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THE PUBLIC BUDGETARY PROCESS IN THE CARIBBEAN

The public budgetary process in the Caribbean has come under increased scrutiny in the last decade because of weakening government finances and concerns about the sustainability of public debt in the region. The evolution of and the effectiveness of the budgetary process in the Caribbean over time has obviously contributed to the current financial position of these countries. In this context, the extent to which government fiscal policy implementation over time was consistent with financial targets in the budget documents, whether the structure of these budgets was conducive to efficiency and growth and whether the policy stance adopted was pro or counter-cyclical were important factors determining the current financial position of sovereigns in the region.

A broad assessment of the macroeconomic performance of the countries in the region in the last decade suggests that growth has been muted and fiscal positions relatively weak in most, especially immediately after the onset of the global economic and financial crisis in 2007/2008. The commodity producers in the region have fared better but this often masks underlying vulnerabilities such as an extremely high structural dependence of government revenues¹ on volatile commodity prices, as well as underdeveloped systems for managing public finance and, very importantly, the absence of sufficient focus on getting “value for money” in public expenditure programmes. In this environment, the effectiveness of countries’ public finance management systems is critical, and improving the effectiveness of the budgetary process in particular is central to addressing the generally weak fiscal position of most sovereigns in the region.

The experience of the Caribbean with the budgetary process over the last ten years indicates that there is much room for improvement. In particular, revenue forecasts tend to be very inaccurate, governments almost never stick to their expenditure targets and public sector investment programmes are notorious for their lack of implementation. In this context, medium-term fiscal consolidation programmes generally do not meet their targets, both reflecting and amplifying the region’s fiscal sustainability challenge. Very importantly, governments in the region are only now starting to focus on “value for money” and asking questions

about the kind of output or services they are getting in return for public expenditures. This is an important development in the public sector governance culture in the region and can be the catalyst for more of the fundamental change that is required to address weaknesses in the budgetary process in particular, and the fiscal challenges in general, faced by the region.

In terms of specific policy imperatives, amongst the most pressing issues on the revenue side is the need to improve revenue buoyancy of the tax systems and administrative efficiency. Some specific measures that may aid in this process include reducing outstanding arrears on VAT and personal income tax, simplifying the tax system, training to address human resource constraints and sustained efforts to improve tax administration including institutional change such as centralising the tax collection effort in one agency. On the expenditure side, the issues of the efficiency of public expenditure and the need for performance-based expenditure programmes which require improved monitoring and evaluation systems, were consistent themes amongst policy-makers in the region. Some policy recommendations that can help improve the public budgetary process in the Caribbean include:

1. **The introduction of permanent income budgeting** – Current budget outlays should not be linked to current revenues. Rather the budget makers should determine a long-term stream of government revenues and then allocate the corresponding expenditure stream over a number of years;
2. **The rationalizing/privatizing of state enterprises** – Inefficient state enterprises continue to be a significant strain on the financial resources of Caribbean economies and one of the main reasons that fiscal targets are not met on the expenditure side. These state enterprises need to be privatized and/or rationalized and equipped to become more self-sufficient;
3. **Improved budgeting frameworks** – Developing the capacity for more accurate revenue forecasts (especially in commodity-based economies) and realistic expenditure estimates are key to improving the effectiveness of the budgetary process. Linked to the quality of the information used in budgeting is the quality of the manage-

¹The non-oil fiscal balance in Trinidad and Tobago has on average been in deficit of approximately 14.0 % of GDP for the last decade while the overall fiscal position of the country on average recorded a surplus of 2.4% of GDP over this period.

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ment available to execute the projects and programmes detailed in the budget and this often requires training or technical assistance from the international financial institutions, especially in the areas of financial management, procurement and project management.

4. **The change in the public sector governance culture in the Caribbean** – A change in the public governance culture to make “value for money” a central focus of public expenditure programmes and state enterprises. Improved transparency and accountability will of course be required to incentivise this change in governance culture.

The policy imperative of a change in the public sector governance culture in the region is probably the most important factor that will lead to the improvement of the public budgetary process in the region but is probably the most difficult to implement. The nascent improvements in this area in the Caribbean are encouraging and likely to be the critical factor allowing the region to successfully confront its myriad fiscal challenges.

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REGIONAL NEWS

CARIBBEAN

- Trinidad and Tobago's inflation rate for February 2014 was 3.9%, one per cent up from January's 2.9% recording, Central Statistical Office data show (TE 29 Mar)
- The private sector must play a pivotal role if T&T is to truly become competitive, said Minister of Trade, Industry and Investment Vasant Bharath (TG 1 Apr)
- The Central Bank of T&T has announced major changes to the way US dollars are released into the banking system. 90% of the injections of US dollars from the Central Bank will now be auctioned amongst 12 licensed foreign exchange dealers (TG 2 Apr)
- In its March 28 Monetary Policy Announcement, the Central Bank of T&T said it will be issuing Treasury Bills and Treasury Notes to mop up excess liquidity estimated to have already reached \$7.1 billion in March, up from \$6.7 billion in February. (TG 2 Apr)
- The management of gold multinational Newmont paid a visit to a number of villages in the Paramacca and Merian areas. The company is preparing a final decision on its proposed million dollar investment in Suriname. (die Ware Tijd 2 Apr)
- The pressure is mounting on the Barbados Government to reverse the tax it imposed on local credit unions as protest letters flow in from credit unions in Jamaica and Trinidad and Tobago (BN 2 Apr)
- The point man for Jamaica's efforts to establish an international financial services centre in Jamaica has rejected a suggestion that the country should target back-room operations. (JG 2 Apr)
- The minimum business tax initially announced two years ago will be implemented this fiscal year. The measure has been included in the revenue of estimates for the 2014/15 Budget under a new revenue line, according to Jamaica's updated IMF Letter of Intent. (JG 2 Apr)
- The prime minister of The Bahamas, Perry Christie, has again come to the defence of international financial centres in the Caribbean, stating that the regimes are far more robust than the ones that exist in countries that continue to fight offshore financial services in the region. (CNnow 2 Apr)
- Legislation implementing sweeping changes to the laws governing the gaming industry as well as several other key Budget measures was passed in the T&T House of Representatives recently. (Newsd 6 Apr)
- Sagicor Financial Corporation's profit-making ways are continuing. The company, which has its headquarters in Barbados, earned US\$79.6 million in net income for the financial year ended December 31, 2013. (BN 7 Apr)
- The Jamaica Public Service says more than 200 people have been given jobs at its Hunts Bay Power Plant, also known as the B6 Generating Unit, which is being overhauled. Labourers, technicians, mechanics, project managers, and engineers are among those employed. (JO 7 Apr)
- The Dutch brewer Heineken announced that it is investing US\$100 million in its Haiti production plant that makes the popular lager Prestige. The relatively large investment is significant because many international

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companies have been reluctant to spend money in Haiti because of the business climate there. (JO 7 Apr)

- Having been saddled with the additional responsibility of ensuring the Government sticks to the fiscal rules to which it has agreed with the IMF, the Auditor General's Department (Jamaica) is set to receive a 48.5% increase in its allocation to enable it to carry out its functions. (JG 8 Apr)
- The World Bank says a successful multi-donor trust fund has launched a new phase with commitments from donors for close to US\$20 million to help the Caribbean and other poor countries manage debt. (Carib360 8 Apr)
- It was labelled a "John Doe" summons, and when it was served on FCIB in Barbados, bankers across North America, Europe and the Caribbean took note, because it sent a strong message to foreign financial institutions that the US Justice Department, the Internal Revenue Service and the federal courts were determined to implement the controversial and costly provisions of the Foreign Account Tax Compliance Act (BN 9 Apr)
- The Trade Unions Board has asked Suriname's president Desi Bouterse to make some adjustments in the income tax law, citing increasing tax pressure on the labour force. (die Ware Tijd 9 Apr)
- Potential micro, small and medium sized enterprises in Jamaica would rather save than borrow their start-up capital, according to findings of a study done by a member of the IDB Group. (JO 9 Apr)
- In St Lucia providers within the tourism sector will, from this month, pay a 10% Value Added Tax on some services initially exempted from the fiscal measure. (Carib360 10 Apr)
- The US has called for The Bahamas to immediately drop all of its duties on US products coming into this country on "day one" of The Bahamas' accession to the World Trade Organization - a request which the government has rejected on the basis that it could wipe out the domestic economy, according to the minister of financial services. (CNnow 11 Apr)
- In its most recent report on St Kitts-Nevis, the IMF said inflation has declined following the introduction of the VAT at the end of 2010 and the hike in electricity tariffs in early 2011, and that it remains low and stable. (WinNN 11 Apr)
- Jamaica and other countries in the region that rely heavily on remittances should encourage households to use some of the money transfers for asset building, particularly through investments in health, education and housing, a new World Bank study urges. Remittance is among Jamaica's largest foreign-exchange earners, accounting for US\$2 billion annually. (JG 11 Apr)
- The IDB said while remittances remain one of the largest cross-border flows to Latin American and the Caribbean, totalling more than US\$60 billion annually, the resources "still contribute little to formal household savings for poor and vulnerable households, highlighting the importance of banking remittance clients". (JO 11 Apr)
- The minimum wage has more political appeal than functionality, University of the West Indies senior economist Dr Roger Hosein has said. Speaking at the Employers' Consultative Association's panel discussion on "Setting a Real Minimum Wage", Hosein said he believed the State is too involved in the economy. (TE 11 Apr)
- T&T Finance Minister Larry Howai has challenged the G24 countries to take a leadership role in formulating an appropriate mechanism to facilitate an orderly and predictable restructuring of sovereign debt for its member states, many of which are classed as developing nations. (TE 12 Apr)
- T&T's Credit Union Bill, which is on course to be passed into legislation within the year, will limit the non-financial activities of credit unions. The non-core activities of credit unions include travel agency services, resorts, gym facilities, day-care services, retail outlets and real estate development. Under the legislation, credit unions would be allowed to provide these non-financial services once they represent no more than 5.0% of total assets or 10% of revenues. (TG 13 Apr)
- In Suriname, the teacher's federation has been negotiating a better salary with the government for the past two weeks. The union had received permission from the president, who formed a working group to sort out their differences. (die Ware Tijd 14 Apr)
- Co-chairman of Jamaica's Economic Programme Oversight Committee, Richard Byles, said that the government and the private sector will have to cooperate more closely to achieve "meaningful growth" this fiscal year. (JO 15 Apr)
- The Caribbean Export Development Agency launched its market intelligence training workshop road show across CARIFORUM, working in partnership with national business support organisations to build capacity for export within the region's private sector. (CNnow 15 Apr)
- The IMF does not see the St Kitts-Nevis government-supported employment training programme, People's Empowerment Program as a temporary employment

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- measure, but rather as a long term investment to strengthen the labour force. (WINN 15 Apr)
- The World Bank has voiced concern about what it described as the exorbitant cost of sending remittances to the Caribbean and other places, saying that forcing migrant workers to pay as much as US\$50 to send US\$200 is "wrong." (Carib360 16 Apr)
 - Jamaica's finance minister is to be stripped of the responsibility of appointing the governor of the Bank of Jamaica and will also lose the power of having direct responsibility for the monitoring of banks and other regulated financial institutions on the island. (JG 16 Apr)
 - Jamaica's Elephant Group, which moved into a larger operating space at the end of March, says it has grown its workforce from 80 to 400 employees. The business process outsourcing firm says it has landed new contracts in its first year of operation. (JG 16 Apr)
 - Guyana's Finance Minister, Dr. Ashni Singh, in his 2014 Budget presentation, cited potential improvements in the business sector using implemented mechanisms which would have started in 2013. According to him, 2014 is expected to be a year of progress. (GCO 16 Apr)
 - Medium-sized coffee and cocoa farmer Averell French recently set up a chocolate manufacturing unit in Jamaica aimed at filling a void left by the stalled Highgate brand. The brand, Mount Pleasant Chocolatiers started selling chocolate and beauty cocoa products six months ago. (JO 16 Apr)
 - The regional credit rating agency, CariCris, has placed Bourse Securities on rating watch pending the outcome of an official investigation. (TG 16 Apr)
 - Guyana's National Assembly approved a G\$182.5 billion budget for this year after disapproving over \$37 billion of it. (GuyTim 17 Apr)
 - Barbadians must show greater levels of innovation and creativity, working to create new jobs, rather than studying and training for the same pool of jobs, the Minister of Labour, Social Security and Human Resource Development said. (BAdv 17 Apr)
 - Regardless of what the World Trade Organisation thinks, Barbados should put curbs on imports to protect its agricultural sector, agricultural expert Dr Frances Chandler said. (BN 17 Apr)
 - The OECS Export Development Unit says it is working with regional entrepreneurs to further promote trade with the French Caribbean following a successful fact finding business mission to the French islands of Martinique and Guadeloupe. (Carib360 17 Apr)
 - Stressing on the value of the tourism dollar, Tourism Minister Gerard Hadeed says Government is working towards increasing the level of visitor arrivals to T&T. Hadeed made the comment during the official opening of the Clifton Hill Beach Resort recently. (TG 17 Apr)
 - Evolving TecKnologies and Enterprise Development Company Limited president Kelvin Mahabir says that the company is a key player in the T&T Government's diversification agenda. (Newsd 19 Apr)
 - The times when casinos in Suriname were crowded seem to be over. Several government measures and cut-throat competition are predicting that the end might be near. Jules Ramlakhan of the Association of Gambling Establishments sees mass lay-offs in the sector. (die Ware Tijd 19 Apr)
 - Standard & Poor's Ratings Services says its decision to raise its rating outlook on Phoenix Park Gas Processors Ltd to stable from negative was based on the financial strength of the company and its low cost of production. (TG 20 Apr)
 - A tax rate of five to 10 cents for every \$100 withdrawn from an ABM, swiped at a cash register or written on cheques may not seem so daunting, to some. But taken together, ABM, point-of-sale and cheque transactions, totalled over \$2 trillion for the 12 months to the end of February this year. (JO 20 Apr)
 - The first shipment of about 6,000 tonnes of paddy due for Venezuela, were dispatched from the Muneshwers' Wharf in Georgetown. (GCO 22 Apr)
 - Moody's Investors Service has reaffirmed Trinidad and Tobago's Baa1 sovereign credit rating based on relatively high income levels, driven by the country's large and diversified energy sector, according to Finance Minister Larry Howai (TE 22 Apr)
 - A senior private sector official has warned Barbadians to observe the link between a reduction in work opportunities and the increase in criminal activities on the island. (Carib360 23 Apr)
 - Minister of finance and planning, Dr Peter Phillips, says Jamaica will continue to use a market determined exchange rate. (CNnow 23 Apr)
 - The Bahamas will now be treated as having "an agreement in effect" under the Foreign Account Tax Compliance Act by the US Treasury Department. (CNnow 23 Apr)
 - Prospective exporters trying to take advantage of European Union markets through the Economic Partnership Agreement with the Caribbean are facing prolonged bureaucratic stumbling blocks, officials of the Caribbean Association of Industry and Commerce said. (DemWav 23 Apr)
 - In Jamaica, business and investor confidence are slowly returning and there has been an increase in the net inter-

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- national reserves. There have been at least two reported quarters of small economic growth. (JG 23 Apr)
- In the past few months prices have soared to such an extent that life in Suriname has become too expensive. Several experts and organizations have concluded that life has become almost unbearable since prices of goods and services keep rising. (die Ware Tijd 24 Apr)
 - The CAPA Centre for Aviation has advised Caribbean Airlines to drop its London route and code share with British Airways "to improve its fortunes." (TG 24 Apr)
 - Haiti attracted 20% more tourists last year, following targeted efforts by the Haitian government to have tourism central to its development and job creation strategy as the Caribbean country's leadership struggles to lift millions out of poverty. (CNnow 24 Apr)
 - The Jamaica Banker's Association says Government's proposal to impose a tax on withdrawals from deposit-taking institutions and encashments from securities dealers may discourage some individuals and businesses from utilising the formal banking system. (JO 24 Apr)
 - A Common Caribbean Currency is no longer practical for this region, according to Dr. Delisle Worrell, Governor of the Central Bank of Barbados. (BAAdv 24 Apr)
 - It would cost millions of dollars and take three years to launch, but Codrington College, Barbados wants to bottle fresh water from its natural springs to help satisfy consumer needs. If the project becomes a reality and is a financial success, the returns would boost resources of the Caribbean's leading theological institution at a time when they are being seriously undermined (BN 24 Apr)
 - Jamaica Promotions Corporation is targeting opportunities for local fresh produce farmers in the United Kingdom market following a recent successful mission of the UK's largest fresh produce importers. (CNnow 25 Apr)
 - Research on tar sand mining shows it is a serious threat to the environment but T&T Trade and Industry Minister Vasant Bharath wants citizens to appreciate the economic activity to be derived from the industry. (TG 25 Apr)
 - Suriname's Revenue Service has stepped up measures to collect taxes especially since the revenues in the mining industry plummeted sharply in 2013. (die Ware Tijd 25 Apr)
 - The T&T Government and Petrotrin have scored a "historic" and "amazing legal victory" over energy company World GTL which had brought a \$1.8 billion claim against the State-owned oil company. (TE 26 Apr)
 - One of the country's most prominent businessmen has called on the Government to promote the orderly importation of labour in order to address the manpower shortages that are being experienced locally (TG 27 Apr)
 - In Kingston last week, the Jamaica dollar was teetering close to 110 for one US dollar. That's a downward shift of more than 15% since the start of last year. Over the same time span, the TT\$ edged down by less than 0.5%. (TG 27 Apr)
 - The new taxes on financial transactions and bank assets in Jamaica will definitely be passed on to consumers. However, it is not yet clear how much deposit taking institutions will be able to recover or if the costs associated with collecting the taxes that will be paid over to the Government will translate into fees in excess of the taxes themselves. (JO 28 Apr)
 - According to the Sugar Association of the Caribbean, Jamaica led the way in regional sugar production in March with 37,990 tonnes, followed closely by Guyana with 37,794 tonnes. (Carib360 28 Apr)
 - Helped by \$200 000 invested by its partners, a Barbadian electronic commerce platform established so local artists can exhibit and sell their creations, is preparing for expansion. Director of IartCaribbean, Antony Barker, announced the development while saying that "companies who do not embrace e-commerce as one of their development strategies may find themselves in a competitive disadvantage when the Barbados economy pulls out of the recession". (BN 28 Apr)
 - International communications company Columbus has accelerated its Barbados investments, is likely to be pumping millions of dollars more into the Barbados economy, and is on the verge of hiring more workers. (BN 28 Apr)
 - The Caribbean Financial Action Task Force has warned of harsh consequences should Guyana fail to pass anti-money laundering legislation before a May 29 conference. (Carib360 29 Apr)
 - The Trinidad and Tobago Manufacturers' Association is dissatisfied with the continued struggle faced by member companies in accessing foreign exchange for business operations (TE 29 Apr)
 - The IMF says Haiti's dependence on remittances and its increasing vulnerability to developments in Venezuela could affect the country's economic growth in 2014. (JO 30 Apr)
 - The world knows that a highly-acclaimed producer of implantable lenses is based in Barbados. But what might still be unknown to some, is the extent to which Lenstec (Barbados) Inc., has penetrated the international market for these medical devices. An even bigger mystery probably is the fact that despite generating \$40 million in annual sales, this local manufacturer "still can't get bank investment". (BN 30 Apr)

SOME DIGITAL PUBLICATIONS OF INTEREST

UNDERSTANDING REGULATIONS FOR SMALL AND MEDIUM-SIZED ENTERPRISES. DOING BUSINESS 2014 - CASE STUDIES

The Doing Business project measures the number of procedures, time and cost for a small and medium-size limited liability company to start up and formally operate. This "DB 2014" report addresses issues such as minimum capital requirements, and the role of risk-based inspections in construction, and their relevance, functions, challenges and implementation. Case studies from Trinidad and Tobago, Malaysia, Singapore, Colombia and Azerbaijan, and Korea are discussed in detail, elaborating on the issues faced, the solutions or outcomes, and benefits.

Available at:

<https://openknowledge.worldbank.org/bitstream/handle/10986/16736/ACS66620WP0P140Box0379882B00PUBLIC0.pdf>

INFORMATION ECONOMY REPORT, 2013

Innovation in the realm of information technology continues its rapid pace, with cloud computing representing one of the latest advances. Significant improvements in the capacity to process, transmit and store data are making cloud computing increasingly important in the delivery of public and private services. This has considerable potential for economic and social development, in particular our efforts to achieve the Millennium Development Goals and define a bold agenda for a prosperous, sustainable and equitable future. The 'Information Economy Report 2013' marks the first time the United Nations is examining the economic potential of cloud computing for low- and middle-income countries, where rates of adoption are currently low. With governments, businesses and other organizations in the developing world con-

sidering whether to migrate some or all of their data and activities to the cloud, this publication is especially timely.

Available at:

http://unctad.org/en/PublicationsLibrary/ier2013_en.pdf

SOCIAL DIMENSIONS FOR FREE TRADE AGREEMENTS

In recent years, social issues have increasingly been integrated into bilateral and regional trade agreements. This new development is somewhat surprising and largely unexpected, given the controversial nature of the debate regarding the renowned 'social clause' in the 90s. However, opinions differ as to the effectiveness of labour provisions in trade agreements. Considered as a panacea for improving labour standards and working conditions by some, others criticise them as window dressing or even disguised protectionism. The debate is made even more complex when taking into account the different types of labour provisions that may be contained in free trade agreements. This study presents a detailed analysis of how labour provisions are included in trade agreements. It examines the effects these provisions may produce in terms of labour laws or the conditions under which companies operate when engaged in international trade. This research also helps to better identify the question of coherence at the multilateral level, and how this affects the world of work that has been confronted with an increasing proliferation of bilateral and regional agreements in the past years.

Available at:

www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_228965.pdf

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