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## GOVERNMENT EXPENDITURE EFFICIENCY IN THE CARIBBEAN

The issue of expenditure efficiency is a critical policy issue in the Caribbean today given the dominant role of the state in the economy, the significant increase in government expenditures in the region and the weak fiscal position of most Caribbean sovereigns. Moreover, in spite of relatively high public expenditures economic growth remains very low in many jurisdictions and this has been one of the main factors driving interest in increasing expenditure productivity in the Caribbean. The ratio of government expenditure to GDP in the region in many cases tends to be closer to the level of industrialised countries rather than their counterparts in other developing economies. This reflects in part the relatively high per capita GDP for these countries and the fact that these are vibrant democracies where the authorities are responsive to the needs of the country in terms of social services and infrastructure. However, it can also be attributed to the relative inefficiency of some components of government expenditure. The World Bank study, *A Time to Choose: Caribbean Development in the 21st Century*, published in 2005, identified unproductive public investments as one of the main reasons for fiscal fragility.

Improving expenditure productivity is therefore one of the ways to contain the problem of persistent fiscal deficits in the region, free up the budget constraint and ensure that the allocations for growth enhancing expenditures are sufficient. This has led to the increasing popularity of public expenditure management (PEM)/performance budgeting programmes, given the unsatisfactory outcomes from conventional budgeting approaches<sup>1</sup>. The main objectives of these programmes include identifying and minimizing those expenditure components which are the most unproductive and then prioritizing the remaining expenditures and ensuring there are tight cost controls on projects to be implemented.

Central to this process of improving expenditure productivity would be the need to identify the major inefficient public expenditure components. When trying to measure efficiency one assumes that the higher the expenditure the greater the benefits to the intended recipients, but this is not necessarily the case<sup>2</sup>. This implies a need to benchmark various expenditure components by the benefits derived which is central to the concept of efficiency. Expenditure efficiency cannot be measured directly so the practice has been to use indices and performance indicators to gauge whether expenditure is achieving its objectives. This information can then be used in the efficiency frontier framework to determine how efficient various government expenditure components have been over the years<sup>3</sup>.

The indicative results produced by this kind of analysis in the Caribbean suggest that there is significant scope for improvement in the efficiency of government expenditure in the region, especially expenditures on subsidies and transfers and capital projects<sup>4</sup>. Further work in this area can form the basis of a system for the proper benchmarking of the performance of government expenditure in the context of public expenditure management programmes. The weakness in this sort of analysis in the region of course stems from the lack of a better range of output indicators to capture more comprehensively the outcomes targeted by particular categories of expenditure. This suggests that the data system to support public expenditure benchmarking needs to be improved in all jurisdictions in the region. In particular, output indicators related to subsidies and transfers and infrastructure development need to be produced on a more consistent and regular basis to support this type of analysis.

This approach is critical at this juncture in Caribbean economic development since, in the short to medium term, the international economic environment is likely to remain difficult which would constrain government revenue streams. Much of the fiscal consolidation that needs to be done is therefore likely to be implemented on the expenditure side. Benchmarking the efficiency of various government expenditure components can provide the basis for cutting expenditure in areas where there is scope for efficiency improvements which do not necessarily impair the outcomes targeted by particular categories of expenditure and, by extension, may not be a major drag on economic growth in the region.

<sup>1</sup>Schick, A., (1999), "A Contemporary Approach to Public Expenditure Management" World Bank 1999.

<sup>2</sup>Tanzi, V. (1974). "Redistributing Income through the Budget in Latin America", Banca Nazionale del Lavoro, Quarterly Review.

<sup>3</sup>Afonso, A.; Schuknecht, L. and Tanzi, V. (2005). "Public Sector Efficiency: An International Comparison," Public Choice, 123 (3-4), 321-347.

<sup>4</sup>Seerattan, D. (2012), "The Efficiency of Government Expenditure in the Caribbean" presented at the 45th Annual Monetary Studies Conference, Paramaribo Suriname, November 2012.

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## CELEBRATING CARIBBEAN STATISTICIAN– MRS. CARMEN PEARL MCFARLANE



On the occasion of the International Year of Statistics 2013, CCMF highlights the work of statistician Mrs. Carmen P. McFarlane who has contributed significantly to the development of Caribbean statistics.

The sustained development of these island states of the Caribbean has been made possible through the many public sector institutions which have been able to identify and build the systems to collect and analyse the data to track the resources of each nation and the welfare of its people. Carmen McFarlane was an outstanding leader, whose entire working life was consumed by the mission to improve the statistical framework which guided public policy. The success of her mission was evidenced by the fact that she became as well known to Caribbean technocrats and academics as to her counterparts in international agencies. Her energy and fearless analysis were widely respected, as was the statistical institution that she helped to build.

Carmen Pearl McFarlane (nee Creary) was born in St Andrew, Jamaica on June 1, 1930. She received her secondary school education at Merle Grove High School for Girls. Upon graduating she entered the Jamaica Civil Service as a temporary clerk in the Department of Agriculture in 1952. She was seconded from that department to the Central Bureau of Statistics in the same year. She was appointed permanently in the Central Bureau of Statistics as Third Class Clerk in 1953. She pursued university level training on government scholarships first at the University College of the West Indies where she gained a Bachelor of Arts (General Degree) in 1957 in Pure and Applied Mathematics and History, and again between 1966 and 1968 for a M.Sc. Economics Degree at the University of the West Indies.



She moved through the ranks at the Department of Statistics from Assistant Statistician in 1957 to Assistant Director in 1967, Deputy Director in 1970 and by 1972 was appointed Director of Statistics, the first female head of the statistical organization since its inception in 1946. In the early years she participated in numerous research projects directed by leading local and international researchers. Among these were: Measurement of the Levels of Living in Jamaica directed by C.A. Moser and Fertility Patterns among Working Class Women in Jamaica directed by Stycos and Back and assisted by D.O Mills. She also worked on compiling the reports from the sample surveys of population and agriculture conducted by the Bureau in 1953, 1954, 1958. Among the projects she directed were:

1. Quarterly Surveys of Employment and Earnings in Large Establishments in Jamaica, 1959-1962;
2. Biannual Survey of Wage Rates in Large Establishments in Jamaica, 1959-1962;
3. Survey of Income, Expenditure and Assets of Industrial Establishments in Mining, Manufacturing and Construction in 1960;
4. Research, analysis and tabular compilation related to National Income and Product at Constant and Current Prices affecting all major income components and aggregates for Jamaica and corresponding data on the Labour Force, including supply productivity and the degree of intensity of work, from 1832-1965. Commissioned by Professor Alfred Thorne, University of Puerto Rico, as part of a major study on productivity in developing countries;
5. The Jamaica Fertility Survey Programme conducted as part of the World Fertility Survey Programme 1975/76;
6. Survey of the School System, 1963;
7. Survey of School Leavers in 1963;
8. Organization and implementation of the Continuous Social and Demographic Survey Programme including design development (with Canadian Expert).

### Specific Research Papers and Reports

1. The Sample Design- Continuous Social and Demographic Survey, co-authored with Richard Platek and Dexter Rose. Department of Statistics. 1968;
2. Labour Force for the Society in Transition, Research Papers C.S.O. Trinidad and Tobago. 1968;
3. The Employment Situation in Overpopulated Territories in the Commonwealth Caribbean. Paper presented to Human Resource Seminar, University of the West Indies, 1970;

## CELEBRATING CARIBBEAN STATISTICIAN— MRS. CARMEN PEARL MCFARLANE CONT'D

4. Scope and Application of Household Surveys in Jamaica-Paper presented to the Second Symposium of The Inter-American Statistical Institute (IASI), Rio de Janeiro, June 1970;
5. Report on Fact Finding Mission on the Needs for Training Statistical Personnel in the CARICOM Region, prepared for UNDP, 1979;
6. Training for Household Surveys in Developing Countries with special reference to the United Nations National Household Survey Capability Programme, prepared for the UNSD, 1981;
7. Measurement of Unemployment with special reference to the Jamaican Experience in Journal of the Statistical Institute of Jamaica. 1988. Editor in Chief, Carmen McFarlane.

As Director of Statistics she was aggressive at pursuing opportunities for securing financial aid for staff training and development and other projects. Statisticians benefited from fellowships and scholarships for local and overseas training in all areas of statistics. A Computer Systems Division and a Printing Unit were established in the early 1970s through technical assistance.

Carmen McFarlane's influence was not confined to Jamaica and she served on a number of United Nations expert groups, and as a consultant to the United Nations in the field statistics for the period 1978-80. During the 1970s she was a member of the International Statistical Institute and a member and later ex-officio member of the Inter-American Statistical Institute (IASI). She served as Chairman of COINS (Committee for the Improvement of National Statistics), a sub-committee of IASI.

She was a member of several official delegations to global conferences including the 1974 World Population Conference in Bucharest and she provided technical support to and accompanied the negotiating teams to the International Monetary Fund in the 1970s and early 1980s. In 1979 the Government of Jamaica conferred on her the Order of Distinction, Commander Class, C.D. for her outstanding and important contribution to the Public Service.

In 1984, The Statistical Institute of Jamaica (STATIN) was created from the Department of Statistics. This development was the result of Carmen McFarlane's vision and tireless efforts. She was appointed the first Director General, a position which she held until her retirement in 1987.

Following her retirement she was Project Director for the National Reproductive Health Surveys implemented by the National Family Planning Board in 1993, 1997 and 2002. She prepared a Report on Small Enterprises in Jamaica (1997) and she also produced two handbooks for the United Nations as part of the Gender Studies: Handbook for National Statistical Databases on Women and Development and Methods of Measuring Women's Economic Activity-Technical Report

Carmen Pearl McFarlane passed away in Canada where she resided since the late 1990s on December 26, 2011. She will be remembered for her commitment to the discipline of the profession and her insistence on the maintenance of, and the adherence to, the standards established to ensure the provision and integrity of high quality statistics.

**Prepared by Valerie Nam.**

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## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- Taxpayers have paid more than TT\$127 million to fund both the recently-concluded commission of enquiry into the failure of CL Financial and Hindu Credit Union and the ongoing one into the 1990 attempted coup, Attorney General Anand Ramlogan said. (TE 28 May)
- Three witnesses who failed to appear before the Commission of Enquiry into the collapse of CL Financial, and who learnt they were to be summoned to the Port-of-Spain Magistrates Court, turned up there only as a mark of respect and courtesy. (TG 30 May)
- Minister of State for Finance Michael Halkitis said that The Bahamas government is hoping to bring some resolution to the CLICO matter by the end of the year; the company is still in liquidation. (CNnow 6 Jun)
- T&T Government sources confirmed that Gerald Yetming is set to exit the board of CL Financial which he has chaired since October 2010. (TE 9 Jun)

## REGIONAL NEWS SUMMARY CONT'D

- A near-B\$4 million dispute between CLICO Holdings Barbados Limited and Barbados' largest credit union could be heading for arbitration; at issue is approximately \$4 million that was held back from CLICO Holdings as part of the agreement on the sale of CLICO Mortgage & Finance to BPWCCUL. (BN 24 Jun)

### CARIBBEAN

- The Caribbean Community and the United States signed a trade and investment framework agreement Port-of-Spain, Trinidad and Tobago. This agreement is expected to drive strengthened trade and investment ties between CARICOM and the United States, as it would serve as a mechanism for the two sides to develop practical strategies on a wide range of trade, investment and economic cooperation issues. (CNnow 28 May)
- Jamaica's economy contracted by 0.7% over the first quarter of 2013, with declines in the country's major foreign exchange earners, says the Planning Institute of Jamaica. The estimated performance over the January to March period would represent the fifth consecutive quarter of decline for the domestic economy. (JO 28 May)
- Prime Minister Dr. Ralph Gonsalves says implementing a fast ferry service in the southern Caribbean is a risk the private sector must take, with government assistance. (Carib360 30 May)
- The Bahamas government has announced a series of fiscal measures it hopes will turn around an economy that recorded slight growth last year but below the nearly 3% figure that had been projected. (Carib360 30 May)
- The ECCB has rejected a suggestion by international ratings agency Moody's Investor Services that the EC dollar should be devalued within the next five years. Moody's had recommended that Caribbean territories devalue the currency or adopt the US dollar in an effort to address what it described as a "debt crisis" in the region. (TG 30 May)
- The Central Bank of T&T has reduced the Mortgage Market Reference Rate (MMRR) by 0.25 per cent to 2.25. (TE 31 May)
- This year Suriname will surely make an upward surge on the Ease of Doing Business-index published by the World Bank. The country has improved on one of the prerequisites. (de Ware Tijd 31 May)
- T&T Finance and Economy Minister Larry Howai says the pick-up in construction activity over the past few months is a sign of returning confidence in the economy. In his second-quarter report on the national budget, Howai opines the economy is expanding. (TE 2 Jun)
- International ratings agency Moody's Investors Service says three bond restructurings totaling about \$9.7 billion in the Caribbean this year didn't go far enough to fixing the region's "unsustainable" mix of debt and deficits. (TG 2 Jun)
- China's President Xi Jinping has offered concessionary loans to nine Caribbean countries totaling some US\$3 billion. (TG 3 Jun)
- Guyana is looking at how it will tap into a US\$3 billion total funding announced by the Chinese government, during a visit of that country's President Xi Jinping to Port of Spain, Trinidad. (GuyTim 3 Jun)
- Moody's Investors Service says three bond restructurings in the Caribbean this year, totalling about US\$9.7 billion, have still failed to ignite economic growth and may not help the region avoid more defaults. (JG 4 Jun)
- China's investments in T&T serve the Asian superpower's self interest rather than broader Caribbean development, says Anthony Desir, a T&T-born investment banker in Hong Kong. (TG 4 Jun)
- The directors of the New Building Society Ltd have decided to reduce mortgage interest rates effective July 1, 2013. A release from NBS said the decision was made to ensure that mortgages are affordable and to support the government's drive to provide affordable housing to all Guyanese. (SN 4 Jun)
- Central banks in the Caribbean need to consider how they can incorporate new technologies into their service delivery without exposing the banking system to "unacceptable" levels of risk. This suggestion came from Central Bank of Barbados Governor Dr DeLisle Worrell who said the ultimate goal of new technology should always be to make central banks more efficient. (BN 4 Jun)
- China is to give Grenada nearly EC\$20 million dollars (US\$8.7 million) in grant assistance, even as it considers more aid to the island. (CNnow 5 Jun)
- Jamaica Money Market Brokers Limited made J\$3.86 billion for its March 2013 year end, up 72%, mainly because of its bank acquisition (JG 5 Jun)
- President of Women Entrepreneurs of Barbados (WEB), Carol Forde, says that the current economic climate has encouraged more women to get into entrepreneurship (BAdv 5 Jun)
- The European Union, which is injecting almost Bds\$20 million in a regional rum project, said it has not abandoned the industry across the Caribbean. A new project being undertaken by the West Indies Rum and Spirit Producers' Association, the umbrella body of rum producers from Barbados and the other CARIFORUM countries, will focus on promoting Caribbean rum to European and North American markets. (BAdv 6 Jun)
- Central Bank of T&T Governor Jwala Rambaran has commissioned a study to determine what is triggering the increases in food prices after products arrive locally, and whether the increases are just. (Newsd 6 Jun)

## REGIONAL NEWS SUMMARY CONT'D

- Jamaica says it has narrowed its trade deficit by 0.3% at the start of the year to US\$401 million. The figure represents a US\$1.2- million improvement over the corresponding period in January 2012. (JG 6 Jun)
- Bermuda and other British Overseas Territories -- including five Caribbean islands -- have been summoned to a London summit as Prime Minister David Cameron seeks more transparency to end what he calls the "scourge of tax evasion". (Carib360 7 Jun)
- While Jamaica continues to improve its Human Development Index ranking, one UN representative has charged that the country's high debt burden, combined with low economic growth and high unemployment, continues to pose a threat to human development. (JG 7 Jun)
- Local insurance company Gulf Insurance Co Ltd is now officially part of Suriname's largest insurance group Assuria. Assuria has pumped \$20 million worth of share capital into the company. (TE 8 Jun)
- Executive chairman of the Hadco Group John Hadad says the Government needs to be more consistent with its economic policies. He said investors are holding back because they fear that policies may change when administrations change. (TG 8 Jun)
- The creative sector should rely less on State subsidies and instead try to commercialise its products, T&T Trade Minister Vasant Bharath said. To this end, he announced the formation of a new umbrella company, Creative TT, made up of Film TT, Fashion TT and Music TT, under his ministry. (Newsd 10 Jun)
- Phase Two of the Chaguaramas Boardwalk, which will include a mini golf course, rock-climbing facilities and a Carnival-themed Amusement Park, will cost T&T Government \$35 million. And both local and foreign investors have expressed an interest in the development, noting they are ready to inject as much as US\$4.5 billion into it. (TG 10 Jun)
- Guyana is among 17 countries that have been recognised by the FAO for achieving the target of curtailing hunger and improving nutrition. (GCO 10 Jun)
- Barbados needs to go after the faith-based tourism market more aggressively and use its deep spiritual foundation to cash in on this multi-million dollar industry, said acting minister of tourism and international transport, Senator Irene Sandiford-Garner. (CNnow 10 Jun)
- A marketplace is being developed at the University of the West Indies Cave Hill Campus to help provide entrepreneurs there with a structured avenue through which to offer their products and services. (BN 11 Jun)
- The Antigua & Barbuda government says it has no intention of re-engaging the IMF, having passed its last test. (JG 11 Jun)
- Prime Minister Kamla Persad-Bissessar said that T&T will be able to immediately access \$833 million of Chinese funds to accelerate the development of Business/Commercial and Industrial Parks throughout Trinidad and Tobago. (TE 11 Jun)
- Republic Bank Limited has acquired 68,854,703 shares in HFC Bank Ghana, moving its shareholding to 32.02% and making it the single largest shareholder in that bank. (TG 11 Jun)
- The Bourse Brazil Latin Fund has been listed on the T&T Stock Exchange Limited and has attracted more than US\$10 million in subscriptions (TG 12 Jun)
- Britons travelling long-haul are beginning to forsake traditional seven-night beach holidays in favour of packing different experiences into one trip. That is the conclusion of the latest Long Haul Trend Report which also revealed that the "destinations making waves in 2013 are ones which lend themselves to a combination of city, beach and culture or heritage tours". (BN 12 Jun)
- A Code of Conduct is in the pipeline for Suriname's Revenues Service. It will not only boost the service's image but help improve service to the public. Head Fiscal Affairs Marita Wijnerman and Revenues Service Director Toni van Dijk already have a draft profile of what should and should not be expected of a tax officer. (de Ware Tijd 13 Jun)
- Director General of the World Trade Organisation Pascal Lamy has urged developing countries to ensure they have the necessary trade capacity to take advantage of a changing global environment. (TG 13 Jun)
- The Grenada government says it has started the restructuring of the local economy with recommendations from the IMF. (JG 14 Jun)
- The door to the EU office in Suriname is now officially closed. The organization moves to Guyana from where it will hold office for Suriname, Trinidad and Tobago and the Dutch overseas territories as well. (de Ware Tijd 14 Jun)
- The Georgetown Chamber of Commerce and Industry says it is backing women and young people between the ages of 18 and 35 to create a countrywide micro and small business culture that can serve as "effective catalysts in creating jobs for the country's rapidly developing economy." (SN 14 Jun)
- The European Union has allocated 31.5 billion Euros in aid for the 79 African, Caribbean and Pacific countries in the next six years from 2014 to 2020. (de Ware Tijd 17 Jun)
- Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term sovereign ratings on the government of Curacao, and revised the outlook to stable from negative. (CNnow 18 Jun)
- The International Monetary Fund is set to join an online university network and will run finance courses which will be available free to students around the world. (BBC News 19 Jun)

## REGIONAL NEWS SUMMARY CONT'D

- Trinidad and Tobago's first worker productivity school has been established at the OAS job site in Golconda, south Trinidad. (Newsd 19 Jun)
- Struggling hoteliers in the Tobago tourism industry now have official access to the Tobago Tourism Development Fund. (TE 19 Jun)
- Plans for a Credit Registration Bureau in Suriname are in an advanced stage. The institution will offer banks a better insight in the financial situation of people who apply for loans. This will not only prevent people who have a lot of debts from borrowing more money, but also help the category that has difficulties securing credit. (de Ware Tijd 21 Jun 2013)
- Finance Minister Dr. Ashni Singh, on behalf of the Government of Guyana signed a €23.355M Financing Agreement with the European Union for the Guyana Annual Action Programme 2012 on Accompanying Measures on Sugar. (GCO 21 Jun)
- Are governments in the Caribbean killing the goose that lays the golden egg? This question relates to the number of taxes that governments are applying to the tourism industry and, particularly, to the cost of airplane tickets for flights originating in their countries. (CNnow 21 Jun)
- Persistent and severe deterioration in the government's fiscal position and a resultant steady increase in debt stock are among reasons which the Caribbean Information and Credit Rating Services Ltd has cited for its decision to downgrade St Lucia's credit ratings. (TG 21 Jun)
- Fabio Pittaluga, senior social development specialist at the World Bank, said the entries received for KingstOOn, the two-day animation festival geared at exposing Jamaicans to the multibillion-dollar world animation market, has exceeded expectations. (JG 21 Jun)
- In its effort to mop up excess liquidity from the market and crowd out demand for transactional foreign cash, the Bank of Jamaica has offered to the market unlimited subscription for a fixed-rate US-dollar indexed note. (JG 21 Jun)
- After threatening to pull out from Tobago in 2012 due to the inadequacy of high-end accommodation on the island, Virgin Holidays Ltd has entered into a new strategic service agreement with the Division of Tourism and Transportation in the Tobago House of Assembly covering the 2013 winter period to March 2014. (TG 22 Jun)
- The asset base of the T&T Unit Trust Corporation grew by 4.92% in 2012 from \$21.72 billion to \$22.79 billion. Total funds under management grew by 2.95% to \$22.06 billion from \$21.43 billion. (TG 24 Jun)
- Suriname Authorities have nearly completed drafting the law on Value Added Taxes. Consultations with stakeholders took a little longer than expected, but the Revenues Service wanted to include every stakeholder to get as much support for the law as possible. (de Ware Tijd 24 Jun 2013)
- For the ten years of its existence, Guyana's Small Business Development Finance Trust Incorporated has financed 6740 loans to the value of approximately \$2B, and has created no less than 15,000 jobs, according to information revealed at that agency's Tenth AGM (GCO 25 Jun)
- Suriname is to improve its financial sector by strengthening the effectiveness of financial institutions and markets efficiency with a US\$50 million loan approved by the IDB, and US\$50 million from the China Co-financing Fund for LAC (CNnow 25 Jun)
- The World Bank and the International Monetary Fund are to conduct a comprehensive study of Barbados' financial services sector between July 1 and 17. (TG 25 Jun)

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