

# UNDERSTANDING THE ECONOMIC SOCIAL & BUSINESS IMPERATIVES FOR THE REGION



International  
Federation  
of Accountants



WORLD BANK GROUP



ELIDA  
MANAGEMENT

MARIANO BROWNE

# OBJECTIVES

- Understand the changes in the world environment and the implication of this on the economies on the Caribbean.
- Identify some of the common challenges affecting Caribbean nations.
- Appreciate the role of key stakeholders in a country.
- Understand the public financial reporting framework and its impact on economic development and in creating a favorable business climate and stability.

**It has been said that  
arguing against  
globalization is like  
arguing against the  
laws of gravity.**

**Kofi Annan**

**Globalization is not  
something we can hold  
off or turn off . . . it is the  
economic equivalent of  
a force of nature -- like  
wind or water.**

# COMMON REGIONAL CHALLENGES

No	TYPE	SPECIFICS
1	ECONOMIC	High debt to GDP ratio / Balance of Payments issues
		Reduced revenue partly due to lack of economic diversification.
		Increasing expenditure requirements.
		Climate change.
2	SOCIAL	Increasing crime.
		Unemployment.
		Healthcare improvement requirements.
		People development.
3	BUSINESS	Weak infrastructure.
		Improving the Weak or underdeveloped enabling environment and structures.
		Competition and financial constraints/ increasing output

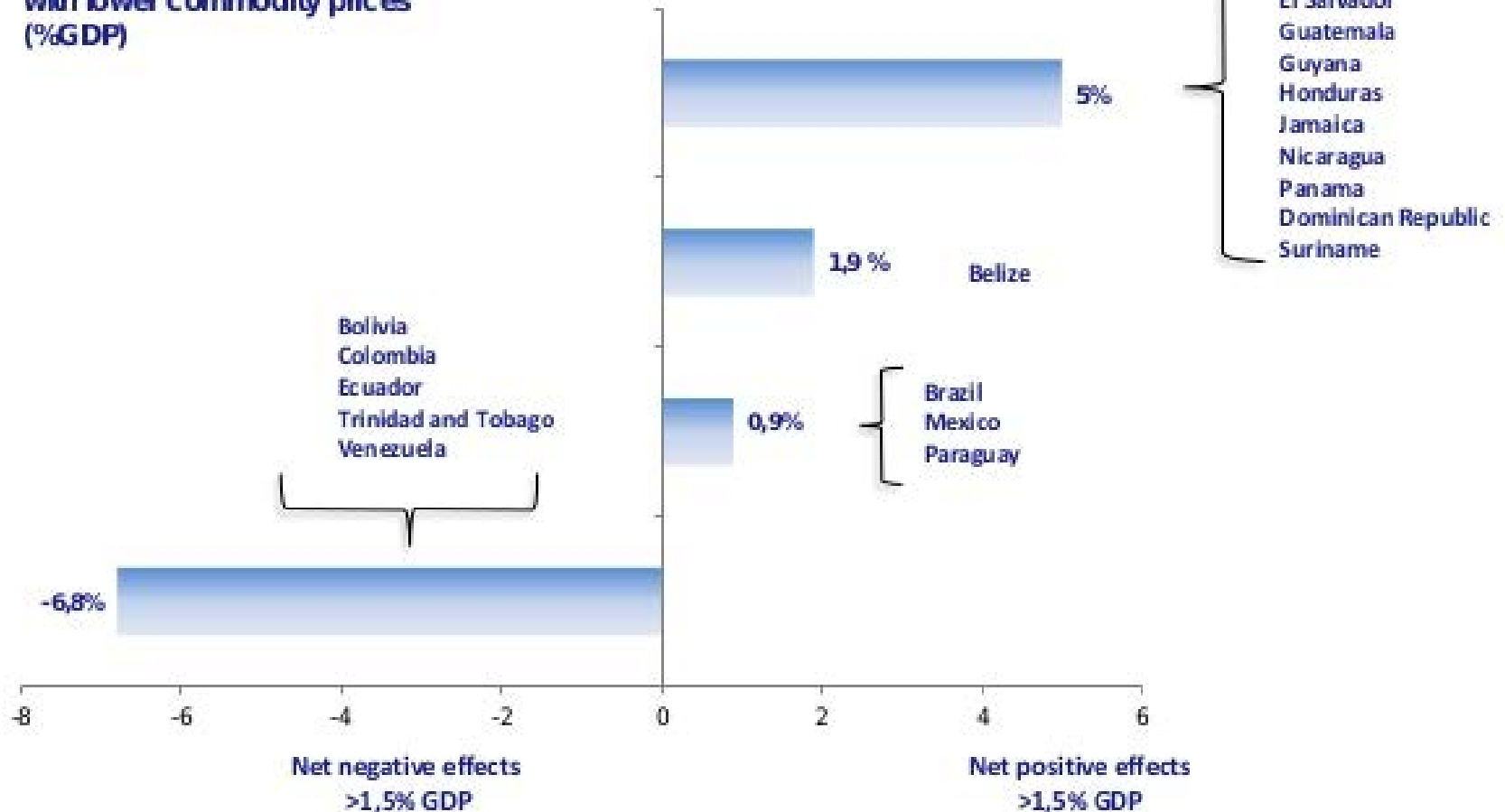
# CARIBBEAN ECONOMIC OUTLOOK

According to the World Bank, economic activity in Latin America and the Caribbean contracted in 2015, as a result of:

- Lower commodity prices;
- Decelerations in major trading partners;
- Persistent domestic challenges in the larger economies
- Vulnerability to climate change and natural disasters.

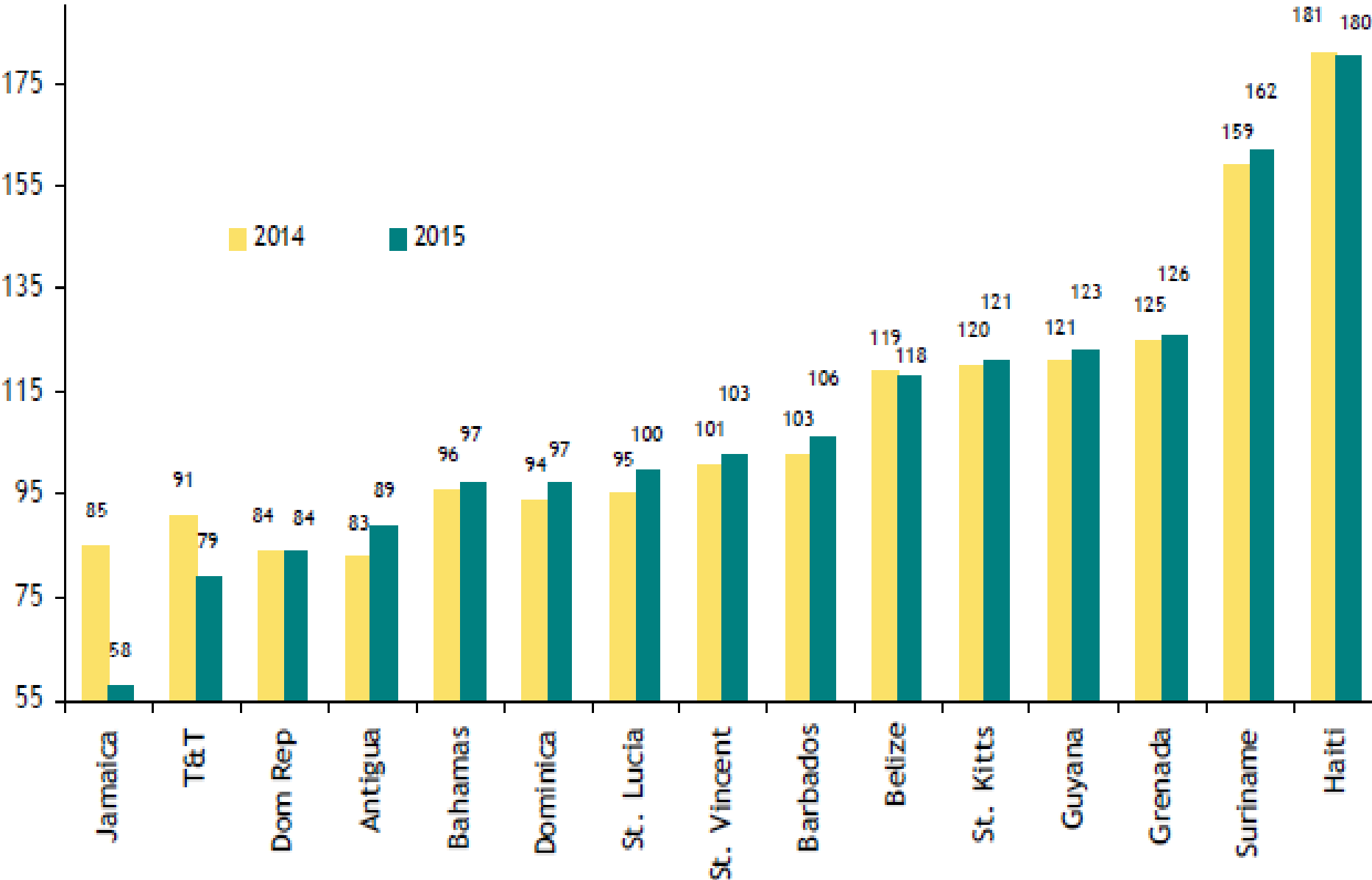
# Latin America and Caribbean: commodity prices

Impact on trade balance of terms of trade changes associated  
with lower commodity prices  
(%GDP)



# World Bank Ease of Doing Business Ranking : Caribbean

Rank out of 189



Source: World Bank Ease of Doing Business Report 2015, RBC Financial (Caribbean) Limited

# PUBLIC FINANCIAL REPORTING FRAMEWORK

INSTITUTION	FINANCIAL REPORTING TOOL
Government reports to the Parliament and national public via:	<ul style="list-style-type: none"><li>• Budget.</li><li>• PSIP allocations.</li><li>• Audits by Auditor General.</li><li>• Questions to Ministers on government or their Ministries/ Agencies operations and expenditure.</li></ul>
Ministries reports to the MOF on expenditure as part of the budget process and to Parliament.	<ul style="list-style-type: none"><li>• PSIP Allocations and budgets.</li><li>• PAC &amp; PAEC</li><li>• Questions to line Ministers.</li><li>• FOIA persons can ask questions of Ministry.</li></ul>
State Enterprises	<ul style="list-style-type: none"><li>• Annual Reports must be laid in Parliament and sent to the Ministry of Finance and Line Ministry.</li><li>• PAC &amp; PAEC</li><li>• Questions to line Ministers.</li><li>• FOIA</li><li>• SEC where the company is an issuer.</li></ul>



# FUNDAMENTAL PRINCIPLES

**Financial Reporting** involves reporting on Government's financial condition and performance. It is a process of communicating financial information.

**It is a critical source of information** elected officials use to make informed choices on use of the Government's limited resources to serve the interest of taxpayers.

Provides accountability about government finances and how the Government has used the resources that that they have been entrusted.

**Non financial performance** reporting deals with the outcomes of government actions and programs.

# **PUBLIC FINANCIAL REPORTING BENEFITS**

## **COMMUNICATION AND ACCOUNTABILITY TOOL:**

- Clear indicator of country's financial position and government priorities, policies/ programs and their effectiveness.
- Can be used by business, investors and general public to aid in their long term planning and assessing short and medium term strategies. As it provides an idea of government spending and revenues.
- Aids in national development as highlights the areas where there will be increased focus and expenditure.
- Allows for a limited degree of performance review by giving an indicator or what has been spent. It is up to us the public to determine if it was effective by measuring the results/ returns from the expenditure.

# CRITICAL PUBLIC FINANCIAL REPORTING TOOLS

The main public financial tools are:

## Primary Level:

- ❑ Budget.
- ❑ Annual Reports for State Enterprises/ Agencies.
- ❑ Audits by the Auditor General.

## Supporting Level:

- ❑ Reporting to Committees, Parliament and other bodies on public expenditure and the details of that expenditure as outlined at a primary level.

# **ASSESSING THE PUBLIC FINANCIAL REPORTING FRAMEWORK**

- ❑ Is the information provided in a timely manner?
- ❑ Is the information accurate reliable. Is the method of data capture the best methodology under the circumstances?
- ❑ Can it be effectively used to assess priorities and to aid businesses in planning?
- ❑ Is the information clearly presented, understandable and sufficiently user friendly

**ASSESSING FINANCIAL REPORTING AS A  
CATALYST FOR DEVELOPMENT,  
GROWTH & STABILITY**



# THE BUDGET

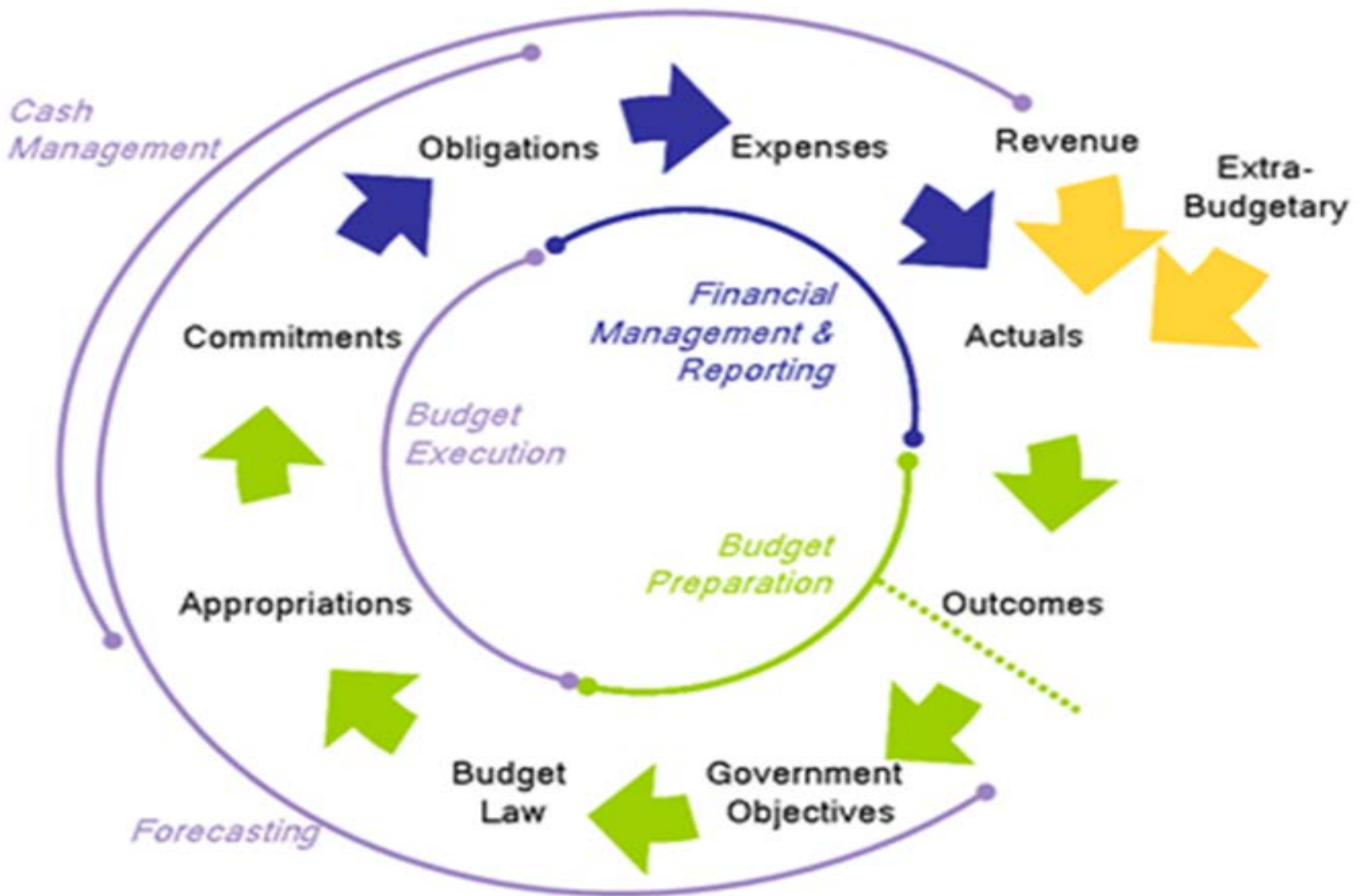
Budgets have a Constitutional basis. That is the Constitution provides:

- All revenue earned by the government and not payable under law to another specified fund must be paid in the Consolidated Fund.
- Money cannot be withdrawn from the Consolidated fund except to meet expenditure charged to the fund by the Constitution/ Act or where the withdrawal is authorized by an Appropriation Act, or pursuant to another law.

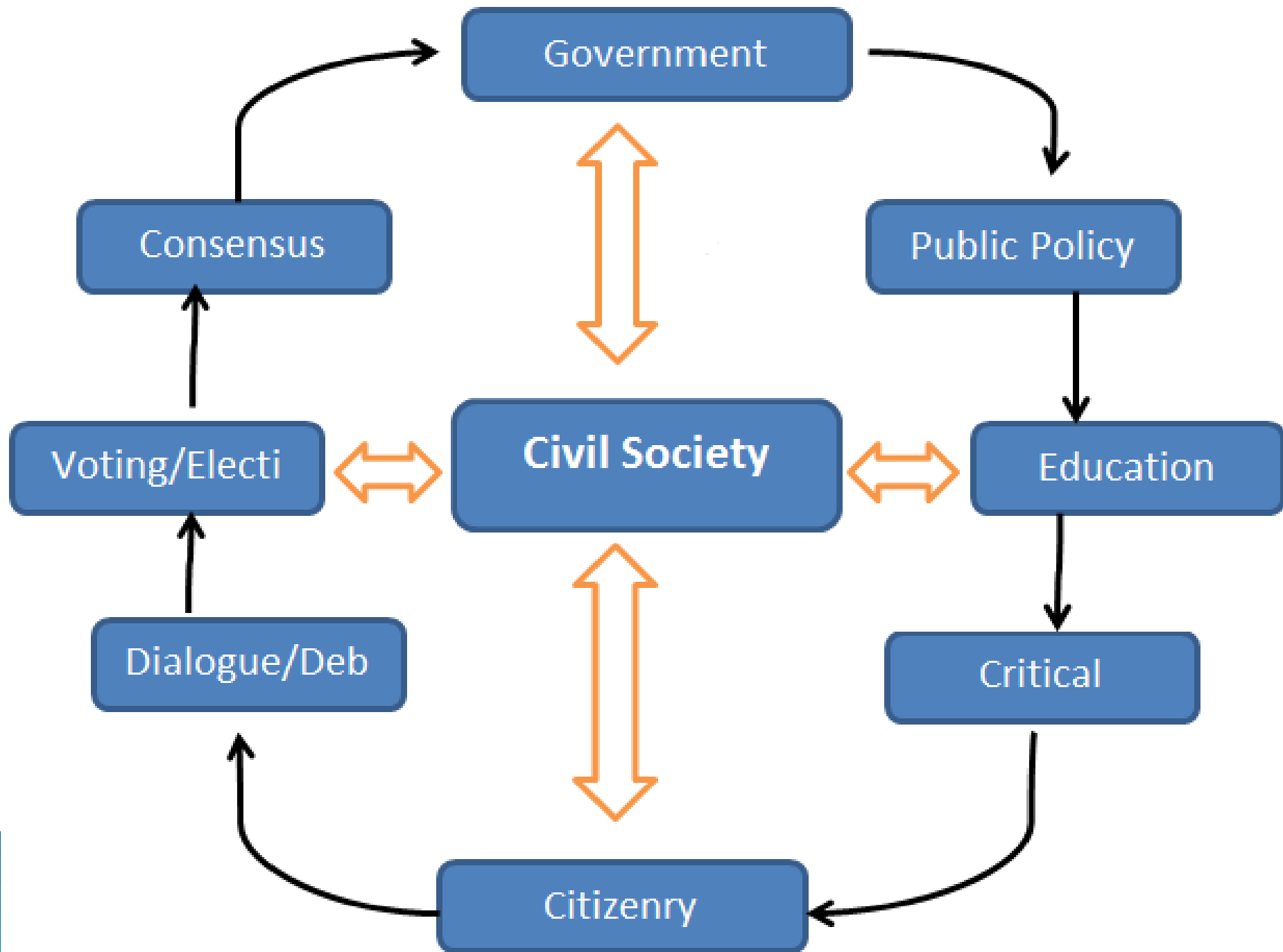
# COMMON REGIONAL CHALLENGES

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# Government Budget Cycle







# ROLE OF THE BUDGET

- ▶ **INDICATIVE TOOL**- identifies the state of the economy, planning parameters, assumptions, government priorities and objectives, areas to be targeted. In other words: the where we are? where we are going or want to go? how will we get there and when?
- ▶ **PLANNING TOOL**- Used by the Government to communicate areas for growth, development and long and short term plans. Also used by others to plan their activities, investments and development priorities e.g.. Investment areas, taxation regimes, fiscal incentives, social plans and programs and capital projects.
- ▶ **DEVELOPMENT TOOL** – Seeks to stimulate growth and development in key sectors/ areas and the measures for so doing. Also via social programs- pensions, grants, subsidies, exemptions and incentives.

# ROLE OF THE BUDGET

## COMMUNICATION TOOL:

- ▶ With the national and international public on key developmental and economic issues.
- ▶ Identification and communication of current and future challenges and measures for addressing same.

## MANAGEMENT TOOL:

Used as measure to correct imbalances in the system and economy. Also to encourage certain habits at critical times (spending, saving, investment) and discourage others via sin taxes and increased taxation and imposition of fines and penalties.

## PERFORMANCE REVIEW OPPORTUNITY:

- ▶ performance review measurement and monitoring. But this requires standardization, consensus on content and a change in how we do things.
- ▶

# BUDGET CONTENTS

- ▶ **Statement as to the Current Economic context** and state of the Economy.
- ▶ **Identification of the assumptions** on which the budget is predicated.
- ▶ **Identification of the priorities and focus of the Government** and its key areas of expenditure. Allocations to Ministries, Judiciary Programs, Funds and identification of critical infrastructure projects and social programs.
- ▶ **Taxation and other fiscal measures** aimed at reform, economic stimulation of growth and development in key areas/ sectors.
- ▶ **Estimates of Revenue and Expenditure** for the fiscal year.

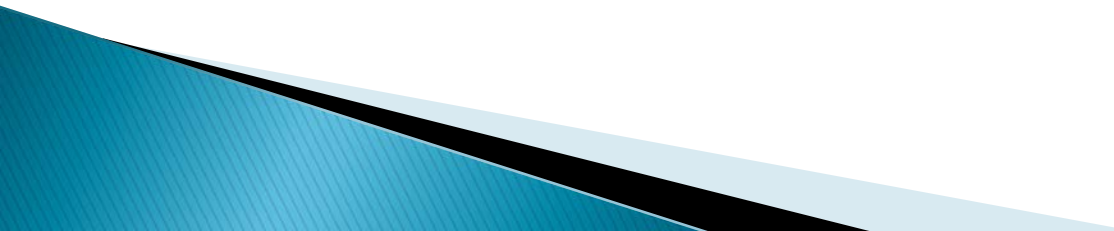
# STRATEGIC ALIGNMENT - BUDGET & ACTION



# KEY QUESTIONS

- ▶ Are we using it as an effective tool? That is does it effectively:
- ✓ Inform the national community on key economic issues?
- ✓ Identify, establish and follow through on plans, policies and programs?
- ✓ Review and monitor performance?
- ✓ Align our objectives, strategies, obligations and commitment with our vision.
- ✓ Achieve its overall objectives.

# **PROCESS FLOW WEAKNESSES**

- 1. ASSUMPTIONS:**
  - 2. COMPARABILITY:**
  - 3. INTERCONNECTIVITY:**
  - 4. PRIORITISATION**
  - 5. Inputs**
- 

# PROCESS FLOW WEAKNESSES

## ASSUMPTIONS

- ▶ In many cases the rationale for same is not clearly identified.
- ▶ Not in a format where all sectors of the population can appreciate the impact and import of same.
- ▶ Often the budget speech fails to add much needed clarity and edification.



# PROCESS FLOW WEAKNESSES

## COMPARABILITY:

Not standardized from a content perspective, so key issues are lost in rhetoric.

What was achieved over the year?

What gaps have arisen ?

How are these gaps corrected?

# PROCESS FLOW WEAKNESSES

## INTERCONNECTIVITY:

- ▶ Policies are invariably multi functional and interdependent;
- ▶ What are the mechanisms of interoperability by key players in the areas of content, priorities, challenges and solutions.

# PROCESS FLOW WEAKNESSES

## PRIORITISATION

- ▶ Weak on identification of targets,
- ▶ specific implementation measures,
- ▶ performance management metrics and what was achieved and not achieved.

# **PROCESS FLOW WEAKNESSES**

**Inputs:**

**What is the role of the private sector and other stakeholders?**

# MAXIMIZING BUDGET AS A POLICY TOOL

- There is room for improvement. The Budget can function as an effective performance measurement and monitoring tool. But this requires changes to the process, presentation, content and approach.
- The Budget process must be standardized to bring discipline with regard to objectives, targets, information gathering, timelines, allocation of responsibilities, feedback and collaboration by all key players.
- The Budget Documents should be standardized as much as possible to allow disclosure of critical information, reduce rhetoric and provide updates on what was achieved and not yet achieved.

# MAXIMIZING BUDGET AS A POLICY TOOL

- The interconnectivity elements in the process and feedback mechanisms must be strengthened for it to be effectively leveraged. Also there must be alignment with the actions and will of the political directorate and existing conditions.
- The mechanisms for testing the effectiveness of measures and the objectives need to be spelt out, so that a timely decision can be taken if to continue with or depart from the measure.
- For measures to work effectively it must be communicated and discernable and this must be improved. Also the impact of spending, projects and other measures must be identified and quantified

# **HOW CAN WE IMPROVE PUBLIC FINANCIAL REPORTING FRAMEWORK ?**

- ❑ Improving the development process.**
- ❑ Improving the budget process and its presentation.**
- ❑ Improving the feedback and dialogue mechanisms with external and non-public sector stakeholders.**
- ❑ Adoption of IPSAS as part of the improvement in the reporting process.**
- ❑ Improving auditing, review and adjustment processes.**
- ❑ Insisting of performance measures.**

OAS

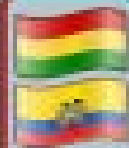


NAFTA

UNASUR

ALADI

CAN



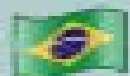
ALBA



Pacific Alliance



Mercosur



PARLACEN



CA-4

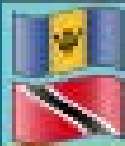


ACTO



SICA

SELA



CELAC

CSME



Petrocaribe

ACS

CARICOM



OECS



# Purpose of a Business

**One valid definition: to  
create a customer**

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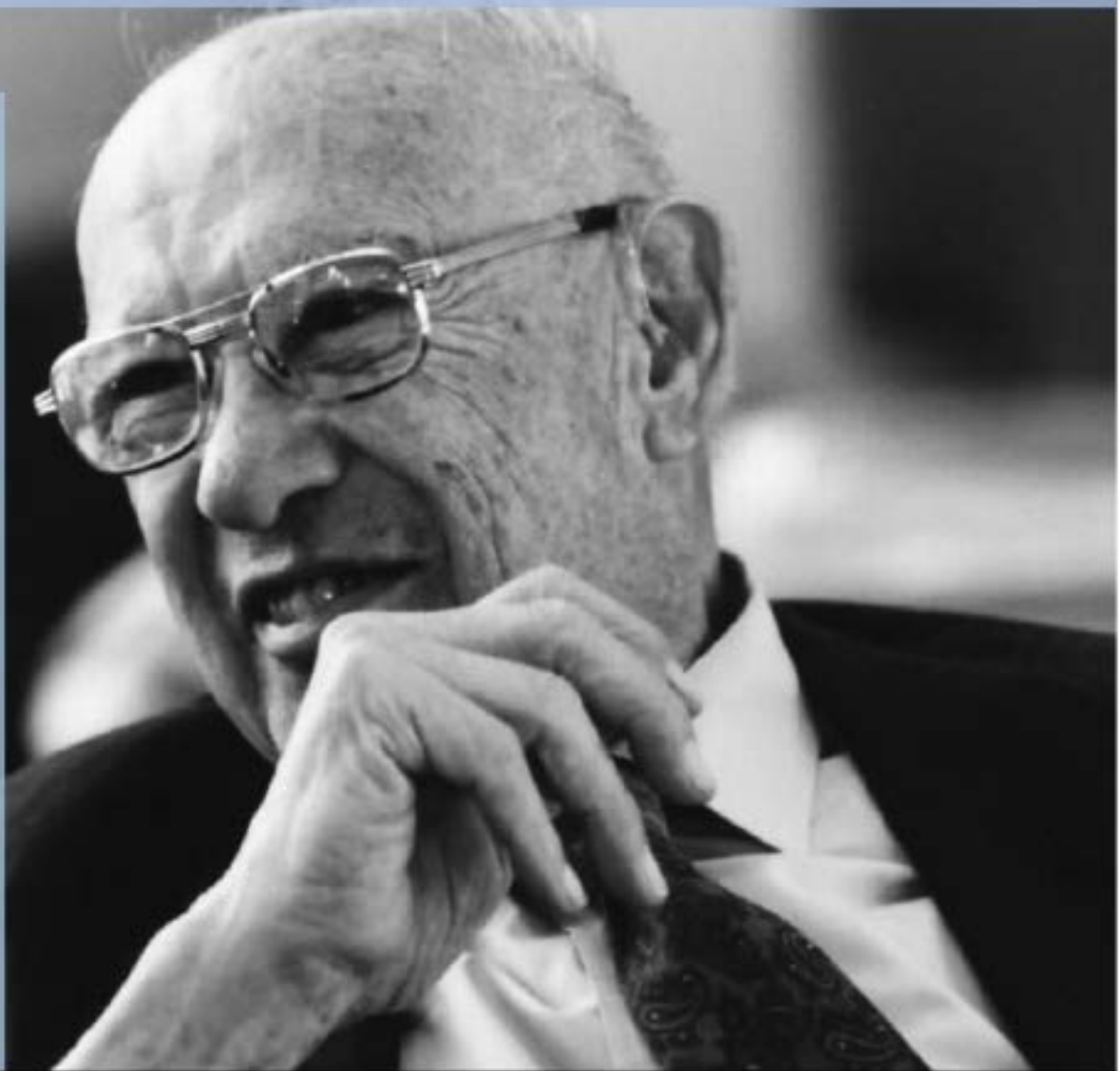
**Markets are created by  
the people who manage  
a business**

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**The customer  
determines what a  
business is**

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**Customers are the  
foundation of a  
business and keep  
it in existence**



We cannot wait for governments to do it all. Globalization operates on Internet time. Governments tend to be slow moving by nature, because they have to build political support for every step.

Kofi Annan

thank you.