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CARTAC NEWS

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CARTAC's Annual Steering Committee, Belize, May 10, 2019

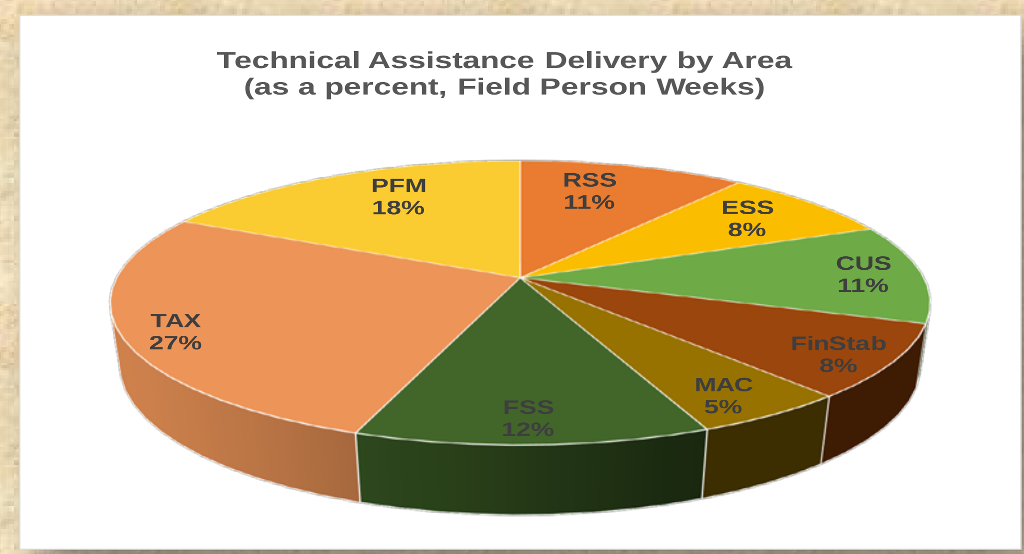
By Wendell Samuel, Programme Coordinator

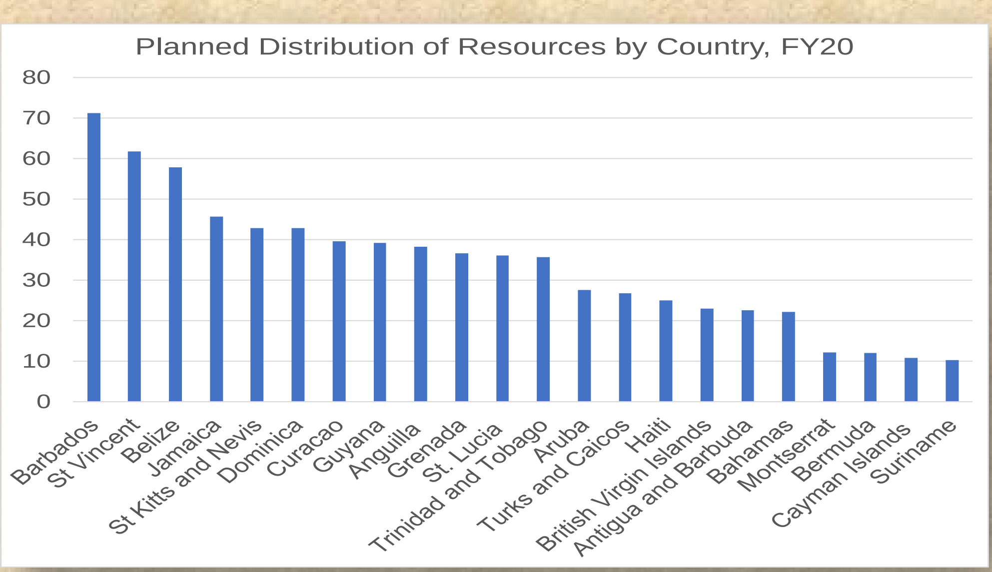
'CARTAC's finances have strengthened further since the November Steering Committee Meeting, with additional contributions from Canada, the UK and the European Union as well as a first-time contribution from Kingdom of the Netherlands. Ongoing negotiations with other prospective contributors, if concluded successfully, could close the financing gap for the rest of Phase V. Accordingly, CARTAC's Budget for 2020 is back to the level envisaged at the start of the phase. The theme of the May meeting was implementing disaster resilience, hence several presentations on the theme were discussed including the Disaster Resilience Strategy (DRF) recently presented to the IMF Board. The work program for FY20 reflects the stronger financial position and includes a Resilience building workstream. The meeting also featured a public lecture by the IMF's Financial Counsellor and Director of the Monetary and Capital Markets Department.' (MCM).

CARTAC's financial situation: CARTAC's finances have strengthened since last November's mid-year Steering Committee (SC) meeting. Additional contributions have been received from Canada, CAN$5; The Nether lands, €3 million; The UK, £1.9 million; and the European Union, €1 million. This follows a US$3 million contribution from Mexico earlier in the year. Meanwhile, a majority of CARTAC member countries have agreed to a 50 percent increase in member contributions for the rest of Phase V. These contributions will close the financing gap to $8 million in relation to the original budget of $69.5 million. However, liquidity constraints during the early part of the phase have forced a contraction in spending including a $3 million reduction in the FY19 budget. At the same time CARTAC implemented cost-saving measures including online training, remote technical assistance delivery and mini workshops for small groups of countries. Taken together with the new contributions these result in a financing gap of about $1.5 million in relation to the working budget.

Implementing resilience building workstream: CARTAC will implement a resilience building workstream in FY20, financed by the UK contribution. A panel chaired by the IMF's Financial Counsellor and Director of MCM provided background for the resilience building activities. The IMF's Western Hemisphere Department representative outlined the Disaster Risk Strategy presented to the Board on May 1, which proposes a 3-pillar framework: (i) structural resilience, (ii) financial resilience and (iii) post disaster and social resilience. This framework underpins the CARTAC resilience workstream. The UK, Canada and EU outlined their projects to support resilience in the Caribbean and Belize presented on their action plan based on the recently conducted Climate Change Policy Assessment (CCPA). The ensuing discussion elicited significant interest in the resilience workstream, the DRF and CCPAs, The World Bank also discussed their Public Financial Management related resilience work in the Caribbean.

CARTAC's Work program: With the financing gap almost closed, the FY20 CARTAC work program returns to the level envisaged at the start of Phase V. The FY19 work program envisaged TA delivery of 60 percent of the previous fiscal year, but cost saving measures resulted in a slightly higher outturn. Belize, Trinidad and Tobago, Barbados and Suriname were the largest recipients of CARTAC TA in FY19, with PFM, tax administration and financial sector supervision being the programs in largest demand. The passage of fiscal responsibility legislation in the Bahamas, workshops on cyber risks and crypto currencies, as well as a very successful first ever joint CARTAC and PFTAC workshop on tax administration were key achievements during FY19. The FY20 work program envisages 40 percent higher capacity development delivery compared with FY19. With assistance for its IMF-supported program, Barbados is expected to be the largest recipient of CARTAC TA in FY20, followed by St. Vincent and the Grenadines, Belize and Jamaica. The bulk of the Resilience work will be under the PFM program, which accounts for the largest portion of the FY20 budget followed by tax administration and financial sector supervision. CARTAC's mid-term evaluation in FY20 will provide an opportunity to reframe the medium-term work program perhaps including technical assistance to fill gaps in government financial statistics identified by the STA representative at the meeting.





Fintech Presentation. The IMF's Financial Counsellor and MCM Director Tobias Adrian, delivered a public presentation on "Paving the Way for Fintech" kicking off meeting the night before the Steering Committee formalities. The presentation was well-attended and included participation by the SC members, staff of the Central Bank of Belize, and members of the banking and business community in Belize. The presentation highlighted aspects of the Bali Fintech Agenda unveiled at the IMF-World Bank Annual Meetings in Bali in October 2018. These included the potential role for Fintech in promoting financial inclusion, the interaction between Fintech and existing technologies, and considerations in issuing central bank digital currencies.

Regional Workshop on Cyber Risk Security

By Ralph C. Lewars, Financial Sector Supervision Adviser

An MCM IMF-CARTAC initiative led by Ralph Lewars (CARTAC LTX), and Tamas Gaidosch, Senior Financial Sector Expert (IMF-HQ) visited Port of Spain, Trinidad and Tobago, during the period January 17 to 18, 2019 to conduct a Regional Workshop on **“Cyber Security Risk Management”** for the benefit of bank and non-bank supervisors from CARTAC member countries. The workshop/conference was hosted by the Central Bank of Trinidad and Tobago (CBTT).

The workshop was designed to provide guidance on the development of practical tools and strategies to enhance cyber resilience at central banks in the region and mitigate cyber risk exposures as part of ongoing supervision work at regulated institutions.

The workshop was attended by 49 participants from 21 of CARTAC member countries, including six participants from the CBTT and four from the Eastern Caribbean Central Bank with responsibility for either Information Technology (IT) Security or operational risk and cybersecurity supervision at central banks and other regulatory agencies across the region. An additional 14 participants from the Trinidad & Tobago Securities Commission CBTT, and from the Board and Senior Management Team of the CBTT attended the workshop. The participants assessed the workshop as extremely beneficial, based on content, sharing of experiences by the various jurisdictions in managing cyber risk and approaches being taken in establishing supervisory frameworks for the oversight of this risk at regulated institutions.

Developing Quarterly GDP Estimates in the Caribbean Region

By Zia Abbasi, Real Sector Statistics Adviser

There is growing demand from policymakers in the Caribbean region for quarterly GDP (QGDP) to be able to rapidly assess current economic developments. However, due to source data and resource constraints, most national statistical offices (NSOs) in the Caribbean have struggled with developing QGDP. Before 2015, only the Central Bank of Barbados and the NSOs of Belize and Jamaica produced and released QGDP estimates.

To address the challenges faced by the NSOs, CARTAC has used a comprehensive approach in assisting the NSOs; including lobbying the authorities to improve staffing and other resources and providing advice and assistance in identifying suitable indicators and price deflators, developing the QGDP workbooks, compilation, and dissemination.

From August 2015 to March 2019, a further nine NSOs in the region have commenced producing QGDP estimates, including the NSOs of Barbados, Bermuda, Bahamas, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Except for the NSOs of Barbados and St. Kitts and Nevis that only release to their Central Bank and Ministry of Finance, the rest are disseminating QGDP to the public via the NSOs' websites.

However, seasonally adjusted QGDP estimates are still only produced for Belize and Jamaica and there is significant interest from policymakers for seasonally adjusted estimates. To help the NSOs in the region to improve the quality of their QGDP and produce seasonally adjusted estimates, CARTAC conducted a training workshop during February 18-22, 2019.

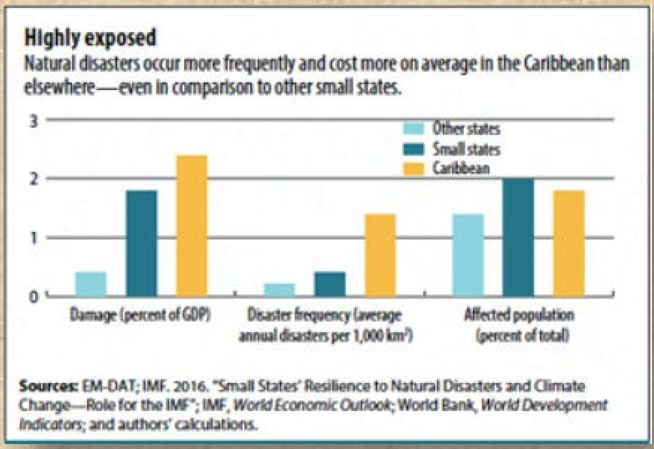
A total of 22 national accounts compilers from CARTAC member states producing QGDP participated in the workshop. Mr. Zia Abbasi (CARTAC Real Sector Statistics Advisor) and Mr. Robin Youll (IMF Expert) were the main presenters. The participants were trained on improving the quality of their non-seasonally adjusted QGDP estimates and seasonal adjustment techniques. The workshop included group exercises that were seen by participants as being very useful in reinforcing the concepts and techniques covered in the presentations. It is expected that the compilers will apply the knowledge and skills acquired during the training to improve the quality of their quarterly GDP estimates, as well as compile and disseminate seasonally adjusted estimates during FY2020 and FY2021.

Fiscal Policy for Climate Change in the Caribbean

By Embert St. Juste, Macroeconomics Adviser

Caribbean countries are highly vulnerable to frequent and damaging natural disasters and have been disproportionally impacted by hurricanes and other natural disasters. Rising global temperatures are likely to fuel further intensive storms and cause greater damage and loss of human life if more efforts are not made to strengthen resilience through mitigation and adaptation strategies. Due to the frequency and severity of climate related events on Caribbean economies, policy makers must consider integrating climate related fiscal policy tools with their macroeconomic frameworks.

The IMF estimates that the average cost of natural disaster related damage as a ratio to GDP was 4.5 times greater for small states than for larger ones, but six times larger for countries in the Caribbean.[1] Also, the Caribbean is seven times more likely to be hit by a natural disaster than larger states and twice as likely for other small states.



Sources: EM-DAT; IMF. 2016. "Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF"; IMF, *World Economic Outlook*; World Bank, *World Development Indicators*; and authors' calculations.

The high vulnerability of the Caribbean to natural disasters places governments under tremendous pressure to finance the costs of rebuilding the country after a disaster, notwithstanding their limited fiscal space and weak growth. This has resulted in some countries accumulating higher public debt as they borrow to rebuild their damaged infrastructure. In response to this situation small states in the Caribbean and other parts of the world have undertaken Climate Change Policy Assessments (CCPA) which seek to assess the readiness of their policy frameworks to possible climate change events.

CCPAs: The Tale of Two Caribbean Countries

Saint Lucia and Belize are the second and third small states respectively for which CCPAs have been completed, with the Seychelles being the first.[2] This joint IMF-World Bank initiative is aimed at reviewing the governments' plans for mitigating and adapting to the effects of climate change, in line with their Nationally Determined Contributions (NDC). It also makes recommendations on how the countries can strengthen policies aimed at greater resilience to climate change while maintaining a sustainable macroeconomic framework. The Saint Lucia CCPA report draws on the results of the World Bank's macro-fiscal model that simulates the effects of climate change policies on growth, the external position, fiscal and debt sustainability. The Bank is in the process of developing similar models for several other Caribbean countries with a view to integrating the impact of climate change with their medium term macro-fiscal modelling frameworks.

The Belize and Saint Lucia CCPA reports indicate clearly that intensified natural disasters would reduce output and worsen fiscal performance. In Saint Lucia's case, relative to the pre-disaster period, output would decline by over

[1] https://www.imf.org/external/pubs/ft/fandd/2018/03/otker.htm).
[2] Belize: https://www.imf.org/en/Publications/CR/Issues/2018/11/16/Belize-Climate-Change-Policy-Assessment-46372
Saint Lucia: https://www.imf.org/en/Publications/CR/Issues/2018/06/21/St-46007
A CCPA is being prepared for Grenada.

5 percent on average per year after a hurricane under a scenario of extensive climate change while fiscal performance would worsen commensurately. Belize's annual loss from wind and flooding averages about 7 percent of GDP.

The fiscal impacts of disasters require significant capital expenditures to repair and reconstruct damaged infrastructure, resulting in higher public debt, large budget deficits and unreliable funding streams. With several Caribbean countries facing large fiscal imbalances, this could be a source of further macroeconomic instability. The impact of hurricane Maria on Dominica resulted in damage and losses of 226 percent of GDP which could take Dominica's output 5 years to reach pre-hurricane levels, according to the IMF.[3]

Mitigation and Adaptation Strategies

Mitigation strategies are defined basically as measures to reduce the pace and effects of climate change. While individual countries can contribute to those measures, cooperation among states on a global scale is required to be effective. Adaptation strategies are basically measures to reduce the damage resulting from the incremental long-term shifts in changes in climate.

Saint Lucia's mitigation plans envisage cutting emissions by:

i. Expanding the share of renewable power generation from the current 0.2 percent to 35 percent by 2025 and to 50 percent by 2030;
ii. Improving energy efficiency for buildings, appliances and lighting;
iii. Promoting fuel efficient vehicles (e.g, hybrid and electric vehicles)
iv. Other measures such as improving power grid efficiency and expanding public transport.

Belize's mitigation measures include:

i. Expanding the use of renewables;
ii. Reducing energy intensity and fossil fuel use in transportation;
iii. Protecting forest reserves and improving sustainable forest management.

The Climate Change Adaptation Policy (CCAP 2015) is Saint Lucia's most recent strategic framework for addressing the impact of climate change in an integrated manner and across all sectors. It is a well-thought-out policy framework, but the plans need to be costed.

Belize has well-articulated policy framework and sectoral strategies in resilience building, but gaps remain in the costing details. Details of Belize's adaptation strategy are laid out in the National Climate Change Policy Action Plan (NCCPAP, 2013).

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[3] https://www.imf.org/en/Publications/CR/Issues/2018/09/05/Dominica-2018-Article-IV-Consultation-Press-Release-and-Staff-Report-46204

Financing of Climate Change Strategies

The availability of financing for the countries' mitigation strategies is critical towards meeting their targets for greenhouse carbon emissions. Both countries currently have carbon taxes as part of their government revenue structure. In Saint Lucia excise tax on gasoline and diesel was increased in July 2017 from EC$2.50 to EC$4.00 per gallon while in Belize fuel taxes are among the highest in the Caribbean at US$1.81 per gallon of premium gasoline and US$1.64 for regular gasoline. Notwithstanding the high level of taxes, current taxes on fuel fall short of delivering on Belize and Saint Lucia's mitigation commitments.

St. Lucia: Rates of, and Revenue from Fossil Fuel Excises and Levies, Latest Year

	2016			2017
Product	Consumption, million gallons	Excise/levy, EC$/gallon	Excise/levy, revenue, EC$mn	Excise/levy, July-November
Diesel--power generation	19.9	1.00	19.9	1.00
Diesel/gasoline for road fuels	17.0	2.5	42.6	3.0-4.0
Diesel--households/industry	4.0	1.00	4.0	1.00
Total/average	41.0	1.6	66.6	

Source. MOF, LUCELEC, IDB and staff calculations.
Notes. All fossil fuels are also subject to a service charge surcharge, currently 6 percent of the landed import price. And EC$7 million of fuel excise revenues cross-subsize LPG (a fuel consumed intenstively by low-income households).

Financing climate change strategies in Belize and Saint Lucia would require considerable private sector and/or external support. The countries' lack of fiscal space militates against any significant increase in climate change related spending. For Belize the total cost of adaptation and mitigation needs amounts to 28 percent of GDP in FY 2018-19 while funding the mitigation strategies in Saint Lucia is estimated to cost about 14 percent of GDP on average up to 2030.

Recognition of the need for financing climate change initiatives globally and in small island states in particular, is rapidly growing in importance. In his remarks at the Climate Finance Ministerial Meeting in Bali in October 2018, the UN Secretary General stated:

"We need to turn global investment in climate action from billions to trillions. The money is there but the policies that will liberate it are weak or non-existent. Mobilizing private sector financing is essential. But public financing and policies need to provide the foundation for the private sector to embrace climate action."[4]

Risk Management Strategies

The CCPA reports for Belize and Saint Lucia indicate the need to strengthen capacity in the area of assessing risk as a first step in provisioning for risk. One significant area of risk assessment which needs to be strengthened is government's contingent liabilities associated with the effects of natural disasters. For example, a fiscal risk statement needs to be prepared as part of the budget process which includes the risk to government finances arising from natural disasters. Governments can mitigate risk by building fiscal buffers, contingency funds or accumulating reserves.

Saint Lucia has contingency provisions for financing disaster relief but these are small. Belize retains almost all its risks, with little risk transfer, but does not make advance financial provision to cover realized risks. In both countries most public physical assets are not insured against natural disasters. However, both countries are members of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) although Belize has reduced its coverage from the hurricane and earthquake policies to only the excess rainfall product.

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[4] https://www.un.org/sg/en/content/sg/speeches/2018-10-13/remarks-climate-finance-ministerial-meeting

The way Forward

Saint Lucia is working with the World Bank to design a Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO) of US$20 million. The Cat DDO would give immediate liquidity to the government in the relief and response phases of a disaster.

A significant anticipated outcome of the CCPAs is not only to develop a comprehensive strategic policy response to climate change but as part of this outcome, to provide a basis for engagement with donors to finance the mitigation and adaptation strategies. However, further work will be required in filling in the information gaps with respect to cost if the reports are to be effective as a tool for attracting external financing.

Going forward the plan is to develop similar CCPA reports for other Caribbean countries particularly those that are highly vulnerable to natural disasters and with little fiscal space to adequately respond.

WHAT'S HAPPENING?

WORKSHOP CALENDAR

TAX ADMINISTRATION

Regional Seminar on Disaster Preparedness Planning
June 3-7, 2019, Dominican Republic

FINANCIAL STABILITY & FINANCIAL SECTOR SUPERVISION

Caribbean Group of Securities Regulators Annual Conference and Workshop
June 13-14, 2019, The Bahamas

Caribbean Association of Insurance Regulators (CAIR) Workshop
June 19-21, 2019, Guyana

STAFF FAREWELLS

We take this opportunity to bid farewell to technical advisers Moulay El Omari and Vinette Keene. Moulay shared his expertise as a Public Finance Management Adviser for the past year, while Vinette's expertise was shared as an Adviser in Tax Administration, a position in which she served for the past three years.

Several of CARTAC's member countries would have benefitted from the knowledge and skills of both these experts and we wish them all the very best in their future endeavours.

CARTAC Mission Schedule

CARTAC Mission Schedule (June -Aug 2019)

CARTAC’s 22 Member Countries

Anguilla	Antigua & Barbuda	Aruba	The Bahamas	Barbados	Belize
Bermuda	British Virgin Islands	Cayman Islands	Curaçao	Dominica	Grenada
Guyana	Haiti	Jamaica	Montserrat	St. Kitts & Nevis	St. Lucia
St. Vincent & the Grenadines	Suriname	Trinidad & Tobago	Turks & Caicos Islands		

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