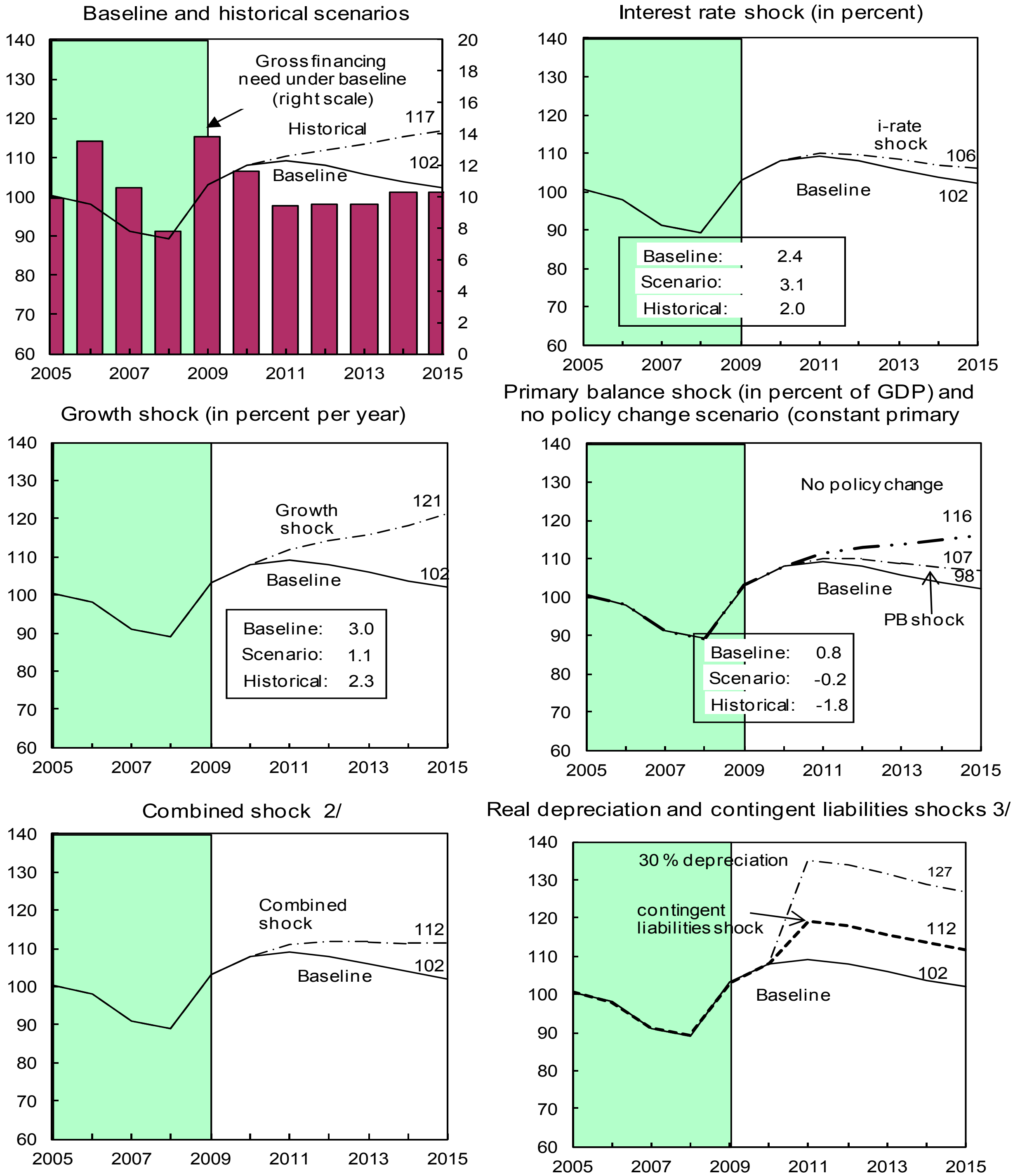
Appendix Figure 2. ECCU: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

Staff Report for the 2010 Discussion on Common Policies of Member Countries

Informational Annex

Prepared by the Western Hemisphere Department

September 16, 2010

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Appendices

Appendix I. ECCU—Relations with the Fund

(As of September 15, 2010)

I. Membership Status: Not Applicable

II. Exchange Arrangement:

The Eastern Caribbean Currency Union (ECCU) comprises six Fund members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and two territories of the United Kingdom, Anguilla and Montserrat. The eight ECCU members have a common currency, monetary policy, and exchange system. The common currency, the Eastern Caribbean (EC) dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The common central bank, the Eastern Caribbean Central Bank (ECCB), has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

III. Safeguards Assessment

Under the Fund's safeguards assessment policy, the ECCB is subject to a full safeguards assessment under a four-year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

IV. Report on the Observance of Standards and Codes

The Report on Observance of Standards and Codes—Data Module, was completed for the ECCB in August, 2007, covered monetary statistics of the ECCB, and was published as IMF Country Report No. 07/289 on August 21, 2007.

The Financial System Stability Assessment for the ECCU was completed in April 2004, and examined the adherence of the domestic banking sector to the Basel Core Principles for Effective Banking Supervision.

In domestic banking supervision, assessors noted the need to strengthen the legislative framework to enhance the powers and autonomy of the ECCB and to generally beef up the enforcement process. More frequent and comprehensive on-site examinations are required particularly in light of the high levels of nonperforming loans and perceived gaps in data integrity. Implementation of a risk-based capital framework for banks should be a priority, which adequately reflects risk of public sector loans. Supervisory practices should develop further in the direction of risk-focused supervision that also takes into consideration ongoing communication with external auditors and overseas supervisors. The need to establish a more formal information exchange mechanism with the home supervisor was also identified as a priority, especially with regard to the consolidated supervision of significant regional banking groups.

Some of these concerns have been addressed: new regulatory guidelines for risk-weighting nonperforming public sector exposures went into effect in January 2006, and amendments to the uniform Banking Act have been passed and gazetted in all ECCU jurisdictions. These amendments will give the ECCB enhanced regulatory powers, particularly in regards to implementation of additional regulation and prudential guidelines.

Appendix II. OECS: Relations with the World Bank Group

(As of July 15, 2010)

World Bank Group Strategy: The Bank Group actively supports the 6 Bank Members of the 8 members of the Eastern Caribbean Currency Union (ECCU). The Bank Group provides lending, grants, and technical assistance to its members. Additionally all ECCU members are invited to participate in training sessions and technical meetings organized by the Eastern Caribbean Central Bank (ECCB) in conjunction with the World Bank.

The Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) was presented to the World Bank's Board of Directors on June 8, 2010. The RPS covers the five year period July 2009–June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the OECS, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term. To help build resilience, the Bank Group will support interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience. To help enhance competitiveness and stimulate sustainable growth, it will focus its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to and quality of services to create more competitive business environments. The Strategy will provide urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term. The planned program of support will entail new commitments totaling up to about \$120 million on IBRD terms (that is up to \$20 million for each of the six Bank members of the OECS) and up to \$73 million of IDA financing for the four IDA-blend Bank members of the OECS (Dominica, Grenada, St. Kitts and Nevis, and St. Lucia).

Bank-Fund collaboration in specific areas: The World Bank Group and the IMF continue to collaborate on the medium-term structural reform agenda and in providing technical assistance on macroeconomic management issues jointly with the Caribbean Regional Technical Assistance Center (CARTAC). Canadian International Development Agency is providing significant financing to support the Bank and Fund's efforts to strengthen economic management in the Pan-Caribbean region from which the ECCU will benefit directly. Given the impact of the financial crisis on the financial sector, the Bank and the IMF have stepped up their collaboration in this area providing on-demand technical assistance on non-banking financial sector issues and are jointly supporting the ECCU as it defines a strategy for strengthening the banking sector. The Bank and the IMF will also continue to collaborate on supporting the countries of the OECS in the preparation of their Poverty Reduction Strategies (PRS).

The Current Portfolio: Key emerging and ongoing challenges in the region over the short, medium and long term have been identified as: (1) Improving fiscal and debt management; (2) Protecting and improving human capital; (3) Reducing vulnerability to natural disasters and strengthening environmental management; (4) Enhancing competitiveness and stimulating sustainable growth; (5) Strengthening institutional and organizational capacity; and (6) Reducing crime and enhancing security. The current programming has been summarized according to the four broad thematic areas below.

Promoting Fiscal and Debt Sustainability. The OECS countries continue to have high levels of public debt, which constrains the effectiveness of public expenditures and ultimately the much needed fiscal space for economic growth. Through the *Technical Assistance Credits* for Dominica and Grenada, the Bank is supporting these governments' efforts to improve public service delivery *inter alia* in tax, customs, investment promotion, as well as land and company registries. The *OECS E-government for Regional Integration Project* will not only improve service delivery in individual countries but also regionally, given its focus on harmonizing ICT platforms. Additionally, *Economic and Social Development Policy Loans* (DPLs) for St. Lucia and Grenada support policy reforms in the areas of improved governance and public expenditure management, regulatory reform of the financial sector and improved economic management.

Protecting Human Capital. To improve the efficiency and effectiveness of social safety net programs, the Bank is supporting OECS governments in designing and implementing reform action plans under *Economic and Social DPLs*, the *Dominica Growth and Social Protection Technical Assistance Credit*, and the regional *Social Safety Nets Non-Lending Technical Assistance* which finances analysis, constituency building, action-planning and knowledge sharing. With the *OECS Skills for Inclusive Growth Projects* being implemented in Grenada and St. Lucia as well as the *OECS Education Development Projects* in Grenada and St. Vincent and the Grenadines, the Bank is supporting the governments' efforts to increase the pool of skilled persons required to meet the demands of their labor markets. The *Skills Projects* in particular seek to increase the employability of youth through public/private sector partnerships for demand-driven technical and life skills training. The HIV/AIDS Prevention and Control projects active in St. Lucia and St. Vincent and the Grenadines are aimed at developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

Strengthening Climate Resilience. The OECS suffers from several weather related hazards and rising sea levels due to climate change. As such, disaster risk mitigation and environmental management continue to be high priorities. Existing interventions that provide disaster mitigation and environmental management support include: the *St. Lucia Disaster Management II Project,* the GEF Grant *OECS Protected Areas and Associated Livelihoods Project,* and the GEF Grant *Implementation of Adaptation Measures,* which are all expected to deliver results in the short term. The Bank has also facilitated the establishment and participation of OECS countries in the regional *Caribbean Catastrophe Risk Insurance Facility (CCRIF),* the world's first regional catastrophe risk insurance pool.

Enhancing Competitiveness and Stimulating Sustainable Growth. Efforts to improve the business environment in the OECS, in particular by improving the delivery of key services and rationalizing the cost of the same are critical, given the high cost of doing business in the OECS. The *Telecommunications & ICT Development Project* aims at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The *Economic and Social Development Policy Loans* (DPLs) for St. Lucia and Grenada support policy reforms for improving investment climate and regulatory environment as well as strengthening the insurance sector. There are several active grants and non-lending technical assistance projects focused on the financial sector that aid in carrying out preliminary assessments and targeted support such as the *BAICO NLTA* which supports efforts to deal with the collapse of BAICO and assist the region in taking appropriate measures moving forward.

Economic and Sector Work: The Bank has a comprehensive series of recently completed, ongoing and planned analytical and advisory activities including the following: "Towards a New Agenda for Growth"—an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report "Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2008); a CARICOM study on Managing Nurse Migration (ongoing); a preparatory study aimed at developing a Caribbean-wide Regional Energy Strategy (ongoing), and Debt Management Performance Assessment Tools (ongoing and planned).

Planned Lending or Large Grant Operations: Within the aforementioned thematic areas the following operations are planned—Debt and fiscal sustainability work may be supported by *Debt Sustainability DPLs.* Human capital development may be supported by *Strengthening Social Safety Nets Projects/SWAp* that would promote further consolidation and strengthening of safety net programs, using a results-based sector-wide approach; and *Education Sector SWAps*, that could streamline Bank support by disbursing against results defined under the national sector strategies. Climate Resilience work may be supported by the *OECS Disaster Vulnerability Risk Reduction* project, which will enhance understanding of the vulnerability of key structures and increase the resilience of critical public infrastructure; the global *Pilot Program for Climate Resilience* (PPCR), which would aim to mainstream climate resilience in planning and investment across sectors in the four IDA-blend OECS countries; and the GEF-financed *Sustainable Financing of Marine Areas* project that would reduce climate vulnerability by supporting ecosystem-based adaptation, and establishing a regional endowment fund and national trust funds for the conservation of priority coastal and marine ecosystems and their monitoring. The work on enhancing competitiveness and stimulating growth may be supported by the *OECS Financial Sector Strengthening and Regulation Project*; the *OECS Regional Energy Regulator Program* that would establish a regional electricity regulator to improve the regulatory environment and quality and reliability of services; and the *Caribbean Regional Communications Infrastructure Program* (CARCIP), which is a Caribbean-wide initiative aimed at increasing the availability, use and development impact of regional broadband communications infrastructure. It is expected that these interventions will be complemented by grants and technical assistance targeted at capacity–building, technical analysis, constituency building, and knowledge sharing.

Financial Relations
(In millions of U.S. dollars)

Operations	Original Principal	Disbursed 1/	Undisbursed[1/]
OECS-Telecom. and ICT Development Project (DMA,GRD,LCA,KNA,VCT)	2.70	1.34	1.3
OECS-HIV/AIDS Prevention and Control (VCT)	7.00	2.97	2.39
OECS-Education Development Project (GRD,VCT)	16.1	10.59	4.67
OECS-Catastrophe Insurance (DMA,GRD, LCA, VCT)	14.20	12.71	2.38
OECS E govt. for Regional Integration Project (DMA,GRD,LCA, VCT)	9.50	0.69	8.31
Total (regional projects)	**49.5**	**28.3**	**19.05**
Total (all projects)	**73.31**	**40.94**	**30.37**
Dominica			
OECS-Catastrophe Insurance	4.50	3.79	0.71
Growth and Social Protection Technical Assistance Credit	1.45	1.42	0.08
OECS-Telecommunications and ICT Development Project	0.54	0.30	0.29
OECS E govt. For Regional Integration Project	2.40	0.17	2.08
Total	**8.89**	**5.68**	**3.16**
Grenada			
OECS-Telecommunications and ICT Development Project	0.54	0.27	0.26
OECS-Education Development Project	9.90	7.54	1.33
OECS-Catastrophe Insurance	4.50	4.42	0.95
Public Sector Modernization Technical Assistance Credit	3.50	0.99	2.77
Grenada Technical Assistance Credit	1.86	0.98	0.83
OECS E govt. For Regional Integration Project	2.40	0.17	2.08
OECS Skills for Inclusive Growth	3.00	0.38	2.78
Total	**25.7**	**14.75**	**11.00**
St. Lucia			
OECS-Catastrophe Insurance	4.50	3.82	0.70
OECS-Skills for Inclusive Growth	3.50	0.61	3.00
OECS-Telecommunications and ICT Development Project	0.54	0.27	0.26
Disaster Management Project II	10.50	8.26	1.86
OECS E govt. For Regional Integration Project	2.40	0.17	2.08
Total	**21.44**	**13.13**	**7.9**

Financial Relations (continued)
(In millions of US dollars)

Operations	Original Principal	Disbursed 1/	Undisbursed[1/]
St. Kitts and Nevis			
OECS -Telecommunications and ICT Development	0.54	0.23	0.23
Total	**0.54**	**0.23**	**0.23**
St. Vincent and the Grenadines			
OECS-Catastrophe Insurance	0.70	0.68	0.02
OECS-Telecommunications and ICT Development Project	0.54	0.27	0.26
OECS-Education Development Project	6.20	3.05	3.34
OECS-HIV/AIDS Prevention and Control	7.00	2.97	2.39
OECS E govt. For Regional Integration Project	2.30	0.18	2.07
Total	**16.74**	**7.15**	**8.08**

Note: DMA denotes Dominica, GRD denotes Grenada, KNA denotes St. Kitts and Nevis; LCA denotes St. Lucia, and VCT denotes St. Vincent and the Grenadines.
[1/] Amounts may not add up to Original Principal due to changes in the SDR/US dollar exchange rate since signing.

Disbursements and Debt Service
(In millions of US dollars, fiscal year ending June 30)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Total disbursements	8.84	6.08	9.43	26.56	13.75	15.25	20.72	31.14	20.98	12.28	10.01	1.24
Repayments	0.73	1.10	1.23	2.27	3.06	3.64	4.72	6.38	8.6	9.25	9.59	0.09
Net disbursements	8.11	4.97	8.20	24.29	10.69	11.62	16.00	24.73	12.37	3.02	0.49	1.15
Charges and fees	0.05	0.72	1.44	2.01	2.22	2.52	2.70	3.04	3.54	3.16	2.65	0.01

Note: Data as of July 15, 2010.

Appendix III. Caribbean Development Bank: Overview of Activities in the ECCU

The mission statement of the Caribbean Development Bank (CDB) sets out the Bank's core mandate of mobilising resources for the social and economic development of its borrowing member countries (BMCs), toward the ultimate objective of reducing poverty. Since its inception in 1970, the CDB has approved approximately US$3.4 billion in development resources, of which the Eastern Caribbean Currency Union (ECCU) countries have been key beneficiaries, together accounting for US$1.3 billion, or 38.5 percent. Indeed, CDB has played a critical part in the ECCU's development progress to date, with roughly one-third of its interventions in the sub-region concentrated in infrastructure development,[1] about a quarter each in social[2] and multi-sector[3] interventions, and the remainder in support for the productive sectors.[4] The large share of infrastructure development, which mainly comprises road upgrades, as well support for natural disaster responses and the Caribbean Catastrophe Risk Insurance Facility (CCRIF), is partly related to the need to ensure adequate infrastructure support for investments in tourism and other productive sectors and the incidence of natural disasters in the region. Since the multi-sector category was expanded in 2006 to include policy-based loans (PBLs) in support of critical reforms, this category has become increasingly important in the Bank's portfolio, especially in respect of ECCU countries, most of whom are benefiting from macroeconomic support in the context of PBLs to survive the global economic downturn.

St. Lucia has been the largest recipient of CDB financing in the ECCU, receiving US$ 330.9 million between 1970 and 2009, which represents approximately 24.9 percent of approvals to the sub-region and 9.6 percent of total approvals to all 18 of CDB's BMCs. Prior to 2008, CDB support to St. Lucia was mainly in the areas of infrastructure development, with interventions to improve the water supply, road rehabilitation, natural disaster mitigation and solid waste management. In 2008, CDB approved a US$30 million PBL to St. Lucia. The loan was to assist the Government of St. Lucia in its preventative strategy to reinforce and strengthen fiscal performance; to insulate the country as much as possible from the inherent risk associated with its openness; and to improve its responsiveness, should the risks be realized. Total financing for St. Lucia approved by the

[1] The infrastructure category encompasses the Power & Energy, Water and Transportation & Communication sub-categories.

[2] Social interventions are mainly in the areas of education, health and housing.

[3] Multisector interventions include natural hazard management, lines of credit, improving social and living conditions through the Basic Needs Trust Fund (BNTF), and activities of the Caribbean Technological Consultancy Services (CTCS) Unit (which provides technical assistance to the private sector, institutional strengthening of government departments, feasibility studies, and the assessment and implementation of transactions-based taxes).

[4] The main productive sectors supported by CDB are Agriculture, Forestry & Fishing, Manufacturing and Tourism.

CDB in 2009 amounted to US$20.8 million, of which US$20.0 million was with respect to a line of credit for agriculture, industry, tourism and education, while the remainder went towards CCRIF support and technical assistance.

Grenada. Resources approved for Grenada between 1970 and 2009 totalled US$220.0 million, accounting for 16.6 percent of total resources allocated to the sub-region and 6.4 percent of total resources approved. The development of physical infrastructure has been the main focus of CDB interventions in the country, with significant emphasis being placed on bridge and road improvement, the rehabilitation of schools, waste management improvement, and natural disaster management. During 2009, CDB approved a PBL of US$12.8 million to assist Government in maintaining stability and continuing its macroeconomic reform agenda and US$5 million for schools rehabilitation, as well as CCRIF support and technical assistance, for a total of US$20.5 million in approved resources.

St. Vincent and the Grenadines. Between 1970 and 2009, resources approved for St. Vincent and the Grenadines amounted to US$212.7 million, or 16.0 percent of total approvals for the ECCU and 6.2 percent of total approvals. With these resources, CDB has contributed significantly to the country's development in a number of areas. These include the financing of economic infrastructure to facilitate private sector development and to support economic growth; HRD; economic diversification; direct and indirect lending to the private sector in the areas of agriculture, tourism, manufacturing and housing; poverty reduction; and environmental protection and disaster risk management. The Bank has also extensively utilised its Basic Needs Trust Fund as a key modality for direct poverty intervention programmes. Lending to the country picked up substantially from around 2007, as the government implemented its debt management strategy that primarily focused on replacing higher cost domestic debt with lower cost external financing in support of fiscal reforms being undertaken at the same time. While the economy has been weathering the global economic downturn reasonably well, a sharp fall in revenue in 2009 required the country to seek budget support from the CDB through a PBL in the amount of US$25 million. Together with a loan for a highway rehabilitation and upgrade study, this represented the bulk of the US$25.7 million in approvals to St. Vincent and the Grenadines for 2009.

Dominica. CDB has also played an important role in helping Dominica pursue its development objectives. Cumulative funding of US$200.2 million between 1970 and 2009 accounted for 15.1 percent of total approvals to the ECCU and 5.8 percent of total approvals during the period. Typically, interventions in Dominica have been aimed at expanding the productive capacity of the economy, as well as strengthening HRD and reducing poverty. In particular, support has been provided to strengthen economic management systems, expand agricultural output, improve critical road infrastructure, upgrade ecotourism-related sites and attractions, promote shelter development and support development in the indigenous Carib territory. Disaster rehabilitation has also represented a consistent element of past interventions. In addition, during the severe economic downturn that Dominica experienced between 2003 and 2004, CDB provided significant funding to support the process of structural adjustment. However, since then lending to the country has stagnated somewhat, as GOCD has been hesitant to engage in borrowing, with greater emphasis being placed on attracting grant flows to fund Government's development programme. Of the US$13.0 million approved for Dominica in 2009, US$8.0 million was for a line of credit to the Dominica Agricultural and Industrial Development Bank (AID Bank) and USD 4 million for an Education Enhancement Project, while the remainder was shared among CCRIF support, a loan for upgrading and expanding the water supply network and technical assistance.

St. Kitts and Nevis. CDB approved funding for St. Kitts and Nevis amounting to US$189.9 million over the period 1970–2009, which represents 14.3 percent of approvals for the ECCU and 5.5 percent of total approvals. CDB's involvement with St. Kitts and Nevis has been mainly in the areas of formulating and implementing macroeconomic, social and sectoral policies (*viz.* a PBL approved in 2006); infrastructure development to facilitate economic growth and diversification; direct and indirect lending to agriculture and industry; HRD to strengthen capacity; and emergency disaster rehabilitation. During 2009, US$ 6.9 million was approved for St. Kitts and Nevis, of which US$ 6.3 million represented an add-loan for the West Basseterre By-Pass Road, while the remainder was for CCRIF support and technical assistance.

Antigua and Barbuda. CDB approvals to Antigua and Barbuda between 1970 and 2009 totalled US$102.1 million, which represented just 7.7 percent of sub-regional approvals and 3.0 percent of total approvals, reflecting the limited role played by CDB in that country in the past. Previous interventions focused mainly on education sector enhancement, along with security improvements to the air and seaports. However, in the context of the global downturn, CDB has since taken on a more active role, with the approval of a PBL in December 2009 in the amount of US$30 million. The PBL is intended to support the country's National Economic and Social Transformation Plan, of which the restoration of fiscal and debt sustainability is a critical component through reforms in the areas of macroeconomic management, expenditure and debt management; revenue enhancement and social transformation. The remainder of the US$30.3 million approved for Antigua and Barbuda in 2009 went toward CCRIF support.

Anguilla. Like Antigua and Barbuda, Anguilla is also a traditionally not a major recipient of CDB funding, with cumulative approvals of US$53.3 million representing just 4.0 percent of ECCU approvals and 1.5 percent of total approvals since 1970. These funds have predominantly gone towards infrastructure development, as well as natural disaster rehabilitation. In 2009, funds approved for Anguilla amounted to US$ 657,000, which mainly reflected Anguilla's natural disaster management response to Hurricane Omar and CCRIF support. However, as with Antigua and Barbuda, the global context has also had adverse implications for Anguilla; consequently CDB received a request for a PBL in 2009.[5]

Montserrat. Approvals to Montserrat have been minimal following the dramatic reduction in economic activity in the wake of volcanic activity and the country's subsequent dependence on UK aid. Funding to Montserrat has totalled US$ 18.7 million since 1970, a mere 1.4 percent of total approvals to the sub-region and 0.5 percent of total approvals. Most of the recent interventions involved improvements to the education sector, as well as some CTCS and BNTF grant assistance. Total approvals for 2009 amounted to US$ 288,000 in grant resources.

CDB Operations
Loans, Contingent Loans, Equity and Grants
(Net, in millions of U.S. dollars)[1/]

	Approvals 1970–2008	Disbursements 1970–2008	Approvals 2009	Disbursements 2009
Anguilla	52.7	32.5	0.7	0.5
Antigua and Barbuda	71.8	58.4	30.3	2.9
Dominica	187.2	154.4	13.0	5.2
Grenada	199.5	167.1	20.5	11.7
Montserrat	18.4	15.3	0.3	0.7
St. Kitts & Nevis	183.1	144.6	6.9	7.6
St. Lucia	310.1	247.2	20.8	20.0
St. Vincent and the Grenadines	186.9	153.2	25.7	23.4
Total	**1,209.7**	**972.6**	**118.2**	**72.0**

[1/] All figures are net of cancellations.

[5] The PBL in the amount of US$55 million was approved by CDB's Board of Directors at their July 22, 2010 meeting.

Appendix IV. CARTAC: Capacity Building in the ECCU

The Caribbean Regional Technical Assistance Center (CARTAC) was established in November 2001 as a regional resource, based in Barbados, to provide technical assistance (TA) and training to beneficiary countries, currently 20.[6] CARTAC's core areas of technical assistance include public financial management, which includes tax policy and administration, public expenditure management, macroeconomic management and financial programming, financial sector supervision, capital markets development, and economic and financial statistics. It is a multi-donor project with the IMF as executing agency.[7] An active Steering Committee consisting of representatives from participating countries, donor agencies, CARICOM and the CDB, provides strategic guidance and ensures ownership and commitment.

The ECCU countries have been among the most active countries in requesting technical assistance and training in all of CARTAC's core areas. Again, the largest areas of CARTAC involvement in the ECCU countries have been in VAT implementation and in building capacity to undertake improved macroeconomic management. This technical assistance support has represented a significant addition to the Fund's technical assistance to the ECCU region. Highlights of CARTAC's technical assistance to the ECCU countries in the various core areas are provided below.

In the area of **tax and customs policy and administration**, CARTAC and FAD conducted a comprehensive review of the OECS tax systems and administrations in 2003. CARTAC has also undertaken full revenue assessment missions to Dominica, St. Lucia, St. Vincent and the Grenadines and St. Kitts and Nevis. Most of the ECCU countries continue to implement the salient recommendations of these reviews. In 2008, CARTAC assisted with the development of corporate strategic business plans for tax and customs departments in Grenada, St. Vincent and the Grenadines and Dominica.

The following countries have introduced a VAT: Dominica (2006), Antigua and Barbuda (2007), St. Vincent and the Grenadines (2007), Grenada (February 2010) while St. Kitts and Nevis is actively working to introduce a VAT (November 2010). CARTAC has undertaken an external evaluation of its VAT program that positively rated the outcomes of CARTAC's technical assistance. CARTAC has provided technical assistance to establish a personal income tax system in Antigua and Barbuda; significant technical assistance and training has

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[6]Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos.

[7] CIDA provides over 50 percent of CARTAC's total funding, with CDB, EU, Ireland, IMF, UNDP, the World Bank, and CARTAC member countries contributing the remainder.

been provided in Antigua and Barbuda, Dominica, Grenada and St. Vincent and the Grenadines, St. Kitts and Nevis and St. Lucia related to their VAT implementation. Training has been provided in customs valuation and risk assessment in three OECS countries in coordination with CCLEC and with support from the Canadian and U.S. Customs agencies. Oversight technical assistance has been provided to St. Vincent and the Grenadines and Grenada customs, regarding their reform programs. CARTAC completed a significant Regional IT Study in the areas of tax, customs, treasury, expenditure and budget in ten Caribbean countries including ECCU countries at the request of the Canadian International Development Agency (CIDA) related to the development of their SEMCAR program. CARTAC has during 2010: (1) continued to provide pre- and/or post-VAT technical assistance to Dominica, St. Vincent and the Grenadines, Grenada, St. Lucia, and St. Kitts and Nevis; (2) undertaken a comprehensive revenue mobilization technical assistance program in Antigua and Barbuda; (3) continued to deliver targeted short-term customs oversight technical assistance to Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines in their respective customs reform programs providing strategic and modernization recommendations; (4) provided customs post clearance audit training in St. Vincent and the Grenadines, Dominica, and St. Lucia; (5) provided assistance to customs in developing new customs laws and related regulations in St. Kitts and Nevis, Grenada and Dominica; (6) provided regional training workshops with the ECCB and CARICOM on the CARICOM Tax Treaty and insurance concepts ; and (7) provided a regional workshop with ECCB on the use of a revenue authority toolkit. Further, CARTAC continues to assist five OECS countries build their capacity in the area of collections enforcement and audit through formal training, on the job coaching, and enhanced operational manuals.

In 2009, the **Public Financial Management** in CARTAC focused on budget preparation, budget execution and internal audit. Activities were a blend of TA, targeted training initiatives for capacity building, support of regional initiatives (Caribbean Public Financial Association—(CaPFA) and conferences. Technical assistance interventions concentrated on sharing experiences among countries and developing practical and sustainable solutions for each. The programme had five key areas of delivery:

- *Undertaking PFM diagnostics and supporting the development of PFM action plans*. CARTAC supported the development of PFM Reform Action Plans in Dominica and St Vincent and the Grenadines in 2009. In St. Vincent and the Grenadines, the European Union provided funding support for implementation of the country's PFM Reform Action Plan.[8] CARTAC provided direct support in expanding the Action Plan to a more detailed activity plan and supported the PFM Reform Steering Committee in planning and

[8] The support is in the amount of €500,000 for a period of two years commencing January 1, 2009, although access to funding was delayed until August 2009 due to negotiations between the EU and UN.

reviewing activities. In relation to budget preparation, support included development of a diagnostic report, redesign of the budget call (circular) and delivery of a strategic budgeting workshop to permanent secretaries and other senior finance officials. Extensive support was also provided to the Accountant General in designing a timely bank reconciliation process, improving accounting, and in mapping the chart of accounts to GFS 2001 and CoFOG. A PFM Information Technology Plan was also developed in consultation with officials to better design and sequence IT improvements. Support was provided to both internal and external audit culminating in a proposal for the implementation of a new Internal Audit Department to be included in the 2010 budget. Montserrat requested CARTAC support in undertaking a PEFA assessment, which was commenced in late 2009.CARTAC also convened a PEFA workshop for the region in November which was attended by all ECCU countries.

- *Strengthening the Accountant General's institution*. In addition to the support provided to St Vincent and the Grenadines, Anguilla received assistance in implementing a cash management and forecasting model[9] and in developing annual financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). St. Kitts and Nevis also received support in refining its cash management and forecasting model.

- *Strengthening the budget preparation process.* In addition to focused support in St Vincent and the Grenadines, three further countries requested assistance in delivering presentations to the Cabinet and permanent secretaries on Strategic Budgeting—Anguilla; Grenada; and St Kitts and Nevis.

- *Building stronger audit capacity*. St. Vincent and the Grenadines received support for both internal and external audit in 2009.

- *Developing sustainable capacity building in the region*. CARTAC continued to support capacity building in the region, including direct support to the Caribbean Public Finance Association (CaPFA). Mr. Isaac Anthony, Finance Secretary, St Lucia, chairs the Board and two further board members are from ECCU countries. CARTAC sponsored three meetings in 2009.

A new one-week PFM workshop was launched in 2009 and delivered five times in four countries: Anguilla; Grenada; St Kitts and Nevis (once each) and St Vincent and the Grenadines. The workshop was delivered by regional PFM experts and involves a mentoring and train-the-trainer component to support future delivery in each country. Six officials are now able to deliver these workshops in the four countries, and these officials will form an expert group for future delivery in the region and for the development of further regional educational products.

[9] This updated earlier technical assistance in 2008.

Three regional conferences took place in 2009 with all ECCU countries in attendance. In addition to the PEFA workshop in November, a PFM conference was convened in Barbados for senior PFM officials, where the theme was consolidation of budget preparation and execution. In September, a FMIS conference was convened in Belize. The focus of these events was on sharing experiences and fostering a common reform agenda. CARTAC participated in ECCU events, including the ECCU boot camp in June 2009, and six-monthly video conferences with senior PFM officials.

In **macro-fiscal management** CARTAC and the ECCB teamed up to deliver a 3-day pension reform conference in St. Kitts and Nevis. Strategic Budgeting workshops were delivered to senior level officials or ministers in a number of ECCU member states. At the request of the ECCB, CARTAC has provided technical assistance to the ECCU member countries in developing and implementing their own home-grown programs aimed at achieving a set of fiscal/debt targets.[10] Complementary assistance was also provided in the preparation of a medium-term fiscal frame in Grenada, Montserrat and St. Vincent and the Grenadines. Assistance in the preparation of Debt Sustainability Assessments (DSAs) in member countries is planned, following the regional IMF-WB workshop in July 2010. A review of the internal and external audit functions was performed in Anguilla in 2007. Quantitative pension reform workshops were also delivered in St. Kitts and Nevis and in Turks and Caicos. Assistance to strengthen the oversight and governance of statutory bodies and to better manage the associated fiscal risks was provided to Montserrat, St. Kitts and Nevis and to St. Vincent and the Grenadines.

The demand for CARTAC technical assistance in **macroeconomic programming and analysis** (MAC) has come primarily from ECCU members. In response to persistent fiscal deficits and rising public debt levels, the ECCB requested assistance from CARTAC in 2002 to help member countries in developing and implementing their own home-grown programs aimed at achieving a set of fiscal/debt targets. A key aspect of the program has been to help countries build capacity at the level of both the ministries of finance and central bank to undertake consistent macroeconomic projections. CARTAC Macroeconomic Adviser and consultants work with small teams across the ECCU to prepare macroeconomic projections under a baseline scenario; identify imbalances and quantify policy measures to address them; and prepare a framework to monitor the key quarterly targets of the program. The primary focus continued to be building capacity on a sustainable basis in macroeconomic analysis, forecasting and performance monitoring within the ministries of finance and central banks while providing assistance in the update of countries' macroeconomic framework. During 2009, a number of follow-up missions were conducted to ECCU member countries to work with local teams to update their respective macroeconomic frameworks. In addition, staff

[10] The original targets were replaced in 2006 by a ceiling on the public sector debt/GDP ratio of 60 percent by 2020.