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**Assessment of Public Financial Management in Grenada  
using the PEFA PFM performance framework**

**Final Report**

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## **Final Report**

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# **Assessment of Public Financial Management in Grenada using the PEFA PFM performance framework**

By

**Mr. Anthony John Wiggins**

and **Mr. Jorge Antonio Shepherd**

Submitted by

**ACE, Asesores de Comercio Exterior, S. L. (Spain)**



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The views expressed in this report do not necessarily reflect the views of the European Commission.

## **Currency and indicative exchange rates**

Local currency unit = Eastern Caribbean Dollar (EC\$)

1 EURO = EC\$4.03661 (November 25<sup>th</sup>, 2009)

1 US dollar = EC\$ 2.70

### **Fiscal Year**

01 January -31 December

## **Abbreviations and Acronyms**

AGD	Accountant General's Department
CAROSAI	Caribbean Organization of Supreme Audit Institutions
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
COFOG	Classifications of Functions of Government
CS DRMS	Commonwealth Secretariat Debt Recording and Management System
C&E	Customs and Excise Department
DCC	Debt Coordinating Committee
DSA	Debt Sustainability Analysis
DTEC	Department of Technical and Economic Cooperation
EC	European Commission
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EDF	European Development Fund
EU	European Union
GDP	Gross Domestic Product
GFSM	Government Financial Statistics (Manual)
GOG	Government of Grenada
GRENLEC	Grenada Electricity Services Ltd.
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IR	Inland Revenue Department
LIAT	Leeward Islands Air Transport
MDA	Ministries, Departments and Agencies
MoF	Ministry of Finance
MYBF	Multi-Year Budget Framework
NAO	National Authorizing Officer
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee

PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Finance Management Act
PFM-PR	PFM Performance Report
PI	Performance Indicator
PRGF	Poverty Reduction and Growth Facility
PSC	Public Service Commission
PSIP	Public Sector Investment Programme
SFA	Special Facility of Assistance
SIGFIS	Standard Integrated Government Financial Information System
SIGTAS	Standard Integrated Government Tax Administration System
SN	Sub-National
SOA	Statement of Accounts
SPEED	Strategic Plan for Educational Enhancement and Development
STABEX	System for the Stabilization of Export Earnings (under the Lome Convention)
TIN	Tax Identification Number
TOR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value added tax
VFM	Value for Money
WIBDECO	The Windward Islands Banana Development and Exporting Company

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# Summary Assessment

## *Objectives*

1. The European Commission has been providing the Government of Grenada with direct budget support grants financed from successive European Development Funds (EDF), STABEX and the European Budget. The decision to provide support in this form took into account the results of a 2006 review of Public Financial Management (PFM) in Grenada based on the Public Expenditure and Financial Accountability (PEFA) performance measurement framework developed by the World Bank, the European Commission and other development institutions. The Guidelines for the continuation of such European Commission Support require a periodic reassessment of recipient countries' public financial management systems, again using the PEFA performance measurement framework. This report provides the required reassessment.

## *Scope and methodology*

2. This assessment is based on the PFM Performance Measurement Framework (PMF), an integrated monitoring framework that allows measurement of country PFM performance over time. The assessment concentrates on central government and also takes into account the government's relationships with, and responsibilities for statutory bodies. Grenada does not have local governments. The report encompasses the entire spectrum of PFM activities from the linking of policies to plans, budget formulation and preparation, budget execution, accounting, reporting and control to external oversight and legislative scrutiny. It assesses the current status of PFM in Grenada against the internationally agreed indicators. The actual status of PFM in Grenada is scored against the 31 high level indicators set out in the PFM PMF and is included in this Summary. The Framework identifies six critical dimensions of performance of an open and orderly PFM system and also assesses donor performance. The overall findings of this assignment are grouped under these criteria.

## *Background*

3. Grenada is a middle-income country in the eastern Caribbean, the most southerly of the Windward Islands. Average income per head in 2008 was of the order of US\$ 6000. With a total population of 109,000, Grenada is a small open economy vulnerable to both external shocks and natural disasters. It is very heavily dependent on mainly tourism-related foreign investment inflows (of the order of 40 per cent of GDP) to offset the structural current balance of payments deficit; exports represent only about 5 per cent of GDP, against imports corresponding to about 50 per cent of GDP. Tourism receipts represent the largest positive contribution to the current balance of payments, corresponding in 2008 (net) to about 16.5 per cent of GDP. Grenada was severely affected by Hurricane Ivan on 7 September 2004, which caused widespread devastation on the island. The estimated damage exceeded 200 per cent of (2003) GDP. Hurricane Emily

exacerbated the situation the following year. The economy contracted by 5.7 per cent in 2004 in the aftermath of Hurricane Ivan, but rebounded in 2005 with 11.5 per cent growth caused by the reconstruction effort substantially financed by external grants. There was a small overall contraction in 2006 as the construction boom eased, but other sectors made good progress. Overall growth was 4.5 per cent in 2007, and 2.2 per cent in 2008 as the world financial crisis began to make itself felt.

4. Following the hurricanes, which imposed heavy reconstruction costs on the government, Grenada was successful in negotiating the restructuring of its external commercial and bilateral official debts, with savings in external payments of nearly EC\$400million over the ten year period to 2015. In addition to this the Grenada government agreed with the IMF on a Poverty Reduction and Growth Facility (PRGF) under which it could draw 10.54million SDR. As part of this agreement the government undertook to implement a programme of fiscal stabilisation and public financial management reform. This programme for 2006-2008 and subsequently extended to 2010 aimed to achieve a primary surplus of 2.5 per cent of GDP, implying an improvement equivalent to 4.5 per cent of GDP in the government's overall balance. The intention was to put the economy on track to reduce the debt-to-GDP ratio to 60 per cent by 2015. It included fiscal measures on both revenue and expenditures as well as measures to improve different aspects of PFM and to enhance fiscal transparency.

5. Progress in implementing the agreed programme for the PRGF has since been reviewed at six month intervals by IMF staff missions. Important progress has been made in enacting new PFM legislation, including improvements in external audit, public procurement, investment promotion and tax reform (with VAT due to come into operation on 1 February 2010). Up to the end of 2008 the quantitative benchmarks concerning the primary balance, the amount of public investment and the amount of payment arrears more than 60 days overdue, were generally met, although there were delays in the enactment of some of the legislation and in the completion of the Country Poverty Assessment which is needed to form the basis for a new poverty reduction strategy. However, there has been a sharp deterioration in the performance of the economy since the beginning of 2009, as construction contracted by 30 per cent and tourist receipts declined by 15 per cent. Overall GDP is now expected to decline by more than 6 per cent in 2009, as against the prospect of growth of 0.5 per cent when the 2009 Budget was prepared. The result has been a substantial revenue shortfall, and an expected deterioration of EC\$70million in the government's current balance. The overall balance shows a net deterioration of over EC\$50million after allowing for some reductions in total capital expenditure. Expenditure arrears have been increasing, and the 60 per cent debt-to-GDP ratio target is not expected to be achieved before 2024.

### ***Integrated assessment of PFM performance***

6. The PFM analysis has been carried out for the period 2006 to 2009 based on a review of a wide range of documentation, reports and many interviews with a number of stakeholders.

The results of the analysis are set out in table 1 below.



Table 1 Summary assessment

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				C
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	C	A			C+
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A
PI-7	Extent of unreported government operations	M1	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	-	-	-		-
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	-			C
PI-10	Public access to key fiscal information	M1	B				B
<b>C. BUDGET CYCLE</b>							
<b>C(i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	C	C	B		C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	D	D	C
<b>C(ii) Predictability and Control in Budget Execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	A		B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	C	C		C+
PI-15	Effectiveness in collection of tax payments	M1	D	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	D	C		D+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	B	C		B
PI-18	Effectiveness of payroll controls	M1	C	A	C	C	C+
PI-19	Competition, value for money and controls in procurement	M2	B	B	D		C+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	C	A		D+
PI-21	Effectiveness of internal audit	M1	C	C	C		C
<b>C(iii) Accounting, Recording and Reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			B
PI-23	Availability of information on resources received by service delivery units	M1	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	C	B	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	B	B	C		C+
<b>C(iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	B	A	B		B+
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		D
<b>D. DONOR PRACTICES</b>							
D-1	Predictability of Direct Budget Support	M1	D	D			D
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
D-3	Proportion of aid that is managed by use of national procedures	M1	D				<b>D</b>

A brief summary of the key findings is set out in the following paragraphs.

### ***Credibility of the budget***

7 .The two hurricanes Ivan and Emily created strong pressures for additional capital expenditures. Although external financing fell short of expectations during the period 2006-08, higher than budgeted domestic borrowing enabled domestically financed expenditure to exceed Budget by more than 15 per cent in 2006 and 2008; in 2007 out-turn exceeded Budget by just under 10 per cent. The additional variance in excess of the overall deviation of aggregate expenditure – a measure of the change in the mix of expenditure between Budget and out-turn – amounted to 3.7 per cent, 7.5 per cent and 8.3 per cent in 2006, 2007 and 2008 respectively. Domestic revenue was 6.1 per cent, 5.2 per cent and 1.7 per cent below Budget in 2006, 2007 and 2008 respectively. Information on current outstanding invoices and claims can be extracted from the SIGFIS accounting and payments system operated by the MoF Accountant General’s Department. There were practically no payment arrears at the end of 2006; arrears at the end of 2007 and 2008 were 5.0 per cent and 2.3 per cent of total expenditures in these years. (But the problem of arrears has reappeared in 2009.)

8. Pressures created by the hurricanes, followed by the global financial crisis which started in 2007 made stable budgetary planning and execution very difficult. The constraints resulting from the need to minimise increases in government debt (and the absence of a lender of last resort) further limit the government’s ability to keep expenditure on a steady path from one Budget to the next.

### ***Comprehensiveness and transparency***

9. The budget is presented by Votes with breakdowns by administrative classification and by economic classification. Only revenues are classified as well according to a functional classification. The budget documentation, comprising the Budget Speech and the detailed Estimates of Revenue and Expenditure include comprehensive information, except for financial assets. The latter are, however, included in the annual Statements of Account. All donors’ spending is entered into the financial information system, SIGFIS, though this may be subject to some delay where expenditure does not go through Treasury accounts. The Budget Speech and the Statements of Account include information about guarantees provided to statutory bodies and private companies, but there is as yet no systematic monitoring of the financial position and business plans of statutory bodies. The Estimates, Budget Speech, Statements of Account and the Audit reports are available to the public. Some fiscal information is also provided in the context of pre-Budget consultations. During the period up to mid-2008 systematic quarterly information was published, sometimes subject to some delay, about progress in Budget execution. An up-to-

date general presentation of the government's overall financial position is included in the documentation accompanying the 2010 Budget Statement made on 15 January 2010.

### *Policy-based budgeting*

10. Line Ministries take part in a Budget consultation in advance of the issue of the Budget Circular, which gives them background information on the climate in which they will have to prepare their Estimates submissions. Once the Circular is issued, however, they may have less than two weeks to prepare their submissions. The Circular embodies the Cabinet's decisions on the overall expenditure ceilings and on the activities which should have priority in the preparation of the Budget. But it does not contain ceilings for individual Ministries. Once the submissions are received, the Ministry of Finance (MoF) carries out discussions with each Ministry before arriving at final figures. Where, as in most cases, it is necessary for MoF to cut back on Ministries' submissions, the reductions do not always reflect what each Ministry would have chosen if it had been in a position to make the choice. For the financial years 2007 and 2008 the Budget was approved by Parliament before the beginning of the new financial year; the 2006 Budget finished its Parliamentary process in early February that year, well within the Constitutional limit which only requires the Budget to be approved before the end of April. For the 2010 Budget the extension of consultations between MoF and spending Ministries once submissions had been made resulted in the Budget Statement being delayed by a month from the originally intended date.

11. A medium term economic framework is prepared by MoF, but it has not been circulated outside MoF, and thus has not influenced spending Ministries' Budget submissions. Annual Budget preparations have thus been made afresh from scratch each year, without being informed or constrained by a medium term framework. Some Line Ministries have longer term strategies for the pursuit of their main policy objectives, and also prepare annual corporate plans, but the strategies have not been articulated and costed in such a way that they can be fitted within the overall medium-term framework. The Public Sector Investment Programme (PSIP) has similarly been prepared on a rolling basis in the past, but its implications for ongoing current expenditure have not been systematically built into the forward expenditure projections of each Ministry. Because of the constraints of the IMF PRGF arrangement, and the difficult overall fiscal climate, previous investment plans have had to be cut back, and a new PSIP needs now to be prepared which will make the best use of the limited resources available consistently with progress towards reducing the burden of public debt. Debt sustainability analysis has been carried out regularly in the context of the IMF's monitoring of the PRGF.

### *Predictability and control in budget execution*

11. Tax legislation defines taxpayer liability with reasonable clarity, although there has in the past been a substantial measure of Ministerial discretion in the granting of tax incentives. Indirect taxation is currently undergoing substantial restructuring, with VAT replacing the General Consumption Tax, Motor Vehicle Purchase Tax and airline Ticket Tax on 1 February 2010. There are also some consequential changes to excise taxes on drink and tobacco. Some

concern was expressed by business interests about aspects of the transition arrangements, where the decision not to allow GCT already paid on current stocks to be credited against output VAT could result in frictional shortages as traders delay restocking until after 1 February, and decisions about the extent of zero-rating on services supplied to non-residents could divert business to other nearby islands. Once it is brought into effect, new legislation on the promotion of investment will ensure a more level playing field for investors, and remove Ministers' present discretionary powers to grant tax holidays. Corporate and personal income tax is charged at 30 per cent above a threshold of EC\$ 60.0000; where profit margins are low, the annual stamp tax (a turnover tax of 0.5 per cent) can result in a total effective tax rate on business profits of more than 50 per cent. The Tax Administrations make considerable efforts to inform taxpayers about their obligations, and the procedures with which they have to comply. A Tax Appeals Tribunal has recently been established, and has already begun to hear cases.

12. Taxpayers have a single Taxpayer Identification Number (TIN) for all taxes except Property Tax, to which special considerations apply. But some modifications are needed to the SIGTAS (Inland Revenue) and ASYCUDA (Customs) systems to facilitate the consolidation of information about individual taxpayers. The new VAT law provides for fixed penalties for failure to comply with registration and declaration obligations, but the position of the authorities could usefully be strengthened in the cases of the other major taxes. The resources so far allocated to tax audit are relatively limited; a stronger focus in this area, including a unified audit covering both Inland Revenue and Customs, could pay important dividends in reducing the present large volume of tax arrears (which correspond to about 20 per cent of current total annual tax revenue (about EC\$410million in 2009), after allowing for the effect of the 2009 tax amnesty). In practice the total of arrears is considerably exaggerated, since there have been no write-offs since 1995, and much of the total must be uncollectable because time-barred or because taxpayers have died or gone bankrupt. Arrears of National Insurance contributions amounted to EC\$32million at end 2008, as compared with annual revenue from contributions of EC\$53million, but the National Insurance Scheme is not consolidated into the central government Budget. All tax revenue is paid immediately into a Treasury account, and the payment and bank records are reconciled at the end of each month

13. Ministries and agencies submit their cash flow plans to the Ministry of Finance at the beginning of each financial year. Thereafter the situation is closely monitored by MoF Budget and Accountant General's Departments, but there is no overall revision in discussion with Line Ministries. There is no separate control of commitments, and Ministries are free to enter into expenditure commitments consistent with their Estimates provision on the relevant budget lines. This arrangement worked well until the end of 2008, and expenditure arrears were substantially reduced, but there has been no centrally directed effort in 2009 to reduce Estimates provision in line with the revenue shortfall, so that the problem of arrears has re-emerged. Ministry Accounting Officers can reallocate expenditure provision within Votes, subject to no reallocation between capital and current expenditure, and no reallocation of provision for salaries to other purposes, but special warrants signed by the Minister of Finance are required for expenditure not provided in the Estimates when no offsetting savings are available. Such warrants should be reported to the National Assembly without delay, and regularised by Supplementary Estimates. In practice information about such changes may only be given to the National Assembly and the general public after a considerable delay.

14. The debt information system provides reliable information that is updated and reconciled on a monthly basis. The new Debt Management unit at MoF is able to project future debt service payments and debt levels with the aid of a model provided by the Commonwealth Secretariat. But the unit does not yet have all the information about the debts of statutory bodies and private companies' government-guaranteed debts to project future movements in these debts with precision. However, guaranteed debt has fallen by nearly 50 per cent since 2004, and stood at just under EC\$ 150 million at the end of 2008, as compared with total government debt of EC\$ 1.60 billion. The original objective of the economic stabilisation programme under the PRGF was to set the economy on a path to reduce the debt-to-GDP ratio from around 110 per cent to 60 per cent by 2015; because of the adverse impact of the recent economic contraction, it is now unlikely that the 60 per cent objective can be reached before 2024. The Ministry of Finance controls the contracting of all new public debt, subject to Parliamentary approval being required for new debt issues, and for the annual limit on government overdraft borrowing from banks. It is doubtful whether this latter requirement has been observed at all times.

15. Substantial progress has been made in consolidating the formerly numerous separate bank accounts operated by Ministries for different projects. Almost all of these have now been consolidated into the main and development accounts maintained by the MoF Accountant General for the operations of the Consolidated Fund. There are still some separate accounts for projects financed by loans, but the transactions and balances are regularly reported to the Accountant General.

16. Internal controls remain a matter of some concern. Strong central systems are in place to ensure that established public officials are correctly graded and paid. Their numbers and pay are fully disclosed in the Estimates, and their terms of service and promotions are controlled by the Public Service Commission. But these safeguards do not apply to most of the temporary employees who make up approaching 20 per cent of the government work-force, whose numbers and pay are not disclosed. There is no separate control of expenditure commitments, and the Regulations to give detailed effect to the Public Finance Management Act 2007 have not yet been put into force; meanwhile the Finance Rules in operation under the previous finance legislation continue to apply. Public Procurement was to have been reformed in accordance with the Public Procurement Act 2007, but OECD have criticised its provisions which confer responsibilities for supervising the system and doing actual procurement on the same agency. Meanwhile the full information about the circumstances of actual procurements needed to assess the competitiveness of current arrangements is lacking.

17. Internal audit work has made progress in recent years, although resources are limited to one auditor with a wide ranging brief reporting to the Permanent Secretary Finance, and another reporting to the Accountant General on issues concerning the functioning of payment and accounting systems. Internal audit has had some impact in reducing waste across the government, for example in the way in which government vehicles are used, and in discouraging the premature discarding of still functioning equipment. MoF is planning to strengthen the work by installing internal auditors in some major spending Ministries.

## *Accounting, recording and reporting*

18. Accounts reconciliation is on a monthly basis, while advances are cleared quarterly. No data are published about the resources allocated to individual schools or health clinics; although the Ministry of Education indicated that they would make such information available if asked to do so. Monthly and quarterly Budget execution monitoring reports are prepared, with the bulk of the information generated directly from the SIGFIS accounting and payment system. However, information has to be collected separately about payments out of special accounts in respect of loan-financed projects, and then entered into SIGFIS. Complete reports are available within 6 weeks of the end of each period. There has been no recent regular publication by GoG of in-year Budget execution reports. The timeliness of the production by the Accountant General of the government's annual Statements of Account has been improving; the most recent Statements have been submitted for audit 8 months after the end of the year to which they relate (as compared with the PFMA requirement that this should be done within 6 months of year end). The Director of Audit has yet to issue a positive Opinion on the Statements of Account, but there have been fewer criticisms of their accuracy and completeness. The Accounting Standards used for the production of the Statements are consistent, although they do not match best international practice; the Director of Audit would like to see fuller disclosure of the standards used.

## *External scrutiny and audit*

19. External audit under the responsibility of the Director of Audit covers the whole central government. PFMA has confirmed that the Director of Audit's remit covers all Statutory Bodies (the Director is permitted to allow the audit of Statutory Bodies to be carried out by private sector auditors under his supervision). Additional resources have been allocated to external public audit, and the staff trained to carry out performance as well as financial and compliance audits. Audit reports are published after being laid by the Minister of Finance before the National Assembly. The Director of Audit considers that spending departments accept most audit recommendations, although there is no clear public record of this.

20. The scope for Parliamentary scrutiny of Budget proposals is relatively limited. The Estimates are only presented to Parliament once the Cabinet have settled all details, and there is no real possibility of substantial amendment to meet Parliamentary concerns. The Budget debate gives an opportunity for discussion of all aspects of the government's fiscal policy, but there is no mechanism for discussing the Estimates line by line in a specialised Committee. PFMA gives the Minister of Finance a wide measure of discretion to authorise expenditure in advance of it receiving Parliamentary approval, provided that the total of the "Special Warrants" required for expenditure not included in the approved Estimates should not exceed 10 per cent of the originally approved expenditure. Where special warrants are issued, PFMA expects the National Assembly to be informed without delay, and the amounts to be regularised through the presentation of a Supplementary Estimate. PFMA does not, however, include any provisions about the timing of information to be given to the National Assembly.

21. The Public Accounts Committee (PAC) of the House of Representatives functions rather sporadically in scrutinising audit reports. The Committee is made up exclusively of members of

the Opposition, and so may be more concerned to create embarrassment for the government rather than to find more efficient ways of delivering public services. When the Government changes, the new Opposition may be reluctant to investigate things which happened when they were in power. The last PAC report tabled in the House of Representatives was in February 2007, and concerned the 1999 Statements of Account; no debate took place. There is no recent record of the Legislature adopting any recommendations to the Government on the basis of the Director of Audit's reports. The PAC has recently (November 2009) resumed its meetings.

### ***Donor Practices***

22. Although MoF seeks to include all receipts (grants and loans) from external sources, and all associated expenditures in the Budget aggregates, the actual receipts have in the 2006-08 period fallen far short of expectations. There is a clear need to improve communication between donors and MoF so that the Budget can be presented on a more realistic basis. Information about the in-year timing of external receipts has been equally unsatisfactory. National systems for procurement, payment/accounting, audit and reporting are used only when external financing takes the form of direct budget support..

### ***Assessment of the current strengths and weaknesses and their impact on PFM***

#### **(a) Aggregate fiscal discipline**

23. The external shocks Grenada has had to absorb, resulting first from the hurricanes, and then from the global financial crisis, have made it very difficult to pursue a stable fiscal policy. The measures taken in the context of the IMF PRGF have served to keep a difficult situation under control, but it has not been possible to make progress in reducing the debt-to-GDP ratio. Weaknesses in the assessment and collection of taxes (PI 15(i)), and the absence of a control over commitments (PI 20(i), PI 16(i)) such as is needed if unexpected revenue shortfalls are not to result in problems of expenditure arrears (PI 4), tend to undermine fiscal discipline. Once a more stable economic climate is restored, action to address these weaknesses, and to develop a medium-term fiscal framework, should substantially reinforce fiscal discipline.

#### **(b) Strategic allocation of resources**

24. Strategic allocation of resources has represented a considerable challenge for Grenada since 2005. In practice the government has not had much choice about where to allocate resources: the priority has been to repair the hurricane damage, and then to shield the economy and the population as far as possible from the adverse impact of the world recession. Now that much of the reconstruction has been completed, and there are signs of a slow global recovery, it will be important to develop a medium-term fiscal framework within which the limited resources available, given the requirement to minimise any new public debt, can be planned to best advantage in the development of the different public services (PI 12) Firmer central control of

public service manpower could also help to improve resource allocation (PI 18); next year's planned audit supported by the World Bank should facilitate this.

### **(c) Efficient service delivery**

25. Grenada's systems remain relatively weak in the areas of public procurement, internal control and internal audit (PI 19-21). Internal audit has made useful progress, but it will be important to carry forward present plans to develop internal audit services in some of the main spending Ministries. Improvements in public procurement, and in internal financial control more generally, depend on the current reconsideration of the 2007 Public Procurement Act, and on bringing into effect the detailed regulations to be made under PFMA. External audit continues to make good progress, and to receive constructive responses from Ministries, but the National Assembly has not yet made any use of audit findings in pressing the government to use resources more efficiently (PI 28).

### ***Prospects for reform planning and implementation***

26. Since 2005 the Grenada government has enacted important new legislation on Public Financial Management, Public Procurement, External Audit, Value Added Tax, Investment Promotion, Anti-Corruption and Integrity in Public Life. However, although much of the legislation has been brought formally into force, the necessary detailed regulations and other administrative arrangements needed for them to take full effect have (apart from VAT) not yet been completed. Thus for the time being the old Finance and Stores Regulations under the 1990 Act, which are not adapted to the current electronic environment for PFM, remain in force, and the 2008 Statements of Account have been prepared (in late 2009) under the old Act instead of including all the material specified in the new 2007 Act. Future arrangements for public procurement are currently being reconsidered urgently following criticism by OECD of the arrangements contemplated by the 2007 Act; new arrangements to make public procurement more efficient and more transparent should be determined as soon as possible, and put into effect with minimum delay. It is understood that the Regulations required to give full effect to the remaining new legislation have all been prepared; they should be promulgated without further delay. At the same time renewed efforts are needed to establish a medium-term fiscal framework within which strategic plans for the development of the main public services, a new Public Sector Investment Plan and a new poverty reduction strategy can be fitted. There would be considerable advantage if all these different initiatives could be integrated into a PFM Reform Action Plan explicitly endorsed by the Cabinet, which could then be the subject of regular progress reports.



# INTRODUCTION

## ***A. Objective of the Public Financial Management Performance Report (PFM-PR)***

1. The purpose of this PEFA evaluation is to assess the current performance of Grenada's Public Financial Management (PFM) system in order to identify priorities for further PFM reform and to provide a common information base for dialogue between the government and its development partners. It has been sponsored by the European Commission (EC) as part of the analysis undertaken to determine the future eligibility of Grenada for continuing direct EC budget support.

2. The PEFA Public Financial Management (PFM) Performance Measurement Framework (PMF) is one of the elements of the Strengthened Approach to supporting PFM reforms developed by the World Bank, the European Commission and other development partners. The Strengthened Approach has three components: (i) a country led PFM reform strategy and action plan, (ii) a coordinated programme of activities financed by development partners which supports and is aligned with the government's PFM reform strategy, and (iii) a shared information pool. The PEFA PMF is a tool for achieving the third objective. .

3. It should be stressed that the PEFA PMF does not seek to assess fiscal or expenditure policy. The framework rather focuses on assessing the capacity of the elements of the system to facilitate the achievement of desired enable policy outcomes. Thus, this report does not articulate specific recommendations for PFM reform or an action plan. It is hoped, however, that the analysis presented will assist the government to define and articulate its PFM reform priorities and action plan. The intention is to assess the performance of the PFM system, not that of individual officials engaged in it.

## ***B. Process of preparing the PFM-PR***

4 Following an initial half day workshop at which the review team presented the main elements of the PEFA analysis to Ministry of Finance (MoF) officials and others concerned, detailed discussions were held during the period 5-19 November 2009 with the MoF Accountant General's Department, the Budget Department, the Inland Revenue and the Customs and Excise Divisions, the Technical and Economic Cooperation Department, and the Debt Management and Internal Audit Units. Others consulted included the Director of Audit, finance officers and other administrative and senior technical staff of the Ministry of Education, the Ministry of Health, the Ministry of Works, the Ministry of Agriculture, the Ministry of Legal Affairs and the Prime Minister's Ministry, members of the Parliamentary Secretariat, and accountants and business leaders. The review team are very grateful for the open and constructive spirit in which the discussions were conducted, and for the provision of much detailed information which they have sought to reflect in the draft report. An almost complete first draft report was sent to GoG at the beginning of December 2009. A short follow-up mission took place from 5-8 January 2010, in

the course of which discussions were held to fill in gaps in information in preparation for a full half day workshop on 8 January attended by the Permanent Secretary and other senior officials of MoF and the Director of Audit, at which the review findings were presented and explained. This revised report takes into account the written submission subsequently received from MoF, as well as comments by the PEFA Secretariat.

### ***C. The methodology for the preparation of the report***

5. The assessment was prepared on the basis of the PFM Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005. The PFM Performance Measurement Framework is an integrated monitoring framework that was developed as a tool to provide reliable information on the performance of PFM systems, processes and institutions. The framework relies on a set of high level Performance Indicators. Thus, the approach has been to assess the current status of Grenada PFM system based on the PEFA Indicators, which comprise a set of 28 Indicators that measure different aspects of the central government's PFM systems and 3 Indicators that assess the involvement of donors in the government's budgetary processes. The focus of the assessment is the central government; the report considers statutory bodies only to the extent that their activities may have implications for central government finance. The Performance Indicators, which are scored on a rating system from A to D, are presented along with a narrative to provide a brief description of the different PFM processes and procedures adopted by the government, and also to support and explain the ratings. Before presenting the Performance Indicator ratings, the report gives information about the country's economic situation, recent budgetary outcomes and the administrative structure in which PFM takes place.

6. An important consideration in developing these Indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the quality of the financial data upon which they were calculated. The review team therefore paid particular attention to the completeness and quality of financial data in assessing the PEFA indicators.

### ***D. The scope of the assessment as provided by the PFM-PR***

7. In conformity with PEFA guidelines, the assessment of Grenada's PFM concentrates on the operations of the central government, which comprises government units covered in the budget. The central government includes the Office of the Governor General, the Parliament, the Supreme Court, the Director of Audit, and 12 ministries, including the Ministry of the Prime Minister. This definition of central government includes transfers to the National Insurance Scheme and other statutory bodies.

8. Most quantitative PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Grenada is based, where relevant on the experience of fiscal years 2006, 2007, and 2008 (which correspond to the calendar years). The structure of the rest of the evaluation report is as follows. Section 2 provides background information on the economic, fiscal, legal and institutional context for the evaluation. Section 3 explains the scores for the 31 individual Performance Indicators. Section 4 describes the government's PFM reform efforts up to December 2009, and the prospects for further progress. A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Annex 1), the list of people consulted (Annex 2), the list of documents consulted (Annex 3), [and the TOR for the evaluation (Annex 4)].

## 2. COUNTRY BACKGROUND INFORMATION

### A. DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

9. The State of Grenada consists of three islands situated between the Caribbean Sea and the Atlantic Ocean. Grenada is the southernmost of the Windward Islands and is composed of seven parishes: St. George, St. Mark, St. Patrick, St. Andrew, St. John, St. David, and Carriacou with Petite Martinique. The capital city and headquarters of government for the country is St. George.

10. According to the last population census in 2001, Grenada had a population of 103,137 persons, evenly divided between males and females. The population growth rate in 2001 was 0.7 percent. For 2008 the population was estimated at 109,724 persons. Most of Grenada's population is of African descent, though there are some descendants of the early Arawak and Carib Indians. Approximately 65 percent of Grenada's population is under the age of 30. The official language is English.

**Table 2.1 Selected Macroeconomic Indicators 1/**

	2004	2005	2006	2007	2008
	(Annual percentage change, unless otherwise indicated)				
<b>Population statistics</b>					
Population (Thousands)	106.3	107.2	108.1	109.0	109.7
Population growth		0.8	0.8	0.8	0.6
<b>National income and prices</b>					
GDP at constant 1985 prices	-5.7	11.0	-2.3	4.5	0.3
GDP per capita, in current US\$	4,601	5,377	5,480	5,925	6,587
Consumer prices (end of period)	2.5	6.2	1.7	7.4	5.2
Consumer prices (average)	2.3	3.5	4.2	3.9	8.0
Real effective exchange rate	-3.6	5.6	-4.6	0.2	6.6
<b>Money and credit</b>					
Credit to the private sector	5.1	6.2	9.2	12.5	9.3
Money and quasi-money (M2)	17.8	-1.0	0.9	11.0	3.7
	(In percent of GDP, unless otherwise indicated)				
<b>External sector</b>					
External current account 2/	-9.0	-31.3	-33.4	-41.9	-42.3
Overall balance of payments (US\$ millions)	50.4	-43.7	5.0	13.0	-12.0
Gross official reserves (US\$ millions)	632.4	600.8	696.0	764.5	759.0
In months of current year imports	4.8	3.9	3.8	3.7	3.5
<b>Public sector debt</b>					
Public and publicly guaranteed debt	121.3	111.2	116.7	111.5	108.6
Domestic debt	32.2	31.7	35.7	32.8	29.4
Foreign debt	89.1	79.5	81.0	78.7	79.2
<i>Memo:</i> Nominal GDP (US\$ millions)	466.6	549.4	564.4	607.9	648.5

Sources: Ministry of Finance; and IMF staff estimates.

1/ 2008 data are preliminary.

2/ Includes foreign grants.

11. Grenada is a middle income country with a small open economy and an estimated GDP per capita of US\$6,587 (at current market prices) in 2008. The country has the third highest per capita income in the Eastern Caribbean Currency Union (ECCU) and ranks fifth among these

countries in the United Nations' Human Development Index. The economy depends primarily on receipts from tourism to offset the large trade deficit resulting from the fact that most goods used in Grenada have to be imported, while exports account for only about 5 per cent of GDP. Grenada also needs remittances from its citizens living overseas, and a continuing flow of inward investment of around 40 per cent of GDP, to achieve a satisfactory balance of payments position. As a member of the ECCU, Grenada has the East Caribbean dollar (EC\$) as its currency; the currency is managed by the East Caribbean Central Bank (ECCB) which holds its member countries' pooled foreign exchange reserves. ECCB operates a currency board-type system in which it holds 100 per cent backing in foreign exchange for its note issue. A fixed exchange rate of EC\$2.7 per US\$ has been maintained since 1974, which is considered an important guarantee of economic stability in the region. For individual members of ECCU, this arrangement means that governments have no recourse to the central bank if they are in need of cash.

12. The performance of the economy has fluctuated in recent years. Growth was rapid from 1998 to 2000, but the economy contracted by 3 per cent in 2001, and grew only slowly in 2002. Growth recovered to 7 per cent in 2003, but in 2004 Hurricane Ivan caused damage estimated at 200 per cent of GDP (US\$900 million), and led to a 5.7 per cent overall contraction. Despite further significant damage from Hurricane Emily in 2005, growth that year was almost 12 per cent, reflecting the enormous expansion of construction needed to repair the damage. Although the reduction in construction activity in 2006 resulted in a small overall contraction in GDP, other sectors generally did well, and there was 7 per cent growth in 2007. During the period from 2001 to 2005 much of the required capital inflow was secured by government borrowing in foreign currency; total external government debt increased during this time from EC\$387.5 million to EC\$ 1215.8 million. It became clear in 2005 that this burden of government debt could not be sustained. Grenada accordingly sought assistance from the IMF in the form of a 10.54 million SDR Poverty Reduction and Growth Facility (PRGF), under which the government committed itself to a programme of economic stabilisation and PFM reform. Meanwhile the government negotiated the rescheduling of its debts, reducing debt service costs over the ten years to 2015 by nearly EC\$400 million. The objective of the PRGF stabilisation programme was to put the economy on a path which would reduce the debt-to-GDP ratio from well over 100 per cent to 60 per cent by 2015

13. Since 2007 Grenada's economy has been substantially affected by world economic developments. Increases in world oil and food prices resulted in an inflation rate of 8 per cent in 2008, a little more than twice the 2007 rate. Tourism declined a little in 2008 compared with the previous year, a trend which has continued into 2009. There has been a pause in new hotel and resort development partly reflecting difficult conditions in world financial markets. This in turn resulted in less construction activity and added to the difficulties of external financing. Tax receipts held up well in 2008, reflecting the more comfortable economic situation in 2007, but 2009 has seen a sharper than expected decline in overall economic activity, with tax receipts markedly lower than originally forecast. Instead of overall growth of 0.5 per cent in 2009 expected at the time the 2009 Budget was prepared, the prospect now is a contraction of 6.2 per cent – a more severe contraction than the 5.7 per cent which resulted from Hurricane Ivan. Despite the achievement in 2008 of most quantitative benchmarks under the PRGF arrangement in terms of cutting back on public investment and reducing expenditure arrears, it has not proved

possible to make any progress in reducing the government debt-to-GDP ratio, and the target date for the achievement of the 60 per cent ratio has receded from 2015 to 2024.

14. Poverty and unemployment remain serious problems in Grenada. The 1998/99 survey found that 32.1 per cent of the population were poor, of whom nearly a third (12.9 per cent) were very poor (“indigent”). The 2007/08 survey found a somewhat higher overall poverty rate of 37.7 per cent, but the percentage of indigent poor had declined to 2.4 per cent. This picture is consistent with some continuing disruption of agriculture, particularly because of the damage to nutmeg and cocoa production from Hurricane Ivan, having an impact on the living standards of the agricultural population. Meanwhile measured unemployment remains at 25 per cent. The task, now that the poverty assessment has been completed (with some delay), is to prepare a new poverty reduction strategy which will be consistent with continuing constraints on public expenditure, current and capital, and a new Public Sector Investment Programme (PSIP) which will make best use of the limited resources prospectively available given the need to minimize the extent of any new public debt. The government is also taking steps to improve the business climate with the objective of further stimulating growth, investment and employment. With the support of the World Bank and the European Union, the government has established a Private Sector Development Office in MoF, and is in process of establishing new offices to facilitate the registration of companies and the transfer of property. The 2009 Investment Promotion Act, which will provide for investment allowances against tax to replace the existing Ministerial discretion to grant tax exemptions, represents a further step in encouraging the private sector.

## ***B. DESCRIPTION OF BUDGETARY OUTCOMES***

### **(i) Fiscal performance (see Table 2.2)**

15. The destruction caused by Hurricane Ivan, which was estimated at twice the 2003 GDP, resulted in a current fiscal deficit (i.e. current expenditure exceeding current revenue) in 2004 for the first time in almost ten years. Nevertheless, with budgetary support from the international community, Grenada was able to close the financing gap. Thereafter, and in the context of the PRGF, the government took measures to reduce less essential expenditure. The fiscal situation improved in 2006 and 2007 with current surpluses recorded of 3.6 per cent and 4.4 per cent of GDP as inward investment and tourism (further stimulated by the Cricket World Cup (CWC)) improved government’s tax intake (see Table 2.2). The current account balance then fell back in 2008 to 2.4 percent of GDP, as public sector wages and salaries absorbed an additional 1.9 per cent of GDP as compared with 2007. As already noted, the 2004 and 2005 hurricane damage resulted in very high public capital expenditure in the period 2005-07, which peaked at 18.8 per cent of GDP in 2006. Significant outlays were made in the areas of housing, agriculture, school rehabilitation, and in the replacement or repair of lost or damaged infrastructure. The increased grants received in 2005 remained fairly buoyant in 2006 at 8.7 percent of GDP, but fell sharply in 2007 to 1.1 percent of GDP, followed by a recovery in 2008 to 4.1 percent of GDP. However higher outlays on capital spending led to the overall surplus recorded in 2005 being converted to deficits in the following years. These deficits were financed by net additional domestic and external borrowing.

**Table 2.2 Out-turn of Central Government operations  
(In percent of GDP)**

	2005	2006	2007	Prel. 2008
<b>Total revenues and grants</b>	<b>34.8</b>	<b>33.6</b>	<b>27.2</b>	<b>29.5</b>
Current revenue	24.3	24.9	26.1	25.4
<i>Of which:</i> tax revenue	23.2	23.2	24.5	23.7
Grants	10.5	8.7	1.1	4.1
<b>Total expenditure</b>	<b>34.3</b>	<b>40.0</b>	<b>35.3</b>	<b>34.8</b>
Non-interest expenditure	32.3	37.9	33.0	32.2
<i>Of which:</i>				
Wages and salaries	10.1	10.0	9.7	11.6
Purchases of goods and services	4.6	4.7	4.8	4.7
Grants, subventions and transfers	3.7	4.5	4.9	5.2
Capital expenditure and net lending	13.9	18.8	13.6	11.7
Interest payments	2.0	2.1	2.3	2.6
<b>Overall balance 1/</b>	<b>0.5</b>	<b>-6.4</b>	<b>-8.2</b>	<b>-5.3</b>
Current balance	3.9	3.6	4.4	2.3
Primary balance 2/	2.5	-4.3	-5.8	-2.7
Statistical discrepancy	-2.9	-1.7	0.0	0.0
<b>Net financing</b>	<b>2.4</b>	<b>8.1</b>	<b>8.2</b>	<b>5.3</b>
Net external financing	4.7	3.6	2.5	2.6
Net domestic financing	-2.2	1.9	4.3	-1.0
Divestment/Privatization proceeds	0.0	0.6	2.2	3.2
Expenditure arrears	-0.1	2.1	-0.9	-0.5

*Sources:* Ministry of Finance; and IMF estimates.

1/ Includes foreign grants.

2/ Excludes interest payments.

(ii). Allocation of budgetary resources (see Table 2.3)

16. In the last four years, priority in the allocation of Government resources was given to social services, reflecting the need to alleviate immediate poverty and then rebuild school and health infrastructures. The share of education grew from 14.7 per cent of total expenditure in 2005 to 17.7 per cent (equivalent to just under 6 per cent of GDP) in 2008. The health share in total expenditure increased to 9.9 per cent in 2007, but fell back to 8.5 per cent (or just under 3 per cent of GDP) in 2008. In the area of Economic Services, expenditure on infrastructure, transport and communications rose rapidly in 2005 and 2006 in the immediate aftermath of the hurricanes, taking 18.6 per cent of the total in 2006, but then fell back to 10.3 per cent in 2008 as reconstruction was completed and investment cut back in accordance with the PRGF undertakings.

**Table 2.3 Actual budgetary allocations by ministry 1/ (In percent of total)**

	2005	2006	2007	Prel. 2008
<b>General Services</b>	<b>13.7</b>	<b>20.4</b>	<b>18.6</b>	<b>20.2</b>
Ministry of Legal Affairs	0.3	0.2	0.3	0.3
Ministry of Foreign Affairs and International Trade	1.3	1.3	1.3	1.3
Prisons	0.9	0.9	1.2	1.2
Police	6.6	6.4	6.5	6.9

Others 2/	4.7	11.6	9.3	10.5
<i>Of which: Prime Minister's Ministry</i>	2.5	9.4	6.6	7.8
<b>Social Services</b>	<b>36.8</b>	<b>27.5</b>	<b>33.1</b>	<b>30.7</b>
Ministry of Health, Social Security and the Environment	9.1	9.7	9.9	8.5
Ministry of Education and Labour	14.7	13.9	16.9	17.7
Ministry of Social Development	12.4	2.1	3.6	3.7
Ministry of Sports, Community Development and Cooperatives	0.5	1.8	2.7	0.8
<b>Economic Services</b>	<b>23.5</b>	<b>27.2</b>	<b>23.2</b>	<b>20.2</b>
Ministry of Agriculture, Fisheries, Public Utilities, and Energy	4.9	4.8	4.8	5.4
Ministry of Works, Communications, and Transport	15.9	18.6	14.3	10.3
Ministry of Tourism, Civil Aviation, Culture and Performing Arts	2.7	3.8	4.2	4.4
<b>Financial Services 3/</b>	<b>26.0</b>	<b>24.9</b>	<b>25.1</b>	<b>28.9</b>
<b>Total expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* Ministry of Finance.

1/ Excludes debt amortization.

2/ Includes the Prime Minister's Ministry, the Ministry of Carriacou and Petite Martinique, the Parliament, the Supreme Court, Director of Audit, the Magistracy, the Public Prosecutor, and the Public Service Commission.

3/ Includes the Ministry of Finance and Planning, Pensions and Gratuities, and Contributions.

17. Table 2.4 shows how the economic distribution of expenditure changed over the period from 2005 to 2008. Capital expenditure accounted for 47 per cent of the total in 2006 at the height of the reconstruction effort, and then fell back to less than 34 per cent in 2008. As capital expenditure fell back, wages and salaries took an increasing share as did subsidies and transfers. Despite the debt rescheduling, the share taken by interest payments increased from 5.2 per cent in 2006 to 7.0 per cent in 2008.

**Table 2.4 Actual budgetary allocations by economic classification  
(In percent of total)**

	2005	2006	2007	Prel. 2008
<b>Total expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Recurrent expenditure</b>	<b>59.4</b>	<b>53.1</b>	<b>61.5</b>	<b>66.2</b>
Wages and salaries	29.4	25.0	27.5	31.4
Goods and services	13.4	11.7	13.6	13.2
Interest payments	5.8	5.2	6.5	7.0
Grants, subventions and other transfers	10.8	11.2	13.9	14.6
<b>Capital expenditure and net lending</b>	<b>40.5</b>	<b>47.0</b>	<b>38.5</b>	<b>33.8</b>

*Sources:* Ministry of Finance; and IMF estimates.

## ***C. LEGAL AND INSTITUTIONAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT***

### **(i). Legal Framework**

#### ***(a) The Constitution***

18. The Grenada Constitutional Order of 1973 provides the legal foundation for public financial management in the country. *Chapter V on Finance, Articles 75-82*, covers issues that are relevant



to public financial management. These Articles establish the responsibility of the Minister of Finance to submit the annual Budget to the National Assembly, and provide for most government revenue and expenditure to pass through the Consolidated Fund. They also provide for the pay and pensions of officials to be a charge on the Consolidated Fund, and establish the position and functions of the Director of Audit. *Chapter VI on Public Services, Articles 83-93*, cover the appointment and terms of service of public officials, and the role of the Public Services Commission in supervising these arrangements

***(b) The Public Finance Management Act (PFMA) No. 27 of 2007***

19. PFMA provides for new and amended provisions covering public revenue and expenditure, the Treasury system, public debt and guarantees, public accounts, and statutory bodies. It specifies the duties and responsibilities of the Minister of Finance, the MoF Permanent Secretary and Accountant General, the Accounting Officers of spending Ministries and public officers in general. It gives the Accountant General authority over all government bank accounts, and specifies how most receipts and payments should pass through Consolidated Fund bank accounts. It stipulates that Cabinet approval is required before significant new expenditures (new services, capital projects, increases in public service numbers or pay) can be included in the Budget Estimates to be presented to the Parliament. It determines the arrangements for the enactment of the annual Appropriation Act which gives authority for the expenditure provided for in the Estimate

20. PFMA authorises the Minister of Finance to issue special warrants for expenditure not included in the Estimates, subject to a limit of 10 per cent of the approved Estimates for the total of such warrants, and to a requirement that Supplementary Estimates should be presented to the Parliament without delay to regularise such expenditure. It enables spending Ministries' Accounting Officers to reallocate expenditure from one budget line to another within the same Vote (but no reallocation may be made between current and capital expenditures, and provision for pay may not be reallocated to other types of expenditure). It requires the National Assembly to approve the contracting of new public debt, and to set an annual limit on government overdraft borrowing from banks. It prescribes the form and content of public accounts and confirms the Director of Audit's authority over the audit of all Statutory Bodies as well as over central government as a whole. It provides for the supervision of Statutory Bodies' business plans by the responsible Ministers in each case. The final Article gives the Minister of Finance power to make Regulations specifying how each of its provisions should be applied. Although a draft of such Regulations has been prepared, this has not yet been approved; for the time being the financial rules prepared under the former legislation remain in force.

***(c) The Public Procurement and Contract Administration Act No. 25 of 2007***

21. This Act is intended to provide for greater efficiency and transparency in public procurement. However, an OECD-PDG (Partnership for Democratic Governance) review has pointed out that the Public Procurement Authority created by the Act would have the responsibility both to supervise the procurement process, including enforcement of compliance with the rules, and of directly carrying out much of the procurement itself; such responsibilities are normally regarded as incompatible. The government have informed the IMF in the context of the PRGF that they

intend to replace the 2007 Act with a new Act which they intend to bring into force by April 2010. Meanwhile the previous arrangements whereby contracts worth over EC\$100,000 are let through the Tender Board run by the Ministry of Finance, and contracts valued at between EC\$10,000 and 100,000 are let through a Tender Board run by the Ministry of Works, remain in operation. Draft Asset Management Regulations to replace the old Stores Order have been prepared, but not yet promulgated.

***(d)The Audit Act No. 26 of 2007***

22. This Act sets out the responsibilities and powers of the Director of Audit and his staff. It provides for financial, compliance and performance auditing, and obliges auditees to provide all necessary information. It does not appear to require further underpinning by detailed Regulations.

***(e)The Tax System***

23. The main legislation governing taxation in Grenada is as follows:

- The General Consumption Tax (GCT) Act No. 7 of 1995, which provides for the imposition of a tax to be charged on the import and sale of goods and services. Interest is charged at the rate of two per cent per month on any unpaid balance. This Act will lapse on 1 February 2010 when Value Added Tax (VAT) comes into effect;
- The Property Tax Act No. 2 of 1997, which regulates the payment of an ad valorem tax on properties in Grenada i.e. based on the assessed market value;
- The Income Tax Act No. 36 of 1994, under which companies, sole proprietors, professionals and employees are required to pay a tax of 30 per cent on net earnings in excess of EC\$60,000 a year. Interest of 1.5% per month is charged on any unpaid balance. Some major inward investments have been granted extended tax holidays;
- The Stamp Tax Act No. 36 of 1992, which imposes a tax of 0.5 per cent on business turnover in excess of EC\$100,000 a year (0.25 per cent on turnover between EC\$30,000 and 100,000). Where profit margins are low, this tax may increase the effective tax rate on profits from 30 per cent to 50 per cent or more;
- The Property Transfer Tax [Amendment] Act No. 37 Of 1998, which regulates the payment of taxes on the transfer of real estate valued in excess of EC\$20,000;
- The Motor Vehicles Tax No. 22 of 1994, under which all vehicles imported into the country whether new or used face an effective charge of about 100 per cent of the import value (subject to a variety of exemptions);
- The VAT Act 2009 under which VAT will replace GCT, motor vehicle tax and airline ticket tax on 1 February 2010..
- The National Insurance Scheme (NIS) functions as an independent Statutory Body, whose audited accounts are submitted every year to the National Assembly. Although the government has ultimate responsibility for the payment of benefits should the funds of the scheme prove inadequate, NIS accounts are not consolidated with the rest of central government. When fully mature in 2023 NIS will provide a pension of 60 per cent of the average of the last five years' earnings before retirement up to a ceiling of EC\$36,000 a year, in return for contributions of 9 per cent of earnings (4 per cent paid by employees and 5 per cent paid by employers). At present contributions substantially exceed benefits; the 2008

accounts show contributions of EC\$87.25 million and benefit payments and administrative costs of EC\$ 37.75 million. Arrears of contributions were EC\$ 32 million. The net assets of NIS at the end of 2008 were EC\$ 626 million, which corresponds to approaching 40 per cent of total government debt.

24. Other legislation relevant to PFM includes the 2008 Integrity in Public Life and Prevention of Corruption Acts and the 2009 Investment Promotion Act. These laws are not yet in operation, pending the finalisation of the necessary staffing and administrative arrangements. The Investment Promotion Act will establish a more level playing field for new investment, and remove the current Ministerial discretion to grant tax holidays. Detailed Regulations will be needed to set out how its provisions are to be defined and administered.

(ii) The Institutional Framework for PFM

25. Grenada is a parliamentary democracy closely modelled on the British Westminster system. The Grenada Constitutional Order of 1973, which established the Constitution of Grenada, granted Grenada independence from the United Kingdom on 7 February 1974. A Governor General (Grenada's Head of State), is appointed by and represents the British Monarch. The Prime Minister is both leader of the majority party in the House of Representatives and the head of government. Constitutional amendments require the affirmative vote of a two-thirds majority of each House of Parliament and confirmation by referendum. The State is divided into the executive, the legislature, the judiciary and the electoral powers.

**(a) The Executive.**

26. Presently, the Government comprises the following ministries:

1. Ministry of Legal Affairs
2. Ministry of the Prime Minister
3. Ministry of Tourism
4. Ministry of Foreign Affairs
5. Ministry of Youth Empowerment, Sports and Culture
6. Ministry of Finance, Planning, Economy, Energy and Cooperatives
7. Ministry of Works, Physical Planning and the Environment
8. Ministry of Social Development and Ecclesiastic Affairs
9. Ministry of Carriacou and Petite Martinique Affairs
10. Ministry of Education and Human Resource Development
11. Ministry of Health
12. Ministry of Agriculture, Forestry and Fisheries
13. Ministry of Labour

**(b) The Legislature**

27. There is a bicameral legislature, consisting of an elected House of Representatives and an appointed Senate. The House of Representatives is composed of 15 members elected in accordance with the provisions of the Constitution. The Governor General appoints the Senate's 13 members, ten on the advice of the Prime Minister and three on the advice of the Leader of the Opposition. The Grenadian Parliament, unless dissolved earlier, continues for five years from the

date of the most recent general election. The National Democratic Congress which had been in opposition for the previous thirteen years won 11 of the 15 seats in the July 2008 general elections. The Prime Minister and the Cabinet are responsible to the Parliament.

***Autonomous government agencies.***

28. These are bodies established by statute which function as autonomous corporate bodies governed by Boards of Directors. Some of these bodies have their own revenue funds and do not require government subventions. Presently, these include 23 public corporations, regulatory entities and other agencies as follows:

- Gravel, Concrete and Emulsion Production Corporation
- National Insurance Scheme
- Grenada National Stadium Authority
- Child Welfare Authority
- Grenada Cocoa Association
- Grenada Micro Enterprise Project
- Grenada Authority for the Regulation of Financial Institutions
- Grenada Bureau of Standards
- Grenada Board of Tourism
- Grenada National Lottery Authority
- National Housing Authority
- National Telecommunications Regulatory Commission
- Grenada Ports Authority
- Grenada Airports Authority
- Marketing and National Importing Board
- National Water and Sewerage Authority
- Grenada Cooperative Nutmeg Association\
- Grenada Cultural Foundation
- Grenada Food and Nutrition Council
- Grenada Development Bank
- Grenada Industrial Development Corporation
- Grenada Solid Waste Management Authority
- Grenada Postal Corporation

The Government owns shares in the following private companies:

- LIAT
- GRENLEC
- Cable and Wireless
- RBTT Bank Grenada Ltd.
- WIBDECO
- Caribbean Development Bank
- Windward Island Packaging Corp. Ltd.
- Grenada Breweries Ltd.



### **3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS**

The purpose of the PEFA-based PFM assessment is to evaluate public financial management with focus on the central government and its functional performance through a set of 31 high-level performance indicators. These include 3 performance indicators assessing donor practices. In the case of Grenada, the focus is the central government which includes ministries, departments and other agencies (MDAs) currently operating in the country.

For the period in study, the central government includes the Office of the Governor General, the Parliament, the Supreme Court, the Director of Audit, and 13 ministries, including the Prime Minister's Ministry, and other central agencies. Subventions and grants to statutory bodies and other public corporations are transferred by the MOF and their utilizations reported in the financial statements submitted to the Director of Audit.

Many PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Grenada is based on the experience of the fiscal years 2006, 2007, and 2008 (the fiscal year starts on January 1 and closes on December 31). Actual expenditures and revenues referred to in this report correspond to cash transactions only.

#### **3.1 BUDGET CREDIBILITY**

##### **PI-1 Aggregate expenditure out-turn compared to original approved budget**

<p><b>Score D:</b> Actual primary expenditure deviated from the originally approved budgeted primary expenditure by more than 15% in two years during the past three years. It deviated by 16.5% in 2006, by 9.4% in 2007 and 16.8% in 2008.</p>
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The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. On aggregate, in two of the past three years has the actual primary expenditure deviated from the budgeted primary expenditure by rates greater than 15% and in one year it deviated by almost 10%. Budget execution diverged by 16.5% in 2006, by 9.4% in 2007, and by 16.8% in 2008 (Table 3.1). As the Table shows, the current expenditure out-turn fell short of Budget by about 2 per cent in 2006 and 2007, and exceeded it by 7.7 per cent in 2008, while the capital expenditure out-turn exceeded Budget by 112.7 per cent, 40.1 per cent and 52.5 per cent for the three successive years. (If externally financed expenditure is also taken into consideration, the total expenditure out-turn is much closer to budget, with the additional domestically financed investment offsetting the shortfall in externally financed investment.)

**Table 3.1 Comparison of Original Budgeted and Actual Expenditures: 2006-2008**

(In millions of EC Dollars, unless otherwise indicated)

Description	2006		2007		2008 (Prel.)	
	Budget	Actual	Budget	Actual	Budget	Actual
Primary recurrent	293.5	285.8	312.3	308.7	354.9	382.4
Capital expenditure (domestically financed)	58.2	123.8	107.0	149.9	89.5	136.5
Primary expenditure 1/	351.7	409.6	419.3	458.6	444.4	518.9
Difference as % of budgeted primary expenditure		16.5%		9.4%		16.8%

Source: Calculations based on Ministry of Finance data. See Annex 2, Table 1 for further details.

1/Excludes debt service payments and externally-financed capital expenditure.

## PI-2 Composition of expenditure out-turn compared to original approved budget

**Score C:** The overall variance in expenditure composition exceeded the overall deviation in primary expenditure by more than 5%, but less than 10%, in two of the past three years. Variances observed were 3.7% in 2006, 7.5% in 2007, and 8.3% in 2008.

This indicator measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To this end, it is necessary to estimate the total variance in the expenditure composition and compare it to the overall deviation in primary expenditure for each of the last three years. Variance is measured as the sum of the absolute deviations between actual and originally budgeted expenditure for each main area of expenditure calculated as a percentage of total budgeted expenditure. In order to be compatible with the assessment in PI-1, the calculation excluded debt service and donor funded project expenditure.

Table 3.2 below shows the differences between budgeted and actual expenditure for each main area. The picture appears to be one in which unbudgeted increases in capital expenditure by the Ministries of Works and Finance, and the Prime Minister's Ministry, are partly offset by shortfalls in capital and current expenditure across a wide range of other government services.

**Table 3.2 Composition of Budget Execution by Administrative Unit: 2006-2008 1/**  
(In millions of Eastern Caribbean dollars)

Administrative Unit	Budgeted expenditure			Actual expenditure			Difference		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Office of the Governor General	0.818	0.812	1.158	0.786	0.754	0.780	-0.032	-0.058	-0.378
Parliament	1.497	1.533	1.846	1.307	1.339	1.290	-0.191	-0.195	-0.557
Supreme Court	2.179	2.207	2.500	2.188	2.313	2.399	+0.010	+0.107	-0.101
Director of Audit	0.966	1.038	1.117	0.878	0.896	0.957	-0.089	-0.141	-0.160
Ministry of Legal Affairs	1.779	1.733	1.876	1.336	1.447	1.622	-0.443	-0.286	-0.255
Prisons	5.655	6.705	6.864	5.341	6.608	7.467	-0.314	-0.097	+0.603
Prime Minister's Ministry	14.721	25.677	20.208	17.220	32.277	31.465	+2.500	+6.599	+11.257
Police	36.257	39.397	44.735	36.511	36.289	43.035	+0.254	-3.109	-1.701
Ministry of Tourism	16.031	25.449	31.429	21.100	23.350	27.625	+5.069	-2.099	-3.805
Ministry of Foreign Affairs	8.021	8.301	8.635	7.391	7.345	8.137	-0.630	-0.956	-0.497
Ministry Youth Empower, Sports	4.038	7.690	8.077	10.419	14.801	5.030	+6.381	+7.111	-3.047
Ministry of Finance & Planning 2/	37.776	42.095	54.127	50.204	50.628	78.862	+12.429	+8.532	+24.735
Pensions & Gratuities	32.500	32.600	37.054	32.940	32.682	44.575	+0.440	+0.082	+7.521
Contributions	10.971	11.382	11.441	9.341	8.779	9.167	-1.630	-2.602	-2.274
Ministry of Works, Physical Planning	12.528	33.578	20.531	43.228	59.518	55.854	+30.701	+25.940	+35.323
Ministry of Social Dev. & Eccles. Affairs	10.934	13.594	20.306	10.819	17.679	19.497	-0.115	+4.086	-0.808

Ministry Carriacou & Petit Martinique Aff.	5.438	6.602	6.354	4.328	6.348	5.076	-1.110	-0.253	-1.278
Ministry of Education & HR Dev. 3/	76.257	79.685	83.421	75.129	82.264	94.142	-1.129	+2.579	+10.721
Ministry of Health	49.027	51.714	56.592	50.037	50.204	53.013	+1.010	-1.510	-3.579
Ministry of Agriculture, Forestry & Fisheries	20.399	23.347	20.588	26.114	19.732	23.612	+5.715	-3.615	+3.024
Others 4/	3.892	4.205	5.594	2.970	3.409	5.345	-0.922	-0.796	-0.249
Total	351.684	419.344	444.454	409.587	458.664	518.949	71,114	70,753	1114233
Overall difference (net %)							16.5	9.4	16.8
Overall variance (% based on sum of absolute variances)							20.2	16.9	25.1
Difference (%)							3.7	7.5	8.3

Source: Ministry of Finance.

1/ Excludes debt servicing payments and externally-financed project expenditure.

2/ Excludes interest payments. It includes Wages and Salaries Increase (Vote 23) for 2007 and 2008.

3/ Includes Labour.

4/ Includes Magistracy, Public Service Commission, Public Prosecutions, and Electoral Office.

### PI-3 Aggregate revenue out-turn compared to original approved budget

**Score B:** Actual domestic revenue as a percentage of originally budgeted revenue) was 93.8% in 2006, 94.8% in 2007, and 98.3% in 2008.

**Table 3.3 Comparison of Original Budgeted and Actual Revenues: 2006-2008 1/ (In EC Dollars millions unless otherwise indicated)**

Budget item	2006		2007		2008	
	Budget	Actual	Budget	Actual	Budget	Actual
Tax revenue	353.8	330.3	392.0	378.5	406.9	405.9
Non-tax revenue	47.0	45.6	49.1	39.8	54.1	47.2
Total domestic revenue	400.8	375.7	441.1	418.3	461.1	453.1
% difference		-6.1		-5.2		-1.7

Source: Statements of Account for 2006, 2007 and 2008. See Annex 2, Table 3 for further details.

1/ Excludes capital revenue and external grants.

### PI-4 Stock and monitoring of expenditure payment arrears

**Overall score: (scoring method M1): C+**

(i) **Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock**

**Score: C.** The stock of expenditure payment arrears constituted 5.0% and 2.3% of total expenditure in 2007 and 2008 respectively. There is no evidence, however, that underlying measures have been undertaken to prevent the re-emergence of arrears in conditions of cash shortage.

The Accounts Payable are reported through the Standard Integrated Government Financial Information System (SIGFIS) which compiles all outstanding balances due by the Government and the various MDAs to banks, suppliers and contractors. Those balances represent invoices and other accounts for payment presented to the Accountant General's Department (AGD) and not paid for thirty days or more. AGD notifies spending Ministries each year of the last date for submission of invoices to be paid before the end of the year; for 2009 this was 15 October.



Where invoices are submitted after this date, they automatically become arrears by the end of the year; to the extent that Ministries delay submitting them, outstanding obligations will be understated.

**Table 3.5 Stock of Expenditure Payment Arrears, End of Year, 2006-2008**

	2006	2007	2008
In EC\$ million	0.1	29.2	14.9
In % of total expenditure 1/	0.0%	5.0%	2.3%

*Source:* Ministry of Finance.

1/ Refer to the expenditure payment arrears to the total government expenditure ratio.

At the end of 2008 expenditure payment arrears represented mainly contributions to international institutions (38.3%) and overdue interest on overdraft accounts (37.6%). Since the Financial Statements are presented on a cash basis, arrears appear on the Statement of Financial Assets and Liabilities rather than in the expenditure account. If revenues are insufficient to finance planned expenditures, the government must borrow from the banks or the domestic market, or raise funds externally, to meet its obligations. When access to finance is difficult, as in 2009, it may be impossible to avoid incurring expenditure arrears, which on present trends could reach some 8 per cent of originally budgeted expenditure at the end of 2009.

**(ii) Availability of data for monitoring the stock payment arrears**

**Score: A.** Substantially complete data on the stock of arrears is available monthly and annually.

A record of payments arrears can be generated at any time from the accounting system, which tracks invoices outstanding for payment through the SIGFIS General Ledger/Accounts Payable system. Because the accounting system does not at present include any arrangements for tracking expenditure commitments from the time that orders are placed or contracts signed, while Ministries are permitted to make commitments as long as provision is available in the relevant budget lines, MoF may find themselves presented with unexpected invoices for payment which they have no cash available to meet.

### **3.2. COMPREHENSIVENESS AND TRANSPARENCY**

#### **PI-5 Budget classification**

**Score C:** The budget system is based on consistent administrative and economic classifications that broadly reflect COFOG/GFS 1986 standards, but a functional classification of expenditure is lacking. Only revenues are classified on a (sub) functional basis.

The formulation and execution of budget expenditures are based on administrative and economic classifications which enable consistent comparisons to be made between budgets and out-turns, and between one year and the next. They are broadly consistent with the standards set out in the IMF *Government Finance Statistical Manual* published in 1986 (economic classification) and in the United Nations *Classification of Functions of Government Manual* (COFOG) (administrative

classification). However, some expenditures are classified as capital (e.g. tourism promotion) which should be regarded as current under strict GFS definitions, while some capital expenditure (purchases of tools and equipment) is treated as current. The accounting system is set up to record expenditure according to the administrative unit, economic nature and programme/policy objective to which it relates. But the presentation of “programmes” in the Budget Estimates shows them as related to particular administrative units, and it does not appear that the possibilities of the system have yet been exploited so as to show the linkages between expenditures under different administrative units which are focused on the same policy objective.

## PI-6 Comprehensiveness of information included in budget documentation

<b>Score A.</b> Budget documentation fulfils 8 of the 9 benchmarks.
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The budget documentation presented for financial year 2009 to the Parliament is comprehensive and included recent economic performance, priority areas approved by Cabinet, key macroeconomic and fiscal projections for 2009, estimates of revenue and expenditure, capital expenditure programs, the debt position, and contingent liabilities, among others. A medium term outlook is missing in the budget documentation. Except for one, both the Estimates and the Budget Speech have most elements included (see Table 3.5).

**Table 3.5 Summary of Budget Documentation**

Elements of budget documentation	Availability	Notes
<b>Macro-economic assumptions</b> , including at least estimates of aggregate growth, inflation and exchange rate	Yes	Information on key macroeconomic assumptions only for the following year is presented in the budget speech.
<b>Fiscal deficit</b> , defined according to GFS or other internationally recognized standard	Yes	
<b>Deficit financing</b> , describing anticipated composition	Yes	
<b>Debt stock</b> , including details of at least for the beginning of the current year	Yes	There is a summary Appendix table specifying the projected debt service for the next fiscal year.
<b>Financial assets</b> , including details of at least for the beginning of the current year	No	A Statement of Investment is published in the Statements of Account (SOA) only. Reserves and interest accrued in the deposit accounts and other financial assets are also published in the SOA.
<b>Prior year’s budget out-turn</b> , presented in the same format as the budget proposal	Yes	The detailed estimates provide actual expenditure for the prior year.
<b>Current year’s budget</b> (revised budget or estimated out-turn) , presented in the same format as the budget proposal	Yes	The detailed estimates provide original budget estimates and projected expenditures for the current year.
<b>Summarized budget data for both revenue and expenditure</b> according to the main budget heads of the classification used, including data for current and previous year	Yes	Revenue and Expenditure are summarized by economic classification for prior year actual, current year approved.
<b>Explanation of budget implications of new policy initiatives</b> , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	

## PI-7 Extent of Unreported Government Operations

**Overall score A** (scoring method 1): **All domestically financed government expenditure passes through the Treasury system, and is included in financial reports. All donor-funded expenditure (Loans as well as grants) is in principle included in the Estimates as well as in out-turn reports (although the out-turns often bear little relation to the Estimates).**

### (i) Level of unreported extra-budgetary expenditure

**Score A:** Unreported extra-budgetary expenditure (other than donor-funded projects) practically does not exist after the elimination of the Reconstruction Fund. Statutory bodies' audited accounts are presented to Parliament, with the audit now subject to supervision by the Director of Audit. There is no sign of any "quasi-fiscal" expenditure (e.g. concealed subsidies paid through state-owned enterprises, or directed bank lending at lower than market interest rates).

Government payments to statutory bodies (notably employers' national insurance contributions on behalf of government employees) are included in the Estimates and Statements of Account. (But there is no consolidated presentation of general government finances including the National Insurance Scheme). Some statutory bodies are commercial operations not requiring any payments from the Budget, while others receive revenue from the provision of services in addition to their receipts from the Budget. Their business plans and audited accounts are presented to Parliament. Receipts accruing to Ministries from fees for licences or charges for the provision of services (notably in the health sector) are included in both the Budget Estimates and the subsequent Statements of Account. There is no trace of any "quasi-fiscal" activities like concealed subsidies paid through state-owned enterprises. (Fertilisers are sold to farmers at less than cost, but the government purchases and sales are fully reflected in the budget expenditure and revenue figures.) The 2007 Audit Act (which came into force in 2008) confirmed the Director of Audit's right to inspect the activities of statutory bodies, and supervise the audit of their accounts.

Extra budgetary accounts represent mainly investments and other minor activities by trust funds such as the Supreme Court Fund, the Grenada Public Library and others. In 2008 the extra budgetary activity within the scope of these accounts amounted to EC\$3,724,482—it represented only 0.5 percent of total expenditure.

### (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

**Score A:** Economic and financial information on projects funded by external loans and grants is in principle included in the Estimates and Statements of Account, although the out-turn figures often bear little relation to the Budget Estimates

Complete income/expenditure information for all loan financed projects is included in fiscal reports

According to MoF, preliminary data for 2009 indicate that government projects funded with external loans and grants represent about 34 percent of total project expenditure (see Table 3.6). According to MoF External Finance Department which has the co-ordinating responsibility for the financing of capital investment, project expenditures are concentrated in economic infrastructure (57 percent), social services (28 percent), general public services (13 percent) and administration (2 percent). The data is based on quarterly monitoring information about investments financed with domestic and external funds.

Table 3.6 Project expenditure, 2009<sup>1</sup>  
(In EC\$)

	Budget execution in 2009			
	Domestic revenues	Loans	Grants	Total
<b>Economic Infrastructure</b>	<b>42,169,769</b>	<b>12,066,214</b>	<b>31,443</b>	<b>54,267,426</b>
Agriculture, forestry and fisheries	9,142,785	7,935,884	31,443	17,110,112
Tourism	21,786,997	--	--	21,786,997
-Water and Sewage	--	--	--	--
Transport, Communications & Environment	11,232,272	4,130,330	--	15,362,602
-Others	7,715	--	--	7,715
<b>General Public Services</b>	<b>6,873,291</b>	<b>5,037,517</b>	<b>38,044</b>	<b>11,948,852</b>
Planning, Economic Dev. & Foreign Trade	6,083,675	5,037,517	38,044	11,159,236
Other fixed investments	789,616	--	--	789,616
<b>Social Services</b>	<b>13,200,841</b>	<b>3,756,854</b>	<b>10,406,768</b>	<b>27,364,463</b>
Education	3,056,604	2,022,478	8,011,491	13,090,573
Health	921,437	1,533,008	129,933	2,584,378
Youth, Sports and Culture	5,419,057	--	18,513	5,437,570
Social Dev. and Ecclesiastic Affairs	2,224,077	--	32,400	2,256,477
Lands and housing	1,579,666	201,368	2,214,431	3,995,464
<b>General Administration</b>	<b>1,220,673</b>	<b>631,201</b>	<b>--</b>	<b>1,851,874</b>
<b>Total</b>	<b>63,464,573</b>	<b>21,491,786</b>	<b>10,476,247</b>	<b>95,432,607</b>
Total (in percent of total)	66.5	22.5	11.0	100.0

Source: Ministry of Finance, Public Sector Investment Programme (PSIP).

In spite of the progress in the reporting of donor-funded projects, the overall implementation and operations remained low in the past three years. Reports on donor-funded projects and other

Table 3.8 Budget execution deviation of capital expenditure

Funding	2006	2007	2008	Average 2006-08
Domestic	112.7%	40.1%	52.5%	68.4%
<i>Of which: MoW</i>	403.3%	95.8%	236.2%	245.1%
Foreign	-24.4%	-42.4%	-53.3%	-40.0%
Total	10.4%	-3.3%	-14.1%	-2.4%

Source: Ministry of Finance.

capital expenditures show that the magnitude of budget under execution remained substantial during the past three years. Externally-financed capital expenditures averaged an under execution ratio of 40 percent during the past three fiscal years. Conversely, capital expenditures funded domestically had positive budget deviation ratios of almost 70% on average—notably, the Ministry of Works' actual expenditures were on average more than twice the budgeted amounts (see Table 3.7).

## PI-8 Transparency of Inter-Governmental Fiscal Relations

<sup>1</sup> Data for 2009 covers budget execution between January and October.

**Overall Score: NA.** There are no sub-national governments in Grenada.

### **PI-9 Oversight of aggregate fiscal risk from other public sector entities**

**Score C:** PFMA 2007 requires statutory bodies to have their annual business plans approved by the responsible Minister, who is to consult the Minister of Finance if they are in receipt of government funds or guarantees. MoF monitor statutory bodies' borrowing, but has not so far produced any consolidated report on their finances or any assessment of the implied fiscal risks should any of them run into financial difficulty.

An MoF Budget Officer is responsible for monitoring the financial position of statutory bodies and advises the Deputy Permanent Secretary on any major developments affecting them. It is unclear how far the new requirement of PFMA for sponsoring Ministries to supervise the business plans of statutory bodies has yet been implemented. MoF obtains information about the evolution of their borrowing, but does not have the information required to monitor their overall financial performance, or to produce any consolidated report on their financial position

#### **(ii) Extent of central government monitoring of sub-national governments' fiscal position**

**Score N/A.**

### **PI-10 Public Access to Fiscal Information**

**Score B:** The government makes available to the public (in a complete form) 3 of the 6 listed types of information, namely, the annual budget documentation, the year-end financial statements and the external audit reports (see Table 3.8).

Key fiscal information, including the annual budget documents with approved revenue and expenditure estimates and the reports of the Director of Audit are made available to the public in printed form only. Publication on government websites has yet to be arranged. The Appropriation Act containing the approved recurrent and capital spending ceilings on an aggregate level by budget heads is published in the Official Gazette once the Act has been approved (which may be as late as April for the year in question)..

**Table 3.8 Summary of Fiscal Information**

<b>Elements of fiscal documentation</b>	<b>Availability</b>	<b>Notes</b>
<b>Annual budget documentation:</b> A complete <sup>2</sup> set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes	See explanatory notes in PI-6 above.
<b>In-year budget execution reports:</b> The reports are routinely made available to the public through appropriate means within one month of their completion.	No	Monthly reports on revenue and expenditure out-turns are available in a non-standard format for internal use only, with one-month lag

<sup>2</sup> 'Complete' means that the documents made publicly available contains all the information listed under indicator PI-6, to the extent this information exists.

<b>Elements of fiscal documentation</b>	<b>Availability</b>	<b>Notes</b>
<b>Year-end financial statements:</b> The statements are made available to the public through appropriate means within six months of completed audit.	Yes	Annual financial statements of the central government are released to the public when they are presented to Parliament with the Auditor's Opinion on them. In recent years publication has taken place about 12 months after the end of the year to which the statements relate.
<b>External audit reports:</b> All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes	The Director of Audit publishes his external audit reports when they are presented to Parliament.
<b>Contract awards:</b> Awards of all contracts with value equivalent above approx. US\$100,000 are published at least quarterly through appropriate means.	No	Contract awards of any class are not published.
<b>Resources available to primary service units:</b> Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	The financial information is not publicly available in any form from line ministries or any other government sources.

### **3.3 POLICY-BASED BUDGETING**

#### **PI-11 Orderliness and participation in the annual budget process**

**Overall score C+** (score method 2): The central government's budget is produced through a reasonably orderly process which is well understood by MDAs. But they have little time to prepare their formal submissions after the issue of the Budget Circular, and little time is available thereafter for discussions with MoF. The Cabinet approve overall spending priorities in general terms, and an overall ceiling on expenditure, before the issue of the Budget Circular, but the Circular does not include ceilings within which each MDA should prepare its submissions. The Budget was approved by Parliament before the beginning of the fiscal year to which it relates in two of the three years considered here, but the Constitution allows approval to be delayed until April of the year in question.

##### **(i) Existence of, and adherence to, a fixed budget calendar**

**Score C:** An annual budget calendar had been established through custom and practice. Following consultation with the Cabinet on the overall shape of the Budget, MoF briefs MDAs on the overall situation a week or so in advance of the Budget Circular. Once the Circular issues, MDAs may have two weeks or less to prepare their submissions, which are then subject to consultation with MoF within a very tight time-scale.

The general shape of an annual budget calendar has been established by custom and practice. The Budget Circular issued each year to invite submissions sets out the dates by which each stage in the process is to be completed. Even if the period between the initial briefing of

Accounting Officers about the overall situation in advance of the issue of the Circular is counted as part of the timetable, MDAs may have as little as two weeks to prepare their submissions and supporting information. Thereafter consultations between MDAs and MoF have to be completed within a short timescale, after which MoF makes adjustments which do not necessarily reflect MDA preferences about where reductions would be least difficult.

The Budget Circulars sent to MDAs included the following schedules of activities for budget cycles 2009 and 2010: In the event the 2010 timetable slipped, and the Budget Statement was delayed until 15 January 2010.:

### Budget Year: 2010

Item	Description	Due
1	Budget Retreat	Sep 1 <sup>st</sup> , 2009
2	Cabinet Retreat	Sep 29 <sup>th</sup> , 2009
3	Budget Circular delivered to Permanent Secretaries, Department Heads and Finance Officers	Oct 2 <sup>nd</sup> , 2009
4	Consultations with Ministries and Departments and finalize draft estimates	Oct 20 <sup>th</sup> -Nov 3 <sup>rd</sup> , 2009
5	Meeting with Ministries and Departments on their Budget Submission	Nov 6 <sup>th</sup> , 2009
6	National Consultation	Nov 11 <sup>th</sup> , 2009
7	Permanent Secretary of Finance submits 18 copies of the Draft Estimates to Cabinet	Nov 13 <sup>th</sup> , 2009
8	Minister of Finance presents Draft Estimates to Finance Committee	Nov 25 <sup>th</sup> , 2009
9	Minister of Finance delivers 55 copies of the Estimates of Revenue and Expenditure and Appropriation Bill to Clerk of Parliament	Dec 9 <sup>th</sup> , 2009
10	Minister of Finance delivers Budget Speech	Dec 11 <sup>th</sup> , 2009

### Budget Year: 2009

Item	Description	Due
1	Cabinet considers and approves Budget Proposal	Sep 29 <sup>th</sup> , 2008
2	Orientation on Budget Circular (Secretary to the Cabinet, Permanent Secretaries, Department Heads and Finance Officers)	Oct 7 <sup>th</sup> , 2008
3	Consultations with Ministries and Departments and finalize draft estimates	Oct 14 <sup>th</sup> -30 <sup>th</sup> , 2008
4	National Consultation	Nov 5 <sup>th</sup> , 2008
5	Permanent Secretary of Finance submits 17 copies of the Draft Estimates to Cabinet	Nov 7 <sup>th</sup> , 2008
6	Minister of Finance presents Draft Estimates to Finance Committee	Nov. 18 <sup>th</sup> , 2008
7	Minister of Finance delivers 55 copies of the Estimates of Revenue and Expenditure and Appropriation Bill to Clerk of Parliament	Nov. 28 <sup>th</sup> , 2008
8	Minister of Finance delivers Budget Speech	Dec 5 <sup>th</sup> , 2008

*Sources:* Ministry of Finance, Finance Circular No. 18/2009 of October 1<sup>st</sup>, 2009; and Finance Circular No. 15/2008 of October 1<sup>st</sup>, 2008.

### (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

**Score C:** The Budget Circular includes an overall expenditure ceiling approved by the Cabinet, together with general guidance on expenditure priorities, but not ceilings within which MDAs should prepare their submissions.

The Cabinet of Ministers is involved in the setting of overall ceilings for recurrent and capital expenditure, together with an indication of the objectives which should receive priority in the allocation of resources. But although MDAs are given some general guidance on the shape of

their submissions in consultations in advance of the issue of the Budget Circular, that document does not include ceilings within which each MDA should work MoF argue that notifying ceilings to spending Ministries ensures that they will request the maximum permitted, while giving general guidance on the overall circumstances may result in lower submissions than if ceilings had been issued. Spending Ministries argue that knowledge of the ceilings would enable them to optimise their budget allocations, and facilitate a common understanding with MoF on the realism of the detailed budgets, reducing the risk that budgets finally approved by MoF omit provision for inescapable activities.

**(iii) Timely budget approval by the legislature within the last three years**

**Score B:** The Parliament has approved the annual budget estimates before the start of the fiscal year in two of the past three years.

The Parliament approved the annual Budget before the beginning of the year to which it relates in two of the past three years (see Table 3.9). But in 2006 approval was not given until a month after the beginning of the year. (In 2010 Budget approval will not be given before the end of January at the earliest.)

Table 3.11 Dates of budget speeches and budget approvals by the National Assembly

Fiscal year	Appropriation Bill (Budget Speech)	Approved by House of Representatives	Approved by the Senate
2006	January 20 <sup>th</sup> , 2006	January 25 <sup>th</sup> , 2006	February 3 <sup>rd</sup> , 2006
2007	December 15 <sup>th</sup> , 2006	December 21 <sup>st</sup> , 2006	December 28 <sup>th</sup> , 2006
2008	November 30 <sup>th</sup> , 2007	December 4 <sup>th</sup> , 2007	December 13 <sup>th</sup> , 2007

*Source:* Ministry of Finance.

**PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting**

**Overall score (scoring method 2): C**

The PFMA 2007 does not contain any major provisions concerning medium-term fiscal planning. Although an initial step has been made towards the preparation of a medium-term fiscal framework, within which articulated Ministerial spending plans and policy objectives would be integrated, the work is not yet very far advanced.

**(i) Multi-year fiscal forecast and functional allocations**

**Score C:** Projections of fiscal aggregates (broken down according to the main elements of the economic and administrative classifications) have been prepared for two years beyond the initial Budget year. But the forward plans for the development of the main public services have not been integrated into the projections, and the projections have not been used as the starting point for the preparation of the next annual Budget.

The government has recently started to develop a three-year and programme-based budgeting framework which should eventually enable the government to establish strategic goals, prioritise



expenditures and link resources to policy objectives. Discussion should shortly begin on the preparation of a new poverty reduction strategy, taking into account the results of the recently completed new Country Poverty Assessment. This will need to be dovetailed into plans for further public sector modernization, and for reducing the burden of public debt. CARTAC has recently given guidance to MOF on the development of a multi-year, programme-based budgeting framework within which improvements in public sector performance and service delivery can be planned consistently with limits on available resources. This work, however, is still at an early stage. Meanwhile Budget rigidities and inertia constitute continuing obstacles to the most efficient allocation of staff and other resources to achieve specific policy goals and objectives.

The budget documents show expenditure estimates or out-turns for each budget head (i.e., line ministry or section of line ministry) for the most recently completed fiscal year (year n-1), for the current year (year n), and for the planned fiscal year (year n+1). The Budget Speech has usually included a section on the medium term policy and key macroeconomic objectives, covering fiscal targets such as the overall fiscal balance, the evolution of government debt, and major investment projects and projected outcomes. But this medium-term presentation has not so far been based on articulated sector plans fitted within an overall fiscal framework. MoF currently lacks a fully staffed macro fiscal policy and planning unit to progress this work. Meanwhile Budget preparation has to be started afresh each year in an ad hoc way, without any clear medium-term perspective.

#### **(ii) Scope and frequency of debt sustainability analysis**

**Score A:** Debt sustainability analysis for external and domestic debt has been undertaken regularly during the last three years in the context of the successive IMF staff reviews of the PRGF.

A debt sustainability analysis (DSA) has been conducted annually by IMF missions for 2006, 2007 and 2008 as part of the review process for the PRGF. MoF has decided that members of the recently established Debt Management unit should now be trained to undertake this work taking advantage of the software already transferred by the IMF.

#### **(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure**

**Score D:** Sector strategies have been prepared for one or two key sectors, but these have not so far included a full costing of all activities, including long term investment projects and associated recurrent expenditure.

Sector strategies do exist for only a few of the key sectors in the form of a strategic development plan ( e.g., education sector's SPEED strategic plan), but these do not include a full costing of recurrent and capital expenditures required to achieve their objectives.

#### **(iv) Linkages between investment budgets and forward expenditure estimates**

**Score D:** Budgeting for investment and recurrent expenditure remain separate processes without the recurrent cost implications of newly completed capital projects being taken into consideration in a medium term horizon.

There is little evidence of progress in recent years in integrating decisions on capital and recurrent expenditures. The MoF Department of Technical and Economic Cooperation does not yet have a systematic approach for assembling development needs into a PSIP. Machinery needs to be established in consultation with line Ministries to identify the priorities in relation to investment projects in specific sectors.

### **3.4. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION**

#### **PI-13 Transparency of Taxpayer Obligations and Liabilities**

**Overall score** (scoring method 2): **B +**

##### **(i) Clarity and comprehensiveness of tax liabilities**

**Score B:** Legislation and procedures for major taxes is reasonably clear, although there are still some elements of discretion in the award of tax incentives.

Corporate and personal income taxes are charged in accordance with normal international practice. Losses can be carried forward for three years in the case of corporate income tax. Arrangements for personal taxation are very simple. Some investors are still benefiting from lengthy tax holidays awarded at the discretion of Ministers, but once the recent Investment Incentives Act comes into force the award of discretionary exemptions by Ministers will cease. Indirect taxation has recently undergone major restructuring, with VAT replacing the General Consumption Tax (GCT), the motor vehicle purchase tax and the airline ticket tax as from 1 February 2010. Some adaptations have also been made to customs and excise taxes in the context of this restructuring, while the extent of zero-rating of exports of goods and services remains a contentious point. The recent revaluation of properties for the purposes of the annual property tax will not come into effect until 2011.

##### **(ii) Taxpayers' access to information on tax liabilities and administrative procedures**

**Score B.** Taxpayers have access to reasonably adequate information about tax liabilities and procedures, although the introduction of VAT will represent a severe test of these arrangements.

Explanatory material is readily available about liability to the main taxes, and administrative arrangements for tax payments. This material is readily understood, and was not the subject of any criticism by taxpayers or advisers. A considerable effort of public education was made in the context of preparation for the introduction of VAT and the consequential changes in other taxes.

##### **(iii) Existence and functioning of a tax appeal mechanism**

**Score A. A dedicated tax appeals tribunal has recently been established, and has begun hearing cases.**

Until recently taxpayers had no recourse other than to the tax authorities in cases of disagreement (although the large amount of outstanding arrears suggests that passive resistance may have been a frequently adopted tactic on the part of reluctant taxpayers). However a Tax Appeals Tribunal is now in operation, and has already (January 2010) heard three cases. Decisions on two are pending; the third was decided in favour of Inland Revenue.

#### **PI-14 Effectiveness of measures for taxpayer registration and tax assessment**

**Score** (scoring method 2): C+

##### **(i) Controls in the taxpayer registration system**

**Score B:** A common Taxpayer Identification Number (TIN) applies for all major taxes except the Property tax, where liability depends on the characteristics of the property rather than the taxpayer. But linkages to other registration systems have yet to be developed.

The tax authorities consider that the taxpayer registration system is satisfactory, with a single TIN applicable for all main taxes. Current efforts to simplify and accelerate the different registration procedures required for the establishment of a new business should improve the links between tax and other databases.

##### **(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

**Score C:** Inland Revenue Department (IR) would like to see the fixed penalties established to compel registration for VAT extended to other taxes. The volume of tax arrears can be seen as an indication that tax declaration obligations are difficult to enforce.

IR considers that they need stronger powers to enforce tax registration and declaration. The new legislation for VAT includes new penalties for non-compliance, which IR considers should be extended to other taxes. Customs and Excise (C&E) do not have problems to the same extent, since they require security for the payment of duties before goods are released into circulation.

##### **(iii) Planning and monitoring of tax audit and fraud investigation programs**

**Score C:** Tax inspections/audits are undertaken by both IR and C&E, but resources are so far limited, and the audit efforts are not yet integrated.

Both IR and C&E have small dedicated tax audit sections. 223 taxpayers were subject to audit by Inland Revenue Department in 2008; altogether there are about 1200 businesses registered for corporate income tax, 4000 self-employed individuals registered for personal income tax, and

about [1000] businesses expected to register for VAT. More than EC\$4million was collected through these audits. The two revenue Departments have plans to integrate their audit work, and expert staff have been recruited to lead the work, but adaptations are needed to the SIGTAS (IR) and ASYCUDA (C&E) accounting systems before data can be easily assembled from different sources about the same taxpayers.

### **PI-15 Effectiveness in collection of tax payments**

**Score** (scoring method 1): **D+**

#### **(i) Collection ratio for gross tax arrears**

**Score D:** The increases in tax arrears during 2007 and 2008 corresponded to about 8 per cent and 16 per cent respectively of the total revenue collected each year in respect of the taxes in question.

The system does not make it possible to identify which payments in a particular year should be regarded as payments of arrears and which should be regarded as payments in respect of newly accruing obligations. For any individual taxpayer, any payment should be credited against his oldest outstanding obligation. The large and increasing amount of the arrears in recent years is substantially a reflection of the calculation of penalties of 1.5 per cent or 2 per cent a month on overdue amounts. The recent (November 2008 to April 2009) offer of an amnesty in respect of the penalties in return for the payment of the amounts originally due resulted in the collection of EC\$18million out of a theoretically possible EC\$88million. Amounts still outstanding after the amnesty correspond to about 40 per cent of the current annual revenue from the taxes in question, although much of this amount must be uncollectable, because the debts are more than six years old and thus covered by the Statute of Limitations, or the taxpayers have gone bankrupt or died. This situation exists despite the employment by IR of a group of bailiffs with powers to seize taxpayers' goods, who receive a commission of 20 per cent of any interest and other penalties they collect over and above the original amounts outstanding. IR are considering how to replace this inequitable and out-dated enforcement system with new arrangements which would be fairer and more effective.

#### **(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration authority**

**Score A:** All tax revenue is paid by the Inland Revenue Department into Treasury accounts the day it is received.

All tax payments are made directly by cheque or in cash to IR and C&E offices, and the revenues are deposited the same day in Treasury accounts.

#### **(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

**Score D:** Reconciliations by IR cover only their payment records and those of the receiving banks.

IR states that the only reconciliations they undertake concern their records of revenue receipts and those of the receiving banks. . They do not undertake any reconciliations covering assessments and arrears as well as the banking of receipts. IR consider that the automatic updating of individual taxpayers' accounts as payments are received is sufficient, and that the detailed overall reconciliation for which the PEFA analysis looks is unnecessary.

## **PI-16 Predictability in the availability of funds for commitment of expenditures**

**Overall score (score method 1): D+**

### **(i) Extent to which cash flows are forecast and monitored**

**Score A:** Cash flow planning and monitoring are the responsibility of MoF Budget Department. A cash flow forecast is prepared for the fiscal year and updated and reported monthly and weekly on the basis of actual cash inflows and outflows.

MoF Budget and AG Departments monitor very closely the revenue inflows and expenditure outflows. This is of particular importance in the situation of the East Caribbean monetary union, where the common central Bank controls external payments and ensures that the note issue is backed 100 per cent by foreign currency reserves. In these circumstances the individual island governments have no recourse to the central bank as lender of last resort, and therefore have to satisfy their cash requirements through tax revenue, borrowing on domestic financial markets, or through the mobilisation of external grant or loan finance. MDAs are required to provide a monthly projection of their cash outflows at the beginning of each fiscal year consistent with their Budget appropriations. Once the annual cash flow profile has been established, MoF releases funds in monthly tranches to spending Ministries for the settlement of their invoices. These cash flow projections and allocations to each MDA have not been the subject of in-year revision on the basis of joint discussions between MoF and MDAs. Cash flow monitoring has been carried out within MoF only, and has so far not given rise to transparent action during the course of a year to adjust Budget provision across all MDAs. This arrangement was satisfactory until 2009, when revenues have fallen well short of expectations. In the absence of an overall revision to the Budget to bring it more nearly in line with actual cash availability, cash management is at present a task undertaken in an ad hoc way by senior officials of MoF who decide which accounts should be paid and which should remain outstanding.

### **(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment**

**Score D:** No arrangements are in place to use forward expenditure commitments as a basis for assessing future cash requirements. MDAs are permitted to make forward commitments within the limits set by the expenditure provision on each budget line, but have no assurance that cash will be available to pay the resulting invoices without significant delay.

Once the Budget has received Parliamentary approval, MDAs are free to enter into commitments for the purchase of goods and services up to the limits of the relevant budget lines. Although MoF only releases cash in monthly tranches to meet spending Ministries' payments, it does not at present control the commitments which subsequently give rise to payment requests, with the result that AGD may find itself expected to pay invoices for which it does not have the necessary cash available. In conditions of cash shortage priority is given to the payment of salaries and to debt interest payments. Payments in respect of other obligations may be subject to considerable delays. The increase in the extent of central control over procurement, which should be possible once revised legislation is enacted, should assist MoF to restrain the undertaking of commitments for which the availability of cash is not assured. Meanwhile MoF has to manage cash from day to day on an ad hoc basis which gives MDAs no assurance that invoices for non-priority activities will be paid without extended delays.

**(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs**

**Score C:** Significant in-year budget adjustments are frequent and decided within MoF with some level of transparency to MDAs.

PFMA 2007 regulates the extent to which expenditure may be reallocated from one budget line to another. Reallocation within a particular Vote may be done under the authority of the MDA's Accounting Officer (but expenditure may not be reallocated between capital and current expenditure, and provision for wages and salaries may not be reallocated to other economic purposes). MoF approval is required for reallocation between Votes: such reallocations, and also MoF authorisations of expenditure not originally provided for in the Budget by means of special warrants, should be submitted for the approval of the House of Representatives without delay. It is doubtful, however, whether the numerous recent reallocations, or increases in expenditure authorised by special warrants, have been made in as transparent a way as PFMA intends. These expenditure adjustments are approved by the Parliament en bloc retroactively, towards the end of the current year, a practice which does not conform to best international standards.

As the data presented in relation to PI-2 above confirm, reallocations of expenditure between Votes, and authorizations of additional expenditure through special warrants, take place frequently. Unless a reallocation takes place within the same Vote, Parliamentary approval should under PFMA be obtained without delay. It is doubtful, however, whether this requirement is observed in all cases. Detailed information was only given to the National Assembly at the very end of 2009 about the expenditure reductions and reallocations made since the beginning of the year in response to the contraction of the economy and the revenue shortfall, although a general description of the changes was given by the Prime Minister in an address to the nation in the summer of 2009.

**PI-17 Recording and management of cash balances, debt and guarantees**

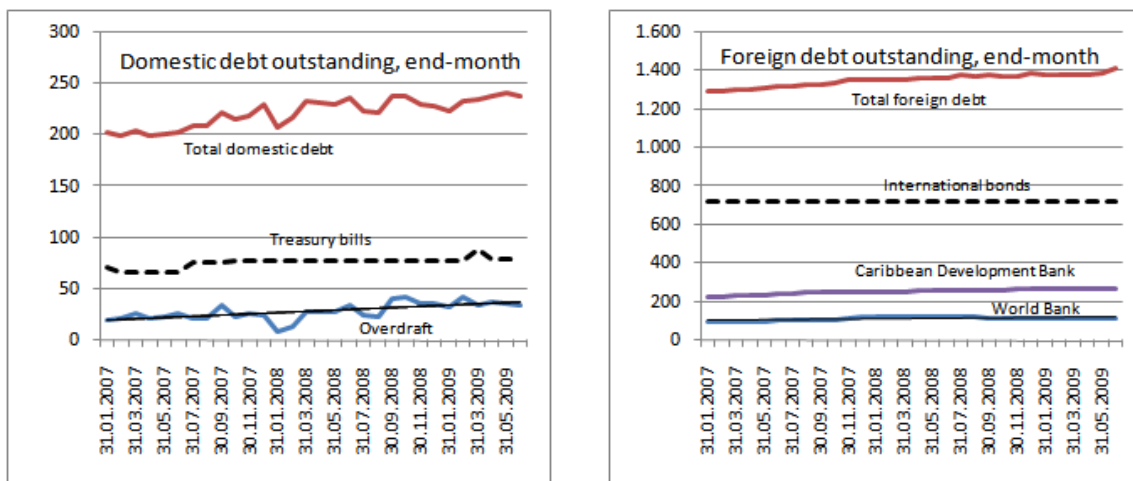
**Overall score (scoring method 2): B.** Major improvements have been made over the past two years in that almost all cash balances of government bank accounts can now be identified, calculated and consolidated on a daily basis.

(i) **Quality of debt data recording and reporting**

**Score A:** Domestic and foreign debt records are complete, updated and reconciled on a monthly basis. Data are considered to be of a fairly high standard. Comprehensive management and statistical reports (covering debt service, stocks and flows) are produced at least quarterly.

A Debt Management Unit has been created within MoF to record and monitor government debt. Its remit extends to considering how best to minimise future debt service costs. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS, version 2000+) has been made available to MoF so that it can keep the records of all domestic and foreign official debt up-to-date. The CS-DRMS provides fairly comprehensive data. In the case of external debt, information on debt and debt service are recorded in the system (transactions are posted daily). In the case of domestic debt, the debt in the form of treasury bills and loans is also recorded in the system through cooperation with the Accountant General’s Department.

Figure 3.1 Government debt outstanding, 2007-2009  
(In millions of EC\$ dollars)



Source: Ministry of Finance.

The MOF compiles debt data for the central government and the institutional coverage is comprehensive. The CS-DRMS also captures the data on debts incurred by statutory bodies but the data recorded is incomplete and with little breakdown on some of the liabilities. Because of the incomplete recording and the lack of detailed and up-to-date financial information from public corporations in CS-DRMS, MoF is unable to predict the future evolution of the combined public sector debt with complete precision. Since the statutory bodies do not provide systematic and complete data, the Debt Management Unit has to make its own follow up of the liabilities with each of them.

A monthly table for disbursements, interest, and loan repayments is prepared. Debt information is shared between the commercial and international development banks for any necessary reconciliation (some very minor differences have been noted resulting from the treatment of

creditor fees or exchange rate variations). Debt statistics for T-bills and bonds are compiled on a quarterly and monthly basis. There is a time lag of one month in respect of the bank statements required for reconciling the domestic debt data.

Statistics for central government debt are compiled and disseminated internally with sufficient breakdown on the debt instruments and external creditors on a monthly basis (see Figure 3.1). Published official debt statistics, however, do not meet the GDDS recommendations for timeliness, which require that debt statistics for the central government be available within two quarters after the end of the reference period.

**(ii) Extent of consolidation of the government's cash balances**

**Score B:** Calculation and consolidation of government cash balances and bank accounts reconciliation take place on a daily and weekly basis, taking into account cheque payments cleared. Cash balances relating to grant-funded projects are also consolidated but not in an automated manner. The AGD continues to have problems with the reporting of cash balances relating to loan-funded projects.

The detailed provisions in PFMA 2007 relating to the Consolidated Fund do not specify any particular banking arrangements. However, the Act does give the Accountant-General the authority to supervise all government bank accounts, and to close accounts if necessary and determine what should happen to the balances in them. AGD has been able to reduce drastically the former proliferation of separate bank accounts, so that most transactions now take place through a general account or a development account (into which grants from development partners are paid) held in one or other of the two commercial banks through which government transactions are executed. Monthly balances collected from these banks are reconciled with the flows recorded through the Smart Stream's General Ledger weekly and daily. Project managers are responsible for reporting and reconciling the cash balances of those projects funded with external loans. The Director of Audit gave uncertainty about the completeness of bank account data as one of his reasons for refusing to certify the annual Statements of Account for the years up to 2007, but it seems doubtful whether any omissions from AGD data could any longer be regarded as material.

The Accountant General's Office manages the Consolidated Fund which comprises two main sub-accounts: (1) the collection accounts from the Inland Revenue and Customs and Excise Departments, and (2) the disbursement accounts from which cheques and electronic deposits are cleared. As noted above, the Accountant General Department receives statements in respect of the special bank accounts, where grants from international agencies are deposited, as well as statements in respect of the general accounts through which most transactions pass. But AGD does not automatically receive statements in respect of the special bank accounts into which the proceeds of loans from development partners are deposited; as noted above. AGD depends on reports on these accounts being made by the units managing the projects in question. The balances in these accounts currently correspond to about 4 percent of total government expenditure (see Annex Table 3). Cash balances held by the National Insurance Fund and other statutory bodies are entirely separate from the Consolidated Fund, and AGD has no role in monitoring or managing them.



**(iii) Systems for contracting loans and issuance of guarantees**

**Score C:** MoF has the sole authority to contract loans and issue guarantees, subject to the approval of Parliament, but there are no clear guidelines, criteria or effective overall ceilings.

According to the Public Finance Management Act, loans should not be contracted, or guarantees be given without prior authorization from Parliament, which should also set a limit each year on government borrowing by overdraft from banks. However, PFMA does not prescribe in detail how and when such Parliamentary approvals are to be sought, and there are no overall debt ceilings. The Treasury Bill Act 2003 limits the Treasury Bill issue to 25 per cent of current revenues in any given fiscal year. It appears that the approved overdraft limit was frequently exceeded during the later months of 2009. The Budget Estimates presented at the beginning of each year contain a complete statement of government debt outstanding at the end of the previous calendar year. A complete statement of all government debt, including guarantees given for borrowing by statutory bodies and in a few cases private companies, is provided in the annual Statements of Account which are generally published, together with the Auditor's report, about a year after the end of the fiscal year to which they relate.

**PI-18 Effectiveness of payroll controls**

**Score** (score method 1): C+

**(i) Degree of integration and reconciliation between personnel records and payroll data**

**Score C:** A centralised personnel database is maintained for all established staff by the Public Services Commission (PSC), which is linked to the MoF payroll database which underpins all wage and salary payments. But there are no centralised personnel records relating to the 17.5 per cent of total government employees who are employed on short term contracts.

The PSC controls all appointments of permanent government staff, and also approves all promotions. The personnel records are kept in a Smart Stream database which is linked to the payroll database through which MoF AGD pays all government employees' wages and salaries. But there are no comparable central controls over the personnel records of the 17.5 per cent of total staff who are employed on temporary contracts determined by individual Ministries.

**(ii) Timeliness of changes to personnel records and the payroll**

**Score: A:** Ministries' personnel records are linked on line with the MoF payroll system which executes wage and salary payments.

Ministries notify the MoF AGD payroll section on line of all changes to personnel records which have an impact on wage and salary payments.

**iii) Internal control of changes to personnel records and the payroll**

**Score C:** Changes to the personnel records of established staff have to be justified and

documented in order to receive approval from PSC. But the same safeguards do not apply to un-established staff.

Where established staff are concerned, the need to satisfy PSC about the basis for any promotions or other changes to personnel records which have an impact on the payroll serves as an important element of internal control. But this control does not apply where staff are employed on temporary contracts concluded by individual Ministries, where only the authority of the Minister or the Permanent Secretary is required to determine the grading and salary of individual employees.

**(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers**

**Score C:** Some partial payroll audits have been undertaken in recent years, including those by the Director of Audit in the context of preparing his annual reports on the Government's Financial Statements. But their coverage has been limited.

Some payroll audit work has been done in individual Ministries (an example is work currently under way (by MoF internal auditors) at the Ministry of Education). But it has not yet been generalized across the government. The Department of Public Administration is planning to use a World Bank grant of US\$350,000 next year (2010) to carry out a comprehensive audit of public sector manpower.

**PI-19 Competition, value for money, and controls in procurement**

**Overall score (score method 2): C+**

A new Procurement law was enacted in 2007, which was intended to modernise the arrangements for and improve oversight of public procurement. However, it has never been brought fully into effect, and an OECD mission in August 2009 found that it would require the Public Procurement Authority which it establishes to be both the supervisor of the process and the body responsible for actual procurement. The OECD recommendation is that the body charged with supervising procurement, collecting information about the procurement methods used in placing contracts for goods and services, and enforcing compliance with procurement rules, should not itself have any responsibility for actual procurements. The review team understand that the government are reconsidering the arrangements under the 2007 Act, and that revised arrangements are expected to be introduced by mid-2010.

**(i) Evidence on the use of open competition for awards of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)**

**Score B:** Available data suggest that the bulk of contracts above the threshold level of EC\$10,000 are let through the Ministry of Works Tender Board (for contracts up to EC\$100,000) or the central Tender Board run by MoF (for contracts above EC\$100,000).

Complete statistical information is not collected about the letting of all government contracts. In the aftermath of Hurricane Ivan much emergency reconstruction work was let directly without competition (which was the subject of severe criticism in a report by the Director of Audit), but now that the situation has stabilized, only occasional use is made of the power to let contracts directly in an emergency, with the more substantial contracts being let through the Tender Board procedures. The Secretary of the central Tender Board could recall no recent example of a contract above the EC\$100,000 threshold not complying with competition requirements, although the Cabinet currently retains the power to overrule the recommendations of the Tender Board. However, she has no wider responsibility for keeping procurement records or for ensuring the integrity of the tender process. An official with experience of the Ministry of Works Tender Board which deals with contracts in the range EC\$10,000 - 100,000 confirmed that effective competitive procedures are normally followed, and this was corroborated by the Finance Officers of several spending Ministries.

**(ii) Extent of justification for use of less competitive procurement methods**

**Score B:** It appears that Ministries' normal practice is to ensure at least some measure of competition even in the case of smaller purchases. But the present procurement rules are not very precise and constraining.

Because there is at present no systematic collection of information about actual procurement practice, this rating reflects the review team's understanding of the current practices of a number of Line Ministries. But it is not supported by detailed statistics.

**(iii) Existence and operation of a procurement complaints mechanism**

**Score D:** There is as yet no functioning procurement appeals machinery, or any experience of procurement complaints being heard by the Courts.

It is intended that, once the new Act, probably with some substantial amendments, comes into force, a procurement complaints mechanism should be established.

**PI-20 Effectiveness of internal controls for non-salary expenditure**

**Score (score method 1): D+**

Internal control procedures for non-salary expenditure are inadequate in a number of respects. No controls are in place over the commitment of expenditures, so that MoF may learn of an obligation for the first time when an invoice is submitted for payment. Moreover circumstances can arise within Ministries in which operational divisions, contrary to established rules, enter into commitments without informing their own finance officers. Regulations under the PFMA which would tighten some procedures and controls, have been prepared but not yet brought into force. However, these Regulations would not deal with the problem that MoF has no effective means of preventing spending Ministries from entering into commitments which are within their budget provision.

**(i) Effectiveness of expenditure commitment controls**

**Score: D:** There are no separate controls of commitments, and MDAs are free to place orders within available budgetary provision, without regard to prospective cash availability to meet the resulting invoices.

No separate control of commitments has hitherto been introduced. Although it appears that the Smart Stream system could be adapted so as to require commitments to be registered at the time contracts are signed or orders placed, MoF may learn of commitments for the first time when a bill is presented for payment. A commitment control of this kind could also form the basis for ensuring that correct procurement procedures had been followed before a commitment could be registered.

**(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures**

**Score C:** Basic internal control rules and procedures exist for processing and recording transactions, which are generally understood and respected by those involved. But the authority of the finance function could usefully be strengthened when detailed regulations are made about the way in which PFMA 2007 should be applied.

The Finance rules which prescribe, inter alia, that two different officials should be involved in the preparation of an invoice before its submission to the Finance branch, and lay down arrangements for safeguarding and accounting for stores, establish some basic minimum controls. But they do not prevent commitments from being made without notification to the Finance branch, or from being undertaken outside existing budgetary provision, and thus having to be regularised later through special warrants or Supplementary Estimates.

**(iii) Degree of compliance with rules for processing and recording transactions**

**Score A:** Compliance with existing rules for processing and recording transactions appears satisfactory. There is no evidence of major mistakes or procedural errors being discovered by the Accountant General Department or by any internal or external auditor.

Once commitments have been made, there is no evidence of MDAs failing to observe the rules for processing and recording transactions. MoF AGD checks the documentation attached to all payment requests, and further tests of such transactions are undertaken in the course of the annual financial audit carried out by the Director of Audit.

**PI-21 Effectiveness of internal audit**

**Overall score (score method 1): C**

**(i) Coverage and quality of the internal audit function**

**Score C:** Internal audit work has so far taken place mainly in MoF, although some remits have service-wide application. Work generally meets professional standards.

Internal audit work is currently carried out by one internal auditor reporting to the Permanent Secretary, MoF, with a remit covering all MDAs, and another mainly focused on the accounting and payments systems for which AGD is responsible. The general service Internal Auditor devotes a significant part of his time to MDAs' control of stocks and other assets, sometimes in cooperation with the AGD's systems auditor. Internal audit coverage is inevitably limited, given the resources allocated to it, but it does address systems issues like the use of motor vehicles across the government service, where the fact of the audit seems to be improving departmental practices. Similarly the Internal Auditor in his role as a member of the central Tender Board is strengthening discipline in the operation of procurement throughout the government.

**(ii) Frequency and distribution of reports**

**Score C:** Reports are made to the management of the audited activity as well as to MoF. Cooperation with the external audit takes place to some degree, but could be substantially improved.

Various reports have been submitted by the MoF Internal Auditor with the results of specific administrative investigations of problems arising within MDAs and with recommendations. Examples concern the use of government vehicles, the management of a loans scheme for micro-enterprises, the circumstances surrounding the winding up of the Agency for Reconstruction and Development, and resolution of a dispute arising from the terms of a government lease.

**(iii) Extent of management response to internal audit function**

**Score C:** It appears that audited entities generally respond to the Internal Auditor's activities; thus the use of government vehicles has been considerably tightened up since his investigations began.

The evidence from a limited number of reports suggests that MDAs generally respond constructively to the Internal Auditor's findings. But more resources are needed to develop the work, and extend it into other Ministries. The review team understand that MoF intends to promote the establishment of internal audits in a few key Ministries in 2010.

### **3.5. ACCOUNTING, RECORDING AND REPORTING**

#### **PI-22 Timeliness and regularity of accounts reconciliation**

**Overall score (score method 2): B**

**(i) Regularity of bank reconciliation**

**Score B:** Bank reconciliation for all Treasury-managed bank accounts takes place at least monthly, at aggregate and detailed levels, usually within four weeks of end of period. Reconciliation of other central government (i.e., special donor-related) bank accounts is the responsibility of the project manager in each case, with the results being reported to AGD.

There are explicit rules known by all government agencies for the timeliness of government bank accounts reconciliation. Reconciliation of Treasury-managed bank accounts takes place monthly through the MoF AGD, and enables the Accountant General to identify outstanding deposits and cheques not yet cleared. The Debt Management Manual currently being developed by the Debt Management Unit will include details of bank account reconciliation and other related routine procedures. The commercial banks send the account statements by electronic means. The same day, the information on the statements is incorporated into the General Ledger's cash and bank accounts (embodied within SIGFIS), which enables automatic and immediate reconciliation and the detection of any difference. AGD has gained greater control in reconciling and consolidating the reporting of cash transactions of government bank accounts as it continues to close idle bank accounts among the grants-related special funds. But this process is not yet complete, and there is no assurance that bank accounts not yet controlled by AGD are subject to the same timely reconciliation procedures.

**(ii) Regularity of reconciliation and clearance of suspense accounts and advances**

**Score B:** Reconciliation and clearance of advances take place on a quarterly basis, within two months of end of period, but some accounts had uncleared balances brought forward.

Reconciliation and clearance of suspense accounts and advances have been carried out on a quarterly basis. Information about advances is included in the Statements of Account and according to official data there has been a downward trend of advances in the past three years. The intention is to monitor them more effectively to facilitate to facilitate their reconciliation and clearance.

Deposit funds associated with advances, and other transfers and recoverables, remained low during the past three years. These accounts averaged only 1.2 percent of tax revenues, or equivalent to 0.3 percent of GDP, during 2006-08 (see Table 3.12). There are currently no specific administrative rules governing the administration and clearance of advances.

Table 3.12 Stock of Advances and Suspense Accounts  
(In EC\$)

	2006	2007	2008
Other Governments	1,737,305	1,792,598	1,854,814
Government Officers	1,791,925	1,668,631	508,363
Other Advances	2,251,050	2,482,483	363,192
Total	<b>5,780,280</b>	<b>5,943,712</b>	<b>2,726,369</b>
Memo: Total (% of GDP)	<b>0.38</b>	<b>0.36</b>	<b>0.15</b>

*Sources:* Ministry of Finance; and Director of Audit.

**PI-23 Availability of information on resources received by service delivery units**

**Score D** (score method 1): No comprehensive data have been collected (through surveys or otherwise) of the intermediation and availability of resources to service delivery units.

No comprehensive data have been collected (through Public Expenditure Tracking Surveys, inspections, or other means) to assess the timeliness or adequacy of payments and/or supplying of goods and services to front-line service delivery units. Information on amounts of resources reaching the primary service units has not been collected.

#### **PI-24 Quality and timeliness of in-year budget reports**

<b>Overall score (score method 1): C+</b>
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##### **(i) Scope of reports in terms of coverage and compatibility with budget estimates**

<b>Score C:</b> Comparison between budget estimates and actual out-turns is possible in aggregate and by administrative headings. This information is captured at the payment stage only and, thus, is on a cash basis. Commitments data are not recorded in SIGFIS, apart from the schedule of debt service payments.
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According to the PEFA criteria, no rating higher than C is possible unless expenditure is covered at both commitment and payment stages. In Grenada SIGFIS captures most expenditure only when invoices are presented for payment. A monthly budget execution document is available through SIGFIS, which shows the year-to-date and monthly performance of tax and non-tax revenue collections as well as current and capital expenditure of the central government. . Recurrent expenditures are divided into personal emoluments, pensions, purchases of goods and services, domestic and foreign interest payments, and itemized transfers to public institutions. The report also shows capital expenditures funded by domestic and foreign sources, although the data on capital expenditures funded with external loans is incomplete. However, this has not recently had a major effect in the overall report since these expenditures have been, as noted in PI-7, relatively small as well as falling short of the original Estimates for them. The report also has the capability of reporting revenue and expenditure out-turns on a monthly basis by administrative classification .Both the monthly and the quarterly budget execution reports have a lag of about six weeks.

##### **(ii) Timeliness of the issue of reports**

<b>Score B:</b> In-year budget reports are prepared on a quarterly basis, and generally issued within six weeks of end of each quarter.
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Regular overall information on budget execution derived from SIGFIS is given to the Finance Minister and Permanent Secretary within six weeks of the end of each quarter. Line Ministries depend on SIGFIS to keep track of their own expenditures against Budget. As indicated under (i) above, in-year budget reports can be generated monthly from SIGFIS, with a lag of one month, but data about about expenditure not passing through the main Treasury accounts may at that stage be incomplete. There were indications that data about some non-tax revenues were previously only captured with some delay, but management expressed confidence that any problems had been overcome.

##### **(iii) Quality of information**

**Score B:** There are no major concerns about accuracy and consistency of financial data amongst the various fiscal reports.

The reports generated through SIGFIS comprise most of the information required for reconciling any differences and performing a complete fiscal analysis on a timely basis. This computerised integrated accounting system has proved very reliable, but there are delays before full information is available about investment financed through external loans, and about non-tax revenues.

## **PI-25 Quality and timeliness of annual financial statements**

**Overall score** (score method 1): **C+**

### **(i) Completeness of the financial statements**

**Score B:** A consolidated set of government Statements of Account is prepared annually for Grenada. Information on revenue, expenditure, bank account balances and the stock of other assets and liabilities is generally complete for ministries and departments.

The Statements of Account of the Government cover central government entities only. They include the financial operations of Ministries and other administrative units processed through the MoF AGD. The transactions of statutory bodies (including the National Insurance Scheme) are excluded. The expenditure on donor-funded projects is in principle included. However, some of the information PFMA requires to be included in the Statements of Account (e.g. losses) has not yet been provided. As the Director of Audit has recognised in his most recent reports on the annual Statements of Account, there have been substantial improvements in the completeness and accuracy of the information, even though these have not yet been sufficient to merit an unqualified Opinion.

The Statements of Account submitted by MoF to the Director of Audit comprise the following information:

- Statement of Assets and Liabilities
- Detailed Statement of Revenue and Expenditure
- Statement of Bank Account Balances
- Detailed Statement of Advances, Deposits and Investment
- Statement of Public Debt
- Statement of Contingent Liabilities
- Statement of Shares Held by the Government

### **(ii) Timeliness of submissions of the financial statements**

**Score B:** The Statements of Account have been submitted to the Director of Audit for external audit within 10 months of the end of the fiscal year for the past three fiscal years.



The PFMA requires the Accountant General to submit the annual statements of sources and uses of public funds (revenue and expenditure out-turns) and the changes in financial assets and liabilities to the Director of Audit within six months following the end of the fiscal year. In practice the Statements have been submitted for audit about eight months after the end of the year to which they relate, with some improvement in performance each year.

**(iii) Accounting standards used**

**Score C:** International accounting standards have not yet been fully applied. The financial statements are presented in a consistent format but the national standards used for their elaboration were not explained in the 2006, 2007 or 2008 Statements of Account (SoA).

Financial statements are presented in a format that is not compatible with the definitions and nomenclature set forth in the International Public Sector Accounting Standards (IPSAS). The Director of Audit has repeatedly urged AGD to adopt IPSAS, or at least describe the national standards used in the SoA. For example the SoA does not provide information about the basis for calculating the change in the value of net assets held from one year to the next.

**3.6. EXTERNAL SCRUTINY AND AUDIT**

**PI-26 Scope, nature and follow-up of external audits**

**Overall score** (using methodology M1): B+\_\_

**(i) Scope/nature of audit performed (including adherence to auditing standards)**

**Score B:** A comprehensive audit of the government's Statements of Account is carried out every year, together with a range of specific audits which include some Value for Money (VFM) examinations. Auditing standards are adhered to. But the Department of Audit is only now beginning to extend the coverage of its work to the Statutory Bodies.

The reports made by the Director of Audit on the Statements of Account for the years 2006-2008 make clear that the financial audit covers the whole range of government Ministries, and that systemic issues are addressed. Additional resources and substantial training have been given to the Audit Department in recent years, enabling it to make a start on VFM audit, and to prepare reports on each successive year's Statements of Account within a short time after their submission for audit. This represents a very substantial advance on the position a few years ago, when the Department were still engaged on reporting on Statements of Account which were several years old. In 2009 for the first time the audit of all statutory bodies has been brought clearly within the Audit Department's responsibilities, and it is only in 2010 that the Director of Audit will be in a position to undertake direct audit work in relation to all of them, or to commission work from private sector auditors.

**(ii) Timeliness of submission of audit reports to legislature**

**Score A:** Audit reports are submitted to the National Assembly within 3 months of the receipt of the financial statements from AGD.

Table 3.13: Dates of public accounts submitted to the National Assembly

Fiscal year	Submitted by the Director of Audit to MOF for tabling in the Parliament
2006	27 December 2007
2007	30 January 2009
2008	24 December 2009

*Source:* Director of Audit.

### (iii) Evidence of follow up on audit recommendations

**Score B:** Evidence from the Audit Department and from audited Ministries indicates that most recommendations, especially in the context of VFM work, are accepted by the auditees.

Discussions with AGD confirmed that the Department is seeking to improve the Statements of Account along the lines recommended by the Director of Audit. Successive annual reports on the Statements of Account have addressed the issue of progress (or lack of it) in remedying defects in the content and presentation of accounts. The Ministry of Works confirmed that they generally accepted the recommendations in the 2006 Special Report on Project Implementation and the Management Function. But the responses of Ministries to the Director of Audit's reports are not clearly documented on the public record, as they would be if auditees' responses were required to be published alongside the auditor's conclusions and recommendations.

### PI-27 Legislative scrutiny of the annual budget law

**Overall score** (using methodology M1): D+

#### (i) Scope of the legislature's scrutiny

**Score C:** The Legislature's scrutiny is limited to an overall review of the Budget proposals once these have been finalised, and there is only a limited possibility of the proposals being amended to take account of points raised in Parliament.

The expenditure and revenue Estimates are normally presented first to the Finance Committee of the House of Representatives (i.e. the whole House under the Chairmanship of the Minister of Finance) a few days in advance of the Budget speech and the introduction of the Appropriation Bill. Although there have apparently been occasions in the past where amendments have been made to expenditure Estimates in response to points raised in the Finance Committee, the main shape of the Budget is fully determined before it reaches the Finance Committee. For the 2010 Budget the Estimates were given to the Finance Committee three weeks in advance of the Budget Statement on 15 January. There is only a restricted opportunity to examine the proposals

in detail, either then, or in the subsequent Budget debate, which consists of general expressions of view by as many of the fifteen Representatives as wish to speak.

**(ii) Extent to which the legislature's procedures are well-established and respected**

**Score B:** The Legislature's procedures are well understood and respected.

The way in which the House of Representatives handles the Budget is well understood, and the arrangements are generally respected. But these arrangements do not give the House any real possibility of influencing the shape of the government's proposals.

**(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)**

**Score D:** The Legislature does not spend more than about four days on all stages of the Budget debate and the subsequent Appropriation Bill.

The time for debate in the House of Representatives of the Budget proposals is limited, and is tightly controlled by the government's business managers. The government uses its majority in the House to ensure that the proposals are accepted without significant amendment.

**(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature**

**Score C:** The rules allow extensive reallocations of provision by means of Departmental Warrants, and the undertaking of new commitments by means of Special Warrants issued by the Minister of Finance, without any public announcement and in advance of Parliamentary approval.

PFMA requires Parliamentary approval to be sought without delay for Supplementary Estimates to confirm Special Warrants which give effect to proposals for new expenditure not allowed for in the most recent Budget. But the timing of the presentation of the Supplementary Estimates is left to the discretion of the government, and it may in practice be many months before the National Assembly receives details of expenditure reallocations..

**PI-28 Legislative scrutiny of external audit reports**

**Overall score (scoring methodology M1): D**

**(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)**

**Score D:** Only one report was presented to the House of Representatives by the Public Accounts Committee (PAC) during the period 2006-08. No reports were given any significant examination.

The only PAC report tabled during the reference period concerned the Statements of Account for the year 1999. There was no discussion of this report.

**(ii) Extent of hearings on key findings undertaken by the legislature**

**Score D:** There were no hearings by the Legislature during the reference period.

**(iii) Issuance of recommended actions by the legislature and implementation by the executive**

**Score D:** No recommendations were issued by the Legislature in response to reports by the Director of Audit during the reference period.

### **3.7. DONOR PRACTICES**

This section uses three high-level performance indicators to measure the performance of donors involved in the government's budgetary processes.

#### **D-1 Predictability of Direct Budget Support**

**Score** (scoring method 1): D

**(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)**

**Score D:** In two of the three years 2006-08 the direct budget support out-turns fell short of the estimates by more than 40%.

Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors. When received by the Government's treasury, the funds will be used in accordance with the procedures applying to all other general revenue with the exception of funding provided with the stipulation that a specific account(s) is established for the management of the resources during the implementation period of the specific project. Identified budget support may be channelled through a transit account held by the Government before being released to the treasury.

Funding provided by direct budget support constitutes an important source of financing for the Government in Grenada. The inability to predict inflows of budget support affects the Government's fiscal management to the same degree as the impact of exogenous factors on the

collection of domestic revenue. Delays in budgetary inflows can have serious implications for the Government's ability to implement the budget as planned.

The European Union (EU) is the main source of direct budget support in Grenada, primarily through EDF grants. Other forms of EU budget support are SFA and STABEX grants for poverty reduction and emergency aid.

In Grenada, EU estimates are provided on an annual basis, with no indication of the month or quarter in which the donor expects the disbursement to take place, and no attempt to take into account the circumstances of the recipient country; thus the quarterly allocations are left to the discretion of the technical officer(s) based on data collected from the relevant personnel. The EU and some other donors generally provide forecasts on a calendar year basis, whether or not this corresponds to the fiscal year of the recipient country; since the two correspond in Grenada, this practice does not create any additional difficulties.

**Table 3.14 Total Direct Budget Support: Budget versus Actual in EC\$**

	2006	2007	2008
<b>EDF</b>			
Budgeted	150,694	123,000	11,018,305
Disbursed	139,400	45,760	5,886,001
Deviation	-7.5%	-62.8%	-46.6%
<b>SFA</b>			
Budgeted	959,590	727,110	430,000
Disbursed	267,908	424,109	967,310
Deviation	-72.1%	-41.7%	+125.0%
<b>STABEX</b>			
Budgeted	100,283	2,684	59,428
Disbursed	271,252	70,000	151,701
Deviation	+170.5%	+2,508.0%	+155.3%

*Source:* Ministry of Finance/Department of Technical Cooperation and External Assistance.

As shown in the Table 3.14, there has been an overall shortfall far in excess of 15 percent over the past three years when direct budget support outturn was compared to the forecast. This shortfall can be attributed to delayed implementation of some projects as prolonged negotiations and procedures impacted severely on the release of funds or on the submission of applications to access the resources.

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

**Score D:** There is no schedule of donor disbursements by quarters.

The Government of Grenada does not have a formal program schedule of donor disbursements by quarters. In some instances projects funded by the EC resources are provided on a reimbursement basis or in response to requests for replenishment. Thus the disbursements depend on progress reports provided to the donor and Government. Such arrangements are undertaken by the European Commission where designated officers submit the required reports of expenditure and replenishment requests with the necessary supporting documentation.

As a general rule MoF consults with the programme manager, programme coordinator or other identified personnel to determine the implementation capacity and expectations for the upcoming year and includes disbursements in the Budget that are consistent with their expectations. Therefore, there is a degree of control on the part of Government regarding the amounts received. In terms of the commitments made by the donors (principally the European Commission) funds are released generally based on meeting and maintaining specific conditions precedent but releases can be further delayed by lengthy procedures.

## **D-2 Financial information provided by donors for budgeting and reporting on project and program aid**

**Score** (scoring method 1): **D**

### **(i) Completeness and timeliness of budget estimates by donors for project support**

**Score D:** Not all major donors provide budget estimates for disbursement of project aid at stages consistent with the government's budget preparation and with a breakdown consistent with the government's budget classification. Furthermore, donors do not provide budget estimates for the government's coming fiscal year at least three months prior to the budget preparation start. Donors provide estimates on an ad-hoc basis.

In general, donors do not provide budget estimates for disbursement of PSIP project aid at least three months prior to the budget preparation. The Department of Technical and Economic Cooperation intends to launch a PSIP Operations Committee to coordinate and monitor the implementation of project aid. This would include staff from the Department of Economic Affairs and PSIP, project officers and finance officers from the line ministries, representatives from the Accountant General's Department and budget analysts from the Ministry of Finance, who can meet on a monthly basis to discuss difficulties encountered and to find a means of resolving capacity building, human resource development and other issues affecting project implementation.

### **(ii) Frequency and coverage of reporting by donors on actual flows for project support.**

**Score D:** Donors do not provide quarterly reports within two months of the end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget.

Some donors do provide periodic reports to the Government. In most instances, however, where this does not occur, the lack of donor information can be supplemented by other records maintained by the various programme managers, programme coordinators or designated technical staff. However, it is vital to note that although the PSIP provides information regarding funds released periodically to undertake projects from the resources made available it may be necessary to retrieve the hardcopy file for the period being queried in order to verify the initial amount transferred by the donor to Government.

## **D-3 Proportion of aid that is managed by use of national procedures**

**Score D:** Less than 50 percent of aid funds to the central government are managed through national procedures. The European Union, in particular, uses its own procedures for procurement, accounting, audit, and reporting in respect of funds other than those provided as budget support.

## **Section 4: Government reform process**

### ***4.1 Recent and On-going Reforms***

1. As is made clear in Section 3, Grenada has embarked on a major programme of legislative reform related to PFM. The Public Finance Management Act (PFMA) (2007) covers budgeting, accounting and financial control aspects of PFM, while the Audit Act (2007) confirms the powers required by the Director of Audit to audit the annual Statements of Account and to carry out a wide range of other audit work in respect of Government Ministries and other Statutory Bodies.. The Public Procurement Contract Administration Act (2007) was intended to improve the transparency and efficiency of public procurement. Although these Acts were brought into force on 1 July 2008, the detailed Regulations required to give full effect to their provisions have not yet been promulgated, and some of the provisions of the Public Procurement Act are being reconsidered, taking into account the desirability of not giving to the same body the responsibility for supervising the process and for directly undertaking much of the procurement. Thus for the time being, the Finance and Stores Regulations made under the 1990 Act remain in force (and the Government's annual Statements of Account have continued to be prepared in accordance with the old Act rather than in conformity with the relevant provisions of PFMA) New Financial Regulations under PFMA, and new Asset Management Regulations, have been prepared, and only await promulgation once the necessary logistical arrangements and staff training have been completed.

2. Although the detailed Regulations have yet to be promulgated, PFMA is already having an impact in supporting the improvement of PFM. Thus the extent to which the Minister of Finance can authorize expenditure not already provided for in an Appropriation Act through Special Warrants is limited to 10 per cent of approved budget expenditure, and the MoF Accountant General has already used the powers given to control all government bank accounts to close very numerous separate accounts opened for particular projects, with amounts in them consolidated into the main accounts through which the Consolidated Fund is operated. This should contribute substantially to better cash management, as well as facilitating the presentation of complete and accurate Statements of Account.

3. Indirect taxation is being reformed, with the introduction of Value Added Tax (VAT) scheduled for 1 February 2010; at the same time the General Consumption Tax, the motor vehicle tax and the airline ticket tax will be abolished (and there will also be some consequential changes in excise taxes). The objective is to make the tax system simpler, while achieving some improvement in overall revenue. The development of the private sector is to be fostered by the

Investment Promotion Act (2009) which, once brought into force, will provide a more level playing field for investors, encouraging investment through the provision of tax allowances, while removing the present Ministerial discretion to grant tax holidays. Fresh expertise is being recruited to strengthen tax audit and inspection, bringing together the separate efforts of the Inland Revenue and Customs and Excise Divisions. The Tax Appeals Tribunal has already been reconstituted, and has begun hearing cases, thereby giving taxpayers a new degree of assurance that any disputes they may have with the tax authorities will be judged impartially.

4. In addition to these legislative reforms and administrative improvements, Grenada has plans to enhance its provision of public services through the development of a medium-term fiscal framework within which strategic plans for the development of each main public service, a new Public Sector Investment Programme, and a new poverty reduction strategy can be integrated. Such a development is necessary if the government's objectives for economic progress and for better public services are to be achieved while at the same time making satisfactory progress in reducing the burden of public debt.

#### ***4.2 Institutional Factors Supporting Reform Planning and Implementation***

5. There is no doubt about the Grenada government's commitment to PFM reform, given the very substantial investment already made in legislative reform and administrative improvements. However, with the exception of the preparations for VAT, it does not appear that the administrative arrangements and the detailed Regulations needed for the changes to be fully effective, have been completed in respect of any of the other new laws. Provided the momentum of reform can be maintained, and the various Regulations and administrative arrangements are completed and implemented in the near future, there is every prospect that PFM performance will be improved (and incidentally that Grenada would obtain higher ratings on a range of the Performance Indicators in any future PEFA assessment). But it is unlikely to be all plain sailing. Delays already experienced in completing some of the PFM reform initiatives probably reflect limitations on available administrative and policy-making capacity, and other pressing preoccupations of the small numbers of staff concerned. The installation of an effective medium-term fiscal planning framework will represent a major challenge, almost certainly requiring some additional resources, and other challenges remain to improve the realism of budget setting and to prevent commitments from outstripping available cash.

6. Finally a considerable effort will be required on the part of both the Grenada government and its development partners to bring predictability and order to the provision of external financing. It may be for consideration whether some dedicated coordinating unit should be established to bring together all the different PFM reform initiatives into an integrated action plan which the Cabinet would approve, which would also include a timetable for the achievement of each element. Thereafter the unit would make quarterly reports with the objective of keeping all the different elements of PFM reform on track.



## ANNEXES

### Annex 1 - Statistics used in the Calculation of Quantitative Indicators

**Table 1. Out-turn of Central Government expenditures  
(In EC dollars)**

Budget item	2006		2007		2008	
	Budget	Actual	Budget	Actual	Budget	Actual 1/
<b>Current Expenditure</b>	<b>328.1</b>	<b>313.4</b>	<b>350.7</b>	<b>347.4</b>	<b>398.5</b>	<b>421.1</b>
Personal Expenditure	164.1	152.5	167.2	157.2	188.9	201.9
Goods and Services	59.2	65.4	69.5	77.1	77.5	87.6
Interest Payments	34.7	27.5	36.6	39.0	43.5	36.4
Other Transfers and Subsidies	70.1	68.0	77.4	74.1	88.6	95.2
<b>Capital Expenditure and Net Lending</b>	<b>229.8</b>	<b>253.6</b>	<b>225.5</b>	<b>218.1</b>	<b>241.8</b>	<b>207.6</b>
Capital Spending – Domestic	58.2	123.8	107.0	149.9	89.5	136.5
Capital Spending – Foreign	171.6	129.8	118.5	68.2	152.3	71.1
<b>Total Expenditure</b>	<b>557.9</b>	<b>567.0</b>	<b>576.2</b>	<b>565.5</b>	<b>640.3</b>	<b>628.7</b>

Source: Ministry of Finance.

1/ Preliminary data.

**Table 2. Out-turn of Central Government current revenues  
(In EC dollars millions)**

Budget Item	2006		2007		2008	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Tax Revenue</b>	<b>353.8</b>	<b>330.3</b>	<b>392.0</b>	<b>378.5</b>	<b>406.9</b>	<b>405.9</b>
Taxes on Income and Profits	48.1	50.3	53.5	64.4	62.2	83.3
Taxes on Property	17.9	21.0	32.1	29.1	27.7	25.0
Taxes on Goods and Services	67.7	60.5	111.5	68.4	71.8	75.6
Taxes on International Trade and Transactions	222.5	198.5	194.9	216.6	245.2	222.0
<b>Non-tax Revenue</b>	<b>47.0</b>	<b>45.6</b>	<b>49.1</b>	<b>39.8</b>	<b>54.1</b>	<b>47.2</b>
Licenses	17.9	16.5	15.5	13.9	16.3	15.4
Rents and Interest	3.5	2.0	3.4	2.1	3.7	1.71.7
Property Income	8.5	0.8	7.7	6.1	6.8	7.2
Government Departments	17.1	26.3	22.5	17.7	27.3	22.9
<b>Total Domestic Revenue</b>	<b>400.8</b>	<b>375.7</b>	<b>441.1</b>	<b>418.3</b>	<b>461.0</b>	<b>453.1</b>

Source: Ministry of Finance, Statements of Account for 2006, 2007, 2008.

Table 3. Balance of Special Funds, as of October 31<sup>st</sup>, 2009

Project No.	Project	Amount (EC\$)
<b>Loans</b>		<b>13,363,457</b>
<i>Caribbean Development Bank</i>		
0066524	West Coast Rock Fall Emergency Response	1,206,440
0100532	Rural Enterprise Development Project	934,733
0100563	Schools Rehabilitation and Reconstruction Project	47,896
<i>World Bank</i>		
0080532	OECS Education Development Programme	1,259,862
0100552	Hurricane Ivan Emergency Recovery Project	222,267
0014517	Public Sector Modernization Project	119,508
0100564	Skills for Inclusive Growth Project	19,836
<i>Kuwait</i>		
0091505	Farm Roads Project Government of Trinidad and Tobago	9,302,915
0048529	Capital transfer to GDB (Business Reactivation)	250,000
<b>Grants</b>		<b>11,217,353</b>
0048521	EC/EDF Support Services Unit	65,894
0066535	CDB/Support to CDB Work Program on Protected Areas	2,438
0094545	UNDP/Capacity Building for Sustainable Land Development	24,393
0044523	UNICEF/Preparation of Grenada National Sports Policy	14,903
0082503	PAHO/National AIDS Prevention Program	22,090
0082508	PAHO/Education Enhancement Program	114,280
0082516	PAHO/Customer Care Training Program	37,085
0014521	CIDA/Public Sector Change Management Project	105,327
0078511	Rehabilitation of TAMCC Arts & General Science Bldg. (Sundry Grant)	849,389
0044522	Champion of Champions Cricket Club (Sundry Grant)	18,513
0066502	CDB/BNTF Phase IV	414,838
0090546	UNEP/UNEPDTIE	7,050
0036505	PRC/Support to Grenada Heads of Mission Meeting	49,937
0069504	Government of Venezuela/Venezuelan Housing Project	1,121,262
0036503	Spain/Refurbishment of NAWASA Laboratory	241,861
0080544	EC/Post Emergency School Rehabilitation Project	1,791,488
0071517	CARICOM/Multiple Projects for the Elderly	5,200
0014510	PETROCARIBE/Scholarship Prog/neediest Student Assistance Program	480,618
0071505	PETROCARIBE/Bacolet Project Juvenile Centre	271,984
0080511	PETROCARIBE/School Feeding Program	2,418,190
0073502	PETROCARIBE/Cultural and Sporting Centre	178,850
0069508	PETROCARIBE/Sites and Services Project (Soubise/Marquis, Mt. Gay)	4,000
0013517	PETROCARIBE/Emergency Recovery Project Plan IIII	5,285
0071517	PETROCARIBE/Multiple Projects for the Elderly	27,200
0079506	PETROCARIBE/School Book Program	2,089,800
0100568	Government of Sweden/Alliance of Small Island Dev. States Secretariat	720,972
0071522	The Bernard Van Leer/Roving Care Givers Program	26,535
<b>TOTAL SPECIAL FUNDS</b>		<b>24,580,810</b>
<b>TOTAL SPECIAL FUNDS (% of total expenditure)</b>		<b>4.1%</b>

Source: Ministry of Finance and Planning/Department of Technical and Economic Cooperation.

Table 4: Expenditure of Domestically- and Externally-Financed Capital Expenditure Projects, Jan-Oct. 2009

Project No.	Funding Agency	Description	Total	Local Revenues	Granted	Foreign Loans
		<b>TOTAL</b>	95.432.614	63.464.573	10.476.255	21.491.785
		<b>I. ECONOMIC SERVICES</b>	54.267.426	42.169.769	31.443	12.066.214
		<b>A. Agriculture, Fisheries and Forestry</b>	17.110.112	9.142.785	31.443	7.935.884
		<b>CORE PROJECTS</b>	12.134.995	4.167.669	31.443	7.935.884
0074517		Food Security Programme (Carriacou)	165.242	165.242	-	-
0091510	FAO	Food Security Programme	214.078	214.078	-	-
0092516		Propagation Programme	594.775	594.775	-	-
0092517		Refurbish of Propagation St. (Mirabeau & Ashenden)	7.000	7.000	-	-
0090546	UNEP /UNDP	UNEPDITE Project	7.050	-	7.050	-
0090529	SFA 2002	Rural Credit Scheme	250.000	250.000	-	-
0096509		Livestock Development Programme	49.932	49.932	-	-
0094545	UNDP/GEF	Capacity Building for Sustainable Land Mgmt.	47.531	23.138	24.393	-
0094537		Opal livelihood Project	9.182	9.182	-	-
0091505	Kuwait/OPEC	Farm Road Project	10.009.799	2.073.915	-	7.935.884
0094506		Forest Management	50.000	50.000	-	-
0094508		Trail Development	15.200	15.200	-	-
0090543	Sundry Grants	Boundary Delimitation	517.548	517.548	-	-
0074511		Agricultural Division Micro Projects (C'cou)	73.116	73.116	-	-
0098544	Japan	Coastal Fisheries Development Project -Gouyave	6.829	6.829	-	-
0098545		Fisheries Communication Consultation	98.741	98.741	-	-
0098546		Maintaining Fishery Export Status	6.747	6.747	-	-
0098517		Fishing Advisory Committee	12.226	12.226	-	-
		<b>OTHER PROJECTS</b>	4.975.117	4.975.117	-	-
0092514		Capacity Building for Biosafety Authority	11.945	11.945	-	-
0095510		Refurbishing & Upgrading Pilot Processing Plant	27.694	27.694	-	-
0096513		Diagnostic Laboratory Upgrade	12.575	12.575	-	-
0091521	NRL	Reorganization of the Ministry of Agriculture	811.290	811.290	-	-
0098542		Fishermen Training and Development	4.458	4.458	-	-
0094538		Support to UNCCD	4.996	4.996	-	-
0093512	SFA 99	Support to Irrigation & Drainage	25.079	25.079	-	-
0096514		Support to Poultry Association	25.000	25.000	-	-
0090565	SFA 2008	Support to Agriculture Sector	770	770	-	-
0090527		Support to Apiculture Industry	25.000	25.000	-	-
0090552	NRL	Support for Technical Assistance	99.847	99.847	-	-
0090559		Agric. Production, Stimulation & Enhancement Prog	1.036.928	1.036.928	-	-
0090560		Support to Cocoa Processing	300.000	300.000	-	-
0090561		Farm Labour Support	1.522.976	1.522.976	-	-
0090562		Agricultural Research	95.514	95.514	-	-
0090563		Praedial Larceny Control Programme	17.037	17.037	-	-
0090519		Support to Agro-Processing	41.962	41.962	-	-
0074530		Carriacou Model Farm for Small Ruminants	87.666	87.666	-	-
0094532		Control of Squatting	12.318	12.318	-	-
0098535		Marine Protected Areas Programme	44.813	44.813	-	-
0098537		Monitor, Enhance, and Protect Eco Systems	9.800	9.800	-	-
0099504		Rodent Control Programme	208.807	208.807	-	-
0099510		Strengthening of Plant Quarantine	17.877	17.877	-	-
0099508		Banana Pest Control	246.764	246.764	-	-
0099509	NRL	Fruit Fly Project	217.471	217.471	-	-
0099513		Red Palm Mite Eradication	8.455	8.455	-	-
0074515		Impounding Programme (Carriacou)	58.075	58.075	-	-
		<b>B. Tourism and Foreign Affairs</b>	21.786.997	21.786.997	-	-
		<b>CORE PROJECTS</b>	21.698.410	21.698.410	-	-
0031521		Forts George & Matthew Restoration	72.000	72.000	-	-
0031502		Tourism Marketing & Promotion	13.400.000	13.400.000	-	-
0031515		Joint Marketing/Risk Sharing	8.173.750	8.173.750	-	-
0094533		Improvement and Maintenance of Attraction Sites	52.660	52.660	-	-
		<b>OTHER PROJECTS</b>	88.587	88.587	-	-
0031517		Life Guard Programme	88.587	88.587	-	-
		<b>C. Works, Physical Planning, Public Utilities and Environment</b>	15.362.602	11.232.272	-	4.130.330
		<b>CORE PROJECTS</b>	15.362.602	11.232.272	-	4.130.330
0066524	CDB	Rock Fall and Landslip Project	4.079.608	-	-	4.079.608
0066502	CDB	BNTF Phases IV/V	245.365	245.365	-	-

Project No.	Funding Agency	Description	Total	Local Revenues	Granted	Foreign Loans
0066503		Support to Roads & Buildings	363.896	363.896	-	-
0066517		St. George's Market Square	396.773	396.773	-	-
0066518	CDB	Grenville Market Square & Abattoir & Bus Terminal	211.638	160.916	-	50.722
0067503		Ministerial Complex Remedial Works	305.622	305.622	-	-
0068510		Road Improvement & Maintenance Programme	7.613.640	7.613.640	-	-
0067518		Debushing (Maintenance)	1.465.598	1.465.598	-	-
0068517		GOG Multi Project	615.449	615.449	-	-
0075507		Hillsborough Recreation Facilities	29.565	29.565	-	-
0075524		Road Rehabilitation Petite Martinique	32.193	32.193	-	-
0075512		GOG Road Rehabilitation Project (Carriacou)	3.255	3.255	-	-
		<b>OTHER PROJECTS</b>				
		<b>D. OTHER Economic Services</b>	7.715	7.715	-	-
0100557	CARICOM	Implementation of National Export Strategy	2.184	2.184	-	-
0100562	OAS	Export Competency Development Project	5.531	5.531	-	-
		<b>II. SOCIAL SERVICES</b>	27.364.463	13.200.841	10.406.768	3.756.854
		<b>A. Education and Human Resource</b>	13.090.573	3.056.604	8.011.491	2.022.478
		<b>CORE PROJECTS</b>	8.184.726	2.387.372	4.227.923	1.569.431
0080529		Upgrading of Kitchen and Dining Facilities	49.224	49.224	-	-
0080533		Enhanced Learning Programme	99.064	99.064	-	-
0078511	Regional Council	Rehab. TAMCC Arts & General Science Building	1.405.468	961.946	443.522	-
0078513		Support to TAMCC Campus in Carriacou	125.000	125.000	-	-
0080544	EU/World Bank	EU Post - Emergency School Rehabilitation Project	3.380.131	-	3.380.131	-
0076502		Teacher Training Workshop	27.135	27.135	-	-
0080549		Training Programme for Principals & Teachers	32.231	32.231	-	-
0077503		Community Libraries	39.841	39.841	-	-
0080515	CARICOM	Computer Tech. In Secondary Schools	6.521	6.521	-	-
0080545		Integration of ICT in School Curriculum	68.214	68.214	-	-
0080522		UNESCO Micro Project	20.824	20.824	-	-
0080548	AIDS Directorate	HIV/AIDS Education in Schools	8.674	886	7.788	-
0080532	World Bank/DFID	OECS Educational Development Programme	1.992.286	537.325	-	1.454.960
0100563	CDB	Schools Rehab. and Reconstruction Project	13.374	-	-	13.374
0100564		Skills for Inclusive Growth Project	37.408	-	-	37.408
0100542		Economic Reconstruction Programme (Schools)	63.689	-	-	63.689
0080530		Maintenance of Computer Lab	18.801	18.801	-	-
0014510	Petro Caribe	Scholarship Programme	796.840	400.359	396.481	-
		<b>OTHER PROJECTS</b>	4.905.847	669.232	3.783.569	453.046
0080546		Adult Literacy Programme	86.330	86.330	-	-
0079506		Free School Books Programme	1.591.294	-	1.591.294	-
0079503		Caribbean CETT Programme	35.956	35.956	-	-
0080531		Maintenance of Home Econ. Centers & Departments	99.000	99.000	-	-
0080511	Petro Caribe	School Feeding Programme	2.310.673	118.398	2.192.275	-
0018500		Basic Education Fund	5.677	5.677	-	-
0018001		Training	1.940	1.940	-	-
0014517	World Bank	Public Sector Modernization Project	453.538	492	-	453.046
0014519		Public Sector Change Management	1.508	1.508	-	-
0014507		Human Resources Development Programme	319.931	319.931	-	-
		<b>B. Health</b>	2.584.378	921.437	129.933	1.533.008
		<b>CORE PROJECTS</b>	1.755.429	125.795	96.626	1.533.008
0083513		Installation of Boiler System	12.488	12.488	-	-
0082508	PAHO	Education Enhancement Programme	96.626	-	96.626	-
0087524		Improvement of the Chronic Disease Program	27.296	27.296	-	-
0087531		School Health Care Programme (Dental etc)	1.020	1.020	-	-
0087532		Multi-Sectorial Educational Programme	14.658	14.658	-	-
0087511		Refurb. Other Medical Stations( Grand Roy/Union)	2.452	2.452	-	-
0100541	World Bank	HIV/AIDS Prevention and Control Project	1.561.034	28.025	-	1.533.008
		<b>OTHER PROJECTS</b>	828.949	795.642	33.307	-
0088513		Cleaning / Maintenance Cemeteries	27.042	27.042	-	-
0088520		Dog Registration Project	33.821	33.821	-	-
0088505		Latrine Programme	18.660	18.660	-	-
0082504		Free Medical for the Elderly Programme	99.532	99.532	-	-
0082503	Global Fund/PAHO	National Infectious Disease Control Project	133.504	114.262	19.241	-
0082516	PAHO	Customer Care Training Programme	14.066	-	14.066	-
0088506		Refurbishment of Public Toilet Facilities	7.188	7.188	-	-
0088503		Vector Control	333.372	333.372	-	-

Project No.	Funding Agency	Description	Total	Local Revenues	Granted	Foreign Loans
0088521		Rodent Control Programme	68.715	68.715	-	-
0088504		Anti Malaria Drains	89.301	89.301	-	-
0088530		Anti Rabies Vaccination Programme	3.749	3.749	-	-
		<b>C. Housing, Lands and Community Development</b>	<b>3.995.464</b>	<b>1.579.666</b>	<b>2.214.431</b>	<b>201.368</b>
0069508	Petro Caribe GDA	Sites & Service Project Phase 11	205.368	4.000	-	201.368
0069504	Venezuela.	Venezuela Housing Project	1.269.854	33.273	1.236.581	-
0069506		Dumfermline Housing Project	76.443	76.443	-	-
0013517	Venezuela	Emergency Housing Recovery Plan III	514.985	509.700	5.285	-
0045508		Community Self-help Programme	31.434	31.434	-	-
0045509	Petro Caribe	Rehab. of Communities Centers	43.366	43.366	-	-
0045504	Petro Caribe	Community Development Programme	1.817.071	844.506	972.565	-
0045507		Training Programme ( Sports, Community Dev.)	11.230	11.230	-	-
0097519		Purchase of Land	25.715	25.715	-	-
		<b>D. Youth, Sports and Culture</b>	<b>5.437.570</b>	<b>5.419.057</b>	<b>18.513</b>	<b>-</b>
0047511		Institutional Strengthening of Youth Division	1.213.450	1.213.450	-	-
0047512	NRL	Networking & Public Relations 2	72.450	72.450	-	-
0044507	CARICOM	Sports Development Programme	95.528	95.528	-	-
0044516	OECS	Night Lighting Facil. & Constr. of Hard Court Facil.	44.297	44.297	-	-
0044521		Athletic Stadium (Preparatory Work)	8.925	8.925	-	-
0044522		Champion of Champion Cricket Club	18.513	-	18.513	-
		Preparation Grenada's National Sports Policy	14.903	14.903	-	-
0017505		Sports and Culture Support Program (C'cou)	60.320	60.320	-	-
0013515	OAS	Caribbean Knowledge Learning Network (CKLN)	158.090	158.090	-	-
0013519		Staging of World Cup 2007	77.493	77.493	-	-
0044505	LOAN	Rehabilitation and Upgrading Playing Fields	189.551	189.551	-	-
0044517		Maintenance of Playing Field	60.274	60.274	-	-
0071505	Petro Caribe	Bacolet Project (Juvenile Centre)	271.984	271.984	-	-
0047515		Youth Upliftment Programme	2.059.281	2.059.281	-	-
0072508		Multiple Projects and General Education	28.204	28.204	-	-
0073511		Carriacou Multi-Purpose Centre	2.624	2.624	-	-
0017506	CARICOM	Youth Employment and Training Programme (C'cou)	81.993	81.993	-	-
0014508		Natl. Youth Service, Training & Employment Prog.	16.000	16.000	-	-
0046503		Grenada Cultural Foundation	250.000	250.000	-	-
0046511		Music Labs Project	13.690	13.690	-	-
0046505		Carnival	700.000	700.000	-	-
		<b>E. Social Services, Ecclesiastic Affairs and Labour</b>	<b>2.256.477</b>	<b>2.224.077</b>	<b>32.400</b>	<b>-</b>
		<b>CORE PROJECTS</b>	<b>2.186.528</b>	<b>2.154.128</b>	<b>32.400</b>	<b>-</b>
0071515		Establishment of District Offices	65.000	65.000	-	-
0071518	Petro Caribe	Laborie Day Care Centre	72.223	72.223	-	-
0071522		Roving CareGivers Programme	265.105	265.105	-	-
0017514		Harvey Vale Activity/Storage Shed	10.882	10.882	-	-
0013500		Science & Technology Programme	497.000	497.000	-	-
0013505		Special Projects Programme	617.000	617.000	-	-
0071517	Petro Caribe	Multiple Project for the Elderly	328.187	295.787	32.400	-
0013509	SFA/LOAN	Government Information Technology Project	264.402	264.402	-	-
0072518		National Parenting Programme	19.088	19.088	-	-
0071502		Multiple Project for Disabled Persons	47.642	47.642	-	-
		<b>OTHER PROJECTS</b>	<b>69.949</b>	<b>69.949</b>	<b>-</b>	<b>-</b>
0013512		Institutional Strengthening of NADMA	8.598	8.598	-	-
0032507		Domestic Violence & Gender Equity Programme	1.098	1.098	-	-
0032508		HIV/AIDS Education	2.113	2.113	-	-
0082513		Support to the Churches Youth Activities	4.945	4.945	-	-
0032511		Parenting Programme	2.518	2.518	-	-
0072506		Domestic Violence & Gender Equity	12.531	12.531	-	-
0032502		Skills Training and General Education Projects	38.146	38.146	-	-
		<b>III. GENERAL PUBLIC SERVICES</b>	<b>13.800.725</b>	<b>8.093.964</b>	<b>38.044</b>	<b>5.668.718</b>
		<b>A. Planning, Economic Development, Foreign Trade</b>	<b>11.159.236</b>	<b>6.083.675</b>	<b>38.044</b>	<b>5.037.517</b>
		<b>CORE PROJECTS</b>	<b>5.924.611</b>	<b>1.137.094</b>	<b>-</b>	<b>4.787.517</b>
0049525		Maintenance & Extension of Buildings	37.300	37.300	-	-
0050519		ECEMP III-SIGTAS -PT	81.654	81.654	-	-
0073521		Implementation of Local Government (Phase 1)	9.652	9.652	-	-
0073516	CARICOM	Disaster Response Plan	19.701	19.701	-	-
0100558		Enabling Rural Poverty Development	12.548	12.548	-	-
0100532	CDB/IFAD	Grenada Rural Enterprise Project (GREP)	5.453.277	665.760	-	4.787.517

Project No.	Funding Agency	Description	Total	Local Revenues	Granted	Foreign Loans
0050525		Property Tax Mass Revaluation	1.940	1.940	-	-
0010500		Electoral Enumeration Programme	308.539	308.539	-	-
		<b>OTHER PROJECTS</b>	5.234.624	4.946.580	38.044	250.000
0048521	EDF	EDF Support Services Unit	38.044	-	38.044	-
0050524	CIDA	VAT Implementation	983.164	983.164	-	-
0056521		Tourism Satellite Survey	18.200	18.200	-	-
0056525		Capacity Building Activities	10.855	10.855	-	-
0048500		Sundry Compensation Claims	3.586.898	3.586.898	-	-
0100559		Support to Multipartite Committee	600	600	-	-
0048526		Small Business Development Fund	13.532	13.532	-	-
0048529	Gov't of T&T	Capital Transfers to GDB ( Business Reactivation)	250.000	-	-	250.000
0054506		Contribution to SEDU	333.332	333.332	-	-
		<b>B. Public Safety, Administration and Legal Affairs</b>	1.851.874	1.220.673	-	631.201
		<b>CORE PROJECTS</b>	1.402.519	771.318	-	631.201
0018506		Rebuild Carpentry Furniture, Tailor & Shoemaker Shop	131.017	131.017	-	-
0018510		Construction of Retaining Wall	85.014	85.014	-	-
0018511		Additional Toilet, Bath Facilities & Plumbing Works	12.985	12.985	-	-
0018512		Construction of Water Tank	953	953	-	-
0021500		Maintenance Programme (Fencing)	25.166	25.166	-	-
0023502		Programme for Combating Praedial Larceny	471.300	471.300	-	-
0100552	WORLD BANK	Hurricane Ivan Emergency Recovery Project	635.097	3.896	-	631.201
0018501		Repairs to HM Prison	40.987	40.987	-	-
		<b>OTHER PROJECTS</b>	449.355	449.355	-	-
0011514		Support to Legislative Agenda	2.300	2.300	-	-
0011508		Construction/Refurbishment of Legal Complex	6.698	6.698	-	-
0011509		ECCJ Court Connected Mediation Pilot Project	48.869	48.869	-	-
0013508		Machine Readable Passport Issuance	391.488	391.488	-	-
		<b>C. Other Fixed Investment</b>	789.616	789.616	-	-
0067500		Construction, Refurbishment & Ext. Govt Buildings	789.616	789.616	-	-

Source: Ministry of Finance, Department of Technical and Economic Cooperation/PSIP.

## Annex 2 -List of People Consulted

Name	Title	Organisation
Mr. Timothy N. J. Antoine	Permanent Secretary	Ministry of Finance
Mr. Mike Sylvester	Deputy Permanent Secretary	Ministry of Finance
Ms. Patricia Antoine-Clyne	Accountant General	Ministry of Finance
Mr. Vincent Lewis	Deputy Accountant General	Ministry of Finance
Mr. Ambrose Obike	Senior Accountant	Ministry of Finance
Ms. Kim Frederick	Chief Budget Officer	Ministry of Finance
Ms. Hillary Joseph	Budget Officer	Ministry of Finance
Mr. Kerry Pierre	Budget Officer	Ministry of Finance
Mrs. Natasha Marquez-Sylvester	Head of Debt Management Unit	Ministry of Finance
Ms. Daura St. Bernard	Debt Specialist	Ministry of Finance
Ms. Abiola C. Streete	EDF Program Coordinator	Ministry of Finance
Ms. Rachael Payne	Senior Administrative Officer	Ministry of Finance
Mr. Wilfred Hercules	Internal Auditor	Ministry of Finance
Mr. Dennis Clarke	Head of the Procurement Department	Ministry of Finance
Mr. Mervin Haynes	Head of Technical and Economic Cooperation Department	Ministry of Finance
Ms. Roxanne Neckles	PSIP Specialist	Ministry of Finance
Mr. Charlton Henry	Finance Officer	Ministry of Finance
Mr. Christopher de Riggs	Director, Private Sector Development	Ministry of Finance
Mr. Melville Hosten	Comptroller	Inland Revenue Department
Mr. Carlyle Felix	Comptroller	Customs and Excise Department
Mr. Eric Charles	Deputy Comptroller	Customs and Excise Department
Mr. Evelyn Jones	Finance Officer	Customs and Excise Department
Mr. John St. Louis	Senior Engineer	Ministry of Works
Mrs. Brenda Griffith	Finance Officer	Ministry of Works
Ms. Kerren Phillip	Finance Officer	Ministry of Agriculture
Mr. Michael Julien	Finance Officer	Ministry of Agriculture
Ms. Grace Duprey	Finance Officer	Ministry of Health
Ms. Kim Taylor	Finance Officer	Prime Minister's Ministry
Hon. Keith Mitchell	Chairman of Public Accounts Committee and Leader of the Opposition	House of Representatives
Mr. Adrian Hayes	Clerk of Parliament	National Assembly
Mr. Ray Donald	Deputy Clerk of Parliament	National Assembly
Mrs. Barbara Angelus	Senior Human Resource Officer	Department of Public Administration
Ms. Deborah Cadore	Management Information Specialist	Department of Public Administration
Ms. Kim Taylor	Finance Officer	Prime Minister's Ministry
Mr. Alfred Logie	Director	National Insurance Scheme
Mr. Anslem Joseph	Director of Audit	Office of the Director of Audit
Mr. Philbert Charles	Deputy Director of Audit	Office of the Director of Audit
Ms. Sandra Thomas	Senior Administrative Officer	Ministry of Finance
Mr. Allen Bierczynski	General Manager	Jonas Brown & Hubbards, Co. Ltd
Mr. Rupert de Agostini.	Senior Partner	Professional accountancy firm
Mrs. Hazalann Hutchinson	General Manager	Grenada Chamber of Industry and Commerce
Mr. Jose Maria Medina-Navarro	Project Officer	European Commission Delegation, Barbados
Ms. Karina Dzialowska	Senior Project Officer	
Ms. Colette Driscoll	Senior Project Officer	
Mr. Hubert Perr	Head of the Cooperation Office	

## Annex 3 -References

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## **Annex 4 -Terms of Reference**

### **Assessment of Public Finance Management in Grenada using the PEFA PFM Performance Framework**

#### **A. Background**

##### *Budget Support and the European Commission*

In keeping with its obligations particularly under the Paris Declaration on Aid Effectiveness (March 2005) and the European Consensus on Development Policy (November 2005), the European Commission (EC) is committed to, where circumstances permit, the increased use of general and sectoral budget support as a means of strengthening ownership, supporting national accountability and procedures and promoting sound and transparent management of public finances, of its partners in the African, Caribbean and Pacific (ACP) countries. In this regard, the Delegation of Barbados and the Eastern Caribbean is presently implementing budget support programmes totalling €205.5m. The programmes are being implemented using resources from several instruments, namely, the 9<sup>th</sup> European Development Fund (EDF), the STABEX Framework of Mutual Obligations, and the Accompanying Measures on Sugar Protocol (AMSP). An additional €23.6m of budget support programmes are expected to be implemented under the 10<sup>th</sup> EDF over next four years.

##### *Public Financial Management and the PEFA Methodology*

The analysis of Public Financial Management (PFM) and the monitoring of possible reforms in this area is one of the key components of the Commission's budget support programmes, general or sectoral. The Public Expenditure and Financial Accountability (PEFA) Programme was developed by the EC and the World Bank in December 2001 and later joined by other donors including the IMF. The objectives of the programme were:(i) to promote awareness of the importance of public finance management for development in the context of the increasing usage of budget support, and (ii) reduce the multiplicity of different instruments being used to assess PFM.

In 2005, the PEFA organisation developed a detailed tool for the analysis of PFM, which includes a detailed external diagnosis of a country's PFM, a country led reform agenda and a coordinated programme of institutional support on the basis of the action plan prepared by the national authorities. The three components are closely connected. It is important to note that in order to encourage partner country ownership of the reform process the external diagnosis does not include any recommendation or action plan.

The core of PEFA consists of the analysis of the indicators<sup>1</sup> which are referred to as "high level" because they cover the six essential dimensions to be analysed in an evaluation of public financial management. These dimensions are:

1. *The credibility of the budget* - the budget is realistic and implemented as intended;
2. *Comprehensiveness and transparency* - the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;
3. *Policy-based budgeting* - the budget is prepared with due regard to government policy;

4. *Predictability and control in budget execution* - the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;

5. *Accountancy, recording, and reporting* – adequate records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting purposes; and

6. *External scrutiny and audit* – arrangements for scrutiny of public finances and follow up by the executive are operating.

There are three additional indicators looking at donor practices.

The PEFA evaluation is an *external* validation exercise which requires a *strong implication of the recipient country*. In this regard, the PEFA report is not co- written with the partner country nor for that matter, are the scores on the indicators negotiated.

It is important to note that there is *no automatic link between the scoring and eligibility to budget support*. As regards the criteria applied to public financial management, the Commission's decision is based not only on changes in the performance of the PFM system, but also on the political will of the Government to reform these systems, on the design of the reforms, and on their implementation. In other terms the conclusions drawn from the *Public Financial Management – Performance Measurement Framework (PFM/PMF)* constitute an important element, necessary but not sufficient to determine the eligibility of the partner country to budget support. Apart from public financial management, other criteria are taken into account such as, the macroeconomic situation, the existence of national policies (such as a poverty reduction strategy) and sectoral policies.

#### *The rationale for carrying out a PEFA assessment*

*In the short-term* - the PEFA assessment is to be used as baseline data, and a basis for information and monitoring so as to: (i) facilitate and update the dialogue on PFM between the Government and the EC (other donors also); and, (ii) assist the EC (and other donors) in assessing the eligibility of a country for budget support programmes, or to verify whether general or specific PFM conditions of an ongoing budget support programme are met.

*In the medium-term* - the PEFA assessment will provide the basis for: (i) the preparation or revision of a PFM reform strategy (and related action plan); and, (ii) the preparation or revision of a PFM capacity development programme, in coordination with the Government.

#### *Objectives of the Study*

The objectives of the assessment mission are to:

a) Draft a comprehensive Public Financial Management- Performance Report (PFM-PR) prepared according to the PEFA methodology (See next section, bullets 1-3 below), so as to provide an analysis of overall performance of the PFM systems of Grenada, as well as identify its strengths and weaknesses and provide an indication of how the Government of Grenada (GoGRE) PFM reform programme is contributing to improvements. The PFM-PR will also provide (ideally supported by a table) a comparison between the baseline situation according to the 2006

assessment and the results of the present assessment indicating the evolution of ratings (either improved, deteriorated, or unchanged), and describing the nature and extent of change or lack thereof (ideally at indicator dimension level); and

b) Build the capacity of the GoGRE and the EC Delegation in the area of PFM Assessment.

### Key Issues to be studied

The study will examine and assess the PFM system of GRE on the basis of the PEFA methodology. The mission will identify the salient features of the GoS's PFM system, the existing state of affairs, the potential areas of improvement and whether there is any need for additional work in terms of diagnostic and/or measurement of progress.

The consultancy will strictly follow the PEFA methodology detailed on the following website: [www.pefa.org](http://www.pefa.org). The consultant will analyse the following points, which, for indicative purpose, summarise broadly the indicators reported in the Performance Measurement Framework of the PEFA.

1. Credibility of the budget: is the budget realistic and implemented as intended?

1.1 Compare the total expenditure of the budget of the previous year with the original budgeted total expenditure.

1.2 Check if the composition of expenditures of the previous year's budget has been respected against the originally planned budget by Ministries.

1.3 Compare the total revenue of the budget of the previous year with the originally planned budgeted total revenue.

1.4 Assess the stock and monitoring of expenditure payment arrears in the previous year's budget and the reliability and completeness of the data on stock.

2. Comprehensiveness and Transparency

2.1 Check if the classification of the budget is linked with administrative, economic, functional and programmatic dimensions and priorities of the country.

2.2 Check if the annual budget documentation is complete and gives an entire picture of the government central forecasts (revenue and expenditure).

2.3 Assess the level of extra budgetary expenditure which is unreported i.e. not included in fiscal reports.

2.4 Evaluate if all transfers from central government to sub-national governments are determined by transparent and ruled based systems; assess also the timeliness of information to SN (sub-national) government and the reporting channel and procedure.

2.5 Assess to which extent the central government has the capacity to monitor the autonomous government agencies and public enterprises including their fiscal position.

2.6 Measure the accessibility to the general public or interest groups to key fiscal information and position and performance of the government.

### 3. Budget Cycle

#### 3.1 Policy Based Budgeting

3.1.1 Verify if minimum requirements are implemented, such as existence and adherence to a fixed budget calendar; guidance on preparation of budget submissions, and timely budget approved by the parliament/legislator.

3.1.2 Check if there is a multi-year fiscal forecast regarding recurrent and investment expenditures based on sector strategy documents.

#### 3.2 Predictability and Control in Budget Execution

3.2.1 Verify if legislation and procedures for all major taxes are clear and easily accessible and if a tax appeal system is set up.

3.2.2 Check if a taxpayer registration system is effective as well as penalties in case of non-compliance with registration and tax declaration.

3.2.3 Check if the Ministry of Finance is able to report on tax assessments, collections, arrears and transfers in order to ensure that the collection system functions, that tax arrears are monitored, and the revenue float is minimised.

3.2.4 Concerning execution of budget and availability of funds: assess to what extent cash flows are forecasted and monitored; assess frequency and transparency of adjustments to budget allocations.

3.2.5 Measure quality of debt data recording and reporting as well as consolidation of the government's cash balances.

3.2.6 Determine the degree of integration and reconciliation between personnel records and payroll data for public servants; assess internal controls.

3.2.7 Concerning public procurement: show if there is evidence of use of competitive procurement methods.

3.2.8 Assess the effectiveness of internal control systems on expenditure commitments and check the comprehensiveness of other internal control systems.

3.2.9 Verify if internal audit is operational for all central government entities, and generally meet professional standards.

#### 3.3 Accounting, Recording, and Reporting

3.3.1 Give your opinion on regularity of bank reconciliations for all central government bank

accounts (carried out at least monthly).

3.3.2 Examine the availability of information on resources received by service delivery Units (in particular relevant for schools and health services across the country).

3.3.3. Check if the in-year budget report allows direct comparison to the original budget; check the quality of information and timeliness of reports.

3.3.4 Verify if the country issues consolidated year-end financial statements which includes full information on revenue, expenditure and financial assets.

### 3.4 External Scrutiny and Audit

3.4.1 Provide information on the scope/nature of external audit performed, timeliness of submission of audit reports to the Parliament.

3.4.2 Verify the scope of legislature's scrutiny and if procedures for budget review are firmly established and respected.

3.4.3 Verify if audit reports are scrutinised by the legislator/Parliament on a regular basis and if there is issuance of recommended actions by the legislator/Parliament.

**The analysis will also provide a comparison between the current assessment and the 2006 one; including an explanation of reasons justifying the change in scores, or, absent change in scores, an explanation of reasons justifying the absence of change.**

## B. METHODOLOGY AND WORK PLAN

The Experts are requested to provide a brief technical proposal (max. 5 pages) which demonstrate their understanding of the assignment and the methodology and provides a general outline of their proposed work plan to achieve the desired results. The technical proposal must accompany the two curriculum vitae.

Within the proposed work plan the Experts should allow for three (3) phases:

### Phase 1

A desk study of recent PFM assessments of Grenada using all the basic documents from the PEFA website ([www.pefa.org](http://www.pefa.org)), as well as from the relevant departments within the GoGRE, including the Auditor General's department. The desk study will be undertaken from the Expert's home. This covers a period of six (6) man-days (3 per expert).

### Phase 2

- Briefing/debriefing meetings in Barbados through video-conference with the EC's headquarters in Brussels (DG Development and DG Aidco).
- Briefing/debriefing meetings in Barbados with the relevant representatives from the Delegation and other donors operating in Grenada.
- Field work in Grenada including two (2) workshops. ***Workshop 1:*** The first workshop to be conducted with policy makers and technical staff from the relevant Government agencies and departments (Ministry of Finance, auditor general, accountant general, contractor general etc.) to reiterate/explain the PEFA approach and the preliminary findings of the desk study/inception

report. **Workshop 2:** The second workshop will be restricted to policy makers from the Government of Grenada and focus on the overall results as detailed in the draft final report.

- Following the return to the home base of the consultants, stakeholders will have four weeks to submit written comments, during which time the consultants are not to work on the assignment.

### Phase 3

Following the end of the four-week period, the consultants will, from their home base, complete and submit the final report incorporating and/or addressing each comment previously made.

## C. LOCATION AND DURATION OF THE ASSIGNMENT

The overall input for the assignment is estimated at 60 working days (30 days per expert) over a 5-month period.

Of this total, 6 man-days are assigned to desk study in the experts' home country (3 per expert), 36 man-days will be assigned in Grenada (18 per expert), 4 man-days for briefing/debriefing in Barbados (2 per expert), 4 man-days for international travel (2 per expert) and a further 10 man-days in the experts' home country (5 per expert) to complete the Final Report. The Experts will be required to work five (5) days per week in the field.

The mobilisation period is suggested at 14 calendar days from the award of contract. The suggested starting date is 26 October 2009. The assignment is envisaged to be completed by 19 March 2010.

## D. EXPERTISE REQUIRED

### One (Category I) Expert – 30 working days

- The individual must possess a degree in economics, or any other related discipline with post-graduate degree (s) and/or other relevant professional qualification(s) being an advantage.
- The expert must be a public finance specialist with at least fifteen (15) years international experience in public budgeting and/or public sector auditing, with seven (7) years working in a developing country context.
- At least five (5) years experience in conducting PFM assessments according to the Performance Measurement Framework of the PEFA is mandatory.

The expert must be fluent in English (written and spoken).

### One (Category II) Expert – 30 working days

- The individual must possess a degree in economics, or any other related discipline with post-graduate degree (s) and/or other relevant professional qualification(s) being an advantage.
- The expert must be a public finance specialist with at least seven (7) years international experience in public budgeting and/or public sector auditing, with four (4) years working in a developing country context.
- At least three (3) years experience in conducting PFM assessments according to the Performance Measurement Framework of the PEFA is mandatory.

The expert must be fluent in English (written and spoken).

**The team should demonstrate a combined set of skills in all areas relevant to carry out the assessment.**

## **E. REPORTING**

The Reports must be submitted in English according to the following timetable (See also Section IV).

### Desk Study/ Inception Report

Technical Proposal To be submitted with the two curriculum vitae as a part of the application package. On or before Working Day 12, the experts will submit (in electronic format) to the NAO/Contracting Authority and EC Delegation in Barbados a brief Desk Study/Inception Report containing the main findings of the mission to date as well as any apparent recommendation at that stage.

### Draft Final Report

On or before Working Day 22, the experts will submit the draft final report (also in electronic format). The content of this report will be presented at Workshop No. 2 and during the debriefing in Barbados (others donors involved in Public Financial Management in Grenada will be invited). The NAO/Contracting Authority and the EC Delegation will submit written comments within 4 weeks following the submission of the draft final report.

### Final Report

Following this four-week period, the Experts will have 10 more days from their home base (5 days each) to submit the final report incorporating and/or addressing each comment previously made (three originals in hard copy – one for the EC Delegation and two for the NAO - and also electronically). The eventual comments of the NAO/Contracting Authority and of the EC Delegation will be attached in an annex to the final report.



## PRELIMINARY IMPLEMENTATION SCHEDULE

<b>Indicative time schedule (working days)</b>	<b>Simultaneous Activity Description (for both experts)</b>
Days 1-3	Desk Study (home base)
Day 4	International Travel (Home country- Barbados)
Day 5	Briefing in Barbados (Video-conference with EC HQ) Briefing in Barbados (EC DEL/Donors)
Day 6-12	Regional Travel/Briefing meetings, Grenada Field work in Grenada – key meetings, data collection, analysis
Day 12	Submission of inception report
Day 13	Workshop Nb. 1 – Presentation of PFM/PEFA principles and methodology and Inception Report
Day 14-22	Field work in Grenada – key meetings, data collection, analysis
Day 22	1 <sup>st</sup> Draft Final Report – Submission to the Government of Grenada, and EC Delegation
Day 23	Workshop Nb. 2 – Presentation of Draft Final Report in Grenada
Day 24	De-briefing in Barbados (videoconference with EC HQ) De-briefing in Barbados (EC Del/donors)
Day 25	International Travel (home)
Four weeks (30 calendar days)	Submission of written comments from stakeholders (deployment from expert not foreseen)
26-30	Write up and submission of final report (home base)

Written comments by the NAO and the EC Delegation on the draft final report will be sent to the Experts within 4 weeks of its submission.

### **F. ADMINISTRATIVE INFORMATION Contracting Authority**

The Delegation of the European Commission will act as the Contracting Authority for and on behalf of the National Authorising Officer of Grenada.

### **Other authorized items to foresee and 'reimbursable'**

The Experts will also be responsible for the cost of the production of all the drafts and draft final reports.

## **Annex 5 - Comments by PEFA Secretariat to the Grenada Final Draft Assessment Report of the Public Financial Management Using the PEFA PFM Performance Framework**

This note is intended to provide the PEFA Secretariat comments on the PEFA PFM Assessment 2010 for Grenada. We are pleased to be given this opportunity to present our comments. These comments are meant to give an answer to the following questions:

1. Is the requisite background information for the assessment adequately included?
2. Has the standard indicator been used (with or without modification)?
3. Is the indicator correctly applied or interpreted?
4. Is sufficient evidence provided for all aspects of the indicator? If not, what is missing?
5. Is the information specific and presented clearly and used correctly?
6. Is the scoring methodology correctly chosen and applied?
7. Is the scoring correct, on the basis of the information provided?
8. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicator (constitutional arrangements, system heritage)?
9. Have the indicator related information and ratings as well as other relevant information been combined in an analysis that highlights the main strengths and weaknesses of the PFM system and indicates priorities for reform.

Our comments do not consider if the data/information presented in the report is likely to be correct and can only judge the correctness of scoring on the basis of the evidence actually presented.

### **Overall impression**

Overall, the report is a good first draft, clear and fairly concise. The report follows PFM-PR structure closely and shows in general a good understanding of the PEFA methodology. A comprehensive body of evidence for the indicator ratings is provided, but additional evidence is still needed for some indicators.

The report mentions a 2006 PFM review based on the PEFA Framework (page 7, Summary Assessment) and Annex 3 – References mentions a PEFA Final report 2006. On the other hand, there is no tracking of the performance since the 2006 PEFA. It is advisable to explain the state of affairs of the previous PEFA assessment and the reason behind the lack of tracking performance. Some essential information about the assessment process is also missing.

### **General observations**

Sources of info are specified in two annexes, sources are given for data tables and gaps are identified. List persons met includes private sector indicating good triangulation. Annex 4, with TOR, is missing.

It would be useful to insert the local currency/exchange rate at the beginning of the report.

The Summary Assessment would benefit from being condensed from the current 8 pages to maximum 5 pages. The paragraphs 1-5 (objectives, scope and methodology and background) should be transferred to Sections 1 & 2 as they do not belong to the Summary Assessment of the report.

### **Introduction**

This section provides essential information on the assessment process. The structure of the public sector is provided but its breakdown by percentage of total expenditure is missing. Essential information to understand the context and process by which the report was prepared is missing: involvement of the stakeholders (role & contribution), coordination arrangements if any and the quality assurance process (peer reviewers).

It would be useful to include more information on the organizational arrangements (e.g. duration of the initial workshop, plans for end of assessment workshop, in-country assessment period, assessment estimate time table).

## Section 2 - Background information

The country economic situation is well described but the overall government reform program and the rationale for PFM reforms is missing. Budgetary outcomes for the last three years are provided though the financing of the deficit is not given. The legal and institutional frameworks are described but more details could be provided on the responsibilities of the main entities involved in PFM as well as on the division of responsibilities within the MOF.

## Section 3 – Assessment of PFM systems, processes and institutions

This section follows the structure contained in the Framework document. The methodology is in general understood and applied. 31 standard indicators are used but PI-8 is Not Applicable as there is no SNG in Grenada. There is evidence provided for most of the indicators. Nevertheless, there are specific observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for some individual indicators, as highlighted in the table below:

Indicator	Comments on Application
PI-1	Appears correctly rated on the basis of adequate information
PI-2	Appears correctly rated on the basis of adequate information
PI-3	Appears correctly rated on the basis of adequate information
PI-4	Appears correctly rated on the basis of adequate information, though the ratio in 2008 appears to be 2.3% (14.9/518.94). It is also assumed that SIGFIS can classify arrears by age, as required for an A rating of dim (ii).
PI-5	Appears correctly rated on the basis of adequate information
PI-6	Appears correctly rated on the basis of adequate information
PI-7	Dim (i) is rated A, but AGAs (several of the 23 statutory bodies) are not specified, nor whether they have expenditures from revenues other than transfers from the Consolidated Fund. “Statutory bodies’ audited accounts are presented to Parliament” does not say if their budgets are presented along with the CG budget (which is necessary to be counted as ‘reported’). Nor is there mention of any expenditure from revenues retained by the receiving departments. Rating uncertain.
PI-8	Should be rated Not Applicable (NA). The table in the Summary Assessment and the PI-8 should show NA
PI-9	Appears correctly rated on the basis of adequate information
PI-10	Appears correctly rated on the basis of adequate information It would be useful to mention the time lag in which financial statements and external audit reports are made available
PI-11	Appears correctly rated on the basis of adequate information

PI-12	Appears correctly rated on the basis of adequate information
PI-13	Dim (i) rated B, but it appears that at present, ministries giving tax holidays, and uncertainties on general consumption tax, customs duty and property tax may indicate a C. Dim (ii) score B is not sufficiently evidenced. The narrative should provide additional information on by which means the information is made available. Dim (iii) appear correctly rated on the basis of adequate information. Overall rating uncertain.
PI-14	Dim (i) is rated B, but the lack of any linkages with other databases suggests that a C or D rating may be more appropriate. Dims (ii) and (iii) appear correctly rated on the basis of adequate information. Overall rating uncertain.
PI-15	Dim (i) is rated D, but the data is not available to calculate the ratio. This should be Not Rated. Dims (ii) and (iii) appear correctly rated on the basis of adequate information. For dim (iii), text in the justification box (“... <i>paid directly into Treasury accounts...</i> ”) should be in line with the narrative (“... <i>directly to IR and C&amp;E offices and deposited the same day in Treasury accounts</i> ”). The indicator’s narrative implies that the IR and C&E maintain their own collection accounts and make frequent transfers to Treasury accounts. Overall rating is still D+.
PI-16	Dim (i) is rated A, but cash flow forecasts are not updated during the year. Rating appears to be C. Dims (ii) and (iii) appear correctly rated on the basis of adequate information. On dim (iii) the text in the justification box could be moved to the indicator’s text and replaced by a brief explanation. Overall rating is still D+.
PI-17	Appears correctly rated on the basis of adequate information. On dim (i), we assume that the reconciliation referred to is with creditors. Also, the brief explanation mentions “... <i>minor reconciliation problems occur</i> ” but the narrative does not raise problems with reconciliation. If there are minor problems it should be mentioned and this would correspond to a B.
PI-18	Dims (i) and (iv) appear correctly rated on the basis of adequate information (NB. Some text is missing). Dim (ii) is rated A, but it is not clear what time interval occurs between the event (appointment, promotion, etc) and the reporting by the MDA to MoF. Dim (iii) is rated C, but it appears that this is based on what <i>ought</i> to happen. Are the rules always followed? Overall rating uncertain.
PI-19	Dim (i) rated B, but there are no supporting data. Should be NR. Dim (ii) also rated B, but the rules are not clear, and their implementation does not appear to be known (eg. from audit reports). Dim (iii) appears correctly rated on the basis of adequate information. Overall rating uncertain.
PI-20	Dims (i) and (ii) appear correctly rated on the basis of adequate information. Dim (iii) is rated A (compliance with rules is very high). Is this supported by the Internal Auditor and Dept of Audit? Overall rating uncertain.
PI-21	Appears correctly rated on the basis of adequate information
PI-22	Dim (i) is rated A, but on the evidence it should be B. Dim (ii) appears correctly rated on the basis of adequate information. Overall rating appears to be B.
PI-23	Appears correctly rated on the basis of adequate information
PI-24	Dim (i) rated C. Does not SIGFIS capture commitments? If so, are they not reported? Dim (ii) appears correctly rated on the basis of adequate information. Dim (iii) is rated B, which applies if data issues are highlighted; otherwise rating is C. Overall rating uncertain.
PI-25	Appears correctly rated on the basis of adequate information

PI-26	Dim (i) is rated B, but it is not clear that the audit covers more than 75% of the annual expenditure of MDAs + AGAs, nor that there is a focus on systems (as contrasted with simple transaction audit). Dim (ii) appears correctly rated. Dim (iii) text says that audit recommendations are 'accepted', but not whether they are actually followed up (and implemented). Overall rating uncertain.
PI-27	Appears correctly rated on the basis of adequate information
PI-28	Appears correctly rated on the basis of adequate information. (Note that the reference period for PI-28 (ii) and (iii) is the last 12 months, not 3 years).
D-1	Appears correctly rated on the basis of adequate information The table with scores on page 9 does not show any score for this indicator
D-2	Appears correctly rated on the basis of adequate information
D-3	Appears correctly rated on the basis of adequate information

## Section 4 – Government Reform Process

This Section describes recent and ongoing reforms and future prospects are discussed though with some duplication with other sections. It would be useful to elaborate further on the relevant factors supporting the reform planning and implementation process.

### Summary Assessment

The Summary Assessment relates the indicator ratings to the core dimensions of PFM performance and to the three budget goals. The main strengths and weaknesses under the six critical PFM dimensions are identified at length but the brief summary of the PFM weaknesses impact is not referenced to indicators. The Summary Assessment would benefit from significant shortening.

PEFA Secretariat  
February 19, 2010

## **Annex 6 -Comments by the Government of Grenada to the Grenada Final Draft Assessment Report of the Public Financial Management Using the PEFA PFM Performance Framework**

### **Description of the Country Economic Situation (pg 19)**

Please note that Grenada is not a Leeward island. We suggest you re-word the second sentence to “Grenada is the southern-most of the Windward islands and is composed of seven parishes: . . .”

### **PI 11**

It is the GoG’s opinion that setting ceilings for individual ministries is an artificial system that has not proven useful in the past. An overall budget ceiling and guidance from Cabinet regarding the Government’s priorities empowers ministries to prepare their budget submissions on the basis of their strategic plans – thus giving them the opportunity to “sell” their respective agendas. The final budget can then be determined by looking at all submissions from a holistic point of view as well as through negotiations with individual ministries. Inevitably some ministries will complain that the process is not to their liking because they are competing for finite resources and the holistic view of the budget (ie its coherence with Government’s medium term economic development framework) may sometimes conflict with ministries’ individual priorities.

### **PI 12**

The GoG has a medium term macro-economic framework that is discussed with the IMF (it is the basis for programmes such as the PRGF) and most ministries have strategic plans that are the basis for the development of their budget submissions.

### **PI 13**

The GoG has ensured through various measures that taxpayers have easy access to information that clearly explains taxpayers’ tax liabilities and the administrative procedures involved. Information is provided via the Government’s website, by the relevant departments to persons making enquiries in person or by telephone, and via flyers and posters placed prominently in the Inland Revenue offices (where taxes are paid) and many other locations. The simplicity of Grenada’s tax system – and the ease with which taxpayers can access information on their tax liabilities – far exceeds that of most countries’ tax systems, including most OECD nations.

With respect to the introduction of VAT, a comprehensive public relations campaign was conducted over a period of several months to ensure that taxpayers were informed of the new system [A system further simplified, as VAT replaces three other taxes]. This included radio and television programmes, consultations with businesses and other stakeholders, and a series of townhall/constituency meetings to discuss the introduction of VAT and what it would mean for consumers and businesses.

Please note that in Annex A the comment for dimension (iii) has not been adjusted to reflect the narrative in the substantive report.

### **PI 18**

The comment under dimension iv implies that is the ministries themselves doing audits. The report states “Some payroll audit work has been done by individual Ministries (an example is work currently under way at the Ministry of Education).” However, the payroll audit done in the Ministry of Education was carried out by the Internal Audit Review staff from the office of the Accountant General and not by the ministry itself. This audit process, which has been done periodically on different departments/ministries, has ensured that overpayments, short payments, etc, are drastically reduced if not eliminated.

Please also note that the comment in Annex A appears to contradict the narrative in the report which acknowledges that some payroll audits have been done.

**PI 24 - Dimension (i)**

Data on capital expenditure funded by external loans is usually available in the budget report, it is only *occasionally* incomplete when there has been a delay in receiving information from the relevant ministries.

The second sentence reads “The report includes those receipts collected by the tax and customs divisions, but data about non-tax revenues is incomplete and subject to delay.” The second part of that sentence (underlined) is not accurate; reports printed from SIGFIS include non-tax revenue such as licences, fees and fines. It is neither incomplete nor delayed. The comment regarding non-tax revenues was the only difference in the narrative between the earlier draft report which gave a score of B and the current report which gives a score of C, and the PEFA 2006 assessment rated this dimension A. We would therefore submit that a score of A or B is more appropriate for this dimension, and that the overall score for PI24 should be B+.

**PI 27**

The Finance Committee of Parliament - which comprises all elected members of Parliament – has the opportunity to go through the proposed budget in detail and suggest changes and this opportunity has been used on occasion to effect changes to the budget. The fact that the formal presentation of the budget to Parliament does not encourage close examination and amendment to the budget is a technicality; this opportunity being afforded to the entire House of Representatives (in the form of the Finance Committee) nonetheless satisfies the intent of allowing adequate scrutiny by the legislature.

**19 February 2010**