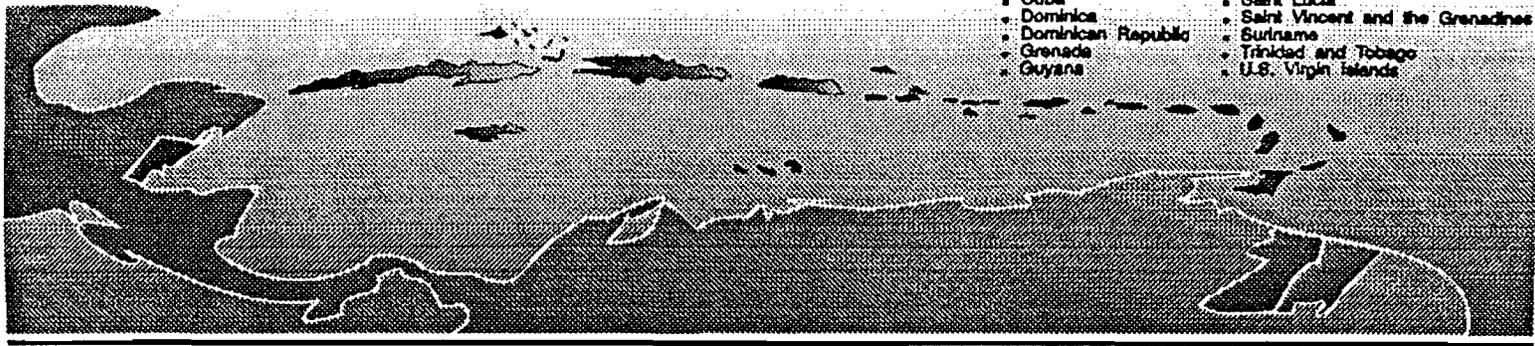
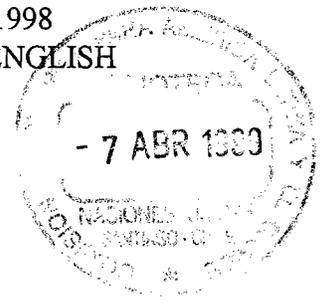


- Antigua and Barbuda
- Aruba
- Bahamas
- Barbados
- Belize
- Br. Virgin Islands
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Montserrat
- Netherlands Antilles
- Puerto Rico
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago
- U.S. Virgin Islands



Seminar on the Fiscal Covenant:  
 Strengths, Weaknesses and Challenges  
 23 November 1998  
 Port-of-Spain, Trinidad & Tobago

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**REPORT ON THE SEMINAR ON THE FISCAL COVENANT:  
 STRENGTHS, WEAKNESSES AND CHALLENGES**





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# **REPORT OF THE SEMINAR ON THE FISCAL COVENANT: STRENGTHS, WEAKNESSES AND CHALLENGES**

## **Background**

The seminar on *The Fiscal Covenant: Strengths, Weaknesses and Challenges* was held on 23 November 1998 at the Trinidad Hilton Hotel, Trinidad and Tobago. The Fiscal Covenant is the latest in a series of United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC) documents on the theme "Changing production patterns with social equity" and was presented at the twenty-seventh session of ECLAC, 11-16 May 1998, Oranjestad, Aruba.

This one-day regional seminar was the initiative of the ECLAC Subregional Headquarters for the Caribbean. The main goal was to sensitize high-level Caribbean policy makers to the many important issues of public sector finance and management discussed in *The Fiscal Covenant: Strengths, Weaknesses and Challenges*, and to provide a forum for exchange of experiences on the issues of special interest to the Caribbean.

## **Participation**

Twelve representatives from CDCC member and associate member countries were present at the meeting. They were: Anguilla, Belize, British Virgin Islands, Cuba, Guyana, Haiti, Jamaica, Netherlands Antilles, Puerto Rico, Saint Lucia, Suriname and Trinidad and Tobago. There were also representatives from the Central Bank of the Bahamas, the Central Bank of Trinidad and Tobago, the Eastern Caribbean Central Bank (ECCB), and the Inter-American Development Bank (IDB).

The following organizations were present: the Association of Caribbean States (ACS), the Caribbean Centre for Development Administration (CARICAD), the Caribbean Centre for Monetary Studies (CCMS), the Caribbean Congress of Labour (CCL), the Caribbean Community (CARICOM), the Employers Consultative Association of Trinidad and Tobago (ECA), the Food and Agriculture Organization of the United Nations (FAO), the Institute for Social and Economic Research (ISER), the Inter-American Institute for Cooperation on Agriculture (IICA) and the University of the West Indies (UWI). A list of participants is annexed.

## Programme

The programme of the seminar was as follows:

- 9:00 - 9:40            Opening ceremony
- Opening remarks by the Chairman, Mr. Kamal Mankee, Permanent Secretary, Ministry of Finance, Trinidad and Tobago
  - Address by Ms. Len Ishmael, Director, ECLAC Subregional Headquarters for the Caribbean
  - Address by Mr. José Antonio Ocampo, Executive Secretary of ECLAC
  - Feature Address by His Excellency Honourable Brian Kuei Tung, Minister of Finance, Trinidad and Tobago
- 9:40 - 10:00        Coffee Break
- 10:00 - 12:00        Presentation of the **Fiscal Covenant: Strengths, Weaknesses and Challenges** - Mr. José Antonio Ocampo, Executive Secretary of ECLAC  
Discussion
- 12:30 - 13:30        Lunch
- 13:30 - 14:10        Presentation of the **Fiscal Challenge and Caribbean States at the Turn of the Century** - Dr. Ramesh Ramsaran, Consultant  
Discussion
- 14:10 - 15:30        Presentation on their national experiences with the issues examined in the ECLAC document:
- Saint Lucia:                            Mr. Calixte Leon
  - Dominican Republic:                Mr. Sidya Ould El Hadj (ECLAC) on behalf of Mr. Rolando Guzman
  - Trinidad and Tobago:                Mr. Vishnu Dhanpaul
  - Netherlands Antilles:                Mr. Elfried Paulina
- Discussion
- 15:30 - 16:30        Conclusions from discussions, definition for further work and closure of the Seminar: Mr. Sidya Ould El Hadj, ECLAC Subregional Headquarters for the Caribbean

This report is structured in four sections, the first gives an overview of the remarks made at the opening ceremony while the second gives a synopsis of all the presentations delivered at the seminar. The third summarizes the main points of discussion and the final section identifies the main conclusions and recommendations and makes proposals for future action.

## **SECTION I**

### **Opening ceremony**

The Chairman, Mr. Kamal Mankee, Permanent Secretary, Ministry of Finance, Trinidad and Tobago welcomed the participants to the Seminar and introduced the document *The Fiscal Covenant: Strengths, Weaknesses and Challenges* by outlining its main elements, namely:

- Consolidation of fiscal adjustment;
- Improved productivity of public expenditure;
- Increased fiscal transparency;
- Greater social equity; and
- Stronger democratic institutions.

He ended his remarks by stating that it was the honour of the Ministry of Finance of Trinidad and Tobago to co-host this Seminar on this important theme.

### **Summary of address by Ms. Len Ishmael, Director, ECLAC Subregional Headquarters for the Caribbean**

Ms. Len Ishmael, Director, ECLAC Subregional Headquarters for the Caribbean, welcomed participants to the subregional seminar. She expressed sentiments that their presence signaled the importance that their respective countries attached to the formulation of appropriate policies to respond adequately to the fiscal and other challenges which lay ahead.

She stated that there could be no doubt that the development process in Latin America and the Caribbean experienced a fundamental transformation after the implementation of structural reforms programmes by most countries in the decades of the 1980s and 1990s, bringing about economic stabilization and a resumption of growth, although at moderate rates.

Notwithstanding these achievements, the Director commented that the outcome of the reforms in improving social conditions and welfare in these countries had not been as encouraging. Increasing levels of income inequality and worsening levels of poverty have accompanied the reform process in several countries. In the Caribbean where social spending has historically tended to be

higher as a percentage of GDP than in Latin America, social programmes, including health care, education, public transportation and subsidized housing, have resulted in services and facilities well below the level expected by the population, or justified by the amount of resources devoted to various sectors as a result of inefficiencies in the allocation process. Although the poor have no doubt benefited from these programmes, those less in need have also profited and mechanisms were still being sought to improve the efficiency of social programmes and to better target them to those most in need.

She stated that the purpose of the seminar was to discuss the wide range of issues raised in *the Fiscal Covenant: Strengths, Weaknesses and Challenges* at the regional, subregional and national levels, and to exchange views on the applicability of the recommendations made in dealing with the complex fiscal issues which confront the Caribbean as we enter a new century.

She concluded her remarks by thanking the Ministry of Finance of Trinidad and Tobago for co-hosting the seminar and the Dutch Government for their generous contribution in support of this meeting. She also extended a particularly special welcome to Mr. Ocampo on his first official visit to the English-speaking Caribbean as the Executive Secretary of ECLAC.

### **Summary of the address by Mr. José Antonio Ocampo, Executive Secretary of ECLAC**

Mr. José Antonio Ocampo, Executive Secretary of ECLAC, used his first address to the Seminar to make a presentation on the international financial crisis. He stated that this crisis has been the dominant event worldwide for the last year and a half and although countries of Latin America and the Caribbean have been undertaking structural and economic reforms yielding positive results, for example, strengthening fiscal accounts and creating more competitive industrial sectors, some of them were experiencing the negative effects of the crisis.

The crisis has affected the countries of the region through three main channels: deterioration in the terms of trade, increasing difficulties in accessing international financial markets, and contractionary fiscal policies implemented in response to the crisis.

The Executive Secretary drew the following five lessons of crisis:

- The inability of the international financial institutions, including the credit rating agencies, to predict the crisis;
- The lack of stability of the international financial markets;
- The need for the industrialized countries to utilize corrective economic measures to combat crises, for example, engage in expansionary fiscal policies, and noted that this was already taking place in some countries;

- The need to overhaul the international financial system to include macroeconomic coordination among the industrialized countries;
- The need for better economic and financial information and better regulation and supervision of the financial sector; and
- The need to strengthen the countries' capacity to manage the crisis, which include the strengthening of their capacity to manage booms by reversing the present pro-cyclical nature of public finances.

Mr. Ocampo then informed that ECLAC had held similar seminars in Central and Latin America and was looking forward to learning more about the Caribbean experience in the context of the key issues set out in the Fiscal Covenant.

### **Summary of the feature address by His Excellency the Honourable Brian Kuei Tung, Minister of Finance, Trinidad and Tobago**

The Honourable Brian Kuei Tung, Minister of Finance, Trinidad and Tobago delivered the feature address to the meeting. In his remarks, he commented that over the past three decades the ECLAC Subregional Headquarters for the Caribbean has represented an important source of analysis and information on economic activity for the subregion and commended the Office for its efforts.

He stated that Trinidad and Tobago's experiences over the last two decades have confirmed that sound macroeconomic policies were critical to any country's ability to provide for the welfare of its citizens. He informed that after several years of stabilization and adjustments, Trinidad and Tobago was now on a firm path of non-inflationary growth.

He then proceeded to compare the key elements of the *Fiscal Covenant* to the policies already implemented in Trinidad and Tobago as well as to those which were planned for the future. He made references to social equity, fiscal consolidation, quasi fiscal deficits and pension reform.

The Minister stated that the central government has achieved remarkable progress in the area of fiscal consolidation over the adjustment period. Policies aimed at fiscal consolidation included government's decision to reduce the public sector deficit, through wage and salary reductions to public sector workers, reductions in the transfer/subsidy budget and a rationalization of the tax system. In fact, he stated that the cornerstone of the tax reform had been the successful implementation of the value added tax (VAT) system since 1990.

With respect to social equity, the meeting was informed that the Trinidad and Tobago Government recognized the importance of social expenditure by Government and the key role it played in the redistributive process. He then highlighted the fact that Trinidad and Tobago was committed to giving higher priority to social spending over the medium term.

He concluded by wishing the participants success in their deliberations and suggested that the experiences which have been tested in some economies may provide useful insights for others.

## **SECTION II**

### **Presentations**

#### **Presentation of the *Fiscal Covenant: Strengths, Weaknesses and Challenges***

Mr. José Antonio Ocampo, Executive Secretary of ECLAC, presented the document *Fiscal Covenant: Strengths, Weaknesses and Challenges*. He stated that there was a need for political consensus, explicit or implicit, on the level, composition and trend of public expenditure and how to finance it.

He then proceeded to outline the following main elements of a new Fiscal Covenant:

- Consolidation of fiscal adjustment;
- Improved productivity of public expenditure;
- Increased fiscal transparency;
- Greater social equity; and
- Stronger democratic institutions.

In the area of consolidation of fiscal adjustment, the Executive Secretary stated that progress has been made in reducing the public deficit through cutting back on public spending while holding total revenues steady; and by reducing the external debt. He warned, however, that these gains were still fragile for the following reasons:

- (a) Public finances still have a strong pro-cyclical bias;
- (b) Increased spending during the upswings has been financed with transitory revenues, including proceeds from privatization;
- (c) Quasi-fiscal operations are inadequately regulated;
- (d) Decentralization has at times given rise to fiscal imbalance;
- (e) The public debt burden is still high; and
- (f) Vulnerability to financial crises is very much present.

In the area of improved productivity of public expenditures, the Executive Secretary outlined the following areas of major progress:

- More efficient management of public sector enterprises;
- Decentralized management of expenditure, particularly social spending; and
- Designing mechanisms to allow for the participation of new agents in areas traditionally reserved for the State.

He stated that the courses of action to assist in improving the productivity of public expenditures were to:

- (a) Promote a new management culture in the public sector which is results oriented and recognizes the scarcity of resources;
- (b) Strengthen the efficiency of public sector enterprises;
- (c) Decentralize services effectively;
- (d) Manage properly the privatization process; and
- (e) Encourage the participation of the private sector, solidarity sector and the community as a whole in the execution of social programmes.

In the area of transparency of fiscal accounts, it was felt that governments had an incentive to replace politically "costly and transparent instruments" with other "cheaper and less transparent tools" to evade public and parliamentary scrutiny. The extent of quasi-fiscal practices was related to the strength or weakness of the fiscal covenant and the lack of information or poor-quality information on these practices was a source of opacity in fiscal accounts. The recommended courses of action were:

- (a) To cut down on quasi-fiscal practices by: incorporating them into the budget, preparing supplementary budgets (for tax expenditure, mandatory regulations and guarantees); and
- (b) To improve fiscal information by producing detailed and timely data on all aspects of public sector finances.

Mr. Ocampo informed that social expenditure was one of the main tools available to the State to deal with the issue of social equity. Further, he commented that the search for macroeconomic stability has postponed efforts to achieve horizontal and, more importantly, vertical equity.

He further stated that while there have been significant advances in the area of social expenditure, there were still major disparities within the region. The increase in social expenditure has been largely due to the growth in spending on social security.

The Executive Secretary commented that the data revealed that there has been a relative increase in social spending in Latin America but not in the Caribbean. He noted, however, that social expenditure in the Caribbean has been much higher than that of Latin America since 1987. In addition, data for 1996 showed that despite its recent increase, social spending in Latin America was still lower than that of the Caribbean.

The courses of action recommended for the promotion of social equity were to:

- Regularly monitor the distributional impact of fiscal policy;
- Strengthen social spending, through targeting and increased funding;
- Restore emphasis on direct taxation, especially personal income tax;
- Monitor the effects of decentralization; and
- Incorporate specific solidarity mechanisms in the design of schemes for private-sector involvement in social services.

With respect to the fifth element of the *Fiscal Covenant* related to the strengthening of democratic institutions, the Executive Secretary recommended the following courses of action:

- (a) To promote the development of balanced, transparent and democratic fiscal institutions; and
- (b) To improve the information flows, essential to the proper functioning of fiscal institutions.

### **Presentation of the paper *Fiscal challenge and Caribbean States at the Turn of the Century***

The paper *Fiscal challenge and Caribbean States at the Turn of the Century* was presented by Dr. Ramesh Ramsaran, Consultant. He commented on the timeliness of the *Fiscal Covenant* stating that it came at a time when a great deal of attention was being given to the role of the State.

He stated that the *Fiscal Covenant* attempted to deal with the experiences of both Latin America and the Caribbean. He cautioned that there were clearly distinct differences between the

countries of Latin America and the Caribbean but that there were also many social and fiscal concerns being raised in Latin America that were of relevance to the Caribbean. These were identified as the following:

- Poorly functioning tax systems;
- Widespread tax avoidance;
- Growing dependence on indirect taxes in some cases;
- Inefficient spending;
- Implications of quasi-fiscal spending for the budget;
- Lack of adequate transparency and the presence of social inequities.

He then proceeded to identify the economic characteristics of Caribbean countries while commenting on their recent economic performance. He stated that in the recent past the countries of the Caribbean had improved their economic performances, but raised the question of the sustainability of these improvements.

He further stated that the reform of the tax system was receiving greater attention in the Caribbean and that whereas initially the effort to deal with fiscal deficits was to cut capital and current expenditure, the emphasis was now shifting towards the reform of the tax system.

The *Fiscal Covenant* asserted that the direct tax ratios of the Caribbean were closer to those of the countries of the Organization for Economic Cooperation and Development (OECD), however, Dr. Ramsaran stated that there were exceptions to the relatively high direct tax ratios of some Caribbean countries. He informed that, for example, the countries of the ECCB area collected almost 80 per cent of their tax revenues from indirect taxes and were, therefore, closer to Latin American tax structures than to those of the OECD. In the Caribbean, the Bahamas had set up a tax haven system to encourage investment and has even opted to be a member of CARICOM but not of the Common Market to maintain that system. The tax system in the Caribbean was not very elastic and he recommended that some attention has to be paid to the buoyancy of the system.

With respect to savings, he stated that the propensity to save varied in the subregion. In Trinidad and Tobago, for example the savings coefficient was high. He suggested that more attention has to be paid to encouraging savings and investment because of their crucial role in economic development.

On the issue of privatization, Dr. Ramsaran warned that the privatization of some providers of goods and services that were once subsidized by the government may lead to the creation of monopolies. Such moves may place the provision of essential goods and services into private monopolies with all the negative effects which followed the creation of dominant players in the market.

With respect to the issue of social expenditure, the presenter informed that Caribbean governments had devoted substantial resources to the social sector. He highlighted that the problem in the Caribbean was not the level of spending but rather the inefficiency of public spending. Greater progress in this area will come from gains in efficiency.

Dr. Ramsaran concluded that there was a new role for civil society in the *Fiscal Covenant*, that is, more active involvement of the private sector and civil society as a whole. However, he warned that while government intervention may not be necessary in every area there were certain areas in which government intervention might be essential.

### **Presentation of national papers**

Under this item, four national papers were presented in the context of comparing the experiences of these countries to the issues examined in the Fiscal Covenant. The following countries made presentations: Saint Lucia, the Dominican Republic, Trinidad and Tobago and the Netherlands Antilles.

#### ***Saint Lucia***

The representative of Saint Lucia, Mr. Calixte Leon, Director of Research, Development and Policy, Ministry of Finance and Planning, gave the presentation on his country's experience with the critical elements of the Fiscal Covenant. He gave an overview of Saint Lucia's economy, stating that unlike other Latin American and Caribbean countries, Saint Lucia has always implemented prudent fiscal policies which have facilitated the economic stability and sustained growth of the country over the years. He also informed that there was no radical policy shift in the fiscal policy stance.

In the area of fiscal consolidation, Mr. Leon, informed that the Government was pursuing the following policies:

- Reforming the taxation system, with the objective of simplifying the system while increasing buoyancy;
- Increasing the efficiency of revenue collections; and
- Reforming and modernizing the Customs Department.

Saint Lucia has implemented recent policy and institutional changes, with the aim of making more efficient use of government financial resources under the Financial Management Reform project (FINMAN) whose main components were:

- A budget reform exercise which commenced in 1997, and which included the introduction of programme budgeting in Central Government operations, the strengthening of the phases of the budget cycle and the introduction of the preparation of operational plans for all programme areas government wide;
- Legislative reform;
- The Standardized Integrated Government Financial Information System (SIGFIS);
- Training; and
- Organization and management and best practice initiatives.

Mr. Leon informed that the new Government had given high priority to issues of governance and transparency. The move toward greater accountability and transparency was manifested in the current budget reform process. Moreover, he stated that Saint Lucia intended to further democratize the budgetary process by creating a Council of Social Partners with representatives of the public sector, the private sector, labour, religious denominations, non-governmental organizations and regional institutions.

With respect to quasi-fiscal operations, the Government intended to adopt the practice of quantifying the amount of tax exemptions, concessions and loan guarantees currently being offered. In fact, the report informed that one of the recommendations for the tax reform exercise was to append such a quantification to the budget estimates for presentation to Parliament. In addition, the Government recognized that the presentation of accurate, transparent and timely economic data and information was an important prerequisite for transparency in Government operations.

On the issue of the promotion of social equity, Mr. Leon informed that tax and expenditure policies were two important tools used by the Government to influence income distribution. Over the years, there were increases in current expenditures on health and education and, to a lesser extent, on direct transfers to the needy. In addition, Government's expenditure towards social equity also included capital expenditures on social projects. Also, a significant number of low income earners have been removed from the tax net.

### ***Dominican Republic***

The report on the experience of the Dominican Republic was presented by Mr. Sidya Ould El Hadj of the ECLAC/CDCC secretariat on behalf of Mr. Rolando Guzman who was unable to attend. The report informed that the economy of the Dominican Republic has experienced a process of strong non-inflationary growth during the last five years. Economic growth was linked to a set of economic reforms including the modification of tariff and internal tax structures, which were initiated during 1990-1995.

It also stated that the fiscal accounts of the Dominican Republic were much sounder than they used to be, however, it stated that tax evasion was still a major problem and recommended that a more profound modification of the tax structure and further improvement of the tax collection mechanism were needed.

The report highlighted the high dependence of the fiscal accounts on the political cycle - revenues of the Central Government tended to decrease and its expenditure increase during election years, resulting in increased fiscal deficits during those years.

In describing the quality of Government expenditure, the report stated that the execution of the budget reflected the drawbacks of its formulation. The following is a list of these drawbacks:

- Low coordination among different entities which dealt with related matters;
- Limited tradition of project analysis by some public institutions;
- Poor information systems;
- Low maintenance expenditure; and
- Poor human capital.

With respect to the transparency of public sector accounts, the report revealed that the fact that budget execution differed in a systematic way from the budget approved by Congress was itself a source of opacity since the public could not know *ex ante* the plans of the Government. In addition there was inadequate control of the internal debt.

With respect to social equity, the meeting was informed that the Dominican Republic was now spending more on education and health and was emphasizing the issue of redistribution and its effects. The existing weaknesses were that most subsidized programmes were not targeted properly and that there were duplicative efforts among Ministries.

### ***Trinidad and Tobago***

In his presentation on the Trinidad and Tobago experience, Mr. Vishnu Dhanpaul, Deputy Director, Monitoring and Coordination Unit, Ministry of Finance of Trinidad and Tobago, concentrated on one element of the *Fiscal Covenant* - fiscal consolidation. He stated that since 1991 Trinidad and Tobago has progressed in establishing a sound macroeconomic policy framework that has placed them on a path of positive growth.

The country's fiscal reforms comprised the following:

- The reform of the country's tax and tariff systems;
- The modernization of the country's administrative revenue collecting agencies; and
- Introduction of the new VAT system.

These reform initiatives have resulted in a more transparent, more efficient and simpler tax system, aimed at reducing the incidence of tax evasion and encouraging greater levels of compliance by the tax paying public.

It was revealed that together with improvements in revenue collection, measures to curtail recurrent expenditure and rationalize public and State-owned enterprises have also formed an integral part of fiscal consolidation. Many State-owned enterprises have been privatized and divested to encourage greater efficiency in operations and resource allocation. Efforts are underway to reform the current social security system, so as to decrease Government's contingent liability.

Mr. Dhanpaul then identified the following indicators as evidence that Trinidad and Tobago has had a successful fiscal consolidation episode:

- For the past six years, Trinidad and Tobago has been transformed into a vibrant economy, sustaining positive levels of non-inflationary growth;
- Growth projections for year end 1998 has also indicated another year of strong growth (5 per cent in 1998);
- Inflation continues to be contained in single-digit rates;
- Unemployment rates are on the decline; and
- Fiscal surpluses up to 1998 have been recorded.

***Netherlands Antilles***

Mr. Elfried Paulina, Second Deputy Director for Finance, Department of Finance, presented the report on the Netherlands Antilles experience. He informed that during the 1990s the Netherlands Antilles passed through some turbulent periods for both the economy and the policies. The widening of the fiscal deficit and the erosion of the international reserves in 1996 were two of the main reasons which led to the introduction of the Structural Adjustment Programme (SAP).

The SAP consisted of:

- Revenue increasing policies;
- Expenditure reducing policies; and
- Revitalization of the economy.

The implementation of the SAP policies improved fiscal accounts but brought about increased unemployment, lower investment and reductions in GDP.

In 1997, the Netherlands Antillean Government recommended that the following measures be implemented to assist in jump-starting the economy. These were:

- More focus on the development of tourism, one of the main assets of the islands;
- The abolition of legislative distortions in the economy, for example, market protection;
- The establishment of more transparent regulations;
- More participation of the private sector in economic activities; and
- Public sector reforms.

It was hoped that these would allow for the elimination of red tape in decision-making and allow for the creation of a more flexible economy.

### SECTION III

#### Summary of discussions

In the discussions, the issue of privatization received a great deal of attention. It was suggested that although the appropriateness of privatization was decided by the countries, privatization should not be used solely for revenue generation but rather to create more efficient companies capable of surviving in a competitive market environment. In addition, it was suggested that privatization should always be accompanied by proper regulation to ensure the adequacy of the services provided by the privatized companies and prevent collusion activities. The issue of government guarantees offered as part of the privatization package was also discussed and it was suggested that governments should be more cautious in offering these guarantees which, in fact, constituted contingent liabilities which the governments could ill afford.

The issue of the ratio of direct taxation and indirect taxation in the tax structure of the countries was discussed extensively. It was noted that there was a greater reliance on direct taxes in some Caribbean countries while the opposite was true for Latin America. The recommendation in the Fiscal Covenant that there should be a shift away from indirect to direct taxation was mainly intended for Latin American countries and, to a certain extent, the smaller Caribbean countries with the aim of moderating the regressiveness of the overall tax structure. However, the difficulties for the smaller countries to shift the tax structures from a high level of indirect taxes to direct taxes was recognized. It was also noted that indirect taxes could be made more progressive with the institution of exemptions on basic commodities generally constituting the bulk of the purchases of the lower income groups.

The meeting also discussed the issue of the role of civil society in the *Fiscal Covenant*, in particular, its involvement in budget preparation. Private sector participation, as well as the participation of other civil sectors, for example, academia, labour unions, etc, in the design and preparation of the budget was encouraged. Further, it was agreed that there should be mechanisms in the Covenant to ensure that the poor were not excluded from this process.

The issue of targeting social expenditure was also discussed, and it was stated that it was better to target the delivery of services to the more deserving sectors of society through public expenditure rather than taxes. The latter was more difficult since reforms of the tax systems were generally aimed at simplifying the tax structures and making them more transparent.

The participants discussed the issue of quasi-fiscal operations, their role in the lack of transparency in fiscal accounts and how to ensure that these operations were brought to the attention of the legislature and the public. It was stated that legislation may be required to ensure that the revenue and expenditure costs arising out of these practices were included in the budget so as to improve the transparency of fiscal accounts.

On the issue of the heavy expenditures on debt repayment experienced by some Caribbean countries, views were expressed that debt write-offs might be the only option available if these

countries were to overcome their long-standing financial difficulties. The present expenditures on debt repayment could be redirected to social sectors which have deteriorated considerably in these countries.

The meeting also noted the need for more investment in human resources and the use of technology to improve implementation of the ongoing reform programmes, including tax reform.

ECLAC informed the meeting that the information gathered and experiences discussed at this Seminar would be included into the *Fiscal Covenant* document which was being reviewed.

#### **SECTION IV**

##### **Conclusions and future actions**

Mr. Sidya Ould El Hadj of the ECLAC Subregional Headquarters for the Caribbean highlighted the main issues discussed during the day. These were:

- The effects of the international financial crisis;
- The five lessons of the crisis;
- Issues related to privatization;
- Direct vs. indirect taxation;
- Participation of the private sector in the delivery of social services and the provision of mechanisms to ensure that the poor were not excluded;
- Participation of civil society in the budgetary process;
- Targeting of social expenditure through public expenditure and taxation;
- Legislation may have to be enacted to ensure that there was transparency in the fiscal accounts through the inclusion of quasi-fiscal activities;
- The issue of debt overhang in some countries and the need for debt write-offs; and
- The issue of improving human resources for more effective implementation of reform programmes, including tax reforms.

## Issues for further research and action

He then suggested the following future courses of action:

- Fiscal information and data - with regard to published information, there was a need to strengthen the quality, availability and timeliness of fiscal information and data in the Caribbean;
- On the issue of quasi-fiscal operations - efforts should be made to “bring the submerged part of the iceberg up to the surface”, that is, some attempt should be made, as outlined in the document, to bring these quasi-fiscal operations more in the open;
- To pursue two recommendations in the document, namely:
  - Moving towards use of accrual based accounting rather than the presently used cash based accounting; and
  - To consider the possibility of publishing public balance sheets to get a better picture of the national wealth.
- Need to carry out studies on the distributional impact of public expenditure using as a guide the partial and general equilibrium analysis done for some Latin American countries, for example, Argentina and Colombia;
- Issue of social sector reform to sustain fiscal policies and the need to pay greater attention to rising poverty, social security and pension reform *vis à vis* fiscal policies;
- Issue of public management performance - ensure that countries have the capacity to carry out reform policies effectively and efficiently.

## Concluding remarks - Mr. José Antonio Ocampo, Executive Secretary, ECLAC

Mr. Ocampo thanked the participants for their effective participation in imparting useful analysis and information. He apprised that this information would be useful in providing a more in-depth analysis of the Caribbean subregion when the Fiscal Covenant document was revised.

He emphasized the following three issues:

- That the statement in the document referring to increases in expenditure in social areas was in general relevant to the Latin American experience. In fact, he recognized that the Caribbean had rates of social expenditure closer to industrialized countries, but there was a need to make that expenditure more efficient.
- The importance of budget management and international financial accounting system.
- The importance of the sustainability of sound public sector accounts. Countries have to save more during periods of rising revenues and use these savings to stabilize the economy during downswings in order to moderate the present pro-cyclical nature of public finances. The present emphasis on yearly balanced budgets tended to encourage the present of pro-cyclical nature of public finance.

#### **Closure of the meeting**

The Chairman of the afternoon session, Mr. Jerry Hospedales, Deputy Governor, Central Bank of Trinidad and Tobago, thanked the participants for their attendance and contributions to the discussion of the issues raised and declared the seminar closed.

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