



FISCAL POLICY AND TRANSPARENCY IN GOVERNMENT

Presentation
By

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Good Afternoon,

And special thanks to the executives of the Bahamas Chamber of Commerce for the invitation to bring remarks to this gathering, on the occasion of its annual forum on ***The State of the Economy***. It is always a pleasure to engage with stakeholders in the business community, who play an important role in the growth of our economy and have a strong interest in maintaining a pulse on key domestic macro and socioeconomic developments.

The subject matter I've been asked to speak on, ***Fiscal Policy and Transparency in Government***, is one which continues to receive much attention, and this is understandable and even desirable. For the choices and decisions that the Government makes in raising revenue, borrowing and allocating resources—basically our fiscal policy options—are at the core of our relationship with the Bahamian people. Since these are the levers used to influence economic and social development and growth (macro-economic stability), transparency in fiscal policy must be viewed as one of the essential principles of good governance that the

Government must embrace, not only in its fiscal policy making process but in its overall approach to governance.

In the time allotted to me, I would like to provide a brief overview of recent fiscal policy outcomes, as a backdrop to the shift in policy stance taken since the commencement of this fiscal year, and then update you on several significant initiatives underway to promote greater transparency and accountability in fiscal policy formulation and implementation.

Fiscal Developments

We are all now quite familiar with the worrisome trends observed in the Government's financial position in recent years.

To put our fiscal affairs into perspective, in the decade preceding the recent financial and economic crisis – that is prior to the global financial meltdown in 2008, the Government had an overall deficit averaging around 2% of GDP, with a primary

balance of zero—outcomes which helped to maintain debt levels low. In subsequent years, the fiscal deficit widened progressively, to 5% of GDP in 2012/13, leading to a sharp run-up in the National Debt—to an estimated 52.4% of GDP at end-2013.

The combination of the ongoing deterioration in the state of the fiscal finances, and the sluggish rate of economic growth, heightened concerns about macroeconomic stability. In fact, they were the main drivers behind The Bahamas' successive downgrades in its credit ratings, and eventual loss of investment grade status; and evoked repeated cautionary remarks from various multilateral agencies.

During this past fiscal year, the performance was perhaps the worst on record, as the overall deficit surged to some \$675.8 million, which approximated 6.0% of GDP and was a marked deviation from the budget target of \$100 million. This outcome was attributed to several one-off impacts on both revenue and outlays. There was, for instance, the disruption in revenue collections caused by Hurricane Matthew, which necessitated

the grant of temporary tax reliefs, and then the corresponding boost in expenditures associated with post-hurricane clean-up and reconstruction activities. This had some impact on the fiscal situation to be sure. But the primary culprit was the pre-election spending, which included a sharp increase in the wage bill, the engagement of any number of small and large contractual arrangements for goods and services and the subsequent accumulation of payment arrears, which your tax dollars are continuing to address well past the election date. That this unparalleled ramp-up in expenditure was allowed to happen unchecked and hidden from public sight was and is clear evidence that the mechanism for transparency and fiscal prudence were either non-existent or ineffectual.

I think I can state categorically that there is no dissenting view among the Bahamian people that the Government's fiscal policy could not remain on this detrimental expansionary track, which was clearly inconsistent with the principles of responsible fiscal management.

In May of last year, when we obtained the mandate to govern, we were very forthcoming with the Bahamian public on the state of the fiscal finances and the need for a plan to immediately address the deterioration and re-establish policy credibility. I might add that this disclosure adheres to the tenets of fiscal transparency which requires the Government to provide the public with an accurate and fair assessment of the fiscal position.

The Government's first course of action was to identify measures to rein in spending, while at the same time devising economic policies that would lay the foundation for stronger growth.

So, while continuing the tax compliance strategies to improve revenue yields, the Government announced a series of immediate expenditure control measures, which included a targeted 10% cut in certain spending categories against approved budgets, and a freeze on non-essential hiring. We also launched an expenditure review and rationalization exercise to determine the merits and appropriateness of existing programmes and projects. In the medium-term policy space, the Government also disclosed its intent to utilize more public

private partnerships for select capital projects; to pursue greater cost recovery and enhanced corporate governance at the state owned enterprises; and to transform the existing defined benefit pension scheme into a contributory regime.

As you would have read in the press, the Government has had to make some very tough calls when it came to employment in the public sector, to address the pre-election build-up in temporary workers. This continues to be part of the rationalization of excessive costs needed to create fiscal space for priority expenditures and key public investments. While the Government is always concerned about unemployment, its role is to create the enabling environment for private sector growth and job creation and not use the public purse in this irresponsible manner.

So, where are we today?

Based on the performance in the first half of FY2017/18, we are moving in the right direction.

Compared with the first six months of FY2016/17, the fiscal performance has turned in a \$92.3 million or 61.4% reduction in the overall deficit—to \$198.0 million, from \$290.3 million in FY2016/17. Gains in revenues of \$24.8 million are supported by a \$67.5 million or 43.6% reduction in spending. Comparisons with the budget show revenues running at some 41% of the target and adjusted recurrent and capital spending, at 44.7% and 33%, of their respective targets.

We believe that the measures taken, and those in the pipeline, have the ability to help restore fiscal discipline and place the finances on a sustainable path for the benefit of all Bahamians. However, we would acknowledge that these measures alone will not get us to where we want and need to be. Most importantly, we must grow our economy and do so in a sustained way; additionally, if our fiscal plans are to be sustainable, they need to be reinforced by other administrative and legislative initiatives designed to bolster credibility, in a transparent and accountable manner.

Public Financial Management Reform

Last year, I would have introduced to the public, the public financial management reform measures underway to deliver more efficient and effective allocation and use of public funds, by addressing cumbersome processes and inconsistent and outdated practices in our public financial management activities.

Public Procurement

An important element of the Public Financial Management reform agenda focuses on bringing greater transparency, fairness and efficiency to bear on public procurement activities.

As you would know, public procurement is big business for governments, and equally as big are the temptations and opportunities for corruption, collusion, fraud and manipulation.

For The Bahamas, more than \$1.475 billion or an estimated 13% of GDP was spent in FY2016/17 to acquire goods and services—underscoring the imperative for the Government to obtain value for monies spent.

The first stage in these reform efforts was marked by the recently launched pilot phase of the Government eProcurement

portal—a single access point—where all announcements and document and information about tender participants, summary of bid evaluation reports and notice of procurement awards will be published. All suppliers interested in doing business with the Government have been invited to register their businesses by uploading all of the requisite documents via the portal.

Work is also well advanced on finalizing the draft public procurement legislation that will bring the regulatory framework closer in line with international standards and best practices. Some of the areas covered in the legislation are the establishment of a public procurement department; a public procurement board, and a public review tribunal to provide persons with an avenue for recourse. The most critical element of this procurement reform will be the requirement that all tenders and bid offers be published publicly online and that all successful bid offers accepted by government also be awarded. This, ladies and gentlemen, changes the game for all stakeholders.

I might add here that, these same principles of transparency and competition are behind the Government's recent decision to engage the services of the Caribbean Development Bank (CDB) to formulate a Public, Private Partnership (PPP). Having clear and transparent policy guidance to all stakeholders, will ensure that the Government is identifying the right private sector partner and carrying out the required analysis of all risks, while easing the burden on public resources. These reforms are long overdue, but once completed will increase the ease of doing business with the Government, make procurement processes more transparent and competitive, and are generally supportive of the Government's overall goal of restoring the public's trust in its management of public funds.

Move to Accrual Accounting

Another significant public financial management initiative is the ongoing exercise to migrate from our existing cash system of accounting to the International Public Sector Accounting Standards (IPSAS) for accrual financial reporting. The Government's Working Group has now issued a concept paper

detailing the roadmap for implementation, which takes us to end-June 2020 for the central Government and 2023 for the public sector at large.

It goes without saying that we have much to gain from this exercise, as accrual-based accounting will provide a more comprehensive view of the government's financial performance and the full cost of its activities, and will facilitate better oversight of the SOEs. The government and the people we serve will have a clearer accounting of their monies and resources – knowing what exactly is due to the government and what exactly is payable. The game of hiding payment obligations and payment arrears will mercifully come to an end.

. In fact, we need only look back to FY2016/17 to see how shortcomings in our budget commitment processes and our accounting systems and practices can pose a significant threat to sound financial management. The recent accumulation of payment arrears actually distorted statistics on spending, outstanding liabilities and the deficit, and therefore allowed the

former administration to present a false picture of the fiscal position.

Alongside this conversion exercise, work is also ongoing to modernize and align the existing chart of accounts with the International Monetary Fund's Government Finance Statistics reporting standards. This effort will likewise serve to improve our financial reporting and allow the Government to directly produce and publish GFS-compiled information, on a monthly basis.

National statistics is another component of the public sector financial management reform agenda. Here, the goal is to strengthen our national statistics system as overseen by the Department of Statistics, and provide for the necessary changes in the Statistics Act to achieve this. The benefits of this exercise would extend to all stakeholders, given the generalized need for comprehensive, reliable and timely data for decision making.

Fiscal Responsibility Framework.

Another cornerstone transparency initiative underway is the work on the fiscal responsibility framework, inclusive of fiscal responsibility legislation. The Government is of the firm view that having a framework of fiscal responsibility will anchor and guide fiscal behavior towards the medium-term goal of fiscal consolidation, and in a manner that is transparent. Never again should any government be able to repeat what was done in the run up to the May 2017 election where a half billion dollars in deficit spending was able to happen in the absence of any national crisis and virtually unbeknownst to the Bahamian taxpayer until after the fact.

Indeed, the intent is to have fiscal responsibility legislation that will crystalize the Government's commitment to the budget principles of stability, transparency and accountability to the Parliament and the public at large; and, by better addressing the reporting gaps, it will contribute further to improved fiscal openness.

Fiscal Responsibility Legislation

In framing the Fiscal Responsibility Legislation, however, we must all recognize the need for balance in our approach. It would be impractical to expect that we could achieve fiscal consolidation overnight. All things considered, the sheer size of the effort required to achieve this outcome, based on our current circumstances, reinforces the need for our consolidation plan to be carefully designed and implemented, so as not be to harmful to the broader growth objective.

Being mindful of these points, our intent is to basically architect a framework that is simple, yet effective, to be publicly credible and enforceable, with flexibility to respond to economic shocks and having effective mechanisms for monitoring compliance. We want to demonstrate to the Bahamian public our serious intent to position the public finances on a more sustainable path.

In this context, the Government is giving consideration to establishing a ceiling on the deficit and a cap on recurrent expenditure growth—one that is consistent with keeping the public debt to GDP ratio on a downward trajectory. Our recent fiscal experiences show a tendency to borrow to cover current

expenditures, when best practice should have these outlays covered by operating revenues. Consequently, we will seek to include a medium-term objective that government's operating expenditure does not exceed operating revenues or are contained within the ceiling.

Another important guard rail will be the requirement for fiscal constraints during electoral periods. What is being contemplated are the imposition of temporary hiring freezes, limits to increases in short-term debt, limits on new capital projects above a certain threshold or any policy that commits the government to fiscal or quasi-fiscal expenditure above a threshold.

Importantly, the Fiscal Responsibility framework will also have sanctions when compliance with the FRL is violated—which could be an obligation to provide an explanation to the Parliament when the targets are not met.

From a transparency perspective, we value having responsible, studied critiques of the Government's policy positions. And so,

as is the case with most fiscal responsibility legislative arrangements, we are giving consideration to establishing an independent body that will provide transparent, unbiased analysis of the public finances.

As for our timeline for implementation of the fiscal responsibility framework, the Government continues to work very closely with the IMF, which is assisting with the legislative drafting exercise and the calibration of the proposed fiscal rules. We intend to have this exercise completed in time for the upcoming budget.

Reporting Requirements Publication of Fiscal Risks

As I mentioned earlier, the Fiscal Responsibility Framework is all about accountability and transparency. However, fiscal transparency is diminished when the government's economic decisions are not based on an accurate assessment of the potential risks to the fiscal outcome—those factors that can give rise to differences between the government's forecast and the actual fiscal outturn.

Therefore, in line with best practice, our framework will include a requirement for the government to identify, analyze and manage fiscal risks, and then report on them.

We acknowledge the merits for integrating fiscal risk analysis and reporting for the Government into our budget preparation process. To be sure, it would allow for a better understanding of the true nature of our fiscal position, and then for the public—having this information would better inform the national debate about the Government’s budget strategy and whether there are sufficient mitigating mechanisms in place where the probability of risks materializing is high.

And what are these fiscal risks?

For us in The Bahamas, a key exposure area would be natural disasters—how these would impact the fiscal performance and a disclosure of the arrangements in place to mitigate the risks. Over the past three years, we have experienced severe weather conditions that have exerted pressure on the public purse.

These concerns motivated the Government in July of last year to re-established The Bahamas' participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which provides member governments in the Caribbean with short-term liquidity as insurance against loss of revenue caused by natural disasters. However, discussions are ongoing to seek to make the CCRIF facility more applicable to the Bahamian reality. We are advancing for example a proposal to split the Bahamas into three regions (southern, central and northern zones)—each paying a different premium to maximize the potential benefits of the insurance.

While this arrangement is important, I believe there is consensus on the need for us to do more by way of contingency planning, given the increased incidence and severity of hurricanes and their potential adverse impact on fiscal sustainability. This is why the Government is giving serious consideration to establishing a separate pool and issuing hurricane (green) bonds in the international market—as a buffer against the fall-out of natural disasters.

Apart from natural disasters, there are also other areas that we will need to consider in our fiscal risk assessment, e.g.

- The potential risks posed by the financial needs of the SOEs—which could create additional pressure on the fiscal accounts;
- The Government’s exposure to guarantee debt and contingent liabilities—assessing the extent to which these may be realized;
- Recognition of omitted financial commitments—including arrears—and their likely impact on the fiscal outcome.
- Potential for macro-economic shocks that might cause a downturn in revenue performance, and necessitate unplanned borrowings or other changes in the budget.
- Pension liabilities.
- Any risks associated with Public Private Partnerships.
- off-balance sheet risks such as hedging activities; risks in this area surfaced recently when the credit rating

downgrade triggered termination clauses in several agreements, and margin calls exerted pressure on an already stressed financial position.

At the end of the day, we believe that our fiscal plans will be more robust, if we consider and incorporate all the major risk exposures.

Freedom of Information Act/Office of Ombudsman

There are several other initiatives that we believe will lend support to fiscal transparency. One is the much talked about Freedom of Information Act (FOIA), which will codify the public's right to know the activities of the government and to gain access to government information. Again, this is all about transparency and holding the government accountable to its people.

The plan to establish the Office of Ombudsman also bears mentioning. The proposed legislation is now in Bill form, and once enacted will provide for the handling of complaints from persons who feel aggrieved by actions or inactions of Government or any of its agencies. I think all would agree with

me that the time has come for such arrangements, as we need to transform and upgrade how we interact with our citizens at large.

Other reporting requirements

Our work on the fiscal responsibility framework does not end with the fiscal rules, but also includes a number of improvements in our fiscal reporting, to achieve greater transparency and comprehensiveness of analysis.

In terms of transparency, there is considerable information on the Government finances in the public domain.

- During the budget process, detail disclosure is made on the Government's fiscal plans by expenditure head and item, etc., and the budget is published on its website. And while the Government does not directly publish lower frequency data, it does provide the Central Bank with monthly revenue and expenditure data, for compilation in the IMF's Government Finance Statistic Methodology, which are then

published in various reports and made available on the Central Bank's website.

- Considerable detail is also disclosed on the Government debt, its contingent liabilities, and on the debt of the state-owned enterprises.
- Following the budget, there is also a mid-year budget update to communicate policy changes and developments.

But even with these disclosures, we recognize that there is room for improvement when it comes to meeting all of the dimensions of fiscal transparency.

To complement and supplement the budget, we need to do a better job explaining the budget proposals in a way that makes it easily understood by Bahamians from all walks of life—few of whom are going to take the time to read the budget communication or comb through the voluminous budget statistical reports.

To address this situation, some countries have taken the approach of preparing what they call a “Citizen Budget”—

basically an easy to understand synopsis of the main features of the budget, as presented to Parliament. The Government sees value in such a guide and, going forward, commits to producing such a report. We want to proactively encourage and facilitate more informed engagement by all Bahamians in the discussion of how we raise, spend and manage public resources.

Another reporting gap we will be seeking to fill is the preparation of a medium-term economic and fiscal outlook paper, for use in our planning and budgeting exercise. It will cover the fiscal risks I mentioned earlier and provide a more comprehensive analysis of prevailing economic conditions.

You may be aware that our existing budget preparation process uses a three-year rolling budget period, but what is lacking is narrative and analysis behind the assumptions; and then, when there are variances, no explanations are given on deviations in the roll-forward amounts.

Within this framework, we intend to firm up our analysis and projections, over time, and be held responsible to reconcile and explain deviations from the fiscal forecasts.

Conclusion

In concluding, let me say that it is not lost on the Government that Bahamians are demanding that the Government, not only ensure good service delivery for its citizens, but also be forthcoming in its affairs—a call for transparent, consultative and inclusive engagement.

The Government remains unequivocal in its commitment to the general principles of responsible fiscal management. Though our fiscal responsibility framework, and the other public financial management reforms we are undertaking, continue to emphasize:

- **accountability**—to our stakeholders for the way we carry out our responsibilities and manage public assets/liabilities and fiscal risks

- **fairness**—in taking into account the impact of the welfare of the current population and future generations.
- **stability**—in not allowing our activities to cause destabilizing changes in the macroeconomic environment; and
- **transparency**—by our commitment to provide timely, accurate and reliable information on fiscal policy measures

The public can also count on us to provide a framework for improving engagement with various private stakeholder groups and civil society on governance reforms, transparency and the government process of policy designing, formulation and implementation.

Thank you for your kind attention.