



ACTIVITY REPORT

May - October 2010

FINANCIAL SECTOR SUPERVISION ACTIVITY REPORT

May – October 2010

Summary of Financial Sector Activities and Results for the Six Months May 1, 2010 to October 31, 2010

Financial sector activities for the past six months were focused on banking supervision, insurance supervision, the development of supervisory capacity in the ECCU Single Regulatory Units, credit union supervision, regional financial stability and the Caribbean financial literacy/education project.

I. Regional Financial Stability

Completed and Issued a Framework for Caribbean Regional Financial Stability (Regional) – The Caribbean Centre for Money and Finance (CCMF), the Central Bank of Barbados and CARTAC developed a written Framework for Regional Financial Stability. The process started with a regional workshop in March, 2010 on issues and methodologies that are needed to address regional financial stability. On the last day of the workshop, which included the senior supervisors from the regulatory agencies in the Caribbean, the group set forth the major ideas that should be included in the framework. Subsequently, a draft Framework was shared among the regulatory agencies for comment based on suggestions from the workshop. After considering and addressing the comments, the final Framework was issued on September 8, 2010 after previously being discussed at the Central Bank Governors' Meeting in The Bahamas. The major points of the framework for implementation are (a) encouraging each country to focus on national financial stability through convening National Financial Stability Councils (already existing in some countries) based on the fact that the regional financial stability begins at home (at the national level), (b) regional financial stability will be the responsibility of a Committee of Regional Central Bank Governors, (c) the CCMF will collect non-confidential financial stability data from each country and analyze the data for financial stability risks on a regional basis, and (d) CCMF will write an annual Regional Financial Report. Upon issuing the final Framework, CARTAC set forth the following benchmarks: (a) CCMF to identify the specific data needs and determine whether the needs include confidential information; based on the data needs, have the countries to agree that the data requested is not confidential and can be provided by March, 2011, (b) complete a Caribbean Regional Financial Stability Report by December, 2011 to be prepared by the CCMF based on known information and allow identification in the report of where information gaps exists; the first report will be far from perfect but it will point us in the right direction. Many of the Financial Stability issues are already known, they just need to be put on paper and quantified if possible, and (c) have the CGBS, CAIR, CAPS, and the CGSR determine the top 5 issues with respect to the entities that they supervise that have the potential to disrupt financial stability or that will inhibit identification of financial stability issues by June, 2011. **The results are:** (a) the issuance of the Framework was the first result intended and achieved. Going forward, the intended result is for the Framework to serve as an early warning system to identify regional systemic financial issues in order to take proactive measures by the Central Bank Governors to counteract these systemic issues.

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II. Banking Supervision

Enhanced a Stress-testing Model (Trinidad and Tobago) – Following similar projects in Guyana and The Bahamas and soon to be conducted for Belize, the CARTAC stress-testing modelling expert worked with the Central Bank of Trinidad and Tobago (CBTT) to enhance their existing stress-testing model. The expert also worked with the banks supervised by the CBTT to assist in communicating the expectation of the Central Bank with respect to stress-testing by bank management. There are two levels of bank stress-testing, one based on the Central Bank model and one based on the model used by bank managers. The Central Bank and the CARTAC expert worked to ensure that the bank management models considered the factors deemed relevant by the Central Bank. **The results will be:** The stress-testing results will be included in the updated Financial Stability Report to be issued at year-end 2010 and used to identify and quantify risk factors in the banking sector.

III. Insurance Supervision

Restructuring of British American Insurance Company (BAICO) (ECCU/ECCB) – A CARTAC expert worked with the ECCU/ECCB to assess the various options for resolution of the failed BAICO. Projects of various liquidation alternatives were made and the consequences of each option analyzed. In addition, the expert began the process of establishing a separate fund for medical claims so that the medical insurance claims can be honoured (directing resources to the greatest need). **The results are too early to determine;** however, it was hoped that a resolution for all claims on BAICO would have been announced by now.

Actuarial Valuations for General (Non-life) Insurance Companies (Jamaica) - At the Jamaica Financial Services Commission, technical assistance in the area of actuarial valuations for general insurance (non-life) companies was completed. The project began in April, 2010 and consists of training in the review of analysis of actuarial valuation reports for eleven general insurance companies in Jamaica and the development of policies and procedures for such. No results have been obtained to date as the project has just finished. **The results are** that staff is now equipped to analyze the non-life reserves for future policy claims (a liability) and can require changes to the liabilities if the actuarial valuations are deemed faulty. By doing so, the examiners are now better able to assess capital adequacy if liabilities are valued accurately.

Instituting Risk-based Capital for Insurance Companies (Trinidad and Tobago) - At the Central Bank of Trinidad and Tobago, the project continues on insurance supervision to (1) develop insurance liability valuation methodologies and a capital adequacy framework, (2) development of a actuarial infrastructure, and (3) develop training skills to review actuarial reports of insurance companies. **The results are** (1) the Regulation for Capital Adequacy and Long-term Actuarial Valuation Basis and Report is finalized, (2) reporting requirements are finalized and are awaiting implementation once the Insurance Act is passed, (3) all 2009 actuarial valuation reports have been reviewed and signed off, and (4) feedback has been given to the industry on weaknesses in some of the actuarial valuation reports. Stress-testing of insurance companies is the next step. The project continues until year-end at which time a

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recently hired Actuary at the Central Bank of Trinidad of Tobago will take over implementation of risk-based capital. **The intended results of the project have been achieved.**

Standardization of Actuarial Standards in the Caribbean (Regional) – Work has begun between the supervisors and the Caribbean Association of Actuaries to create actuarial standards for the Caribbean which will ultimately require that all actuaries in the Caribbean use the standards. **The intended result is** to create standards that meet the nuances of the Caribbean markets and to set forth the methodology that will allow comparison among insurance companies.

Draft Insurance Act (Haiti) – An insurance expert has completed the drafting instructions for the Insurance Act for Haiti and will be visiting Haiti in late October to discuss the instructions with the authorities. The authorities will then draft the Insurance Act. **The intended result is** the passage of the first Insurance Act for Haiti which will bring the requirements for the operation and supervision of insurance companies up to international standards.

3-day Training Workshop on Insurance Supervision, the Caribbean Association of Insurance Regulators Conference, and a Regulators' Meeting (Regional) – The Caribbean Association of Insurance Supervisors and CARTAC conducted a 3-day workshop on (1) Assessing Risk, (2) Understanding and Assessing Actuarial Valuation Reports in conjunction with Financial Statements for Life Insurance Companies, and (3) Market Analysis and Macro prudential Supervision. The workshop was followed by a 1-day insurance conference that addressed (1) actuarial liabilities for non-life insurance companies, (2) the Caribbean Policy Premium Method, (3) developing standardized actuarial standards for the Caribbean, (4) the global financial crisis and the impact on insurance companies, (5) consolidated supervision, (6) anti-money laundering as it applies to insurance companies. A regulators' meeting was also held to set forth the work agenda for the next 12-months to address the needs of the insurance supervisors. **The results to date are** that many of the countries are looking at ways to improve their actuarial expertise.

Training on Insurance Supervision (St. Vincent and The Grenadines) – An expert worked with the authorities on (1) reviewing financial statements to determine higher risks insurance companies, (2) training on-site at the insurance companies on how to conduct an on-site examination, and (3) introducing new insurance report forms that will be due quarterly to the insurance supervisor. The results to date are (1) the insurance supervisor is now using financial information to focus on those insurance companies with the highest risks, (2) on-site examination are now being conducted, including examinations being conducted after the expert completed his training, and (3) quarterly reporting forms have been issued which will aid in assessing the financial condition of insurance companies.

Advising on a Problem Insurance Company (Barbados) – An expert advised the authorities on various resolution strategies for a problem insurance company. **The result will be** that the authorities will announce a resolution strategy to maximize recouping of funds to policy holders while minimizing moral hazard.

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IV. Development of Single Regulatory Units (SRUs) in the ECCU (8 Countries)

Presentation to the First Joint Cariforum-EU Conference on Financial Services (Regional) – The CARTAC FSS Advisor gave a presentation at the Cariforum-EU Conference on the tangible and measurable progress that the single regulatory units in the eight ECCU countries have made in improving the supervision of non-banks. **The results were** that the region has specific examples given of how regional cooperation and harmonization as move forward non-bank supervision in an efficient and productive manner.

Information Sharing between the SRUs and the ECCB – CARTAC worked with the SRUs to move forward an information sharing agreement. **No results have been obtained to date but progress continues.**

V. Credit Union Supervision

Completed the WOOCU and CARTAC Credit Union Supervision Workshop (Regional) – CARTAC intends to focus on achieving results in enhancing the supervision of credit unions in the same manner that it has achieved results in insurance supervision. To kick-off this initiative, CARTAC joined with The World Council of Credit Unions (WOOCU) to bring credit union supervisors together to engage in discussions on issues impeding effective credit union supervision as well as discuss the international standards expected of credit union supervisors. The participants were highly engaged and challenges to supervisor were discussed as well as demonstrated strategies to overcome the challenges. The workshop was held on October 5 – 7, 2010, and **it is too early to determine the results.**

VI. Caribbean Financial Literacy www.financialliteracycaribbean.com

Financial Literacy Stakeholders' Forum (Jamaica) – CARTAC provided financial literacy speakers for the Stakeholders Forum workshop held in August, 2010. **The results of the forum are** that the Financial Services of Jamaica categorized from the forum the main areas of financial education needed for the public; the FSC Jamaica will use the information obtained at the stakeholders' forum to launch a financial literacy program.

CARTAC Financial Literacy Program (Regional) – The FSS Advisor continues to promote financial literacy and education in the region by giving presentations on the topic, including the Caribbean Group of Banking Supervisors and at a Consumers International workshop in Barbados. In addition, the CARTAC Financial Literacy web site continues to receive 1,000 hits per month and the Facebook page has increased membership from 250 at the last Steering Committee to 330 today. **The results are** that the focused on

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financial literacy has further enhanced existing programs in Trinidad and Tobago and in the ECCU and the initiation of a program in Jamaica and Barbados.

MACROECONOMIC ACTIVITY REPORT

May - October 2010

Summary of Macroeconomic Activities and Results for the Six Months May 1, 2010 – October 31, 2010

MACROECONOMICS

Over the last semester, activities in CARTAC's MAC programme focused on two core areas:

- i. Building capacity in the preparation of internally-consistent macroeconomic projections
- ii. Enhancing the analytical and professional skills of regional economists through the MAC Economics Internship Programme.

Capacity Building

CARTAC continued to work with small groups within the ministries of finance to guide economists in the preparation of internally-consistent medium-term macroeconomic projections. These exercises involved the preparation of sectoral current and constant-price GDP estimates, as well as fiscal projections under baseline and active scenarios to take into account new policy measures. The **expected output** of the exercise is an updated macro-fiscal framework that is used as an input in the budget process as it establishes expected revenue and hence expenditure ceilings. **Another expected outcome** is enhanced capacity of local economists to undertake this work.

During the review period, the following capacity building missions were conducted:

- i. **Anguilla:** Following a Strategic meeting between senior Ministry of Finance officials and the CARTAC PC and MAC Adviser to discuss the technical assistance needs in the area of macroeconomic programming and analysis, a programme was developed to train local economists and statisticians to prepare consistent medium-term projections. During the review period, a follow-up mission was conducted from May 31 – June 10, 2010 to work with local officials to incorporate recommendations from recent revenue and expenditure studies into the fiscal framework. The studies were funded by the UK Government. During the mission, the Authorities also received assistance in quantifying the impact of a number of measures that are under consideration. The Authorities confirmed that the output of the exercise was used to revise the Government's 2010 budget that was presented at the end of June 2010.
- ii. **Antigua and Barbuda:** Following discussions with senior officials from the Ministry of Finance, CARTAC gave a commitment to the Government to assist with the development and implementation of a framework to monitor the macroeconomic impact of the Government's Fiscal Consolidation Programme. During the review period, two missions were conducted. The output of each exercise is expected to assist the Authorities in negotiations with financial institutions.
- iii. **St. Kitts and Nevis:** A capacity building exercise was conducted in St Kitts and Nevis to train new officers in the preparation of fiscal and debt projections. This precursor to the annual exercise is expected to strengthen the skills of the local team to facilitate emphasis on the analysis of different fiscal scenarios during the annual mission. Following the April mission in St

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Kitts, a similar training exercise was conducted for economists in the Ministry of Finance, Nevis Island Administration (NIA) from May 25 – 28, 2010.

In addition, two follow-up annual missions were conducted; one from July 19 – 28, 2010 and the other from August 9 – 13, 2010. The exercise provided guidance to members of the Debt Unit in the Treasury Department to compile the public sector debt stock and train economists in the Fiscal Unit to prepare fiscal projections under baseline and active scenarios. An economist from the Eastern Caribbean Central Bank (ECCB) and two CARTAC interns hosted by the ECCB also benefited from the exercise. The mission worked with officials to prepare fiscal projections for St Kitts and Nevis separately based on discussions with senior Ministry of Finance officials in St Kitts and the NIA respectively. The team presented its findings to Mrs. Janet Harris, Financial Secretary and Mrs. Sylvia Manning-Walters, Deputy Financial Secretary. It is expected that the output of the mission will inform budget discussions.

- iv. **St. Lucia:** At the request of the Authorities, a training exercise in the preparation of fiscal projections was prepared and delivered to twenty (20) officers from various departments in the Ministry of Finance (Budget, Customs, Inland Revenue, Research and Policy and Treasury). Four economists from other ECCU member countries (Anguilla, Antigua and Barbuda, Dominica and St. Kitts and Nevis) also benefited from the training programme. This represented the second group to be trained in St. Lucia. The exercise conducted from September 27 – October 1, 2010 is expected to assist the Authorities in the preparation of the budget by providing training to all of the officers involved in the preparation of fiscal projections. The feedback from the group was overwhelmingly positive.
- v. **Trinidad & Tobago:** As a follow-up to the *Macroeconomic Statistics for Economists: An Introduction to Macroeconomic Statistical Systems* course in February 2010, a technical assistance programme aimed at developing capacity to prepare and update a financial programme for Trinidad and Tobago commenced. Officials from the Ministry of Finance, the Statistics Department and the Central Bank of Trinidad and Tobago participated. The mission was conducted from May 3 – 21, 2010.

Internship Programme and Professional Attachment

Activities aimed at enhancing the analytical skills and professional development of regional economists included organising the third year of the CARTAC internship programme.

Internship Programme: During the past semester, the third MAC internship programme was organised. The programme, which aims at enhancing the analytical skills of the graduates to better prepare them for the workplace, commenced in 2008. CARTAC, in collaboration with the University of the West Indies, identifies honour students for the internship programme.

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The MAC 2010 Economics Internship Programme commenced in June 2010 with ten students from the three UWI campuses. The interns were hosted by the Bank of Jamaica (1), Caribbean Centre for Money and Finance (2), Central Bank of Barbados (2), Central Bank of Trinidad and Tobago (2) and the Eastern Caribbean Central Bank (3). Based on the positive feedback from the host institutions and interns, the programme continues to be a success.

Other

Over the last semester, the MAC Adviser attended a number of meetings/consultations including:

- i. CARTAC Steering Committee meetings on May 14, 2010 and September 10, 2010 in Barbados.
- ii. Strategic meetings at the IMF headquarters with counterpart departments from June 3 - 4, 2010.

During the review period the current budgetary constraints necessitated a review and subsequent revision to the MAC work plan. The MAC plan and budget were submitted to the September 2010 Steering Committee (SC) meeting for discussion and approval. Following the SC meeting, the projects/assignments deferred in the revised work plan were submitted to DFID for funding. The projects were approved by DFID.

As CARTAC continues to work towards developing a results based management framework, the Adviser prepared a matrix identifying the expected outcomes, output and activities of the MAC programme in Phase IV.

MACRO-FISCAL MANAGEMENT ACTIVITY REPORT

May - October 2010

MACRO-FISCAL MANAGEMENT

OVERVIEW

During the six month period May-October 2010, CARTAC has continued to deliver workshops and other core TA to assist member states prepare model-based fiscal projections and target-based, policy-augmented medium term fiscal frames. There were three MTFP preparation missions: in Haiti, Montserrat, and Suriname. A pension reform workshop was delivered in BVI. CARTAC also participated at a regional DSA workshop put on by the ECCB's DMAS unit and delivered to ECCU member countries jointly by the IMF and WB. Follow-up TA to help individual countries complete their DSA is in the works. A considerable development effort was also deployed as directed at the October 2009 Steering Committee meeting in Belize City. A comprehensive 5-part technical assistance program was developed to help strengthen Debt Office functions, institutions and inter-country networking. Three in-country TA missions were carried out to strengthen debt management: an institutional review in Barbados, a debt renegotiation workshop in TCI and a back office support mission in Suriname. There were three missions – in Montserrat, St. Kitts and Nevis and in Suriname – to help strengthen the oversight and governance of statutory bodies, with each one encompassing both a technical assistance component and a quantitative workshop. A number of documents were prepared and circulated in support of strong macro-fiscal management, setting out the ways and means and proposing the institution of strong macro-fiscal units in ministries of Finance, and of inter-agency technical working groups to help with consensus building and in policy coordination among institutions involved in macro-fiscal management in member states. Comprehensive TA strategies have been proposed to support member states in their transition to strong strategic macro-fiscal management.

A. Assistance to Set Up and Strengthen a Macro-Fiscal Unit in Ministries of Finance

A number of member states (including Barbados, Belize, BVI, Grenada, Montserrat, Suriname¹, and Trinidad & Tobago) expressed varied degrees of interest in setting up a macro-fiscal policy and analysis unit (MFU) that would be mandated to advise the Government on appropriate fiscal targets and to develop recommended fiscal policies designed to achieve these targets. These units are typically responsible for the preparation of medium-term fiscal frameworks, and for all related model-development, forecasting, impact analysis and reporting tasks; and they play an important role in the preparation of pre-budget consultations and Budget

¹ Suriname is one of the few member states to have a full-fledged, well functioning macro-fiscal unit within the Ministry of Finance's "Economic Affairs Department" (EAD); the unit is mandated to prepare multi-year fiscal projections, to propose fiscal targets, and to devise fiscal policies intended to achieve these objectives. Another unit within EAD is responsible for the oversight of statutory bodies. St. Lucia also has a macro-fiscal unit (the Policy and Research Unit); Trinidad and Tobago among other jurisdictions is in the process of setting up an MFU.

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documents and in analytical budget execution reports. Comprehensive M-F capacity-strengthening programs - encompassing the core hands-on TA activities (revenue forecasting, MTFP preparation, DSA preparation, fiscal policy articulation and user-friendly communication of these plans or of outcomes) together with mentoring and attachments were proposed to these countries during this period. Firm plans were being fleshed out, and timelines established toward the end of the period. Execution of these plans started in Montserrat and Suriname; and it is envisaged in Barbados, Belize, Grenada, and Montserrat in the next six months.

1. Preparation of Revenue Projections, a Medium-Term Fiscal frame and a Debt Sustainability Assessment

CARTAC delivers workshops or less formal TA, including mentoring, to help inter-agency teams - led by the MoF - in the preparation of:

- base-case, model-based judgment-augmented Medium-Term Revenue Projections;
- Medium-Term base-case fiscal projections, and policy-enhanced Fiscal Frameworks (MTFP);
- Debt Sustainability Assessments (DSAs), wherein baseline projections and policy scenarios are submitted to country-specific stress tests; and
- Analytical Budget execution reports focused on providing explanations for fiscal outcomes and especially for deviations from plans and their full-fiscal-year implications and for the years beyond.

This program is designed to strengthen the ability of MFUs in member countries to help the leadership team in the MoF to assess and manage fiscal risks associated with their central government operations. Medium-term base case fiscal projections were prepared or updated in Haiti, Suriname and Montserrat, and significant fiscal policy development work was carried out in these three member states toward completion of an MTFP. In all cases, complete or partial results were submitted to the leadership of the MoF for feedback and consideration.

2. Strong Debt Strategy and Management Capacity and Well-Functioning Institutions

Capacity to design a sound debt strategy and to execute it proficiently through effective institutions also helps to assess and manage fiscal risks. In response to member states' request for assistance to strengthen their debt management capacity and institutions, CARTAC designed a multi-faceted TA program, which was circulated to Financial Secretaries, Permanent Secretaries, Central Bank Governors and other principals during the previous reporting period. Included in the proposal was an offer to carry out an institutional review of Debt Offices, where gaps or weaknesses would be revealed, and with recommended actions the authorities could take including training opportunities offered by CARTAC to address them. Mechanisms to build on the IADB's and the ECCB's networking initiatives were also proposed. Four hands-on workshops are now being offered: one to assist in the interpretation of loan agreements and the translation of key provision into quantitative arguments for inclusion in debt recording and management

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information systems; one to assist in carrying out an analysis and assessment of member countries' loan portfolio; one designed to sharpen the negotiating strategies and skills of front office officials; and the fourth designed to provide a framework for, and carry out preparatory work in the event of a decision to embark on a process to re-negotiate loan agreements with creditors. A number of countries expressed interest in one or more elements of this program. Three debt management missions were carried out during this reporting period. An institutional review of Debt Office functions being performed in the Ministry of Finance and at the Central Bank of Barbados was carried out: the mission report recommends a number of reforms in processes and information flows, and training in both participating institutions. A TA mission was carried out in Suriname, to help back office officials of the Debt Office interpret complex loan agreements and record them in their debt management system, and to reconcile debt datasets. A loan renegotiation preparation workshop was developed and it was delivered in the Turks and Caicos Islands. There continues to be close coordination with the recently instituted CIDA-funded Debt Management Advisory Services (DMAS) Unit operating from the ECCB. Indeed, CARTAC participated at a DMAS-sponsored regional workshop delivered jointly by the IMF and WB to help officials of Debt offices of ECCU member states prepare a Debt Sustainability Assessment using the IMF-WB templates for lower income countries, where a significant portion of the debt was negotiated on concessional terms. This was a demonstration workshop, and the next step will be for member countries to carry out a DSA using their own economic, fiscal and debt data. CARTAC is working with the DSA technical team at the IMF on follow up TA interventions. Discussions have also been initiated with the Commonwealth Secretariat on areas of shared interest, and on cooperation opportunities.

B. Effective Assessment and Management of Other Fiscal Risks

Sound fiscal management entails a comprehensive approach to fiscal risk assessment and management, one which extends beyond central government operations. Potential risks posed by national or public sector pension plans – which may be poorly structured and which may eventually become insolvent – must be taken into account, as do risks posed by insolvent, overly indebted, or poorly managed state-owned enterprises (whose debt is typically guaranteed by the central government explicitly or implicitly). If they become unable to operate or to service their debt obligations, this burden will fall on the central government.

3. Support for Reforms of National and Public Sector Pension Plans

CARTAC has carried out reviews and assessments of pension plans in member states, and recommended action if required. In some instances CARTAC has followed up by supporting member states in the quantitative analysis of alternative reform options and in the review of the enabling legal instruments. This was done in Montserrat last year when a CARTAC pension expert and actuary carried out a mission to assist the authorities in exploring alternative reform options review the pros and cons of each; and provide a quantitative impact analysis for the subset of options under active consideration. A report setting out the findings and the principal arguments for and against each of the major alternatives was submitted to the authorities for their consideration. In June last year, at a joint CARTAC-ECCB public pension reform conference in St. Kitts and Nevis, participants responded enthusiastically when

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canvassed on their interest in participating in in-country or regional quantitative workshops designed to help “De-Mystify the Actuarial and Other Quantitative Estimates Associated with Reforms of National and Public Pension Plans” and to help develop a framework to be used to develop alternative pension reform options. Development of this workshop was completed during the previous reporting period, and one workshop was delivered in the Turks and Caicos Islands.

4. Managing Fiscal Risks Associated with State-Owned Enterprises (SOEs)

The initial structured TA intervention, including a quantitative workshop targeted to the SOE oversight team in the MoF and financial officers in statutory bodies, was delivered in St. Vincent and the Grenadines in the previous reporting period. A menu of additional TA activities focusing on strengthening different aspects of SOE oversight and governance was also submitted to the authorities at that time. They have requested assistance to assess the probability and materiality of the fiscal risks associated their SOE sector. This work is ongoing. Three other TA activities were carried out during this reporting period: in Montserrat, St. Kitts and Nevis, and Suriname. In all cases, this TA was delivered in two parts: first, an assessment is made of the current environment, the legislative framework, the institutional arrangements, the emerging issues, etc. In the second part, delivered in a workshop setting to members of the SOE oversight team, as well as senior financial officers of SOEs and other principals, the discussion covers “good” practices and good practices for effective SOE oversight and governance; and focus then shifts to the analysis of financial statements over the most recent 5 years (data permitting), and finally to the preparation of “management reports” by SOEs for the MoF’s oversight team, to give the team an advance warning of emerging issues or difficulties so that timely remedial action can be taken to avoid, mitigate or delay the onset of the problem.

PUBLIC FINANCIAL MANAGEMENT ACTIVITY REPORT

May – October 2010

PUBLIC FINANCIAL MANAGEMENT

I. Develop a more strategic approach to PFM Reform by undertaking PFM diagnostics and supporting the development of PFM reform action plans

PEFA assessments: Finalised A PEFA assessment for Antigua and Barbuda after feedback from the PEFA Secretariat and development partners. CARTAC also facilitated a one and a half-day workshop to develop a PFM Reform Action Plan and the EC were invited to attend the workshop. The plan should be completed by end 2010, after which time the development partners will be invited to determine their contributions in supporting the plan. The advisor assisted Suriname in identifying suitable consultants for a planned PEFA assessment later this year. Comments were also provided on a PEFA assessment undertaken in Dominica.

PFM reform action plans: CARTAC supported the development of PFM action plans in six countries: Anguilla, Antigua & Barbuda, Dominica, Grenada, St Kitts & Nevis and St Lucia. Suriname has requested ongoing support in quality assurance of its PFM reform agenda and preparation of its PFM Action Plan once their PEFA is finalised. CARTAC developed a simple model which can be used by countries to develop the plan including identification of standard costings for externally supported interventions.

Report prepared during the period which compares the PEFA assessments of eight countries and highlights key areas where common reform issues exist. The findings of this report were used to build the agenda for an Accountants' General Workshop which was attended by 14 countries in July. Countries were given guidance on common issues across most CARTAC countries, and a road map for addressing those issues.

Anguilla: Undertook a mission in September to assist in the preparation of a PFM Reform Action Plan. The plan was finalised in October through electronic exchange.

Antigua & Barbuda: Finalized delivery of the TA reform programme funded by DFID. Work included budget preparation, budget execution, the PEFA assessment and development of the PFM Reform Action Plan. One further mission is expected in 2010.

Cayman: Undertook a two-day fact-finding mission.

Dominica: Undertook a TA mission in August to assist in the preparation of an updated PFM Reform Action Plan. The plan was finalised in September by electronic exchange.

Grenada: Undertook a mission in June to assist in the preparation of a PFM Reform Action Plan.

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St Kitts: Undertook a mission in May to assist in the preparation of a PFM Reform Action Plan.

St Lucia: Undertook a mission in June to assist in the preparation of a PFM Reform Action Plan.

St Vincent & the Grenadines: A major TA programme funded by the EC (€500,000) in support of implementation of the country's PFM Reform Action Plan will be completed in 2010. Twelve interventions in five key areas took place during the period (refer to references to St Vincent and the Grenadines in other sections). Three PFM Reform Steering Committee meetings also took place during the period. CARTAC assisted the UN in meeting its reporting requirement for the first tranche reporting requirements for the EC funding.

Development Partners: The advisor participated in meetings and discussions with DFID, EC, WB, IDB and the IMF during the period and provided written responses as requested.

II. Strengthening treasury management and the Accountant General's institution

Support was provided to the Account General's Department in five countries: This assistance had the objective of improving the overall quality of budget execution processes.

- **Antigua & Barbuda:** Five missions took place to assist the authorities improve their business processes. TA was provided by two international advisors and has resulted in a consolidation of the processing of financial transactions within the span of control of the Accountant General and the IFMIS. The Accountant General from Barbados also spent time supporting the authorities.
- **Belize:** Delivered TA during two missions to support Belize in updating its CoAs. A working group of eight officials from the Treasury, Ministry of Finance and SITO – the Information Technology unit that supports the MoF – undertook a review of its CoAs and completed mapping to the Classifications of the Functions of Government (CoFoG). Work continues on supporting the authorities remotely with follow-up visits scheduled for 2011;
- **Grenada:** The CARTAC advisor met with the senior management team of the Accountant General's Department and prepared a detailed roadmap for improving core processes, including use of the IFMIS, CoAs, bank reconciliation, reporting (including preparation of financial statements in accordance with the cash Based IPSAS), and cash management and forecasting.
- **Jamaica:** CARTAC undertook four missions to support Jamaica in the development of its concept of a Central Treasury Management System (CTMS). A visit to Barbados of key staff was organized so that the authorities could see first-hand a CTMS in operation. Three further missions will take place in 2010.

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- **St Vincent & the Grenadines:** Six more missions took place during the period, making a total of eleven missions since EC funding first commenced. Consolidation of bank accounts and debt reporting in the IFMIS were two major focuses, as was continued work with the automated bank reconciliation process, and cash management and forecasting. Work was also undertaken in assisting the authorities prepare a strategic and activity plan for further improvements. The Accountant General, Barbados, provided the TA for this process.
- **Regional Event:** A conference was convened for Accountant Generals in the region in July.

III. Strengthen capacity to develop medium-term results-oriented budgets

Results-based budgeting in three countries.

- **Antigua & Barbuda:** Seven weeks TA was delivered over three visits. The Budget Call was remodelled, as was the template for ministry business plans. A proposal was also developed for the authorities to undertake an expenditure review to reduce its deficit and eliminate waste and duplication. CARTAC also participated in two budget retreats attended by the government and Permanent Secretaries.
- **Grenada:** Three separate visits were undertaken. The first mission (May) reviewed the existing process and made recommendations for overall process improvement. Mission two (July/August) involved supporting the authorities in presenting the proposed reform roadmap to the government and senior officials, and then in redesigning business processes for the 2011 budget process. Mission three assisted the authorities in the launch of the 2011 budget call and in their understanding of the development of performance information (October).
- **St Kitts and Nevis:** Delivered a presentation to the Prime Minister, Cabinet and Permanent Secretaries on Strategic Budgeting. A supplementary presentation was also given to PSs on their role and legislative obligations as accounting officers.

Summary of Public Financial Management Activities and Results for the Six Months May 1, 2010 – October 31, 2010

IV. Strengthen internal control frameworks through the improved competence of internal auditors

Jamaica: An Internal Auditors' Mentoring Programme commenced in May 2010. Two pilot ministries were facilitated through a full audit process and a second audit is currently being undertaken by both audit teams. The authorities have commenced assuming responsibility for future mentoring programmes. CARTAC will support the further development of quality assurance in relation to the process.

COMSEC Internal Auditors Community of Practice Conference: Participated and presented at this conference in Montego Bay in Jamaica in July.

V. *Develop a more sustainable education and peer assisted learning capacity in the region*

Caribbean Public Financial Association (CaPFA): CARTAC continues to support the Board in many areas. Two newsletters were developed and distributed during the period and the CaPFA website launched. A board meeting took place in Barbados during the period.

Public Financial Management (PFM) workshops: Workshops were delivered in St Vincent and the Grenadines and St Lucia, both by Annis Horne (St Vincent & the Grenadines). Belize also undertook a follow-up workshop without CARTAC support, demonstrating the sustainability of the capacity building model.

Accountants' General Workshop: CARTAC organized a two-day workshop for Accountants General. A number of Directors of Audit also attended. The workshop focused on a number of themes: bank reconciliation; consolidation of financial information in the accounting system to support comprehensive reporting; chart of accounts design, cash management and forecasting; reporting according to the cash based international public sector accounting standards; and better use of technology in the Accountant General's Department.

STATISTICS ACTIVITY REPORT

May - October 2010

Summary of Statistics Activities and Results for the Six Months May 1, 2010 – October 31, 2010

I. NATIONAL ACCOUNTS STATISTICS

The new National Accounts Statistics Adviser started at the end of July 2010. The previous adviser's contract ended March 2010. Due to limited financial resources, most of the mission work was replaced by teleconferencing.

CARTAC activities in **national accounts** were concentrated on: rebasing the national accounts to a more recent and relevant time period. These efforts will make the GDP estimates more useful to policy makers, businesses, labour unions, and other users concerned with trends in economic growth.

A. Rebasing National Accounts

The National Accounts Statistical Adviser (NASA) coordinated activities with the ECCB to assist countries throughout the ECCU in rebasing their national accounts to a more current base year. Recent surveys conducted in countries throughout the ECCU can provide needed source data for this exercise. **Concluding expert missions** were conducted in **Anguilla** and **St. Kitts and Nevis** (July). The NASA has reviewed the final rebasing reports of these countries. The rebasing in the other ECCU countries and in Guyana and Barbados was successfully completed in the first quarter of 2010.

The rebased series of will be launched during the month of October (except for Guyana which has already launched its series). The NASA will be involved in the launch of these series and had a meeting (together with the price statistics adviser) with the **ECCB Statistics Department and Regional Statistics Directors** to discuss progress in competing the tables and publications. Planning was started for the simultaneous launch of the new GDP and CPI series at the end of October after countries complete the consultation process with their governmental counterparts. The NASA provided technical Assistance to **Anguilla** by reviewing the tables containing the rebased series.

In other CARTAC countries, the rebasing activities are still in progress (Suriname, Belize) or starting next year (Bermuda). In **Suriname**, progress has been made in improving the collection of source data in some areas. With a small staff, capacity constraints are impacting progress, but the Statistics Department is committed to completing the exercise, by the beginning of 2011. A follow-up mission will be conducted in October.

Bermuda has completed work on developing a Supply and Use Table (SUT) utilizing comprehensive source data for 2004. The completed SUT provides improved accuracy and reliability for GDP estimates at current prices. This SUT will be used as a basis for rebasing the GDP to 2006 in the course of 2011.

Summary of Statistics Activities and Results for the Six Months May 1, 2010 – October 31, 2010

The **Belize** Statistics Department has indicated to give priority to finalising the rebasing of the CPI this year and the national accounts next year, due to limited financial and human resources.

The **outputs of rebasing projects** are **improved national accounts series** that provide policy makers and economic planners with national accounts data that **are more relevant and accurate measures of countries' economic activities. It's therefore important to make sure that all the CARTAC member countries have updated national accounts series.**

B. National Accounts Review

An expert mission conducted a review of the existing source data in the **Dominican Republic** that could be used to enhance national account compilation. The mission also identified additional source data that needed be collected or developed in order to improve GDP estimates and eventually produce quarterly national accounts. Future missions to the Dominican Republic will be conducted by CAPTAC.

The NASA conducted a first mission to transfer the compilation of constant price GDP (on a 2006 base) to the Barbados Statistical Service from the Central Bank of **Barbados**. The constant price GDP estimates as compiled by the Central Bank need to be revised for the period 2000-2008 to be consistent with the current GDP estimates as compiled by the Statistical Service. A tripartite technical working group consisting of the NASA, representatives from the Central Bank, and the Statistical Service will be installed by CARTAC.

C. Quarterly Gross Domestic Product

Preliminary discussions were held with the **Trinidad and Tobago** Central Statistical Office about how to approach the compilation of the Quarterly Gross Domestic Product (QGDP). The NASA will be provided with the available metadata and other relevant documents. A mission is schedule for the month of November.

II. PRICE STATISTICS

In the area of **price statistics**, technical assistance continued in two areas: (a) revising country CPIs to a more recent market basket and introducing improved methods and (b) development of export-import price indexes (XMPI). These efforts will make the revised CPIs more useful to policy makers, businesses, labour unions, and other users concerned with inflation trends. The XMPIs will

Summary of Statistics Activities and Results for the Six Months May 1, 2010 – October 31, 2010

provide the national accounts staff with better deflators to estimate constant price trade flows and enable staff to conduct terms of trade analyses on which of their products are most competitive in world markets.

A. Revising Country CPIs and Introducing Improved Methods

The Price Statistics Adviser provided technical assistance for revising country CPIs in **Anguilla** (July), **Antigua and Barbuda** (June, August), **The Bahamas** (May, September), **Dominica** (May, June, August), **Grenada** (June, October), and **St. Kitts and Nevis** (September). The **major outputs** of these missions were (i) **new market baskets and item structures** for the revised CPIs based on data from recent Household Expenditure Surveys (HES) and (ii) **improved methods for compiling the CPI** according to the new international standards contained in the *CPI Manual, 2004*, and (iii) **historical series** to the revised CPI on the Classification of Individual Consumption by Purpose (COICOP). The improved methods largely result from **implementing the Price Index Processor System** (PIPS) as part of their CPI revision projects.

The **outputs from the CPI revision projects make the revised CPIs both more relevant to the countries' economies and more accurate as measures of inflation.**

In **Belize**, a new CPI market basket was developed using data from 2008/2009 Household Expenditure Survey (HES) supplemented by data from secondary sources. The PIPS software will be used for the revised quarterly CPI in December.

In **Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines** the new CPI market baskets are being used along with the PIPS software to compile the revised CPI through September 2010. The new indexes will be introduced after discussions are held with Finance/ Prime Ministers' offices. In **Montserrat**, data from the Living Conditions Survey and HES must be reprocessed and tabulated before work on the new market basket can begin.

The project to develop a CPI in **Turks and Caicos Islands** continues as the HES training and field work is underway. The CPI market basket and outlet sample should be available early in 2011. For **Trinidad and Tobago**, concerns raised by the IMF Trinidad Team about the increases in the Food component of the CPI resulted in the CSO requesting CARTAC assistance. After reviewing the CPI, the PSA recommended improved methods and procedures or the CSO to use in revising the CPI from 2003.

B. Developing Export-Import Price Indexes

Technical assistant missions were conducted by short-term experts to complete projects for introducing XMPs in **Anguilla** (July), and **Barbados** (August). These missions developed **weights** for the XMPs, identified of a **sample** of enterprises and commodities to provide prices, provided **software**, and assisted in **compiling final indexes**. The PSA also provided technical assistance to **Jamaica**

Summary of Statistics Activities and Results for the Six Months May 1, 2010 – October 31, 2010

on their plans to publish the **export price indexes** by SITC and approaches that could be used to develop volume and value indexes in addition to the price indexes.

The **outputs** from these projects are **better deflators for the national accounts staff to estimate constant price trade flows and terms of trade analyses on which products are most competitive in world markets**. Such analysis is useful to both economic policy makers and economic planners.

III. TRAINING ACTIVITIES

The PSA with support from STATIN conducted a regional **Producer Price Index (PPI) workshop** to broaden regional statisticians' understanding of the theory and practice of PPI compilation. There were 27 statisticians (14 female) from 16 CARTAC countries participating.

CARTAC, in collaboration with the IMF Statistics Department, also conducted a regional **Balance of Payments and International Investment Statistics Workshop** with the aim to familiarize and train participants in the new concepts and definitions of the sixth manual of the BOP and International Investment Position (IIP) statistics. There were 26 participants (14 female) from 16 CARTAC countries.

IV. OTHER STATISTICAL ACTIVITIES

CARTAC also participated in the UNECE/ILO **International Consumer Price Index Meeting** (May) and presented a paper on the work in the region to revise the CPIs and improve CPI methods and procedures. The Advisers participated in ECCB meetings with Statistics Directors on plans for releasing the new GDP and CPI series at the end of October.

CARTAC also participated in the regional launch workshop of **the International Comparison Project (ICP)**. This project will support the improvement of national accounts in the region. ECLAC and CARICOM serve as regional coordinators. A major element in the ICP work program is the identification and solution of problems in the current scope and coverage of national accounts in the region to facilitate cross-country comparisons. A follow-up technical workshop is scheduled for the end of November.

Advisers attended the interim CARTAC **Steering Committee Meeting** in Barbados to discuss program activities between November 2009 and April 2010 and the program plans for September through December 2010 following the new budget. A follow-up meeting is scheduled for the end of October in Guyana.

Summary of Statistics Activities and Results for the Six Months May 1, 2010 – October 31, 2010

Statistics Advisers met with the ECCB and regional statistics directors to discuss progress in completing the rebasing of the national accounts and revising the CPI. Planning was started for the simultaneous launch of the new GDP and CPI series at the end of October after countries complete the consultation process with their governmental counterparts.

**REVENUE ADMINISTRATION (TAX & CUSTOMS)
ACTIVITY REPORT**

May - October, 2010

Summary of Revenue Administration Activities and Results for the Six Months May 1, 2010 – October 31, 2010

REVENUE ADMINISTRATION (TAX & CUSTOMS)

Revenue Administration activities for the past six months focused on: **(I) Improving Organizational Structures and Effective Reform Management for Revenue Administration**; and **(II) Revenue Administration Reforms** — Reform of Indirect Tax Systems through Implementation of value added taxes and focused strengthening of tax administrations and selective customs modernization.

I. Improved Organizational Structures and Effective Reform Management

Supported three administrations (Jamaica, Barbados, and the Bahamas) in their preliminary decision making respecting creation of central revenue authorities following the systematic approach of the CARTAC Revenue Authority (RA) toolkit. The toolkit: (i) assists countries that have decided to implement RAs with their preparations by providing a series of operational tools to use in mapping out the implementation process and (ii) guides countries' decisions with regard to implementation of RAs by highlighting the major issues that arise in the implementation of revenue authorities. Less radical than the creation of revenue authorities, integrating previously distinct operating units into a single tax department organized around functions rather than, according to taxes or types of taxes, leads to greater integration of operations, better management of staff and improved compliance and enforcement. From an internal efficiency perspective, an organization along functional lines eliminates duplication of facilities and resources. From a client perspective a fully integrated approach to compliance strategy, taxpayer service, collections and arrears promotes greater compliance and has potential to reduce client costs and effort.

Based on a request by CARICOM / COTA, a presentation was made to the comptrollers of tax on “*Strategic Planning and Change Management in Relation to Tax Administration Reforms within CARICOM*” at the 21st COTA General Assembly and Technical Conference held in Barbados. The presentation contained advice on essential elements of successful strategic planning as well as techniques of effective change management applicable to reform initiatives within CARICOM tax administrations. Inadequate attention to these subject areas is commonly seen as the cause of many sub-optimal reform results.

Summary of Revenue Administration Activities and Results for the Six Months May 1, 2010 – October 31, 2010

II Revenue Administration Reforms

Reform of Indirect Tax Systems – Introduction of Value Added Tax (VAT) and Excise Taxes to replace less efficient indirect taxes

Grenada introduced VAT and excise taxes on February 1, 2010; the Government of the Federation of St. Kitts and Nevis introduces its VAT and excise taxes in November 2010; and Suriname is undertaking initial preparations to introduce a VAT in the medium term. CARTAC is assisting with the implementation of VAT and excise taxes in these three countries.

- **Grenada** - (i) conducted post-implementation monitoring reviews and issue identification and resolution inspections for VAT and excise tax; (ii) provided updates to excise operations manuals and the excise taxpayer registration guide; and, (iii) provided policy advice, and on-site and off-site technical support on various operational aspects of VAT and excise administration.
- **Federation of St. Kitts and Nevis** – (i) reviewed progress of the VAT and excise implementation program and made recommendations with regard to timetable adjustments; (ii) facilitated sensitization of public and private sector stakeholders about VAT program requirements, features and benefits (iii) assisted the drafting of VAT and excise legislation and regulations; (iii) delivered staff training on legislation; and, (iv) assisted in development and roll-out of taxpayer advisory programs and registrant notifications; and, (v) provided policy advice, and on-site and off-site technical support on various operational aspects of VAT and excise administration.
- **Suriname** - (i) delivered presentations to policy makers on VAT basic principles and the sequencing and timing of critical VAT implementation project activities.

Strengthening Tax Administration (Antigua and Barbuda-DFID-funded program):

- Assessments conducted of current state and urgent fixes required for the administration of key tax programs and functions: personal income tax, pay as you earn, sales tax, filing and returns processing, collections enforcement, and operations support from ICT.
- Introduced revised procedures and team based approach to management of taxpayer registration, filing and payment compliance issues involving key large taxpayers.

Summary of Revenue Administration Activities and Results for the Six Months May 1, 2010 – October 31, 2010

- IRD and ABST managers received training in strategic planning and mentoring in the development of a revised strategic business plan
- Tax officials received guidance on the measurement and more effective management of tax expenditures
- Auditors were familiarized with more systematic, effective approaches to taxpayer audit for personal, corporate and sales tax types.

Strengthening Tax Administrations (Other member countries):

- **Belize, and St. Kitts and Nevis** collections enforcement staff received further training and coaching to enhance their capacity and improve collections enforcement operations. TA included: (i) hands-on training regarding best practices in the areas of case file management and related administrative processes; and, (ii) testing of progressive collections enforcement techniques within the country environment
- **Belize, Grenada, and Dominica** audit staff received additional training and coaching assistance to enhance capacity in audit operations particularly with regard to (i) best practices in risk-based file selection, establishment of audit plans, use of ratios, direct methods and advanced audit techniques, audit file review, management and related administrative processes; and, (ii) testing of indirect audit methods and use of third party information within the country environment.
- **A code of conduct for staff, an integrity communication plan and an action plan to implement the code were** developed with staff of the Department of Inland Revenue in St. Lucia, and the Department of Income and Business Tax in Belize.

Strengthening Customs Administration (Antigua and Barbuda-DFID-funded):

- Implementation of revised procedures for the bonding of imports, non duty-paid storage within the national territory, the filing and verification of customs entry documentation, and the release of shipments from customs control. This ensures more timely and complete payment of import duties and greater equity in trader compliance costs.
- Introduction of more sophisticated approaches to the analysis and mitigation of revenue risk in the import stream. Through trader and commodity research and profiling the more serious compliance threats at each stage of clearance operations were identified.

Summary of Revenue Administration Activities and Results for the Six Months May 1, 2010 – October 31, 2010

- Essential and desirable revisions to customs legislation were identified and catalogued for presentation to legislative authorities.
- Customs managers received training in strategic planning and mentoring in the development of a revised strategic business plan

Summary of Revenue Administration Activities and Results for the Six Months May 1, 2010 – October 31, 2010

Modernization of Customs (Other member countries):

- **Risk-based compliance management practices have been enhanced in St. Kitts and Nevis Customs operations including** written policies and procedures regarding compliance and enforcement measurements and training in appropriate profiling and selectivity techniques based on risk. The technical assistance will, when fully integrated into routine operations such as bonded warehouse audits, ensure better compliance measurement, and more selective and effective verification, leading to increased revenues for government and improved facilitation and cost containment for compliant traders.
- **Support was provided for the Post Clearance Audit (PCA) programs in Dominica, and St. Lucia** The problem resolution and hands-on mentoring assistance provided improved the effectiveness of compliance verification, increased accuracy in revenue assessment, and ultimately facilitates the acceleration of the clearance of goods.
- **Support was provided to Grenada and St. Vincent and the Grenadines** on various operational and performance measurement challenges arising in their Customs modernization programs.