	0.51	0.52	0.32	0.34	0.29	0.35	0.44	0.66	0.63	0.43
Pensions/RR	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.02	0.03	0.05	0.06	0.04
Interest Payments, PE and Pension/RR	0.54	0.59	0.55	0.56	0.35	0.37	0.32	0.38	0.48	0.72	0.70	0.48
Interest Payments/RR	0.01	0.03	0.04	0.04	0.03	0.04	0.03	0.03	0.04	0.06	0.07	0.04
Domestic Interest Payments/RR	0.00	0.02	0.03	0.03	0.02	0.03	0.03	0.03	0.04	0.04	0.06	0.01
External Interest Payments/RR	0.00	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.01	0.01	0.03
Goods and Services/RR	0.44	0.47	0.40	0.39	0.29	0.28	0.29	0.26	0.29	0.33	0.25	0.19

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

**Appendix 2 (c): Antigua and Barbuda Select Fiscal Ratios in relation to Current Revenue  
2000 – 11**

Antigua & Barbuda Central Government Fiscal Accounts												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.67	0.63	0.61	0.59	0.53	0.51	0.44	0.43	0.41	0.49	0.43	0.44
Personal Emoluments and Pension/RR	0.72	0.68	0.67	0.67	0.60	0.59	0.52	0.54	0.49	0.61	0.54	0.55
Pensions/RR	0.05	0.05	0.06	0.07	0.07	0.08	0.07	0.11	0.08	0.12	0.11	0.11
Interest Payments, PE and Pension/RR	1.06	0.89	0.91	0.85	0.83	0.77	0.68	0.68	0.63	0.77	0.65	0.68
Interest Payments/RR	0.35	0.21	0.24	0.18	0.23	0.18	0.16	0.14	0.14	0.16	0.11	0.13
Domestic Interest Payments/ RR	0.13	0.13	0.13	0.08	0.08	0.07	0.06	0.05	0.04	0.07	0.09	0.08
External Interest Payments/ RR	0.22	0.08	0.12	0.11	0.15	0.11	0.10	0.10	0.10	0.09	0.03	0.05
Goods and Services/RR	0.29	0.36	0.39	0.23	0.23	0.22	0.21	0.20	0.25	0.29	0.20	0.21

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

**Appendix 2(d): Dominica Select Fiscal Ratios in relation to Current Revenue 2000 – 11**

**Dominica**  
**Central Government Fiscal Accounts**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.57	0.61	0.64	0.57	0.47	0.43	0.41	0.38	0.36	0.36	0.36	0.39
Personal Emoluments and Pension/RR	0.61	0.66	0.70	0.62	0.52	0.48	0.45	0.43	0.40	0.41	0.41	0.43
Pensions/RR	0.04	0.05	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.05	0.04	0.05
Interest Payments, PE and Pension/RR	0.81	0.86	0.91	0.84	0.69	0.58	0.58	0.52	0.47	0.45	0.47	0.50
Interest Payments/RR	0.20	0.20	0.21	0.22	0.18	0.10	0.13	0.09	0.07	0.04	0.06	0.06
Domestic Interest Payments/RR	0.13	0.11	0.10	0.08	0.05	0.03	0.05	0.03	0.02	0.01	0.02	0.02
External Interest Payments/RR	0.07	0.09	0.11	0.13	0.13	0.07	0.08	0.06	0.06	0.03	0.04	0.05
Goods and Services/ RR	0.13	0.16	0.16	0.14	0.16	0.20	0.17	0.21	0.26	0.24	0.28	0.27

**Source: Eastern Caribbean Central Bank**  
**Data as at 25 May 2012**

**Appendix 2 (e): Grenada Select Fiscal Ratios in relation to Current Revenue 2000 – 11**

Grenada Central Government Fiscal Accounts												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.38	0.45	0.43	0.40	0.49	0.42	0.40	0.37	0.43	0.48	0.48	0.52
Personal Emoluments and Pension/ RR	0.44	0.50	0.47	0.45	0.55	0.47	0.45	0.41	0.49	0.53	0.54	0.58
Pensions/RR	0.06	0.05	0.05	0.04	0.06	0.05	0.05	0.04	0.05	0.06	0.05	0.06
Interest Payments, PE and Pension/RR	0.52	0.60	0.65	0.64	0.79	0.54	0.52	0.49	0.56	0.65	0.64	0.70
Interest Payments/ RR	0.08	0.10	0.18	0.19	0.24	0.08	0.08	0.08	0.08	0.11	0.10	0.12
Domestic Interest Payments/RR	0.04	0.05	0.04	0.05	0.05	0.04	0.02	0.03	0.02	0.04	0.02	0.04
External Interest Payments/ RR	0.04	0.05	0.13	0.14	0.19	0.04	0.05	0.05	0.05	0.08	0.08	0.08
Goods and Services/ RR	0.15	0.18	0.16	0.13	0.15	0.19	0.17	0.18	0.18	0.21	0.22	0.18

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

**Appendix 2 (f): Montserrat Select Fiscal Ratios in relation to Current Revenue 2000 – 11**

<b>Montserrat</b>												
<b>Central Government Fiscal Accounts</b>												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.75	0.91	0.84	0.82	0.80	0.88	1.03	1.06	0.98	1.03	1.11	1.04
Personal Emoluments and Pension/RR	0.88	1.10	1.08	1.04	1.17	1.10	1.34	1.40	1.31	1.46	1.42	1.31
Pensions/RR	0.13	0.19	0.24	0.22	0.37	0.22	0.31	0.34	0.33	0.43	0.31	0.27
Interest Payments, PE and Pension/RR	0.90	1.10	1.10	1.05	1.18	1.10	1.34	1.40	1.31	1.47	1.42	1.31
Interest Payments/RR	0.02	0.00	0.02	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic Interest Payments/ RR	0.02	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-
External Interest Payments/RR	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Goods and Services/RR	0.84	0.88	0.61	0.89	0.92	0.71	0.74	0.86	0.78	0.60	0.47	0.48

**Source: Eastern Caribbean Central Bank**  
**Data as at 25 May 2012**

**Appendix 2 (g):  
St Kitts and Nevis Select Fiscal Ratios in relation to Current Revenue 2000 – 11**

**St. Kitts & Nevis  
Central Government Fiscal Accounts**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.54	0.52	0.48	0.45	0.44	0.38	0.34	0.37	0.39	0.44	0.44	0.34
Personal Emoluments and Pension/RR	0.60	0.59	0.55	0.50	0.50	0.42	0.39	0.41	0.43	0.48	0.48	0.38
Pensions/RR	0.06	0.06	0.06	0.05	0.06	0.05	0.05	0.05	0.04	0.04	0.04	0.04
Interest Payments, PE and Pension/RR	0.77	0.79	0.77	0.73	0.72	0.65	0.61	0.64	0.66	0.70	0.74	0.55
Interest Payments/RR	0.17	0.20	0.22	0.23	0.22	0.22	0.22	0.22	0.24	0.23	0.26	0.17
Domestic Interest Payments/RR	0.11	0.13	0.12	0.10	0.09	0.11	0.14	0.15	0.16	0.14	0.18	0.13
External Interest Payments/RR	0.05	0.07	0.11	0.14	0.13	0.11	0.08	0.08	0.08	0.08	0.08	0.04
Goods and Services/RR	0.34	0.30	0.26	0.25	0.26	0.26	0.26	0.27	0.25	0.23	0.23	0.32

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

**Appendix 2 (h): Saint Lucia Select Fiscal Ratios in relation to Current Revenue 2000 - 11**

Saint Lucia Central Government Fiscal Accounts												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/ RR	0.42	0.48	0.47	0.47	0.42	0.39	0.39	0.36	0.37	0.40	0.43	0.42
Personal Emoluments and Pension/RR	0.47	0.55	0.54	0.54	0.49	0.46	0.46	0.42	0.38	0.41	0.51	0.49
Pensions/RR	0.06	0.07	0.07	0.07	0.07	0.07	0.06	0.06	0.01	0.01	0.07	0.07
Interest Payments, PE and Pension/RR	0.53	0.65	0.64	0.65	0.60	0.58	0.58	0.53	0.48	0.53	0.63	0.62
Interest Payments/RR	0.06	0.09	0.10	0.11	0.12	0.12	0.12	0.12	0.10	0.12	0.12	0.12
Domestic Interest Payments/RR	0.04	0.05	0.05	0.04	0.03	0.04	0.04	0.05	0.04	0.06	0.06	0.07
External Interest Payments/RR	0.02	0.04	0.05	0.07	0.08	0.08	0.08	0.07	0.06	0.06	0.05	0.05
Goods and Services/RR	0.15	0.17	0.14	0.20	0.18	0.16	0.03	0.03	0.17	0.18	0.19	0.17

**Source: Eastern Caribbean Central Bank  
 Data as at 25 May 2012**



**Appendix 2 (i): St Vincent and the Grenadines Select Fiscal Ratios in relation to Current Revenue 2000 - 11**

**St. Vincent & the Grenadines  
Central Government Fiscal Accounts**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Emoluments/RR	0.49	0.47	0.45	0.44	0.45	0.47	0.44	0.44	0.42	0.45	0.46	0.51
Personal Emoluments and Pension/RR	0.55	0.54	0.52	0.50	0.51	0.54	0.51	0.50	0.50	0.54	0.55	0.61
Pensions/RR	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.09	0.09	0.10
Interest Payments, PE and Pension/RR	0.65	0.63	0.60	0.59	0.59	0.65	0.62	0.61	0.59	0.65	0.66	0.71
Interest Payments/RR	0.09	0.09	0.09	0.09	0.08	0.11	0.11	0.10	0.10	0.11	0.11	0.10
Domestic Interest Payments/RR	0.05	0.05	0.05	0.05	0.04	0.05	0.05	0.06	0.05	0.06	0.06	0.05
External Interest Payments/RR	0.05	0.04	0.03	0.04	0.05	0.06	0.06	0.05	0.05	0.05	0.04	0.05
Goods and Services/RR	0.20	0.21	0.20	0.18	0.21	0.21	0.19	0.17	0.19	0.18	0.14	0.16

**Source: Eastern Caribbean Central Bank  
Data as at 25 May 2012**

## **Appendix 3: Dominica Debt Case Study**

### **DOMINICA'S DEBT CASE STUDY**

#### **BACKGROUND**

Dominica's debt crisis of 2004 was the culmination of a series of events that had their genesis commencing from almost three decades before: the ravages of category 5 hurricane David in 1979 which decimated the island's very fragile economy, followed by another severe storm two years later; the gradual erosion of its preferential treatment for its bananas in the UK market; the events of September 11 on its nascent tourism industry. All during those difficulties the government sought and obtained grant and concessionary funding on the most favourable terms from bilateral donors, friendly governments and the international financial institutions particularly the CDB, IMF and the World Bank, in exchange for the adoption of conditionalities that would have adjusted the economy to sustained growth.

#### **Royal Bank of Trinidad and Tobago (RBTT) LOAN**

Impatient with the parlous state of the economy and the pace of development, and believing that the establishment of an international airport would unravel the country's nature and ecotourism potential and spur economic growth, the government embarked on contracting a large commercial debt to obtain resources to finance the proposed airport development. The then Minister of Finance contracted with RBTT Merchant Bank (MB) to secure US\$35m without the initial knowledge of the Financial Secretary, who was the government's chief accounting and financial officer. The funds were to have been procured from foreign sources. RBTT assumed the US\$35m - 10 year bond of the Government but broke the required investments in strips of varying maturities from 6 months to 10 years, largely in six monthly intervals, to cater to the varying maturity interest of potential subscribers and of varying interest rates depending on the tenor. One set of strips was officially called 10 per cent Commonwealth Dominica Secured Fixed Rate Certificates and the other with the same designation but at 11 per cent. RBTTMB sold the strips to various investors, and purchasers included such Dominican institutions as Dominica Social Security (DSS), National Bank of Dominica (NBD) and Dominica Unit Trust (DUT) which subscribed to the majority of the funds; the parent company and OECS subsidiaries of RBTT, Sagicor companies and other insurance companies mainly out of Trinidad and Barbados; Trust companies among others. There were about thirty subscribers to the certificates.

By the Appropriation (Royal Merchant Bank and Finance Company Limited) Act of 1999 the government provided the following collateral security for the issue:

1. Assignment of Commonwealth of Dominica (GOD) 20 per cent shareholding in Cable and Wireless (C&W)
2. Assignment of Dividends from GOD's 20 per cent shareholding in C&W.
3. Assignment of C&W Corporation taxes
4. Assignment of Dominica Electricity Corporation Corporate taxes.

GOD subsequently repealed the 1999 Act leaving the Bond/Certificate Holders unsecured and with no identifiable source of repayment for the investment.

RBTTMB was the arranger for the GOD, the subscriber, trustee, registrar and paying agent, securitiser, and in respect to the Certificate Holders - trustee and seller.

As it turned out, the funds were drawn but only small amounts were used for the airport development project, which has been subsequently abandoned.

## **DEBT UNSUSTAINABILITY**

Dominica's debt had reached nearly 120 per cent of GDP or almost twice the maximum level that is deemed sustainable for the typical developing economy. In the Prime Minister's letter to investors he indicated that "It is perfectly clear to the GOD and to the international financial institutions... that unless this debt burden is alleviated very promptly Dominica must slip into payment default. Indeed, the new IMF programme is expressly conditioned on Dominica's successful completion of a comprehensive debt re-profiling. If we fail in this endeavour, that Facility, and other multilateral assistance that is conditioned on that Facility, will terminate".

## **DOMINICA'S 2004 DEBT EXCHANGE: Debt Restructuring**

The GOD, with assistance of international financial experts, embarked on an exercise to identify and do an inventory of their debt, including long and short term instruments, payables and arrears; their terms and conditions; to inform all investors of their intention and to seek their mutual cooperation in the restructuring exercise. It was decided that the largely concessionary debt of the multilateral institutions would not be affected in this exercise nor would short term treasury bills as the GOD needed access to these facilities if it were to survive at all. An amount of EC\$142.5m was brought into the restructuring programme.

The Exchange Offer, as it related to Dominica's commercial indebtedness, contemplated an exchange of existing Eligible Claims for three series of new, liquid Commonwealth of Dominica bonds: the Short bond, the Intermediate bond and the Long bond. Holders of existing short term claims (those were claims maturing on or before March 31, 2006) had the option of exchanging those claims for any of the three series of New Bonds. Holders of existing claims maturing after March 31, 2006, could have exchanged these claims for the Intermediate Bond or the Long bond, at the option of each holder. The New Bonds were denominated in EC\$ and carried a fixed interest coupon of 3.5 per cent. The Long Bonds had a tenor of 30 years and had no discount on principal. The Intermediate Bond had a tenor of 20 years with a 20 per cent discount on principal, while the Short Bonds had a 10 year life with a discount of 30 per cent of principal. All accrued interest on existing claims tendered in the exchange was to be paid in cash on the closing date.

Each of the new bonds also carried a 'mandatory debt management' feature which required Dominica to retire from the market a specified percentage of the original principal amount of that series in each year (following a grace period), or face the prospect of making an equivalent partial redemption of the bonds. This feature was designed to ensure that Dominica will gradually retire the bonds prior to maturity. It is intended to also benefit the bondholders because Dominica's purchase of the instruments in the market will tend to support the market price of the bonds over time.

## **THE AFTERMATH**

In April 2004 the GOD requested and offered investors the debt restructuring programme. On December 19, 2005 Certificate Holders came to consider a compromise offer from GOD but rejected it (by a vote of 2 in favour, 13 against and 14 absent), instead seeking a better offer including better terms and rates, and increases in the interest rates on the new bonds, with improvements in Dominica's economic and fiscal situation. From the outset the two largest investors, NBD and DSS (which were largely controlled by GOD), accepted the offer; their holdings were large enough to constitute a majority acceptance. DUT did not accept but participated in the meetings of investors and consistently supported the GOD's position. The investors met again in January 2007 and continued to reject the compromise offer. In June 2007 the GOD started to accrue funds into an escrow account at the ECCB for the benefit of the other bondholders/certificate holders. The new bonds were issued in three series: Short Bond for

EC\$26.3m; Intermediate Bond for EC\$11.2m and Long Bond for \$104.5m. Currently the outstanding offer for those who have not yet accepted is for Intermediate Bonds, and it is on this basis that the accrual and escrow account have been established. The investors, at a meeting on April 25, 2008, could not agree on any of the resolutions proposed including selling the bonds to a third party, accepting the GOD offer etc., but agreed to declare an event of default and not to pursue the matter any further at that time. Incidentally, the proposal to accept the GOD offer failed, by a vote of 50.7 per cent to 49.3 per cent. Notwithstanding the escrow account, in the meantime, investors are being advised that even though they may wish to accept the current offer from the GOD directly this may not be possible unless the majority of investors (by holdings) so agree.

### **DOMINICA'S CURRENT ECONOMIC, FISCAL AND DEBT SITUATIONS**

Despite the current global economic and financial crises, Dominica, among its peers, has been the only one to fare well with economic growth. On the fiscal account, revenue mobilises about 35 per cent of GDP, which allows it to generate a 6 per cent surplus on its current account, sufficient to finance a capital programme of about 15 per cent of GDP without resorting to increases in net debt. Its debt to GDP which stood at 132 per cent in 2002 has been reduced to 85 per cent, with an average cost of debt of 1.6 per cent, while its interest payments to revenue are a low of 4.0 per cent.

#### **Appendix 4: Case Study on the Public Accounts Committee in Grenada**

The Public Accounts Committee (PAC) in Grenada used to be more effective in the past than at present; it was once the most functional of its type in the ECCU. The Committee deals with issues associated with accountability in public office.

Only members of the opposition party constitute the PAC, chaired by the leader of the opposition. The PAC in Grenada does not have a schedule for meetings, but its members once met on a frequent basis and reported regularly.

This PAC has prepared a report on the 2007 accounts and is in the process of completing reports for 2008 to 2010. In terms of reporting, resources are being diverted towards the completion of those for the more recent years. The report of the PAC is submitted to the Audit department, but there are concerns about whether it should be submitted to the Speaker of the House. The discussions undertaken by the PAC on audited public accounts is video recorded for Parliament.

The public is not fully aware of the role of the PAC, and further public sensitisation may be needed in this regard. There are concerns though, that the Authorities should clarify when the public and the press can be invited to sit in on discussions held by PAC.

## **Appendix 5: Case Study on the Budget Processes in Anguilla**

The budget process in Anguilla seems to be a best practice. In order to strengthen the processes of budget planning and preparation, the Executive Council of Anguilla introduced the medium term budget planning framework - formal rolling three-year budget - from the 2012 budget cycle. Under this framework, line ministries must prepare, in addition to their normal estimates of expenditure and revenues, forward estimates of expenditure and revenues for the following two fiscal years. Within the framework, the estimates of expenditure for the first forward year are 'rolled forward' to become the starting point, or baseline, for the following year's budget estimates. In general, it is expected that the estimates of expenditure for the current budget year and two-year forward estimates should not exceed the level of resources provided in the previous year.

By separating the consideration of proposed adjustments (new spending and savings) from the baseline, the process is intended to strengthen fiscal discipline by eliminating 'budget creep', that is, the tendency for budget allocations to increase incrementally without such increases being subject to a rigorous assessment of need and priority. Another objective of the process is to ensure that future year financial impacts are taken into account when making budget policy decisions enabling Government to plan its fiscal strategy and expenditure priorities more effectively. In addition to strengthening fiscal discipline, the approach aims at improving the predictability of funding, allowing ministries and departments to plan resource usage more effectively, and manage resources within budgets.

The processes require line Ministries and Departments to provide additional information about their programmes. In particular, budget estimates must capture greater information about programme strategies and activities under the heading 'programme description' as well as information about programme performance, specifically what is produced or delivered by the programme (i.e. programme outputs) and the impact of the programme in meeting its stated objectives (i.e. programme outcomes). In the submission of their estimates, all line ministries have to identify potential savings options to create scope for the Government to meet new urgent priorities, as well as to meet its fiscal balance targets.

There are key partners in the budget process which include the Accountant General's department; Capital Budget Committee; Debt Committee; Economic Development Unit (EDU); and Fiscal Review Team. The Accountant General's department undertakes cash flow management, which is regarded as a best practice in the region, as there is a strong link between budget and cash operations. The Capital Budget Committee (comprising permanent secretary communications and ministry of works, permanent secretary finance, project officers) meets at the beginning of every year to discuss and prioritise capital projects, and quarterly to discuss performance. The Debt Committee (chaired by permanent secretary finance) meets regularly to discuss debt issues. The Economic Development Unit (EDU) collaborates with line ministries on PSIP issues. EDU and Ministry of Finance collaborate with ECCB and CARTAC in preparing the financial programme. The Fiscal Review Team (comprising the principal assistant secretary of Ministry of Finance, budget officer, debt officer, internal audit officer, projects officer, the statistician and deputy comptroller of customs) meets monthly to analyse fiscal outcome and capital expenditure and to resolve any bottlenecks. The team meets weekly to update and guide key public service representatives on fiscal affairs; engage in discussions on fiscal performance with line ministries; and analyse fiscal outcome using the financial programming framework.

Consultation is key in the budget processes, and since the global crisis of 2007/08, there has been more public consultation on revenue and expenditure reports prepared by consultants. Private sector groups are consulted on some issues on an ad-hoc basis. Furthermore auditing arrangements, which are essential to the processes, are generally good. Based on the effectiveness of the budget process, contingency warrants have not been used over the past few years.



**Appendix 6: Update by Countries on the Implementation of International Public Sector Accounting Standards (IPSAS)**

Country	Update
Anguilla	IPSAS has been implemented.
Antigua and Barbuda	Statements were already in IPSAS format but implementation will be delayed due to the fact that the Statutory Bodies are using accrual instead of cash basis accounting. The Accountant General advised that, because of the standards required for the consolidation of the accounts, full implementation of IPSAS may not be possible until the Statutory Bodies change to cash accounting. The Government is working simultaneously on the 2007 and 2011 financial statements. Upon completion, the 2008 and 2009 financial statements will be done and any adjustments arising from the 2007 to 2009 statements will be made on subsequent statements. The 2010 financial statements were submitted to the Director of Audit.
Dominica	A copy of the Government's financial statement was submitted to CARTAC to obtain advice on how to meet the objective of compliance with cash based IPSAS. The Government was subsequently advised by CARTAC that the content and format of the financial statements generally complied with cash basis IPSAS. However, the major area of departure and non-compliance was in reporting the cash flows for the entire public sector, which includes the State owned enterprises (SOEs). It was noted that for full compliance, it will be necessary to determine all the government transactions that are not external and these must be netted off in the final accounts. The Government is hoping to seek assistance from CARTAC to guide the Treasury on the way forward.
Grenada	Currently the government is only able to match the cheques electronically but is still in discussions with the banks to have the unique codes placed in the deposits on the bank statements. This will enable the matching of items in the accounts. The mapping of the Chart of Accounts for 2001 to the Government Finance Statistics (GFS), and the Classifications of Functions of Government (COFOG) are completed. The uploading of the accounts in the system is outstanding. The Government is finalising the 2011 accounts as the statutory deadline for completion is June 2012. From July 2012, the Government plans to focus on IPSAS and is hoping to complete the conversion by October 2012.
Montserrat	A gap analysis had been done between IPSAS requirements and the current regulations. However, work on addressing the gaps has not been undertaken. The Government has commenced work on the Government Finance Statistics (GFS), the mapping of accounts to the GFS has been completed and test reports were extracted. The Chart of Accounts update is approximately 50 per cent completed. The government is in the process of closing the inactive 'below the line accounts' (i.e. financial assets and liabilities accounts).
St Kitts and Nevis	The Government of St Kitts and Nevis has commenced the process towards adopting Cash Basis IPSAS. The Accountant General's Department has taken the decision to incorporate the mandatory requirements of the Cash Basis IPSAS in the compilation of the financial statements for the year ended 31 December 2011. These include the preparation of a Statement of Receipts and Payments, a Schedule of Beginning and Ending Cash Balances along with the necessary notes and disclosures. The statements are to be submitted to the Office of the Director of Audit by 30 June 2012. The Government's expectation is to submit financial statements that are both aligned with Cash Basis IPSAS and the Finance Administration Act of 2007. At the end of April, two officers from the Accountant General's Department will be attending the 26th Annual International Consortium on Government Financial Management Conference to be held

	<p>in Miami, Florida. One of the sessions to be presented will be ‘Implementing Cash Basis IPSAS’. This session will examine the challenges in implementing Cash Basis IPSAS and possible improvements. Given that IPSAS has not been formally adopted by the Government of St. Kitts and Nevis as an accounting standard, the information presented in the Government’s financial statements must also comply with the Finance Administration Act of 2007. Consolidation with Nevis Island Administration and Government Owned Entities remains an issue and this will have to be disclosed in the financial statements.</p>
Saint Lucia	<p>The Treasury Department, Government of Saint Lucia, met with a representative from the Commonwealth Secretariat to seek assistance for the IPSAS project implementation. The Commonwealth Secretariat agreed to fund the following:</p> <ul style="list-style-type: none"> <li>• Technical Assistance in the setup, roll out and initial training related to an IPSAS Accounting system. This assistance is expected to last for 3-4 months.</li> <li>• Technical officer to return to Saint Lucia after 6 months to assess the progress, address the operational issues and provide additional training.</li> </ul>
St Vincent and the Grenadines	<p>The Government of St. Vincent and the Grenadines has not commenced the implementation process.</p>

**Source: Eastern Caribbean Central Bank**  
**Data as at 11 May 2012**

**Appendix 7: Timeframes - Provision of Birth Certificates, Passports and Drivers' Licenses  
in ECCU member territories**

<b>Country</b>	<b>Birth Certificate</b>	<b>Passport</b>	<b>Driver's Licence</b>
Anguilla	5 – 10 minutes	10 working days	5 – 10 minutes
Antigua and Barbuda	Same day service (in person)  One week from receipt of request made via email or letter	1) First time applicant - six weeks. 3) Renewal – three weeks 4) Express service - three to five working days	Same day service
Commonwealth of Dominica	Two (2) working days.	One (1) week to process	Immediately, with proper documents (identification)
Grenada	2 days	3 days – recently introduced in April 2012; prior it was 5-7 working days	2 weeks for new license; same day for renewals
Montserrat	Two (2) days	Three (3) weeks	One (1) week
St Kitts and Nevis	Immediately. Within 5-10 minutes, with stamp and photo ID	Usually one (1) week to process; however, same day service with special fee is available	Immediately. Within 5-10 minutes, with proper documentation and photo.
Saint Lucia	5-6 months	14 working days normally. Emergency - 5 working days additional \$50.00	1 month after taking photo and paid fees
St Vincent and the Grenadines	One (1) working day.	7 working days for nationals and longer for foreigners.	Approximately 2 weeks.

**Source: Eastern Caribbean Central Bank  
Updated June 2012**

Improvements have been made during the last three years as follows:

- Dominica improved their Birth Certificate timeline from 3 days to 2 days;
- Grenada improved their passport delivery time from 1 week to 3 days;
- Montserrat reduced the Driver's License delivery time from 1 month to 1 week;
- St. Vincent and the Grenadines reduced their Driver's License delivery time from 4 weeks to 2 weeks.

## **Appendix 8: Typical Legal Framework Governing Public Sector Finance and Administration**

Summary of Saint Lucia's Finance (Administration) Act

Revised Edition

Showing the law as at 31 December 2005

PART 1	Preliminary
PART 2	Control and management of public finance
PART 3	Public Funds
PART 4	Accounts
PART 5	Authorisation of expenditure
PART 6	Payments
PART 7	Bank accounts, Investments and deposits
PART 8	Public Debt
PART 9	Abandonment of claims and write-off of public monies and stores
PART 10	Surcharge
PART 11	Statutory Bodies
PART 12	Miscellaneous Provisions

### Appendix 9: Proposed Idealised Salary Structure for the ECCU

Scale Level	Minimum Salary	Mid-Point Salary	Maximum Salary	Increment
1	100	110	120	2
2	115	126.5	137.89	2.3
3	132.25	145.48	158.57	2.65
4	152.09	167.3	182.36	3.04
5	174.9	192.39	209.71	3.5
6	201.14	221.25	241.16	4.02
7	231.3	254.44	277.34	4.63
8	266	292.6	318.93	5.32
9	305.9	336.49	366.77	6.12
10	351.79	386.97	421.8	7.04
11	404.55	445.01	485.06	8.09
12	465.24	511.76	557.82	9.3
13	535.03	588.53	641.5	10.72
14	615.28	676.81	737.72	12.31
15	707.57	778.33	848.38	14.15
16	813.71	895.08	975.64	16.27
17	935.76	1029.34	1121.98	18.72
18	1076.13	1183.74	1290.28	21.52
19	1237.55	1361.3	1483.82	24.75
20	1423.17	1565.49	1706.38	28.46

## **Appendix 10: Excerpt of the Report done by the IMF Fiscal Affairs Department Entitled “Expenditure Rationalization for Fiscal Sustainability: A Review of Options”**

### The Case for Expenditure-Based Fiscal Adjustment

1. Current fiscal trends in the ECCU region are not sustainable. After a decade of strong growth and good fiscal performance, the fiscal position of ECCU member states weakened considerably during the 2000s. Fiscal deficits and public debt worsened significantly in the 2000s as the region responded to a series of shocks that reduced growth. Real GDP growth declined to 2½ per cent annually on average in the 2000s; in part reflecting natural disasters (including hurricanes), erosion of trade preferences for traditional exports (banana and sugar) and a productivity slowdown. In 2009, the region’s output declined by about 4.3 per cent, reflecting the effects of the global financial crisis on remittances, FDI inflows, tourism, and construction-related activities. The fiscal deficit doubled to an annual average of 5 per cent of GDP during the 2000s as the region adopted counter-cyclical fiscal policy responses to these shocks. Public debt levels soared in all countries. The average debt-to-GDP ratio was estimated at 92 per cent in 2009, up from an average of 57 per cent during the early 1990s.
2. Significant fiscal consolidation is inevitable. Firstly, debt has been on an unsustainable path during the last decade, mainly driven by low growth and high and increasing primary deficits.
3. The average primary deficit increased from around zero in the 1990s to 3.4 per cent of GDP in 2009. The resulting accumulation of debt was mostly financed by captive financial institutions, including indigenous banks and social security schemes. Secondly, rising concerns about debt sustainability could trigger a reduction in financing, forcing fiscal adjustment. Finally, high debt tends to reduce growth, which in turn would reduce revenue collection and increase spending pressures.
4. This creates a vicious cycle where high debt and low growth reinforce each other, leading to an eventual need for fiscal adjustment. Bold fiscal consolidation measures are thus needed to break this cycle.

5. Strengthening fiscal policies would likely have a positive effect on growth in both the short and long-run. For highly indebted ECCU countries, fiscal consolidation could reduce interest rates significantly by reducing the default premium on public debt, which could lead to positive wealth effects. A recent study showed, in an empirical model for the ECCU, that once debt is included in the growth equation, investment no longer appears to have a positive impact on growth, suggesting that government spending is crowding out private investment.
6. With credible deficit reduction measures to restore fiscal solvency and reduce the probability of default in the ECCU, fiscal consolidation could sharply increase the market value of wealth held by the private sector and stimulate economic growth. Regarding expectations, consumers and businesses could view credible fiscal consolidation measures as signalling a permanent reduction in their future tax burden and an increase in their permanent income, which could trigger higher private spending and growth.
7. These would help offset any adverse short-run effect of fiscal consolidation on demand and economic activity.
8. The size of the needed consolidation depends on the initial level of debt and the country's debt tolerance. The adverse impact of debt on growth has been shown to be higher for low-income and emerging countries than for advanced economies.

Notwithstanding, the ECCU has adopted a debt target of 60 per cent of GDP, which is deemed to be consistent with the region's capacity to service its debt, while maintaining a comfortable level of reserves. For some ECCU countries, the necessary adjustment for meeting the debt target would be large. For example, St Kitts and Nevis would have to cut its ratio by almost 100 percentage points of GDP to meet this medium-term target.

Antigua and Barbuda and Grenada would need to reduce debt by over 40 per cent of GDP.

What policies will deliver the needed fiscal adjustment in the ECCU economies?

First, the fiscal imbalances in ECCU countries reflect high growth in spending rather than low revenue collection. Significant tax reforms, including implementation of a value-added tax by all countries (except Saint Lucia) have increased revenues from 24 per cent of GDP in the 1990s to 28 per cent of GDP in 2009. On the expenditure front, central government expenditure jumped from 26½ per cent of GDP on average during the 1990s to 33 per cent of GDP in 2009, a year in which the ratio hit 36 per cent of GDP in Dominica and St Kitts and Nevis.

Given the high levels to which taxes have risen in some countries, reducing government spending offers the best means of reducing fiscal imbalances.

Second, the literature finds that expenditure-based adjustments are more successful.

Work on large and successful fiscal consolidation emphasises the importance of reducing public spending, especially wages and transfers, rather than increasing revenues.

Several of the more institutionally advanced economies established medium-term expenditure frameworks to help governments set and meet multi-year priorities and build credibility.

In the ECCU, growth in spending reflected increased transfers and capital investment. In recent years, central government primary expenditure rose, mainly on account of increases in current transfers (Antigua and Barbuda, Dominica, and Grenada) and capital expenditure (Antigua and Barbuda, Dominica, Grenada, and Saint Lucia).

With social support programs provided for all without regard to income, the costs of delivering these services swelled, in part due to inefficiencies. The increasing weight of non-discretionary current spending (including public pensions and subsidies) and the relatively high level of the wage bill have reduced the flexibility of budgets to respond to shocks. The resulting deficits have been financed by borrowing, which has led to rising interest bills.

A broad-based expenditure rationalisation strategy could reduce public spending on a cumulative basis by 3 to 5 per cent of GDP over the medium-term in ECCU countries. This report reviews the factors that underpinned the large increases in public spending and discusses options for expenditure rationalisation. The study draws from country-specific reports that covered the main



expenditure items in the central government budgets of these countries. The analysis shows that expenditure rationalisation measures could reduce spending, while protecting the poor. The proposed measures would make a significant contribution to the needed fiscal adjustment to meet the region's medium-term debt target of 60 per cent of GDP. The main findings and recommendations of the study are as follows:

- Addressing the high cost of government should be a top priority in the region's fiscal consolidation efforts. The government's wage bill constitutes the single largest expenditure item in the budgets of ECCU countries. Compensation of employees, which includes benefits, allowances, employer contributions, and public service pensions, together constitute over 11 per cent of GDP (more than one-third of total government spending) in these countries. Given its large size relative to total expenditures, reducing the wage bill will have to be a key element of the expenditure rationalisation effort. Short-term measures to control wage spending include temporary freeze on wages and employment, streamlining benefits and allowances, and eliminating known duplication and overlaps. Medium-term measures should include a review of the role of the government with a view to identifying government units that could be streamlined, closed, or divested. Some countries in the region are already moving in this direction.
- Social security systems are a key source of fiscal vulnerability in ECCU countries. Unfavourable demographics and relatively generous pension benefits threaten the sustainability of the region's pension systems. While most schemes are currently operating in surplus, under current policies most will begin to incur cash flow deficits soon. A number of structural issues and reserve management practices are also weakening the financial position of these schemes. Some ECCU countries are implementing parametric reforms to restore the sustainability of their national social security schemes. While some reforms are being implemented in some countries, additional efforts are needed in all countries to increase the retirement age and contribution rates, change pension calculation formulae, and reduce front loaded accrual rates. These proposed reforms can increase reserves of the pension systems in these countries by between 4 to 15 percentage points of GDP by 2050. In addition, investment policies should be strengthened to increase portfolio diversification and the rate of return.

- Health systems in the ECCU face a number of challenges. Non-communicable diseases—which are more expensive to treat than infectious diseases—now account for a greater share of the disease burden in the region. This, along with the ageing population, will increase health care cost significantly in the future. ECCU countries can take a number of measures to enhance the efficiency of health spending over the short- and medium-run. There may be scope for increasing revenue from well-targeted user fees, while ensuring that the poor have access to basic health care services. Steps also need to be taken to better control costs through cost audits, enhanced health information services, and restraining growth in compensation.
- Rationalising the configuration of health care facilities could improve service quality and efficiency. Finally, enhanced regional cooperation in health care may generate substantial cost savings as in the case of pharmaceutical procurement.
- Government spending on education in ECCU countries is relatively high compared to the rest of the Caribbean. This reflects the strong commitment to education by governments in these countries. Most ECCU countries have achieved the Millennium Development Goal (MDG) of universal primary education. Despite the relatively high spending, the efficiency of public spending in education has been low. The student-teacher ratios are very low and the unit cost of delivering education services is high in some countries, particularly at primary and secondary levels. Salaries consume over 90 per cent of current outlays, leaving few resources for learning material. Inefficient targeting of some programs such as school feeding, subsidies for tuition, and textbooks also raise equity concerns. Enhancing the efficiency of spending could lead to better education outcomes, while generating some cost savings for the budget. Measures could include increasing student-teacher ratios, rationalising the number of primary schools consistent with the decline in birth rates, better targeting of subsidised programmes, and introducing/raising user fees at the tertiary level. There is scope for reducing administrative expenses and realising economies of scale through greater regional cooperation.
- ECCU countries implement a wide array of social assistance programs to provide income support and access to basic services to the poor and the vulnerable. The numerous social assistance programs are implemented by various government agencies leading to high start-up and administrative costs. Weaknesses in targeting have resulted

in substantial leakage to non-poor groups and have limited the effectiveness of these programs in fighting poverty. Introducing objective, transparent targeting mechanisms and consolidating the institutions involved in delivering social services can enhance the efficiency of these programs. Linking social assistance to actions that promote human capital can help break the inter-generational transmission of poverty.

## **Appendix 11: Report on Consultations across the ECCU**

The Commission held consultations with representatives of the public and private sectors throughout each ECCU member country during the period 27 June to 25 August 2011. The national consultations took the form of two-day visits to each ECCU member country, with the exception of St Kitts and Nevis where a three-day visit was held. The visits involved focused group meetings, radio and television interviews and town hall meetings. During the consultations, the Commission sensitised the public on various aspects of its mandate including its terms of reference, approaches to executing its assignment, and preliminary findings based on on-going research. The Commission also sensitised the public on a number of areas including: the role and size of government; the importance and impact of government; impact and/or importance of effective public sector expenditure management; and the role of the private sector in effective public sector expenditure management. The feedback received from the sensitisation was very positive. Both public and private sector representatives indicated that the Commission's mandate was very timely and relevant, in the context of declining government revenues and increasing expenditure. The consultations focused on major issues related to public sector expenditure reform which are summarised as follows:

- i. Performance related issues such as comparative government expenditure components in relation to GDP; government current expenditures by functional classification in relation to current revenue; debt composition and levels in relation to GDP and current revenue; and the efficiency of investment.
- ii. Legislative framework governing public sector financial management such as the finance and audit Acts.
- iii. Management and administration in the public sector. The distinction between management and administration and the level of each that is necessary to improve the overall functioning of public sector.
- iv. Procedural issues in the public sector such as accounting and auditing arrangements; functioning of the Public Accounts Committee; procurement practices; use of information

and communication technologies; budgeting and the budget process; formulation of the Public Sector Investment Programme; and human resource management.

Some of the key points that came across all the country consultations in the ECCU were:

- i. The need to ensure that there is job fit in the public sector.
- ii. The need to upgrade the skills set of nationals to enable them to introduce more effective and efficient ways of production.
- iii. The need to institutionalise more critical modes of operation in relation to transparency in governance.
- iv. The need for more regional consultations and information sharing at middle management levels in the ECCU.
- v. The need to develop and institutionalise processes which will make the tendering process more transparent across the region.
- vi. The critical need of making the Public Accounts Committee a meaningful and operational instrument of government and governance.
- vii. The need to develop some sound metrics as they pertain to personnel emoluments across the region. Wages and salaries constitute the largest category of budgetary revenues and this raised questions about affordability and sustainability.
- viii. The need to develop sound governance as it pertains to statutory corporations.
- ix. The importance of making budgetary precepts central and germane to the practice of budgeting in the ECCU.
- x. The need to reduce wastage in the public service, which can be addressed through greater use of technology and more energy conservation practice.
- xi. The presence of weak accounting and auditing arrangements in the public sector.
- xii. The need for more means testing of welfare assistance to ensure that the beneficiaries of such assistance are only those who are in need. Spending on social programmes has increased in recent years and such spending may need to be audited for efficiency.

## Appendix 12: ECCU Participants at Consultations

### ANGUILLA

Participant	Designation/Institution
Hon Hubert Hughes	Chief Minister
Kathleen Rogers	Permanent Secretary, Ministry of Finance
Chanelle Barrett	Permanent Secretary, Ministry of Social Development
Cecil Weekes	Chairman, Public Service Commission
Bonnie Lake	Permanent Secretary, Ministry of Health and Social Development
Aurjul Wilson	Permanent Secretary, Public Administration Office
Stanley Reid	Deputy Governor
Larry Franklin	Permanent Secretary, Ministry of Communication, Utilities and Housing
Dawn Reid	Planner, Ministry of Education
Aidan Harrigan	Permanent Secretary, Economic Development
Foster Rogers	Permanent Secretary, Ministry of Home Affairs
Vida Lloyd Richardson	Member, Public Service Commission
Delroy Loudon	President, Anguilla Community College
Donna A Banks	Accountant, Anguilla Air and Seaport Authority
Althea Hodge	Manager, Anguilla Development Board
Ralph V C Hodge	Chief Executive Officer (Acting), Anguilla Health Authority
Othlyn Vanterpool	Elected member
Evans Rogers	Leader of the Parliamentary Opposition
Fritz Smith	Chairman, Anguilla United Front
Delsic Rey	Member, Anguilla United Front
Victor F Banks	Party Leader, Anguilla United Front
Thomas Hodge	General Manager, Anguilla Electricity Company Limited
Cleo Hamm	Island Manager, Delta Petroleum
Alister Spencer	Director of Accounting, Caribbean Cable Communications
Shiannah Gumbs	Branch Manager, Caribbean Cable Communications
Mark Romney	General Manager, LIME
Kiel Connor	Office Manager, D&Z Enterprises and Quantum Investment Services Limited
Ian Ferguson	Chief Financial Officer, National Bank of Anguilla
Shernika Connor	Assistant to CEO, National Bank of Anguilla
Kerwin Jn Baptiste	Country Head, Scotia Bank
Wade Richardson	Branch Manager, Caribbean Commercial Bank
Quinson Gumbs	Insurance Agent, Fairplay Management Services Limited.
Wilma Broaden	Executive Director, Anguilla Chamber of Commerce
Lily Moses	Administrative Assistant, Anguilla Chamber of Commerce
Olive Hodge	Director, Anguilla Drug Store
Kennedy Hodge	Director, Anguilla Drug Store
Ursil Webster Brooks	Secretary, Anguilla Christian Council
Patricia MacDonna	Accountant General
Kalleesha Webster	Deputy Accountant
Shona Proctor	Budget Officer
Gerard Gumbs	President, Anguilla Civil Service Association
Melisse Jennings	General Secretary, Anguilla Civil Service Association
Wesley Williams	Committee Member, Anguilla Teacher's Union
Susan Hodge	Women's Representative, Anguilla Civil Service Association
Russel Reid	Labour Commissioner, Labour Department

## ANTIGUA AND BARBUDA

Participant	Designation/Institution
Hon Baldwin Spencer	Prime Minister
Hon Harold Lovell	Minister of Finance
Mr Whitfield Harris Jr	Financial Secretary
Colin Murdoch	Permanent Secretary, Ministry of Industry and Commerce
Rosa Greenaway	Establishment Officer, Establishment Department
Vivian Samuel	Permanent Secretary (Acting), Ministry of Finance
Cordella Weston	Senior Budget Analyst, Ministry of Finance
Janelle Wehner	Budget Analyst, Ministry of Finance
Ava-Maria Thomas	Deputy Chief Welfare Officer (Acting), Ministry of Social Transformation
Alethea Bryers	Senior Probation Officer, Ministry of Social Transformation
Worthene George	Permanent Secretary, Ministry of Social Transformation
Norma Jeffrey-Dorset	Substance Abuse Prevention Officer, Substance Abuse Prevention Division
Hon Gaston Browne	Representative from the office of the Leader of the Opposition
Kevin Joseph	Vice President, LIME
KHL Tony Marshall	General Manager, ABIB
Michael Spencer	Country Manager, CIBC/FICB
Peter Quinn	Executive Manager – Internal Audit, ECAB
Gwendolyn Eranson	Assistant Manager – Special Projects, Caribbean Union Bank
Ernest Letby	Chairman, Caribbean Alliance Insurance Company Limited
Brent Joseph	Chief Financial Officer, Caribbean Alliance Insurance Company Limited
Robin Shaw	Country head, Royal Bank of Canada
Enoch Lewis	Accounting Manager, Bank of Nova Scotia
Hugh Joseph	Senior Industrial Relations Officer, Antigua Trade and Labour Union
Chester Hughes	Industrial Relations Officer, Antigua and Barbuda Workers Union
David Massiah	General Secretary, Antigua and Barbuda Workers Union
Errol Samuel	President, Chamber of Commerce and Industry
Patrick A Ryan	Vice President, Antigua and Barbuda Employers Federation
Pedro Corbin	Chairman, State Insurance
David Matthias	Director, Social Security
Cettrille George	Chief Executive Officer, Medical Benefits Scheme

## DOMINICA

Participant	Designation/Institution
Hon Roosevelt Skerrit	Prime Minister
Claudia Bellot	Permanent Secretary, Ministry of Tourism and Legal Affairs
Magdalene Julien	Assistant Secretary, Ministry of Tourism and Legal Affairs
Cecillia Carr	Acting Senior Administrative Officer, Establishment, Personnel and Training Department
Joesphine Corbette	Senior Administrative Officer, Establishment, Personnel and Training Department
Eisenhower Douglas	Economist, Ministry of Employment, Trade, Industry and Diaspora Affairs
Joyette Fabien	Acting Assistant Secretary, Ministry of Social Services, Community Development and Gender Affairs
Ruth Allport	Acting Permanent Secretary, Ministry of Health
Davis Letang	Permanent Secretary, Ministry of Lands, Housing, Settlement, Water Resource Management, Information Telecommunications and Constituency Empowerment
Beverly Pinard	Acting Accountant General
Francisca Pascal	Acting Financial Secretary
Cary A Harris	Independent expert
Gelbert William	Independent expert
Orlando Allan Richards	Chartered accountant, KPB
Jessica Francis	Accountant, Discover Dominica Authority/Invest Dominica Authority
Elizabeth Wayland	Head of Marketing, Discover Dominica Authority
Hermina Augustine	Investment Promotion, Invest Dominica Authority
Bristol Lawrence	Acting General Manager, Dominica Solid Waste Management Corporation
Bernard Ettinoffe	General Manager, Dominica Water and Sewerage Company
Benoit Bardouille	Chief Executive Officer, Dominica Air and Seaport Authority
McCarthy Marie	Independent expert
Steven Astaphan	Director, Dominica Employers Federation
Robert Tonge	Director, Dominica Employers Federation
Cyril Dalrymple	Former Director, Dominica Employers Federation
Lynford Guthrie	General Manager, Dominica Brewery and Beverages
Achille Chris Joseph	Chief Executive Officer, Dominica Association of Industry and Commerce
Hon Norris Prevost	Member of Parliament for Roseau Central, United Workers Party
Celia Nicholas	President, Dominica Association of Teachers
Deanella Daley	Administrative Secretary, National Workers Union
Thomas Letang	General Secretary, Dominica Public Service Union
Kertist Augustus	Secretary/Treasurer, Waterfront and Allied Workers Union

## GRENADA



Participant	Designation/Institution
Hon Tillman Thomas	Prime Minister
Hon V Nazim Burke	Minister of Finance, Economy, Planning, Energy Foreign Trade and Cooperatives, Ministry of Finance
Timothy Antoine	Permanent Secretary, Ministry of Finance
Ambrose N Louis Obike	Accountant General, Ministry of Finance
Garvin Roberts	Deputy Accountant General, Ministry of Finance
Anslem Joseph	Director of Audit, Audit Department
Philbert Charles	Deputy Director of Audit, Audit Department
Dennis Clarke	Acting Permanent Secretary, Ministry of Works
Sandra Ferguson	Secretary General, Agency for Rural Transformation Ltd
Aine Brathwaite	President, Grenada Chamber of Industry and Commerce
Augustine David	Executive Secretary, Public Workers Union
Madonna Harford	President, Public Workers Union
Mervyn Lord	General Manager, Grenada Development Bank
Keith Johnson	Managing Director, Republic Bank
Lennox J Andrews	General Manager, Communal Co-operative Credit Union
Marilyn Paterson	Customer Services Manager, National Water and Sewerage Authority
Louisa Yuventi	Financial Comptroller, National Water and Sewerage Authority
Sonia Roden	General Manager, Grenada Industrial Development Corporation
Edward Lord	Administration Manager, Grenada Port Authority
Ken-Martin Whiteman	General Manager, Gravel and Concrete
Ambrose Phillip	General Manager, Grenada Port Authority

## MONTSERRAT

Participant	Designation/Institution
Hon Reuben Meade	Hon. Chief Minister
Hon John Skerrit	Financial Secretary
Hon Sarita Francis	Deputy Governor
Karen West Moore	Accounting Officer, St Patrick's Cooperative Credit Union
Jennifer Meade	Manager, Montserrat Building Society
Michael Joseph	General Manager, Bank of Montserrat
Duacie James	Commissioner, Financial Services
Gracelyn Cassell	Vice President, Chamber of Commerce and Industry
Deonne Semple	President, Rotaract Club
Geraldine Adams	Assistant Secretary, Ministry of Health
Camille Thomas-Gerald	Permanent Secretary, Ministry of Health
Angela Greenaway	Permanent Secretary, Ministry of Economic Development and Trade
Daphne Cassell	Permanent Secretary, Ministry of Education
Courtney Crump	Accountant General (Acting), Treasury
Lindorna Brade	Budget Director, Ministry of Finance
Victor M James	Leader of the Opposition, Montserrat Labour Party
Kenneth Scotland	Director, Social Security
Kendall Lee	Electricity Manager, Montserrat Utilities Ltd.
Shawn O'Garro	Manager, Montserrat Port Authority
Valerie James	Manager, Philatelic Bureau
Jim Lee	President, Montserrat Small Business Association
Joseph Cassell	General Manager, LIME
Emile Dubeng	Manager (Water Division), Montserrat Utilities Ltd.
Violet Brown	President, Montserrat Nurses Association
Paul Lewis	President, Montserrat Civil Service Association
Hylroy Bramble	Consultant, Montserrat Staff Association, Labour Department

## ST KITTS AND NEVIS

Participant	Designation/Institution
Dr the Honourable Denzil L Douglas	Prime Minister and Minister of Finance, Sustainable Development, Human Resource Development, Office of the Prime Minister
Premier Joseph Parry	Nevis Island Administration
Hensley Daniel	Deputy Premier, Nevis Island Administration
Janet Harris	Financial Secretary, Ministry of Finance
Laurie Lawrence	Permanent Secretary, Ministry of Finance, Nevis Island Administration
Calvin Edwards	Deputy Financial Secretary, Ministry of Finance
Erasmus Williams	Press Secretary To The Prime Minister
Astona Browne	Permanent Secretary, Ministry of Foreign Affairs, National Security, Immigration, Labour and Social Security.
Patricia Martin	Permanent Secretary, Ministry of Tourism and International Transport
Wesley Galloway	Director of Auditing, National Audit Office
Levi Bradshaw	Accountant General
Sharon Mc Cardy-Joseph	Debt Analyst, Accountant General's Department
Torfrida Rochester	Chief Personnel Officer, Human Resource
Carla Berridge-Pike	Senior Accountant, Accountant General
Waveney Hanley	Senior Tax Inspector, Inland Revenue Department
Eliza Warren	Senior Tax Inspector, Inland Revenue Department
Velda Irish	Senior Tax Inspector, Inland Revenue Department
Eric Haynes	Senior Tax Inspector, Inland Revenue Department
Edward Gift	Deputy Comptroller, Inland Revenue Department
Beverley Williams	Comptroller, Inland Revenue Department
Livingston Pemberton	Engineer, Public Works Department
Charles Morton	Branch Manager, Bank of Nova Scotia
Charon Danepson	Commercial Bank Manager, Bank of Nova Scotia
Marilyn P Johnson	Chief Financial Officer, Social Security
Alphonso E Bridgewater	General Manager, Solid Waste Management Corporation
L Spencer Amory	Labour Commissioner, Labour Department
Cromwell Williams	Manager/Water Engineer, Water Services
Halla Sahely	Assistant Water Engineer, Water Services
Calvin Cable	Executive Director, Chamber of Industry and Commerce
D Michael Morton	Chairman, TDC
Anthony Kelsick	Chairman, S L Horsford and Company Ltd.
Ancel R Sookhai	Chief Executive Officer, St Kitts Bottling Company Ltd.
Edmund Lawrence	Managing Director, St Kitts Nevis Anguilla National Bank
Peter Edmunds	Country Manager, FCIB
Frances-Ann Satney	Manager, Royal Bank of Canada
Eugene A Hamilton	Deputy Political Leader, People's Action Movement
Lindsay F Grant	Political Leader, People's Action Movement
Shaun K Richards	Deputy Political Leader, People's Action Movement

**SAINT LUCIA<sup>16</sup>**

Participant	Designation/Institution
Embert St Juste	Director of Research, Ministry of Finance
Gemma Lafeuille	Senior Economist, Ministry of Finance
Marie Monroe	Accountant General
Cointha Thomas	Budget Director
Brian Louisy	Executive Director, Chamber of Commerce
Nestor Alfred	Bank of Saint Lucia/ECFH
Medford Francis	Bank of Saint Lucia/ECFH
Anderson Lake	Bank of Saint Lucia/ECFH
Chester Hinkson	Bank of Nova Scotia
Wayne Kangloo	Royal Bank of Canada/RBTT
Sharmaine Francois	Financial Investment Consultancy Services
Julian Monroe	Teachers' Union
John Joseph	Water and Sewerage Company
Trevor Louisy	St Lucia Electricity Services Ltd

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<sup>16</sup> The Commission also met with representatives from the Ministry of Finance, St Lucia Air and Sea Ports Authority and other labour representatives.

## ST VINCENT AND THE GRENADINES<sup>17</sup>

Participant	Designation/Institution
Dr Hon Ralph Gonsalves	Prime Minister
Maurice Edwards	Financial Secretary
Godfred Pompey	Permanent Secretary, National Security
Nicole Bonadie-Baker	Permanent Secretary, Ministry of Education
Sandra Davis	Permanent Secretary, Ministry of National reconciliation
Rosita Snagg	Permanent Secretary, Ministry of Social Development
Kenrick Glynn	Permanent Secretary, Ministry of Transport, Works, Urban Development and Local Government
Louis DeShong	Ministry of Housing, Informal Human Settlements, Physical Planning, lands and Surveys
Ingrid Fitzpatrick	Accountant General
Edmond Jackson	Budget Director
Jethro Greene	Eastern Caribbean Trading Agriculture and Development Organisation (ECTAD)
Basil Alexander	Bank of Nova Scotia
Carl Dickson	Bank of Nova Scotia
Isaac Solomon	RBC/RBTT
Kingsley Daniel	First St. Vincent Bank
Samuel Goodluck	St Vincent Insurances Ltd
Fidel Taylor	Sentry Insurance
Jacinta Elliott	Metrocinct General Insurance Company Ltd
Joe Sheridan	Insurance Brokers
Hon. Arnhim Eustace	Opposition Leader
Brian George	The Roads, Building and General Services Authority (BRAGSA)
Reginald Thomas	NIS Representative
Saville Cummings	Kingstown Board

<sup>17</sup> The Commission also met with representatives from CIBC, Sagicor, St Hill Insurance Company and trade union.

## **Appendix 13: Selected Comments from Participants at Consultations**

### **Comment 1**

In reference, to social spending: clarity should be given, and welfare department and other social departments, instead of politicians, are quite capable of assessing needs. Transparency, social experts and elected committees to decide on what the needs are here, through analysis, and not by a particular politician, in reference to assistance. The function of the small business unit in the Ministry of Trade should be more audited, transparent, and detached from politician impurities; clear mission and objective should be to assist entrepreneurs. Statutory boards, certain government department user fees, user charges and others need to reassess their operation, focusing on productivity and efficiency. Also these fees have not been revised a long time now. Even the service structure can be stream lined or re-engineered. On road maintenance: partner with universities or university engineering department to study the road dynamics in Dominica. I strongly believe that material, quality, lack of research and experts in the specific area to really understand why repairs are so frequent - sometimes weeks after repairs are done - more has to be done in this same area. Knowledge through research is needed to enhance road repair.

### **Comment 2**

In any economy the success or failure to deliver greater benefits to an increasing number of its citizens will depend critically on the performance of the human resources. In St. Vincent and the Grenadines, and equally so for the other small island economies that comprise ECCU, the present and medium term economic outlook does not offer much optimism as they have all displayed deterioration in their fiscal conditions. However, it is not the time to throw our hands in the air, but it is the time to seriously reconsider our state of affairs and to chart new courses toward a more sustainable future for all of us. Our economic and social circumstances seem to be exacerbated yearly, as we go from external shocks of varying magnitudes and impact to domestic shocks such as natural disasters, air-borne plant diseases and moco affecting our once-dominant banana industry. These small and vulnerable islands can boast that for their relative size and geography they are the most disaster-prone states in the world. Hence, economic and social development are held hostage to the vicissitudes of internal and external shocks for which

there are no easy buffers. How the governments navigate these debilitating shocks and deliver development to us is pure brinkmanship.

What have these events done to the fiscal situations facing these small, vulnerable economies? The simple answer is: their fiscal situations have worsened significantly. Their expenditures, closely co-integrated with GDP and revenues, have fallen and there is not much scope to increase borrowing to make up the shortfall. It is belt-tightening time as governments struggle to operate within new budgetary constraints, while being as sensitive as possible to the need to keep the economy purring and cushion the impact of a downturn on the growing army of the unemployed and the poor. It is time to eke out more from less.

I submit that one of the first places to start is with our workforce, especially those employed with the public service. In the public service, attitude to work (akin to cheating) stifles productivity and add significantly to cost. Many public sector workers see their employer, the government, as someone to take advantage of... and they do and get away with it because of the laxity and often the ineptitude of supervisors, heads of departments, and even permanent secretaries. What goes on as normal day-to-day business practice in the public service will not be tolerated in the private sector. The private sector's profit motive is hinged on increasing productivity and as far as possible they ensure that the marginal product of the nth worker is never zero. On the other hand, in the public sector there are several workers at various levels, whose marginal product is zero or less; but they have security of tenure, handsome salaries/wages, retirement benefits, and worse still... political clout.

There is a need for a "productivity revolution" in the public sector to engender growth and savings. We can learn much from the modus operandi of the private sector. I am suggesting that some supervisors, heads of departments or permanent secretaries or others in management positions in the public service be sent on a two-week attachment with the private sector to learn the work ethics of profit-driven private sector and to institute some of the best practice in the public sector.

Wages and salaries are the largest share of government expenditure. Periodically (almost yearly), workers have become accustomed to increases. Thus, a rising wage bill, ratcheted upward as compensation for inflation rather than productivity gains. This is defensible on the grounds that inflation is mostly imported. As a disinflationary measure, wage gains should be tied to productivity. This brings us to the need for some income policy, with productivity at its core. It is acknowledged that productivity is hard to measure, but productivity-enhancing measures can be put in place to assess the contribution of workers in the service. The emphasis should be to increase significantly the productivity in the public sector; and it is an economic fact that productivity increase in any sector reduces the labour required in that sector as labour is shed to other areas. Labour set free in this way needs retooling to fit elsewhere. In a nutshell, the public sector can become “lean and mean” and, as consequence, we could get more from less. Better management/administration engenders greater fiscal efficiency, which ultimately drives growth.

### **BETTER EXPENDITURE CONTROL**

As mentioned earlier, wages and salaries are the largest chunk of expenditure. I agree that these expenditures are necessary, but this is the category of expenditure, non-interest bearing, where cheating and waste are most prevalent. Try summing up the cost of time lost due to absence, idling on the job, production loss due to mismatching, abuse of resources (stationery, internet, telephone and electricity, etc.). Giovannini and Spaventa (1991) claim that greater control of non-interest expenditure the greater the effect will be on the primary balance. In other words, controlling these expenditures can improve the primary balance. What will be critically necessary to achieve this is a cadre of penny-pinching supervisors, HOD, and permanent secretaries to be apprised (and rewarded) of the implications of this strategy on solvency of the government. In a word, savings can be realised.

To complement the penny-pinchers there will be a need for a cadre of competent auditors in every ministry, rather than a handful of auditors operating out of a poorly-equipped and understaffed office in the Ministry of Finance. Audits should be on-going and auditors should be given more bite and bark. This will be a necessary check on abuse and will serve to reduce the potential for graft in the system.



## **CAPITAL EXPENDITURE**

Capital Projects inject new money into the economy. Public Sector Investment Programme is financed largely from savings, grants and loans. These projects are largely growth-inducing projects. These create significant employment during the construction phase and have a multiplier effect. However, many capital projects may be ill-conceived and have very few backward linkages to the real economy. They contribute to the burden of government in servicing the debt incurred on the project. The rate of return (ROR) is often so low. In the project planning phase much care and analyses must be undertaken to answer, as far as possible, the question of whether the project will add more to the cost of government in the form of debt-servicing, or add more to productivity and generate a good or reasonable rate of return.

The overall composition of public expenditure should be shifted to more productive uses to boost growth. Mostly, these capital projects are loan-financed (often external) and bring into sharp relief debt sustainability issues. Governments ought to be mindful of “big bang” projects, i.e., large sporting facilities, built for specific one-time events and thereafter have little use; but the debt has to be serviced even when the capital project is not making any money. On the other hand, those projects, well-conceived and linked to the real economy, in the long-run will ensure debt sustainability since this public investment is used in a growth-maximising way.

## **DEBT STABILISATION**

The fiscal position of these small economies making up the ECCU has deteriorated over the last decade and right up to present time. This situation was further aggravated with the onset of the financial crisis in the USA in the second half of 2007 onward. A number of these economies have high unemployment, high debt ratios, and are running persistent deficits, indicating unsustainable fiscal positions. Sustained deficits could have implications for the exchange rate and the value of the EC dollar. The situation could be potentially disastrous and it is urgently necessary to undertake pre-emptive debt-stabilisation measures.

One by one tax administration was introduced. VAT was implemented to improve the revenue situations and to improve macroeconomic management of these economies by broadening the tax

base. Principally, the idea behind improving revenue collection and controlling expenditure is to increase the primary surplus in the face of rising debt-to-GDP ratio. The primary balance, the difference between tax revenues and expenditures net of interest payments, has become a very critical variable. This primary balance, as a percentage of GDP, gives an indication of the sufficiency of funds to meet the country's debt-servicing obligations on current and future debts. A close examination of time series of the primary balance and growth rates of St Vincent and the Grenadines from 1990 to 2007 shows that primary balance averages about 2.3 per cent of GDP and appears to be quite volatile; this has implications for debt sustainability, as it has been lower and negative on a few occasions.

I now turn to the dynamics of the primary balance and its role, as a share of GDP that stabilises the debt-to-GDP ratio. This primary balance is arrived by the following equation:-

$$t - e = (r-g)b \quad (1)$$

where **t** stands for tax revenues as a ratio to GDP, **e** stands for primary expenditure, also as a ratio; **r** is the nominal interest rate on government debt; while **g** is the nominal growth rate ; **b** is the primary balance. The calculation of the debt-stabilising primary balance is sensitive to the specification of the three variables: r, g, b. For instance, a 4 per cent primary balance, a nominal interest rate of 6.5 per cent and a nominal growth rate of 2.5 per cent will yield a maximum sustainable debt-to-GDP of 100 per cent. Another example: this time with a lowered primary balance; a typical primary balance of 2 per cent, and r and g remaining unchanged. The maximum sustainable debt-to-GDP ratio will be 50 per cent. Debt sustainability has surely worsened. Therefore, with rising debt ratios, governments need to raise their primary surpluses to stabilise the debt ratio and make public debt sustainable. But the critical question is: Do these governments have the scope to raise the primary surpluses significantly? I doubt.

### **FISCAL SUSTAINABILITY & THE ROLE OF THE KEY VARIABLES**

As mentioned above, improved revenue collection and tightened expenditure control are crucial to improve primary surplus. To gauge the responsiveness of tax revenues to changes in GDP, I estimated the tax buoyancy of St Vincent and the Grenadines to be around 1.6. This indicates that tax revenues are quite responsive/sensitive to changes in GDP. Expenditure elasticity is somewhat higher over the same time period. Expenditure appears to be co-integrated with revenues and GDP. The regression results seem to reinforce the notion that growth in GDP

impels growth in revenues and expenditures. There seems to be also a two-way causation in the variables, albeit at differing speeds.

I suspect for fiscal sustainability the growth rate,  $g$ , is the most critical variable as it impels the others. If this is really the case, governments must set realistic growth targets and strive as far as humanly possible to attain these growth targets, or as close to them as possible. The problem with growth rates in these small economies is that growth rates are a random walk, or trendless for the good of these economies since current expenditure, sustained from GDP, trends upward forever. How can this be sustainable? It is like having a drunk man carrying a family. It may be worthwhile to pick a realistic growth rate and then harness the resources to make it happen. Instead, our growth rates are pure luck and chance. No consistency at all. This needs to change. The growth rate is supposed to be a critical policy variable and a means to an end.

The other variable of note is the nominal interest rate on public debt. The composition and maturity of debt matter. Currently, domestic and external debt is almost 50-50. However, the domestic debt has much shorter maturities and higher interest rates. The external debt has much lower interest rates and longer maturities and must be paid back in foreign currencies, mostly USD. The average interest rate, by my estimation, is 6.65 per cent.

Critical to debt sustainability is the interest rate- growth differential. The smaller this differential, the higher would be the maximum sustainable debt ratio. If only we could get growth rate as close to nominal interest rate, and have large sustainable debt ratios.

The now-familiar primary balance is a very useful policy variable and, as far as possible, should be a target rather than an end result. It should be a means to an end. However, it is very important that projections of future levels of interest and primary balances be very realistic in order not to bloat fiscal sustainability exercises.

## **ECONOMIC DIVERSIFICATION...THE WAY FORWARD**

With the collapse of our major export earners, the sugar and banana industries, the focus has been shifted to service industries, chiefly tourism. However, the service sector is not a panacea, as it is also subject to the vagaries of external shocks. The structure of the labour force is

instructive of where our production really takes place. Employment is concentrated mostly in the primary and tertiary sectors and so little in the vital secondary sector. Normally, the secondary sector is a vitally important foreign exchange earner and employer in many economies; but it seems we have skipped the secondary sector and moved straight from primary to tertiary. As a consequence, a consumption gap has emerged in our economy due to the unavailability of our own domestic production; and we seem content to allow foreign production to fill the gap even though some domestic and regional production can be undertaken to reduce the magnitude of consumption imports.

With a single market and economy, the problem of economies of scale should work to make some domestic consumption industries viable. But the question is: How should these new forms of investment be financed? The political and economic directorate in these small economies should embark on a programme of educating the masses about alternative sources of financing, i.e., shares and bonds, and the importance of developing and strengthening our own Stock Market as a means of generating much needed finances to drive our own secondary production, to wean us off our dependence on agricultural produce exports and our new gamble with a tourism-oriented growth trajectory for development. Traditionally, we have looked to foreign direct investment to do the job for us, and we have been overlooking the potential of our own domestic investment once it is given the requisite support mechanisms. We have also been witnessing the demise of our family-type enterprises as their organic growth can only carry them so far and no more. They, of course, are creatures of the finances the owners can bring to them, and have been mostly involved in rather safe forms of merchant capitalism. The critical venture capital requires a different corporate structure in which ownership is anonymous and changeable over the counter. Our capital market development is a matter of urgency.

Another area of concern is the ever-growing expenditures on imports. Our imports have to be paid for from our reserves of foreign exchange, which are derivable from exports. With massive deficits on current account how can these imports be sustained? These persistent current account deficits have implications for balance of payments and exchange rate. An examination of the commodity composition of trade can show that there are a number of consumption goods that can be dispensed with, without a loss of utility to many of us. I want to suggest that some

controls be placed on some types of consumption imports, and help reduce foreign exchange flight abroad. Imagine what savings will result if some controls were in place during the Christmas season.

### **Comment 3**

A shift from the situation, where most of the jobs in the economy are created by government to one where most of the jobs are created by the private sector, is necessary if regional governments are to reign in expenditures and expand their revenue base. Essentially our economies must be private sector led. In this model governments must play a more facilitative role in private sector development, creating the enabling environment by providing the institutional private sector development support and the necessary policy and legislative framework.

Work must be done in setting up the institutional support for entrepreneurial development. All of our entrepreneurial resources must be leveraged for national development. I will suggest investment in the establishment of Business Incubators, a tool recognised by the World Bank as one of the most successful in the development of entrepreneurs worldwide. Business Incubators significantly reduce the risk of business failure.

Private sector expansion and development will lead to the following benefits:

- Job creation
- Increased government revenue
- Increased foreign exchange
- Economic diversification
- More sustainable national economic structure
- Overall reduction in government current expenditure as a percentage of GDP