



# **CARTAC ACTIVITY REPORT**

**November 2010 – March 2011**



# **FINANCIAL SECTOR SUPERVISION ACTIVITY REPORT**

**November 2010 – March 2011**

**Financial Sector Supervision:  
Summary of Activities and Results for the Period November 2010 to March 2011**

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**

**Framework for Caribbean Regional Financial Stability (Regional)** – The CARTAC Regional Financial Stability Framework proposal was discussed at the Central Bank Governors Meeting held in The Bahamas. There was some concern expressed on the treatment of confidential information among parties in the region, especially third parties that will be involved in the process, such as CARTAC, CCMF, and the proposed IDB financial stability expert. Subsequently, the CCMF developed a Project Implementation Plan which sets out the specific procedures to implement the CARTAC Framework. The Project Implementation Plan also addressed the confidentiality concerns raised. The Project Implementation Plan appears to have the support of all parties in the region but still needs to be endorsed by the Central Bank Governors. The Regional Financial Stability Project is to be supported by an IDB funded expert but the hiring of this expert has not been completed; a candidate is being vetted and may be on-board within the next three months. The main outputs achieved to date are (1) the publication of the CARTAC Regional Financial Stability Framework, (2) the development and discussion of the CCMF Project Implementation Plan, and (3) the raising of awareness and importance by the Central Bank Governors. The long-term results - identifying regional financial stability issues and taking steps to minimize these issues - have not been realized as the project is in the early stages of development.

**II. Banking Supervision**

**Stress-testing Model (Belize)** – Following similar projects in Guyana, The Bahamas, and Trinidad and Tobago, the CARTAC stress-testing modeling expert worked with the Central Bank of Belize to develop a stress-testing model. Already, the banking supervisor used the results of the stress-testing to model the impact of a change in policy regarding the rules for provisioning for losses on problem loans. This change in policy is now being pursued and is supported by the stress-testing results. The Central Bank also indicated that the stress-testing model will assist in modeling the impact of a change to the new Basel II capital standards. The Central Bank sees the main benefits of the model as a check and balance on risk-based supervision and as a model to test the impact on banks resulting from changes in policy decisions. The expected results are being realized.

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**III. Insurance Supervision**

**Restructuring/Resolution of British American Insurance Company (BAICO) (ECCU/ECCB) and CLICO Barbados (CLICO) –** CARTAC continues to work with the authorities in the region on resolution strategies for BAICO and CLICO. The resolution strategy for BAICO is in the

final stages of development and all efforts have been made to find a least cost solution to the benefit of the policy holders. A strategy with respect to CLICO Barbados remains in the early stages of discussion. The main result achieved to date is that in working through the dynamics of resolution, the insurance supervisors in the ECCU have gained hands-on knowledge on how to supervise insurance companies to prevent a reoccurrence of the BAICO failure; in particular, ensuring that companies pledge adequate assets against liabilities and ensuring that companies engage in only approved activities has lessened the risk of another failed insurance company in the ECCU. Another identified result is that there is greater collaboration in supervising insurance companies that have cross-border operations. The overreaching result of minimizing the economic impact for small policy holders has not been realized yet.

**Review and Bring to International Standards the Solvency Framework for Life Insurance Companies (Jamaica) –** This project is just beginning and involves over the next six months a review of the solvency rules for life insurance companies and stress-testing in light of new International Accounting Standards Board recommended valuation methodologies. The solvency rules will be harmonized with similar work conducted by the same expert for Trinidad and Tobago. The anticipated result is that an enhanced solvency standard will be implemented in Jamaica and that this standard will be harmonized with Trinidad and Tobago which will lead to better capitalized and safer and sounder insurance companies. (The Bahamas is separately engaging in a process using its own resources to harmonize its capital standards with Trinidad and Tobago and Jamaica) **In conjunction with the project, CARTAC is seeking to harmonize all insurance capital standards in the region** which may take the form of one set of advanced standards for Trinidad and Tobago and Jamaica with simpler standards for the remaining countries (the latter due to the lack of resources to hire actuaries to review valuations). A study is being conducted on the various capital standards being used in order to find common ground. Since the project just began, there have been no results.

**Standardization of Actuarial Standards in the Caribbean (Regional) –** Work has begun between the insurance 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** (1) to create standards that meet the nuances of the Caribbean markets, (2) to set forth the methodology that will allow comparison among insurance companies and (3) to better value liabilities so that the true level of capital can be measured. In December, the Caribbean Association of Actuaries, CARTAC, CAIR, and insurance supervisors from Trinidad and Tobago, Jamaica, and Barbados agreed to have standards drafted in 12 months. The first meeting to begin drafting was held in March. An Advisory Committee has been established to oversee progress and results.

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**Draft Insurance Act (Haiti)** – Based on the drafting instructions prepared by a CARTAC expert, the World Bank has hired a French-speaking expert to assist the authorities in the actual drafting of the law using the CARTAC drafting instructions. Once the law is drafted and passed, CARTAC will then assist with the development of the insurance supervisory agency and training of its staff.

**Training in Reinsurance Treaties (Belize)** – Based on similar training provided to the ECCU, Belize requested that its insurance supervisors be trained in the methodology on analyzing reinsurance treaties. Understanding these treaties is pivotal to determining the liabilities of insurance companies and thus determining the true capital position. The training took place in November, 2010. The training included case studies using real reinsurance treaties from the Caribbean. The results are that each insurance company's reinsurance treaties are now being analyzed and discussed with management to determine if liabilities are recorded correctly and if capital is correct as presented. The work has also facilitated discussions between the supervisors and the insurance companies on how to treat various provisions stated in the reinsurance treaties.

**Enhancing Insurance Supervision (Suriname)** – The Central Bank of Suriname requested that CARTAC assists in improving the quality of insurance supervision in Suriname. For the first visit which took place in January, 2011, the expert (1) reviewed and made recommendations on the new proposed insurance act, (2) addressed issues on how to supervise insurance companies with respect to provisions, valuations and restrictions on investments, and assessing capital adequacy, (3) recommendation and discussion of filing requirements and filing formats for the quarterly and annual regulatory reports, and (4) training in on-site examinations and risk-based supervision. The authorities are now considering the recommended changes to the law as well as instituting the proposed insurance regulatory forms. The authorities have indicated that further technical assistance will be required in off-site supervision and on-site examinations which will take place in the next six months. It should be noted that Suriname, based on the recommendation of the expert, will adopt the harmonized insurance regulatory report forms developed for the Caribbean by CARTAC and in use by the 8 ECCU countries and Turks and Caicos.

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

**Establishment of the Financial Services Authority (St. Vincent and The Grenadines) (SVG)** – The authorities in SVG were the last to make a decision to establish a single regulatory unit for the supervision of nonbanks, largely insurance companies and credit unions. The authorities requested that CARTAC provide technical assistance in establishment of the single regulatory unit as has been done with the other ECCU countries. The first mission took place in December, 2010. The proposed law was reviewed and the expert recommended changes to the law and discussed these changes with the Attorney General. Advice was also given on socializing the new Act with the industry participants, on hiring practices to be used when deciding to move staff from existing supervisory offices to the single regulatory unit, and on the recruitment of staff. The next step is to await passage of the law before moving forward with assisting with training in the supervision of nonbanks.

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# **MACROECONOMICS PROGRAMMING & ANALYSIS ACTIVITY REPORT**

**November 2010 – March 2011**

**Macroeconomics Programming & Analysis:  
Summary of Activities and Results for the Period November 2010 to March 2011**

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 internship programmes and professional attachments.

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. **Antigua and Barbuda:** At the request of the Authorities, CARTAC's MAC programme continued to support the efforts of the Ministry of Finance to implement a framework to monitor the Government's Fiscal Consolidation Programme. Following assignments in 2010 to monitor the impact of policy measures presented in the 2010 Budget, a mission was conducted from January 17 – February 2, 2011. It is expected that the output of the mission will assist the Authorities during the next review of the IMF's SBA.
- ii. **Dominica:** Following discussions with the Financial Secretary, a technical assistance mission to update the island's macroeconomic framework was conducted from January 5 – 14, 2011. The mission worked with officers assigned to the Macroeconomic Unit and the Central Statistical Office to review and prepare GDP and fiscal sector projections for FY 2010/2012 to FY 2013/2014. The output of the exercise is expected to be used as a tool during budget discussions.
- iii. **St. Lucia:** A follow-up technical assistance mission was organized to provide guidance to the local team in the preparation of real and fiscal sector medium-term projections under baseline and active scenarios. The mission, conducted over the period December 6 – 16, 2010, included the preparation of scenarios that assessed the impact of Hurricane Tomas on the economy. The output of the exercise was expected to assist the Authorities in negotiations with financial institutions for emergency funding to finance hurricane related expenditures.
- iv. **Trinidad and Tobago:** During the review period, CARTAC continued to implement a TA programme aimed at developing capacity within the Ministry of Finance to prepare and update a financial programme for Trinidad and Tobago. As a result, a follow-up capacity

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building exercise was conducted for from November 29 – December 8, 2010. The output of this exercise is expected to assist the Authorities in meeting one of the requirements of a policy-based loan.

During the last semester, CARTAC collaborated with the Eastern Caribbean Central Bank to organize and sponsor a two-day Economic, Stabilization and Adjustment Mini “Boot Camp” from January 24 – 25, 2011. The MAC programme provided technical support to the “Camp” which was organized to develop quarterly fiscal targets as well as develop a mechanism to monitor and report on them.

Internship Programme and Professional Attachment

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

**Internship Programme:** In continued response to comments from members of the CARTAC Steering Committee regarding the inadequacy of economics graduates in the region for operational work, CARTAC successfully collaborated with the University of the West Indies, Cave Hill Campus to identify honours students for an internship programme. The programme, which aims at enhancing the analytical skills of the graduates to better prepare them for the workplace, commenced in 2008.

During the past semester, the planning of the fourth MAC internship programme began in earnest. CARTAC wrote to regional central banks and research centres to determine their interest in hosting students during the summer of 2011.

Other

Over the last semester, the MAC Adviser was required to attend a number of meetings/consultations including:

- i. Strategic meetings at the IMF headquarters with counterpart departments from December 6 – 9, 2010.
- ii. Work commenced on a note outlining the importance and functions of a Macro-Policy Unit.
- iii. Attended “*The Caribbean Policy Challenges after the Global Crisis Conference*” organized by the IMF in collaboration with the Central Bank of Barbados and the University of the West Indies from January 27 – 28, 2011.



# **MACRO-FISCAL ACTIVITY REPORT**

**November 2010 – March 2011**

## **Macro Fiscal Management: Summary of Activities and Results for the Period November 2010 to March 2011**

### Overview

During the period November 2010 to March 2011, CARTAC delivered a regional MFM-PFM conference in Barbados. Following up the conference, initiated the process of developing quantitative policy analysis workshops to support fiscal adjustment efforts in member states. In terms of supporting members' efforts to strengthen macro-fiscal capacity and management and to adopt more rigorous macro-fiscal processes and tools, ongoing assistance was provided to three member countries. There was follow up work on the regional Debt Sustainability Assessment workshop for ECCU members delivered by the World Bank and the IMF in July 2010: organized attachment of one of the participants (who heads the macro-fiscal unit in his country) to the IMF's DSA team in the SPR Department in Washington; started to plan a structured TA program to be carried out during Phase IV to enable member states to prepare their own DSAs.

### Debt Management

A multi-faceted TA program to help strengthen debt management capacity and institutions in member states was completed and four TA activities were carried out in three countries. Initiated planning of inter-agency conference to strengthen inter-country networking in the region. 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.

### SOE Oversight and Governance

CARTAC also completed a major project to assist a member state to assess the fiscal risks associated with its state-owned enterprise sector and to advise on measures to strengthen SOE oversight and governance. 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.

### Pension Reforms

A mission was also carried out to assist the authorities in one member state assess various public service sector pension plan reform options in the context of reforms being considered for the national social security plan. At the request of the ECCB, CARTAC also arranged for pension plan specialists to make a presentation at a video conference organized for directors of social security plans and their investment managers on issues to pension plan investments and governance.

#### **A. Assistance to Strengthen Macro-Fiscal Capacity**

##### **1. Instituting Strong Macro-Fiscal Units and Rigorous Processes and Tools**

## **Macro Fiscal Management: Summary of Activities and Results for the Period November 2010 to March 2011**

CARTAC delivered a major 4-day joint MFM-PFM conference in Barbados in November, to which 55 officials from all but two member states participated. Presentations were made by 7 regional and international experts as well as delegations from participating countries. The conference discussion touched on the various dimensions of effective fiscal and public finance management in challenging times. The need for and approaches to fiscal adjustment were recurring sub-themes. As a follow-up, discussions were held with IMF officials on follow up technical training in the development of expenditure-reducing and revenue-increasing policy options.

CARTAC believes that effective macro-fiscal management necessitates that all member states institute a small high-level and high-powered macro-fiscal policy and analysis unit (MFU) in its Ministries of Finance. A number of documents have been prepared and circulated to some member states to explain the intended strategic, coordination and data-keeping role of the MFU, and its vital importance in strengthening macro-fiscal management. Comprehensive institutional advice and TA strategies, intended to support and accelerate their transition to strong strategic macro-fiscal management are also proposed to member states at every opportunity. Exploratory missions were carried out in two member states, during this reporting period: Barbados and St. Lucia.

At a meeting with members of the senior leadership team in St. Lucia, we discussed the core elements of sound macro-fiscal management and the formal and less formal TA program delivered by CARTAC to help 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 (MTFF);
- debt Sustainability Assessments (DSAs) of baseline as well as policy scenarios using 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.

In this reporting period, less formal interventions were carried out with BVI, Montserrat and Suriname, through telephone conversations, e-mail exchanges and the preparation of supporting documents. In BVI the interventions were focused on institutional support to the leadership and mentoring of key members of the MFU that is being instituted there. In the case of Montserrat, officials circulated a document updating the work they had carried out following the CARTAC MTFF-update mission there in September; they also sought methodological advice on how to complete this work. They also asked that I provide some briefing documents to DFID in preparation of its mission there. A document was submitted to our counterparts in Suriname to help them work with the Minister and the Financial Secretary in the establishment of an MTFF-completion work program. (The document was uploaded to one of FAD's division's blog page.)

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**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 is a key element of a Ministry of Finance's ability to assess and manage fiscal risks. A multi-faceted TA program to help strengthen the analytical and policy development middle-office capacity of Debt offices was completed during this period. The constituent elements include:

1. Institutional reviews;
2. Analysis of and differentiation among the various debt instruments;
3. Technical training in external loan interpretation;
4. Technical training in portfolio and risk analysis;
5. Technical assistance in the preparation of a Medium-term Debt Strategy; and
6. Technical training in carrying out preparations for debt renegotiations or embarking on a debt exchange exercise.

In response to a country's request for TA, an inter-agency review of debt management capacity and institutions is usually conducted in that country. Proposed recommendations, including elements of a TA program, are then prepared to address the major issues, gaps and risks. Following up on the institutional review of Debt Office functions in the Ministry of Finance and at the Central Bank of Barbados that was carried out in the previous reporting period, a presentation of the major findings and recommendations (including CARTAC TA) was made to the recently instituted senior-executive level National Debt Advisory Committee (NDAC), in the context of a broader discussion of how best to proceed to strengthen macro-fiscal management in Barbados. The focus was on how CARTAC could support the authorities in the implementation of the report recommendations, including in respect to addressing the middle office training needs. First there was a discussion of the importance of strong analytical and policy development capability in the middle-office unit of a Debt Office as an integral element of strategic fiscal management. Two other TA interventions were carried out in that country: an audit of private sector external debt data; and an assessment of debt data publications. Draft TA reports were submitted to the authorities. A compressed institutional review was also carried out, jointly with the Commonwealth Secretariat, in Trinidad and Tobago in the context of that country's plans to migrate to Com-Sec's Debt Recording and Management System (CSDRMS). A report was submitted to the authorities. Significant exchanges also took place with the authorities in Jamaica following their request for technical assistance. A current state assessment mission was carried out in January, and led to a proposal for a peripatetic project to help the Head of the Debt Management Unit (DMU) to initiate the major institutional reforms that are required in the DMU before other longer-term support initiatives by the World Bank and ComSec are in place. This project is being financed and executed for us by the IADB, more specifically using Phase III funds which lapsed at the end of January, but which are still being made available to CARTAC for select projects. Additional data validation projects (in Barbados and in Suriname), which could go ahead if additional IADB funds are available, are being explored. There continued to be close coordination with the CIDA-funded Debt Management Advisory Services (DMAS) Unit operating from the ECCB. Recall that 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. Planning was started

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on the next step activities: this will involve helping ECCU member states prepare long-term fiscal and economic datasets starting in the upcoming reporting period. This in turn will enable them to carry out their own DSA (using their own economic, fiscal and debt data). As a first step, CARTAC sponsored the attachment of a senior official in St. Lucia to the IMF's DSA technical team at the IMF in Washington D.C. There was a continuation of discussions with the Commonwealth Secretariat on areas of shared interest, and on cooperation opportunities.

**B. Effective Assessment and Management of Other Fiscal Risks**

A comprehensive approach to fiscal risk assessment and management is mandated under a sound fiscal management regime, which must extend to covering the potential risks posed by national or public sector pension plans and the potential risks posed by a poorly functioning state-owned enterprise sector (with an explicit or implicit debt guarantee by the central government). If SOEs are unable to service their debt obligations, this burden falls on the central government.

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

CARTAC carries out reviews and assessments of pension plans in member states, and recommends reforms if required; and assesses the quantitative effects of alternative reform options. In some instances CARTAC has also assisted with the preparation of enabling legal instruments. A mission was carried out in the Commonwealth of Dominica in January 2011: an international expert in national and public sector pensions accompanied by a regional actuary explored the options open to the Government in respect of aligning public sector pension reforms with the reforms being contemplated for the National Social Security plan, to implement recommendations contained in recent actuarial reviews to enhance the plan's sustainability. The previously mentioned joint MFM-PFM conference included a number of informative presentations and lively discussion of related issues and of members' experiences with pension reforms.

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

CARTAC's initial TA interventions in this area have been delivered in two parts: first, an assessment is made of the current economic, fiscal and oversight and governance environment in the member country: the legislative framework, the institutional arrangements, the financial situation of the SOE sector, emerging issues. The second part involves the delivery of a workshop to members of the SOE oversight team, to senior financial officers in the SOEs and to other principals. The program includes a discussion of "good" practices for effective SOE oversight and governance – and therefore for effective fiscal risk management. The focus then shifts to the analysis of financial statements over the most recent 5 years (data permitting), and finally to the preparation of draft "quarterly management reports" by SOEs to be submitted to the MoF's oversight team, to give the team advance warning of emerging issues or difficulties so that timely remedial action can be taken to avoid or delay the problem or mitigate its effects. A menu of additional TA activities focusing on helping the MoF quantify the magnitude of SOE-sector risks, and intended to strengthen different facets of the SOE oversight and governance regime, is then submitted to the authorities. During this reporting period, a major

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effort was deployed in St. Vincent and the Grenadines, to follow up on some actions initiated in 2009; to help assess and quantify fiscal risks; and to discuss other measures the Government could take to strengthen oversight and governance.



# **PUBLIC FINANCE MANAGEMENT ACTIVITY REPORT**

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PFM activities for the past five months focused on five key areas: PFM Diagnostics and PFM Action Plans; Budget Execution; Budget Preparation; Internal Audit and development of a sustainable capacity building in the region.

**I. PFM Diagnostics and PFM Action Plans**

**Anguilla - PFM Action Plan** a workshop was convened for the authorities giving guidance on the PFM Reform Action Plan process and assistance provided to update their draft action plan.

**Antigua and Barbuda** - assisted in the preparation of a proposal for the EU and the authorities to support implementation of its PFM Reform Action Plan. The implementation will be managed by FAD, with support from CARTAC.

**Barbados** – assisted the authorities develop a PFM Reform Action Plan based on its 2010 PEFA assessment.

**St. Vincent and the Grenadines** – the last two months of the 16 month EU technical assistance programme were concluded in late 2010. A further seven inputs took place, and a report summarizing the entire programme was prepared for the UN and EU.

**Suriname** – reviewed and provided comments on the authorities PEFA assessment.

**II. Budget Execution**

**CoAs reform** – Continued supporting the authorities in **Belize** reviewing and updating their chart of accounts. Undertook a brief mission to Montserrat to brief the authorities on CoAs reforms and reached agreement regarding continue remote support and future visits. Support has also been offered to Anguilla in the same area.

**Anguilla** – Support in reviewing key processes in the MoF, including further improvements in cash management and forecasting. Advice was also provided regarding better integration of cash management, commitments and warrant releases. Warrants will be aligned with cash forecasts, reducing the risk of unfunded commitments.

**Antigua and Barbuda** – Continued support (commenced March 2009) to the Accountant General in relation to bank account reconciliations, and preparation of data for financial reporting.

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**Dominica** - Support to the AGD in business process reviews, automated bank reconciliation and development of strengthened bank relations and rationalization of bank accounts. The authorities will realize immediate savings by using idol cash balances to offset overdraft charges.

**St. Vincent and the Grenadines** – Continued support in relation to business processes, cash management and forecasting. Consolidation of bank accounts will reduce the cost of cash to the authorities. Also supported training in the latest reporting module of Smartstream, Q and A.

**Jamaica** – Continued support in relation to implementation of the Central Treasury Management System (CTMS). Centralization of 80 % of all government payments has resulted in significant reductions in cash management costs.

### III. Budget Preparation

**Anguilla and Dominica** – Development of a road map for strengthened budget reform including better integration with the fiscal framework, a strengthened medium term context, improved transparency and a greater focus on results. This process will involve incremental changes to the budget process over the next few years, supported by CARTAC. Presentations were also delivered to senior officials.

**St. Vincent and the Grenadines** – Continued support in budget preparation reform, legislative review and a strengthened public sector investment programme (PSIP). A workshop programme was developed for the authorities but was postponed due to the elections.

### IV. Internal Audit

**Jamaica – Mentoring Programme** – The auditee mentoring pilot programme was concluded in December, resulting in seven auditors undertaking two audits under the direct supervision of an international adviser and the Jamaican Internal Audit Department. The authorities gradually assumed more responsibility for the mentorship role. Future mentoring processes will be conducted entirely in-house.

**St. Vincent and the Grenadines** - Development of a strategic plan for improvements to the Director of Audit.

### V. Capacity Building

A joint **PFM/Fiscal Conference** took place in November over four days. The PFM component of the agenda was largely driven by regional presenters, sharing best practice examples.

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Presented at the CDB/ECCU **PSIP conference** in **St. Kitts and Nevis** in March.

Eight presentations were also delivered across a range of countries.

CaPFA incorporated in St Lucia and is now able to receive external funding directly.



# **STATISTICS ACTIVITY REPORT**

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**I. NATIONAL ACCOUNTS STATISTICS**

1. During the past five months the CARTAC activities in **national accounts** were concentrated in two areas: (a) rebasing the national accounts, **in Barbados, Bermuda and Suriname**, to a more recent and relevant time period, (b) compilation of quarterly GDP in **Trinidad and Tobago**, and (c) attendance of several regional meetings. These efforts will make the GDP estimates more useful to policy makers, businesses, labor unions, and other users concerned with trends in economic growth. The regional meetings contribute to harmonizing and coordinating efforts in strengthening the statistical database and capacity in the region.
2. Other in country missions were postponed until further notice due to priority given to conducting the Population and Housing Census, and the price statistics revision resulting in limited human resources to conduct other projects.

**A. Rebasing National Accounts**

The National Accounts Statistics Adviser (NASA) conducted three missions in **Barbados** to transfer the compilation of constant price GDP from the Central Bank of Barbados (CBB) to the Barbados Statistical Service (BSS). Both institutions have a methodology in place that needs to be revised. In addition an update from the 1974 base year to 2006 is required. The **major outputs** of these missions were (i) **improved understanding of national accounts compilation** as a result of the hands-on training provided, (ii) **improved methods for compiling GDP in constant prices** according to the new international standards contained in the 1993 SNA Manual, (iii) **a spreadsheet data model** containing the appropriate methodology and formulas for GDP in constant 2006 prices, (iv) **consistent time series** from the 2000-2008 period, (v) **metadata describing needed changes**, and (vi) **action plan** containing the steps forward.

The NASA conducted a one week mission to Suriname. The **Suriname** project is elaborate in the sense that it involves not only the rebasing of the constant price series from base year 1990 to 2007 but also a revision of the current price series, and exploring the use of administrative data sources to supplement the low response rates from the survey. The mission together with the GBS staff improved the methodology and the corresponding worksheets for all industries. Major improvements in the methodology and spreadsheet data model are related to the consistency check of the current and constant price estimates, the set up of a time series spreadsheet by industry for the 2004-2009 period, and the plausibility check of the growth rates by industry. The **major outputs** of the mission were (i) **improved understanding of national accounts compilation** as a result of the hands-on training provided, (ii) **improved methods** for compiling GDP in **current and constant prices** according to the new international standards contained in the 1993 SNA Manual (iii) **a spreadsheet data model** containing the appropriate formulas for GDP in

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current and constant 2007 prices,(iv) **consistent time series** for the 2004-2009 period, (v) **metadata describing needed changes**, (vi) an **action plan** containing the steps forward.

The NASA conducted a one week mission to **Hamilton Bermuda** to assist the Bermuda Department of Statistics (DOS) in rebasing GDP at constant prices. The mission concluded that no major revisions of the current price estimates are necessary in order to rebase the series from 1990 to 2006. DOS compiles value added at constant prices by industry on a regular basis. Series are available from 1996 to 2009. The main methodology used is to extrapolate base year 1996 value added by the volume of hours worked. The double deflation method is only used for a few industries. The mission stressed the importance of using the preferred method of double deflation. The **major outputs** of the mission were the same as those for Bermuda and Suriname but related to the 2000-2009 period.

#### B. Quarterly Gross Domestic Product

The National Accounts Statistics Advisor provided technical assistance to the Central Bureau of Statistics of Trinidad and Tobago (CSOTT) in the area of quarterly national accounts compilation as the next step to move to the SDDS subscription. The **major outputs** of the mission were (i) **improved understanding of quarterly national accounts compilation**, (ii) **an overview** of volume and price data available on a high frequency. Together with the senior staff, the mission concluded that for some industries volume data are readily available on a quarterly basis (e.g. volume data and indices for mining and manufacturing, index of domestic production). For some of the other industries mainly in the services sector, the availability of volume data should be further explored/ investigated. The mission provided guidance on the steps forward.

## 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 have been largely completed. They have made the revised CPIs more useful to policy makers, businesses, labor unions, and other users concerned with inflation trends. The XMPIs now 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 **Belize** (November), and **The Bahamas** (January). 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), (ii) **improved methods for compiling the CPI** according to the new international standards contained in the *CPI*

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*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 project.

The **outputs from the CPI revision projects are a new basket of items and outlets and an updated CPI** that make the revised CPIs both **more relevant to the countries' economies and more accurate as measures of inflation.**

In and **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 has been successfully tested and will be used for the revised CPI that should be released with May 2011 CPI data.

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 on a continuing basis. 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** has been delayed due to budgetary issues. The project should begin again in the next quarter. Work continues with **Trinidad and Tobago** revise the CPI Food index base on the PSA's earlier recommendations to improve the CSO's methods and procedures.

### **B. Developing Export-Import Price Indexes**

Technical assistant projects for introducing XMPs in the **Bahamas, Anguilla, and Barbados** are complete. 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**

Due to budgetary restrictions, there were no training activities this period. A national accounts workshop and advanced training for countries using the Price Index Processing System are scheduled for this year.

### **IV. OTHER STATISTICAL ACTIVITIES**

The Advisers participated in ECCB press briefing for the release the new rebased ECCB GDP and revised CPI series on December 15, 2010.

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The NASA attended several (regional) meetings in the period under review namely “The 35<sup>th</sup> Meeting of the Standing Committee of Caribbean Statisticians and 19th Meeting of the Regional Census Coordinating Committee” (November), “The CARICOM Workshop on National Accounts and International Trade in Services Statistics and International Comparison Programme (ICP) Meeting” (November). The regional meetings contribute to harmonizing and coordinating efforts in strengthening the statistical database and capacity in the region.



# **REVENUE ADMINISTRATION ACTIVITY REPORT**

**November 2010 – March 2011**

**Revenue Administration (Tax and Customs):  
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**REVENUE ADMINISTRATION (TAX & CUSTOMS)**

Revenue Administration activities for the past five months focused on **Revenue Administration Reforms** — (I) Reorganization of Revenue Administration; (II) Reform of Indirect Tax Systems through Implementation of value added taxes; (III) Strengthening of Revenue Administrations; and (IV) Reform and Modernization of Customs.

**I. Reorganization of Revenue Administration**

**Supported the Bahamas** with their preparations for the establishment of a single domestic **Tax Administration Department (TAD)** organized around functions rather than according to tax type. This should lead to greater integration of operations, better management of staff, improved compliance and enforcement, greater efficiency in the use of facilities and resources, and reduction of taxpayer costs and effort.

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

Grenada and the Federation of St. Kitts and Nevis introduced VAT and excise taxes on February 1, 2010 and November, 1 2010 respectively. Suriname is undertaking initial preparations to introduce a VAT by early 2013. CARTAC is assisting these three countries with their pre- and post- VAT and excise taxes implementation programs.

- **Grenada** - (i) completed a review of the initial nine months revenue performance of the VAT. This review also identified issues currently hampering the revenue performance and issues which may arise in the future; and, (ii) continued a program to build the capacity of the VAT auditors by providing on-the-job training, mentoring and coaching in audit techniques and case file management.
- **Federation of St. Kitts and Nevis** – (i) provided onsite support during the transition including assisting with the delivery of the compliance and sensitization programs, resolving issues arising out of the transition and providing general technical support to the authorities; (ii) assisted with the development of the return filing, payment and return processing procedures; (iii) provided onsite technical support during the first and second VAT return filing, payment and return processing period; (iv) trained VAT staff on select collections enforcement techniques; (v) assisted with the development and finalization of policies and procedures for select collection enforcement activities; (vi) assisted with the implementation of the taxpayer assurance program; (vii) completed a review of the draft VAT regulations; (viii) completed an assessment of the poverty and social impact of the reform of the indirect tax system and (ix) provided policy advice and off-site technical support on various operational aspects of VAT and excise administration.
- **Suriname** – in collaboration with the IMF Fiscal Affairs Department, completed a diagnostic assessment of the revenue administration to assess their readiness for a VAT.

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**III. Strengthening Revenue Administration**

**Antigua and Barbuda (DFID-funded program):**

*Tax Administration*

- 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, 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.
- Provided recommendations and assisted in measuring productivity and putting in place new cashiering procedures to ensure cash is reconciled daily with treasury and the IRD IT system. Also assisted in establishing and implementing new operational procedures in assessing, data capture and trained staff to reduce errors and enhance quality assurance / validation of taxpayer assessments regarding ABST and PIT.
- Provided recommendations and assisted in establishing program and individual measurement criteria for IRD's late and non-filers program. Also established operational procedures, information requirements and trained staff to address late and non filers in three professional sectors: Chartered Accountants, Medical Doctors and Attorneys.
- 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.
- Assisted with (i) a number of data integrity issues and IT fixes within the SIGTAS data base; (ii) migration of SIGTAS system from a 10G system application to the enhanced 10I system application on the new and back-up servers and (iii) establishing management information system (MIS) templates to reflect information and production in Collection Arrears; Cashiering; Assessing and Data Capture.
- Assisted with the preparation of (i) a Corporate Strategic Business Plan for IRD including mission, vision, values, strategic and

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- business objectives and (ii) a draft code of conduct and related material for IRD.
- Reviewed taxpayer services operations and prepared guides for the PAYE, ABST and PIT returns and related material.

**Customs Administration**

- Assisted in implementing (i) a new risk assessment program regarding bonded warehouses and duty free shops and related procedures; (ii) new compliance procedures and processes regarding release of goods, NSF cheques, cargo operations and related measurement systems, and yachts and related bonds and (iii) new operational procedures in the long room and deep water port (transit shed).
- Assisted with the preparation of (i) Antigua and Barbuda's draft customs bill and related regulations based on the CARICOM model and (ii) Antigua and Barbuda's new import tariff schedule based on the CARICOM HS 2007.
- Delivered a six day valuation methods course / workshop for 17 participants and provided hands on assistance and recommendations regarding valuations operations and procedures.
- Assisted with the preparation of (i) a Corporate Strategic Business Plan for Customs including mission, vision, values, strategic and business objectives and (ii) a draft code of conduct and related material for Customs.

**Other member countries:**

- **St. Vincent and the Grenadines** received assistance with the development of a large taxpayer program to ensure that appropriate attention is paid to the largest taxpayers. Once successfully implemented, this program is expected to extend to a further tranche of taxpayers at the higher end of the medium taxpayer group.

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- **Belize** 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
- **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.

**IV. Reform and Modernization of Customs:**

- **Belize** – (i) developed a plan to address deficiencies of the risk selection program; (ii) began some preliminary work to develop an analysis of smuggling of select goods; (iii) completed a workshop on 2011 risk assessment planning and (iv) developed a template for completing bonded warehouse audit summaries.
- **St. Kitts and Nevis** – (i) assisted with the development of: - a draft template for the 2011 St. Kitts and Nevis Risk Cycle Plan; a draft intelligence assessment document dealing with the importation of select goods; a proposal to harmonize the enforcement program in the Federation; and a draft MOU between CED and the St. Kitts and Nevis two other Government agencies and (ii) held a mini workshop with key St. Kitts’ staff to develop a draft set of business user requirements for the data warehouse which is key in the development of risk assessment and compliance measurement data;

**Revenue Administration (Tax and Customs):  
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- 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.
  - **Grenada** Support was provided on various operational and performance measurement challenges arising in their Customs modernization program including the development of: (i) an audit plan for concession and exemption beneficiaries; (ii) a draft proposal for expansion of Grenada CED hours of service; (iii) a draft summary report for individual audits, a draft ledger to ledger audit summary and an overall draft summary report for all audits and (iv) a template Enhancing CED customer service outlining the key issues that will need to be assessed in developing customer service training requirements as part of the Grenada Technical Assistance Project.



# **CAPITAL MARKET DEVELOPMENT ACTIVITY REPORT**

**November 2010 – March 2011**

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Capital markets development activities for the past six months were focused on cross-border takeovers and mergers, capital requirements, regulatory fee structure, collective investment schemes, operational procedures and training and government securities market development.

**PROJECTS CURRENTLY IN TRAIN AND RESULTS (INTENDED OR REALISED)**

- **Developing Protocol on Cross-border Takeovers and Mergers** for the region. The intended result of this project is to provide a basis for a common takeover code for CARICOM member states which would apply to a change of control transactions involving companies that are listed on more than one stock exchange in the region. It is expected to provide greater certainty to the industry that viable takeovers, mergers and acquisitions of cross-listed companies will not be frustrated by jurisdictional differences within CARICOM. This project was concluded in February 2011 after several drafts of a common takeover code and choice of law rules were prepared and discussed by the six participating regulators (Bahamas, Barbados, ECCU, Guyana, Jamaica and Trinidad & Tobago) at four workshops from July 2009 to January 2011. Feedback on the drafts was also the subject of a meeting of regulators from jurisdictions with developed securities markets which took place in New York City and was attended by the participating regulators. The final draft is expected to undergo extensive consultation with stakeholders, including the political directorate and industry participants before it is implemented. At least one country that does not have a takeover code in place at this point in time has committed to adopting most of the provisions the draft takeover code into its regulations or takeover code.
- **Developing Capital Requirements** for The Bahamas. The intended result of this project is to provide recommendations to the securities regulator for the establishment of up to date capital and liquidity requirements for industry participants when the new Securities Industry Act and accompanying Regulations, which were both developed through TA provided by CARTAC, is implemented. The new capital and liquidity requirements are expected to provide for greater investor protection and lower systemic risks arising from the potential failure of securities firms. The project was concluded in December 2010 and the Securities Industry Act was tabled in Parliament during the same month. The capital and liquidity requirements are expected to be incorporated into rules established by the regulator.
- **Developing Regulatory Fee Structure** for The Bahamas. The intended result of this project is to provide recommendations for a system of fees to be imposed by the securities regulator to assist the regulator to becoming self-sufficient. The new fee structure is expected to be implemented when the new Securities Industry Act and accompanying Regulations, which were both developed through TA provided by CARTAC, is implemented. The achievement of self-sufficiency will provide greater flexibility to the regulator in being able to focus resources on priority areas as and when they are needed. It also enhances the ability of the regulator to carry out its functions with a high

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- degree of autonomy from the central government which serves to build confidence in the markets. The project was completed in December 2010 and the Securities Industry Act was tabled in Parliament during the same month. It is expected that the regulator will incorporate most of recommended fees into its rules.
- **Advising on Policy Options for the Regulations of Collective Investment Schemes (CIS)** for Jamaica. The intended result of this ongoing project is to provide a detailed review of existing CIS regulatory arrangements and make recommendations on the policy options available to the regulators in order to achieve a comprehensive CIS regulatory regime. This would contribute to the objective of rationalizing and strengthening the regulatory regime in order to assist the industry to grow and develop while meeting international standards of investor protection. The regulator provided response to the STX draft report and a mission to Jamaica was planned for the STX for January 2011. CMD is awaiting receipt of the final report.
- **Strengthening the Regional Government Securities Market (RGSM)** for the ECCU. The intended result of this project is to strengthen the operations of the RGSM in order to improve its efficiency and ensure that it is appropriately structured to meet its mandate, which include allowing the participating governments to reduce reliance on external finance and lengthen issuance maturities or reduce financing costs. The final draft report of the RGSM was completed in midyear-2010 but the training component of the RGSM was conducted for staff of the ECCB, ECSRC and ECSE at the ECCB in St Kitts in January 2011 to complete the project.
- **Developing Government Securities Program** for Haiti. The intended result of this ongoing project is to provide a strategy for the development of the domestic government securities market which will include a detailed implementation plan, which will include an issuance calendar for the auction of treasury bills (T-Bills) of 3, 6 and 12 months maturity. A program for government commercial paper was successfully introduced at the end of September 2010 and there have been several issuance since then. More attention is now being devoted to the T-Bill program. The January/February Mission produced, inter alia, draft documents to facilitate the implementation of the program. The next STX mission is scheduled for 11 – 22 April, 2011 and the first issuance of a 13 week Haitian T-Bill is scheduled to occur on 20 April for value date 22 April.
- **Caribbean Group of Securities Regulators (CGSR) Annual Conference and Meeting** for the region. Eighteen staff members from the securities regulators in the region, including the ECSE, participated in the conference under the theme, “Promoting Investor Protection and Market Integrity in the Post Financial Crisis Era.” Presentations were made by regional industry participants and regulators with the exception of a staff member of the USSEC who spoke on “Combating Securities Fraud: Lessons Learned from Madoff and Other Failures.” The closed regulators’ meeting at the end of the conference addressed efforts by the CGSR to enhance harmonization of administrative practices in the areas of registration of industry participants and regulatory cooperation between CARTAC member

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- countries. The meeting also focused on concluding the Protocol on Cross-Border Takeovers and Mergers, development of a regional MMoU on cooperation and exchange of information and the Caribbean Exchange Network (CXN).