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AND THE INTER-AMERICAN INVESTMENT CORPORATION**

**IDBG COUNTRY STRATEGY WITH  
THE REPUBLIC OF TRINIDAD AND TOBAGO  
2016–2020**

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Trinidad and Tobago: Vision 2030 (expected to be published in 2017)

(\*) At the request of the Borrowing Member Country, the information contained in the document will not be disclosed. Non-disclosure of this information is in accordance with the exception on country-specific information set forth in paragraph 4.1 i. of the Bank's Access to information Policy (document GN-1831-28).

## Acronyms

AGD	Auditor General's Department
CDC	Country Development Challenges
CNG	Compressed Natural Gas
ECCE	Early Childhood Care and Education
EU	European Union
GoRTT	Government of the Republic of Trinidad and Tobago
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
MAPS	Methodology for Assessing Procurement Systems
NCDs	Non-Communicable Diseases
NSG	Non-Sovereign Guaranteed
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PBP	Programmatic Policy-Based Loan
PPPs	Public-Private Partnerships
SAI-PMF	Supreme Audit Institution Performance Measurement Framework
SMEs	Small and Medium-sized Enterprises
TC	Technical Cooperation
SSN	Social Safety Net
UNODC	United Nations Office for Drugs and Crime
WB	World Bank

## Executive Summary<sup>1</sup>

<b>Country Context</b>	Trinidad and Tobago is a small, open economy whose growth and development performance is shaped by global energy prices and the life cycle of oil and gas industries. The country's dual economy is prone to an unbalanced pattern of sectorial growth that emerges out of the country's structural fragmentation rendering it vulnerable to external developments. However, the country's economic growth combined with large but still insufficient social safety net reduces poverty. Furthermore, despite increasing public debt levels, large fiscal buffers have allowed Trinidad and Tobago to cushion the negative shock to oil and gas prices and adopt a gradual fiscal adjustment. In order to push for economic and social prosperity, Trinidad and Tobago should embark on an innovative diversification program targeting non-energy tradable sectors that can compete internationally, generate productivity gains, and create jobs.
<b>The IDBG in Trinidad and Tobago</b>	The Bank's sovereign guaranteed portfolio as of August 2016 amounts to US\$634 million comprising of 11 active loans (10 investment loans and 1 Project Preparation Facility – PROPEF) with undisbursed balances of US\$510 million in areas including water and sanitation, public sector management, health, trade and investment, housing and citizen security. Over the 2011-2015 Country Strategy, the Bank approved US\$871 million and disbursed US\$391 million. There were no approvals over the same period for the Private Sector.
<b>Strategic Areas</b>	In line with the assessment of the Country Development Challenges as well as with consultations with the Government and civil society, the 2016-2020 Country Strategy will support the Government's development agenda. The Country Strategy will assist the Government in removing constraints that hinder the economic diversification and macroeconomic policy adjustment to the new reality of lower commodity prices. The Country Strategy will focus on three strategic areas: (i) strengthening public sector institutions and governance (ii) promoting private sector development; and (iii) fostering human development. In addition, the cross-cutting themes of climate change and gender address challenges that offer synergies and complementarities with the three strategic areas.
<b>Indicative Lending Framework</b>	Estimated approvals over the 2016-2020 period amount to US\$200 million. Disbursements from the existing active portfolio and new operations are expected to total US\$360 million. Trinidad and Tobago's debt to the Bank will decrease from 2.6 percent of GDP in 2015 to 2.5 percent of GDP by 2020.
<b>Risks</b>	This Country Strategy will be exposed to macroeconomic, natural disaster, and operational risks. Given the country's sizable buffers, there is the risk of political resistance to undertake institutional reforms and a gradual fiscal consolidation program, which are necessary to support diversification and preserve fiscal sustainability. There is also the risk of a further decline in global prices of oil and gas, which could force an abrupt fiscal adjustment with adverse consequences for vulnerable groups. The islands are susceptible to the risk of natural disasters, despite lying just outside the Atlantic Hurricane Belt. Operational risks arise from structural impediments in the Government—including institutional capacity to coordinate and execute Bank operations—which may delay project implementation and result in cost-overruns.

<sup>1</sup> This country strategy will be in effect from the date of approval by the Board of Executive Directors to December 31, 2020.

## I. SOCIOECONOMIC CONTEXT

- 1.1 **Trinidad and Tobago is a small, open, hydrocarbon-dependent economy. Thus, economic growth and development performance has been shaped by global energy prices and the life cycle of oil and gas industries.** Since the late 1990s until the global financial crisis, the country benefited from efforts to diversify from traditional, mature crude oil industry towards new promising sectors of gas and petrochemicals. Such a large-scale, transformational endeavor underpinned economic performance; real GDP expanded, on average, by 7.7 percent per year between 1999 and 2008, and GDP per capita rose from US\$5,400 to US\$21,400. In recent years, however, prosperity has turned into adversity as the commodity super-cycle waned.<sup>2</sup> In addition, as a result of the lower oil and gas prices, there is no longer a strong incentive for continued expansion of output and diversification within the energy sector.<sup>3</sup> Under these new circumstances, economic performance has deteriorated, with real GDP growth averaging a 0.2 percent per year in the period 2009-2015, and GDP per capita dropping to US\$19,300.
- 1.2 **The country's dual economy is prone to an unbalanced pattern of sectorial growth, and vulnerable to external developments.** The structure of the domestic economy that is centered on an export-oriented energy sector and a few non-energy sectors serving local markets, is neither diversified nor integrated. A few productive activities generate the bulk of the country's income.<sup>4</sup> Energy and non-energy sectors, in addition, lack forward and backward linkages through intermediate inputs and value chains. In particular, oil and gas industries constitute enclaves largely detached from other tradable activities in terms of real and financial operations. And yet oil and gas have visibly endangered other sectors through economic and institutional distortions that are typical of Dutch disease, e.g., currency overvaluation undermining competitiveness of non-energy tradable sectors, a rent-seeking environment at odds with market competition and good governance, excessive labor costs facing the private sector, and the public sector acting as an employer of last resort.<sup>5</sup> An unbalanced—indeed, dysfunctional—pattern of sectorial growth emerges out of the country's structural fragmentation and Dutch-disease distortions, including an increasing disconnect in the economic performance of the oil and non-oil sectors.<sup>6</sup> The energy sector is a major source of foreign-exchange earnings but provides a narrow export base, thus exposing the domestic economy to external developments like global commodity-prices fluctuations and the cycles of trading partners.
- 1.3 **Economic growth combined with a generous, albeit insufficiently targeted, social safety net reduced poverty.** Income fluctuations in low-income households were on par with households in higher brackets during cyclical expansions, but fell less during

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<sup>2</sup> Gas prices declined by 50 percent in 2009 and have not recovered, whereas oil prices remained elevated until mid-2014 but subsequently dropped in a very volatile market. See CDC Chp.1 for details.

<sup>3</sup> The gas industry completed its development stage and attained a normal, stable production level—albeit a sub-optimal level from the perspective of downstream activities, whose processing capacity exceeds the current supply of gas. Meanwhile, the crude oil industry continued its ageing process, which implied a persistent reduction in output and the recurrence of field shutdowns due to technical disruptions and maintenance, and failed to make progress in exploiting proven reserves in deep-water blocks. See CDC Chp.2 for details.

<sup>4</sup> In the period 2010-2015, on average, the energy sector—including oil, gas, and petrochemicals—originated 40 percent of nominal GDP, while distribution and financial services produced another 30 percent. Energy exports account for 85 percent of merchandise exports.

<sup>5</sup> See CDC Chp.2 for an in-depth analysis of Dutch-disease distortions.

<sup>6</sup> For instance, on average in the period 1999-2008, energy output grew by 12.4 percent per year, while the non-energy output expanded by just 5.6 percent; and in the period 2009-2015 the energy output contracted by 1.5 percent per year and the non-energy output increased by 1.3 percent. Apparently, there is a large disconnect between the growth dynamics of these major activity sectors. See CDC Chp.2 for details.

downturns.<sup>7</sup> By 2012, the head-count ratio of poverty stood at 3.5 percent and extreme poverty at 1.3 percent. Poverty rates are higher in rural areas but there is an increasing incidence of urban extreme poverty. Job creation helped to raise incomes and alleviate poverty, thus making economic growth inclusive. Between 2001 and 2014, the labor force grew 14 percent and the unemployment rate declined from 11 percent to a record low of 3 percent. Since the early 1980s, GNI per capita increased fourfold and gains in life expectancy and years of schooling are, respectively, 3.3 and 3.8 years. Thus, in 2013 Trinidad and Tobago ranked 64th out of 187 countries in terms of the Human Development Index (HDI), and its score (0.766) slightly exceeded the average score for Latin American and Caribbean countries (0.740). However, the economic stagnation that started in 2009 could reverse some of the recent gains in poverty alleviation and raising living standards.

1.4 **The country has large fiscal buffers.** Energy exports fell from an annual average of US\$12.4 billion in 2012-2014 to US\$8.5 billion in 2015, and concomitantly, energy fiscal revenues dropped from US\$4.2 billion to US\$2.8 billion.<sup>8</sup> External and fiscal buffers, including the Heritage and Stabilization Fund, help Trinidad and Tobago to partially mitigate negative energy-income shocks and adopt gradual fiscal adjustment, albeit with increasing public debt.<sup>9</sup> Furthermore, the *de facto* parity peg has been broadly maintained, albeit a limited 7 percent currency depreciation was allowed for since late 2015. Strong political leadership and commitment are necessary to avoid overusing financial buffers in an attempt to preserve business-as-usual policies and postpone the adjustment to the new reality of low oil and gas prices.

1.5 **To foster impetus for economic and social prosperity, Trinidad and Tobago should embark on an innovative diversification program that targets the non-energy tradable sectors.**<sup>10</sup> Establishing new productive activities and supporting existing ones could serve as catalysts for economic growth. Public policy can facilitate private sector development and foster human development, which are necessary to upgrade the physical, human, and financial resources that the diversification process requires. Productivity and external competitiveness need to be guiding principles in the selection of activities to be encouraged. In this regard, the targeted sectors should have strong potential for productivity gains and be adequately integrated into value chains. In addition, those sectors should be able to widen the export base or substitute non-complex imports, in order to diversify the sources of foreign-exchange earnings and reduce the country's macroeconomic vulnerabilities to the vagaries of oil and gas international prices.

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<sup>7</sup> Income protection during cyclical downturns relates to the generous social protection programs, which represent nearly 2.6 percent of GDP, more than twice the size of social safety nets in other Caribbean countries. See CDC Chap.2 for details.

<sup>8</sup> The current account surplus—reflecting savings from international transactions—was reduced from an annual average of 6.1 percent of GDP in 2010-2014 to virtually zero in 2015. Lower corporate profit remittances sent abroad and cheaper imported inputs used in the energy sector contributed to mitigating a reduction in export receipts. Central Government borrowings incurred to finance fiscal deficits—which reflect dis-savings from government operations, including asset sales—widened from an annual average of 1.5 percent of GDP in 2010-2014 to 4.2 percent of GDP in 2015.

<sup>9</sup> Foreign assets held as international reserves and those parked in the Heritage and Stabilization Fund for stabilization purposes, are as high as US\$9 billion and US\$2 billion, respectively, and constitute hard currency resources to afford moderate external imbalances. The net public sector debt—currently at 42.5 percent of GDP, with a long-maturity profile and a small share of foreign liabilities—remains within prudent levels, although sovereign credit risk ratings are deteriorating. The Government still has some leeway to continue borrowing and fund reasonable budget deficits, which ideally should be preceded by the formulation of a credible medium-term fiscal program.

<sup>10</sup> Energy sector is unlikely to be an engine of growth as long as the oil and gas industries have reached a mature stage and global energy prices may remain depressed for years. Oil futures contracts, for instance, are currently trading below 50 US\$/bl for deliveries as late as 2020, suggesting market investors do not anticipate oil spot prices returning to pre-2014 levels any time soon.

## II. THE IDBG IN TRINIDAD AND TOBAGO

- 2.1 From January 2011 to December 2015, the Bank was engaged in Trinidad and Tobago in a wide range of sectors.<sup>11</sup> A large share of the lending portfolio was projected to be delivered through programmatic policy-based loans (PBPs), emphasizing the expected role of reforms in the overarching goal of diversifying the economy. During the Country Strategy period, Bank approvals stood at US\$871 million, with nine loans and nine Technical Cooperations (TCs) approved in seven priority areas, and two loans in dialogue areas. Approvals reflected strong client focus and responsiveness to changing client needs. No non- sovereign guaranteed (NSG) loans were approved during this period.<sup>12</sup>
- 2.2 Approximately 27 percent (US\$235 million) of total approvals reflected interventions related to key reforms supported through four programmatic series in the areas of financial sector regulation and supervision, social protection, sustainable energy, and climate change adaptation and carbon reduction. However, only the first loan of each individual PBP series was approved and disbursed.
- 2.3 The remaining 73 percent (US\$636 million) of total approvals financed nine investment loans and one project preparation facility. Two-thirds of investment loans (US\$416.5 million) were concentrated in three operations targeting the rehabilitation of wastewater infrastructure and drainage. Although all three loans were approved in the first three years of the Country Strategy cycle, just 18 percent of the combined resources have been disbursed as of August 31, 2016. The remaining one-third of investment loans (US\$218 million) was directed to seven operations supporting improvements in public sector management, competitiveness, private sector development, and health services. Twenty-nine technical cooperation grants were also approved. The total value of the TC portfolio is US\$12.4 million, which supported six areas identified by the Country Strategy. MIF interventions total US\$1 million in dialogue areas.
- 2.4 Early in the Country Strategy implementation period, the Government did not request budget support from the IDB. As a consequence, the use of instruments shifted from PBPs to investment loans, thus significantly altering the portfolio composition envisaged at the beginning of the Country Strategy. This shift was not supported by the required adjustments in institutional arrangements and governance structures. These aspects, as well as the weaknesses of the Project Execution Units (PEUs), led to actual disbursements averaging US\$78 million per year, which were well below the US\$235 million achieved in 2011. Also, the shift toward investment loans aimed to better address ostensible gaps in health and water and sanitation (particularly wastewater) that had been under-financed for decades. In particular, the huge deficiencies in the wastewater sub-sector created an opportunity for the IDB to support transformative investments, and thus the focus changed toward a heavy reliance on civil works aligned with the Government objective of enhancing capacity to undertake mega-projects in the sub-sector.
- 2.5 The current IDBG active portfolio is US\$634 million and consists of eleven operations (ten investment loans and one PROPEF), of which 81 percent is undisbursed as of August 31, 2016. Over the 2011-2015 Country Strategy period, disbursements total US\$391.58 million, comprising US\$156.58 million in investment loans and US\$235 million in budget support. The average age of the portfolio is 3.6 years and the sectors represented include: water and

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<sup>11</sup> The 2011-2015 IDB Country Strategy with Trinidad and Tobago projected an indicative financing envelope of US\$1.5 billion and identified eight priority areas: financial sector regulation and supervision; climate change; public sector management; education; energy; social protection; water and sanitation; and transport.

<sup>12</sup> As of August 31, there have been no approvals in 2016.



sanitation (3 loans and 60 percent of total volume); social protection and health (2 loans); housing (1 loan); integration and trade (2 loans); citizen security (1 loan); and public sector modernization (2 loans). Portfolio performance weakened over the Country Strategy period, with satisfactory projects declining from 63.6 percent of all projects in 2013 to 46 percent in 2015. The Bank has created a Task Force on a targeted basis to improve portfolio execution.

- 2.6 **Key results achieved:** The Bank participated in nine sectors, of which seven were prioritized in the Country Strategy (financial sector regulation and supervision; climate change; public sector management; education; energy; social protection; and water and sanitation), one was started in the previous Strategy (citizen security), and one was introduced as requested by the Government (housing and urban development).
- 2.7 **In Financial Sector Regulation and Supervision**, the IDB contributed to increased visibility and focus on consolidated supervision and reporting requirements.<sup>13</sup> Reforms to legislation have improved the financial regulatory and supervision capacity of the Central Bank and the Securities Exchange Commission. Specifically, the IDB assisted in drafting the Insurance Bill passed to the Parliament; supported the legislative process for the updated Securities Bill and the new Credit Union Bill; assisted the Central Bank in the drafting of anti-money-laundering guidelines; and supported the legislative process for the new Occupational Pension legislation, currently under public consultations. The Insurance Bill will introduce a risk-based capital framework and credit exposure limits through the enhancement of statutory investment and lending limits, and establish requirements for consolidated supervision and reporting.<sup>14</sup> The Securities Bill was updated for the Securities Exchange Commission to be compliant with the International Organization of Securities Commissions (IOSCO) standards. The provisions envisaged in the Insurance Bill and Securities Bill are appropriate means to address the financial vulnerabilities exposed by the CLICO crisis.<sup>15</sup> The Credit Union Bill is expected to allow the Central Bank to supervise financial activities and governance of credit unions.
- 2.8 **In Climate Change**, the Bank supported the formulation of three national policies approved by the Cabinet: the National Policy on Climate Change, Protected Areas, and Forestry.<sup>16</sup> This resulted in the mainstreaming of climate change adaptation and carbon reduction into the policies regulating wildlife, protected areas, and forestry, including a new bill on forestry. These policies enhanced the Government's capacity to assess and mitigate risks associated with climate change, to participate in carbon markets, and to reduce greenhouse gas emissions. The Bank also supported the design and pilot implementation of the Integrated Coastal Zone Management (ICZM) program that incorporates climate change adaptation and disaster risk management.<sup>17</sup>

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<sup>13</sup> TT-L1024 Strengthening of the Financial Sector Supervisory and Regulatory Framework.

<sup>14</sup> The Insurance Bill was laid in Parliament in 2011 but because of extensive debates and changes, was sent back to the CPC for final changes before going back to Parliament.

<sup>15</sup> The corporate collapse of CLICO on January 30, 2009, is the worst financial shock experienced by the region to date. CLICO is the largest insurance company in the country and the region, the flagship of the parent company, CL Financial (CLF). CLF is the largest privately-owned conglomerate in the Commonwealth Caribbean with operations spanning its core business of insurance, but also including financial services, real estate development, manufacturing, agriculture and forestry, retail and distribution, energy, media and communications. The resolution of the CLICO crisis is still ongoing since not all affected investors (144,000 depositors) have been compensated for their financial losses yet. Non-disclosure of the CLF financial information makes it difficult to accurately estimate the cost of the intervention, which could be as large as 10 percent of GDP on the basis of the Government bonds issued to fund the bailout.

<sup>16</sup> TT-L1022 Program to Support the Climate Change Agenda I.

<sup>17</sup> These outcomes were achieved through technical cooperation: TT-T1038 Feasibility studies for a risk-resilient coastal zone management program; TT-T1034 Piloting the Integration of Coastal Zone Management and Climate Change Adaptation in Tobago; and TT-T1033 Understanding the Economics of Climate Adaptation.

- 2.9 In **Public Sector Management**, the IDB strengthened the capacity of the Auditor General's Department to perform risk-based audits, and helped to improve Information Technology, human resources, and codes of ethics.<sup>18</sup> In particular, the Bank provided technical assistance to the Auditor General's Department to address governance and institutional weaknesses that adversely affect the performance of its duties, most notably in the areas of audit coverage, accounting practices, and professional skills. This heightened independence and public accountability of the Auditor General before the Parliament's Public Accounts Committee and the citizenry at large. The Bank also supported the process of drafting the Public Procurement and Disposal of Public Property Bill, passed in early 2015. The new law will dissolve the Central Tenders Board and establish a decentralized procurement system regulated by a Procurement Regulator. The Bank also contributed to an increase in the effectiveness and efficiency of public services.<sup>19</sup> This has been achieved through the design and implementation of an Asset Management Solution for document tracking in Parliament, which reduced paper recording by 60 percent and upgraded the Parliament's Hansard Production System.<sup>20</sup> The Bank also contributed to improve the Land and Surveys Division's mapping system and Aerial and Lidar Survey.
- 2.10 In **Education**, the Bank has contributed to the improvement of early and primary education system. It assisted in the construction of twenty-four Early Childhood Care and Education (ECCE) centers, which were subsequently used as models to build other ECCE schools in the country.<sup>21</sup> These new ECCE centers were also equipped and made fully operational according to national standards, and permitted to increase the ECCE gross enrolments rates. In addition, the operation resulted in the development of a new integrated primary education curriculum that applies modern teaching and assessment methods in nine subject areas, and is now being implemented in all primary schools of the country using a phase-in approach. The Bank also assisted in enhancing the Ministry of Education's strategy and capacity for data collection and analysis of education programs.
- 2.11 In **Energy**, the IDB supported the transition to a more sustainable, efficient, and clean energy matrix.<sup>22</sup> The operation helped to develop a Sustainable Energy Framework and a Framework for Energy and Minerals Policy, to complete two sites for refueling compressed natural gas (CNG) with another two sites under construction, to commence a licensing program for new CNG vehicles. Furthermore, the operation permitted the country to achieve candidate status at the Extractive Industries Transparency Initiative (EITI).<sup>23</sup> In addition, the Bank provided support to build institutional capacity to introduce sustainable energy into public education programs, through training workshops for secondary school teachers and an Energy Communication Campaign.<sup>24</sup>
- 2.12 In **Social Protection**, the Bank laid the foundation for broader social protection and social safety net (SSN) reforms aimed at improving the effectiveness, efficiency, transparency, and accountability of SSN programs.<sup>25</sup> In keeping with the policy conditions, the first loan in the programmatic series was fully disbursed in 2012 and delivered an action plan to consolidate

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<sup>18</sup> TT-T1024 Institutional Strengthening of the Auditor General's Department.

<sup>19</sup> TT0056 E-Government and Knowledge Brokering Program.

<sup>20</sup> The upgraded Hansard Production System contributed to reducing reporting time to four hours compared to three days prior the upgrade.

<sup>21</sup> TT-L1005 Support for a Seamless Education System Program.

<sup>22</sup> TT-L1023 Sustainable Energy Program.

<sup>23</sup> Trinidad and Tobago published its first Report in 2011 and later met all EITI requirements to achieve compliant country status.

<sup>24</sup> TT-T1027 Support to the preparation of the Sustainable Energy Program (TT-L1023).

<sup>25</sup> TT-L1014 Social Safety Net Program, which was structured as a hybrid operation with a policy-based component (US\$45 million) and an investment component (US\$5 million).

all cash grants, the completion and testing of a PROXY Means Test to assess eligibility criteria for accessing social benefit programs, the design of a Monitoring and Evaluation Framework for SSN programs, and the identification of hardware requirements and software solutions for a Central Beneficiary Registry.<sup>26</sup>

- 2.13 In **Water and Sanitation**, the IDB helped enhance technical procedures essential for a proper wastewater treatment.<sup>27</sup> Two projects supported wastewater treatment plants in Malabar and San Fernando and the works will be completed in 2018. Phase 2 and 3 of one of these projects are expected to proceed during the 2016-2020 Country Strategy, helping to expand households' access to centralized sewerage systems. The Bank also assisted in strengthening the financial sustainability of the Water and Sewerage Authority (WASA), the water utility. WASA set up a Voluntary Separation of Employees scheme and reduced the number of employees in 2015—from 13 employees per 1,000 connections to 9. It has then achieved gains in efficiency and labor productivity, while reducing operation costs.
- 2.14 In **Citizen Security**, the IDB contributed to reducing crime and violence through the financing of a pilot program that addressed proximal and modifiable risk factors in high-crime communities. The program combined support for community-based action, with assistance to the Trinidad and Tobago Police Service, and institutional strengthening of the Ministry of National Security. Initially targeting 22 communities, the program was later expanded to 32 communities. A 2015 independent assessment by the United Nations Development Program (UNDP) corroborated government findings of significant decreases in crime and violence in intervention communities after program implementation as compared to national levels.
- 2.15 In **Housing and Urban Development**, the Bank provided support to improving living and housing conditions of low-income groups, particularly those occupying squatter settlements. As of early 2016, 988 households benefited from squatter upgrading in five sites and 2,518 households received home improvement grants and 292 home construction subsidies.
- 2.16 **Main lessons learned: Consensus-building and stakeholder buy-in on the Country Strategy should be attained early in the consultations with the Government.** Consensus and buy-in are pre-requisites for the formulation of a Country Strategy that proposes realistic objectives with actions that could be accomplished within the five-year period of the Strategy. A Country Strategy with substantial focus on the use of policy-based instruments to promote deep-seated reforms was somewhat optimistic in retrospect given the systemic challenges encountered to carry out the expected reforms. Arguably, the 2011-2015 Country Strategy may have underestimated the extent to which the lack of wide political ownership among critical Government stakeholders and weak coordination among multiple implementing agencies could stagnate the reform process. Going forward, in order to mitigate the risks associated with the implementation of an ambitious reform agenda, the Bank must secure strong political buy-in among key decision-making actors and institutions, and should also engage to the extent possible in facilitating inter-governmental dialogue at technical levels. Further, when the success of a Country Strategy hinges on the implementation of reforms expected to be politically-sensitive and controversial, these reforms should be negotiated at the earliest stage of the country's political cycle. Broad consultation with all Government stakeholders and civil society should be carried out with

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<sup>26</sup> The Government changed its policy focus in 2013 and decided not to proceed with the investment component as well as discontinue the policy-based program, which comprised two more loans in the series.

<sup>27</sup> TT-L1018 WASA Modernization and Wastewater Infrastructure Rehabilitation Program, and TT-L1026 Multi-Phase Wastewater Rehabilitation Program Phase I.

a view to realistically assessing the complexity, timing and feasibility of the reforms envisioned, as well as identifying suitable institutions that would assume ownership and champion projects.

- 2.17 Portfolio execution reflected a shift in the Government's approach to the IDB program.** In terms of investment loans, the political cycle dictated a shift away from the PBL modality and project design previously coordinated by the Ministry of Finance. However, the shift was not supported by the required adjustments in institutional arrangements and governance structures such as appropriate interfaces and coordination among line ministries and the then Ministry of Planning and Sustainable Development; thus, cross-cutting and systemic challenges affected the Bank's portfolio. Additional resources invested in program design and capacity building at the center of government could have mitigated this issue.
- 2.18 Implementation challenges resulted from weak execution capacity of PEUs.** During the 2011-2015 Country Strategy, insufficient fiscal space stymied the implementation of a few projects. Nevertheless, deeper analysis revealed that weak execution capacity of PEUs largely explains the implementation challenges experienced. Weak execution capacity was manifested through problems of coordination, communication, staffing, accountability and processes. Specifically, there was poor coordination within and across Ministries; a lack of effective internal and external communication; a mismatch of skills and core competencies to key positions in the PEUs; accountability failures associated with an unclear delineation of tasks and completion timelines, compounded by insufficient delegation of authority for decision-making; a lack of clearly documented—or properly understood—processes and procedures for procurement, financial management, and project administration; and a protracted re-engagement process with the new administration appointed after the 2015 general elections, which brought changes in the Ministries executing IDB projects. Near the end of the CS period, a special task force was formed to address targeted implementation challenges. The task force focused on resolving the capacity shortfall by providing project-management training and facilitating knowledge transfer among executing units, including sensitization to Bank guidelines and procedures.<sup>28</sup>

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<sup>28</sup> See Section V for actions to be implemented under the new CS.

### III. STRATEGIC AREAS

- 3.1 **In order to achieve high, sustainable, and inclusive economic growth, Trinidad and Tobago needs to diversify the economy toward non-energy tradable sectors and implement macroeconomic adjustment.** Global oil and gas prices could remain depressed in the medium term and the country's natural gas reserves may be exhausted in 10 years.<sup>29</sup> Thus, the energy sector is likely to generate lower exports and fiscal revenues in the medium term, and will contribute less to the economy in the long term unless new discoveries are made. Given the lower energy revenues, the Government expenditure policy underlying the existing welfare state cannot be afforded in a sustainable manner.<sup>30</sup> To continue improving living standards and further reduce poverty, therefore, Trinidad and Tobago needs to diversify the economy toward non-energy activities and adjust policies and institutions to the new reality of lower commodity prices.<sup>31</sup> A successful management of these challenges would enable Trinidad and Tobago to transition toward a renewed path of economic and social development, re-ignite inclusive growth, build resilience to external and domestic shocks, and diversify sources of income and foreign-exchange earnings.
- 3.2 **The Country Strategy will accompany the Government's development agenda focused on restoring growth through the diversification of the economy toward high-value-added, knowledge-based activities.**<sup>32</sup> This agenda recognizes the importance of securing stability; strengthening investor confidence and credit ratings; enhancing public sector efficiency and service-delivery capacity; and promoting private sector competitiveness and productivity. The Country Strategy will also support the Government's initiatives to build consensus around public and private actions necessary to preserve stability and to share sacrifices proportionately during the period of macroeconomic adjustment.<sup>33</sup>
- 3.3 **The 2016-2020 Country Strategy will assist the Government in removing constraints that hinder the economic diversification and macroeconomic policy adjustment to the new reality of lower commodity prices.** It will contribute to setting up an enabling environment for diversifying the economy while preserving macroeconomic stability. The Country Strategy will focus on three overarching strategic objectives: (i) strengthening public sector institutions and governance; (ii) promoting private sector development; and (iii) fostering human development. Cross-cutting themes of climate change and gender will be mainstreamed into the correspondent areas of intervention. The selection of the strategic areas is based on the development challenges identified in the CDC, as well as on the dialogue with the Government and civil society. In line with the IDB's Update to the Institutional Strategy 2010-2020, the Country Strategy will aim to improve living standards in Trinidad and Tobago by addressing structural development challenges and closing gaps in productivity, innovation, and economic integration.

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<sup>29</sup> Trinidad and Tobago has 10.6 tcf of proven natural gas reserves, according to the 2015 Ryder Scott Gas Reserve Audit. At current extraction rates, these reserves would be exhausted in around 10 years. The risked probable and possible reserves are 3.24 tcf and 1.15 tcf, respectively, while the exploration potential is 7.76 tcf.

<sup>30</sup> IMF 2016 Art.IV Debt Sustainability Analysis.

<sup>31</sup> For the purpose of this document, the services provided to the extractive industries are included in the non-energy sector category, and the economic diversification can well include the expansion of these services.

<sup>32</sup> See People's National Movement Manifesto. The Government has explicitly indicated interest in developing sectors such as financial services, tourism (including medical tourism), information and communications technology, downstream energy industries, agriculture, creative arts and maritime activity. Document available at: [http://www.pnm.org.tt/images/pdf/PNM\\_Manifesto\\_2015.pdf](http://www.pnm.org.tt/images/pdf/PNM_Manifesto_2015.pdf)

<sup>33</sup> These consensus-building initiatives include, inter alia, the National Tripartite Advisory Council, ongoing dialogue on energy-subsidy reform and expected dialogue on reforms to the energy-sector taxation regime.

## **A. Strengthening Public Sector Institutions and Governance**

- 3.4 The public sector in Trinidad and Tobago must undergo reform to become an effective agent able to articulate and facilitate the economic diversification and macroeconomic adjustment on the back of lower energy revenue.** On the back of years of high commodity prices, fiscal policies in Trinidad and Tobago became expansionary. However, the outlook of lower commodity prices and a long-term decline in energy production makes it necessary to adjust sources of government revenues and expenditures. In this regard, three major problems are identified: (i) the energy-dependence of fiscal revenue, (ii) the affordability of the government expenditure, and (iii) the deficiencies in public financial management and procurement systems.
- 3.5 The revenue system is heavily dependent on the energy sector and thus vulnerable to commodity-price volatility and the exhaustion of natural resources in the long term.**<sup>34</sup> Taxes collected from the energy sector are channeled to the rest of the economy through the government expenditures in public wages, transfers and subsidies, and capital projects.<sup>35</sup> In Trinidad and Tobago, during the commodity price booms in 2004-2008 and 2010-2014, on average, the energy revenue represented 17 percent of GDP and provided nearly half of the Central Government revenues; furthermore, it contributed to fund a non-energy fiscal deficit of 15 percent of GDP.<sup>36</sup> Energy revenues have been volatile and fluctuated with global commodity prices and domestic oil and gas output.<sup>37</sup> In particular, as commodity prices fell in 2009 and 2015, the nominal energy revenue dropped by 45 percent and 70 percent, respectively, and severe pressures on public finances emerged.<sup>38</sup> On the other hand, revenues collected from non-energy sectors averaged 16 percent of GDP in 2004-2014 and reached 20 percent of GDP in 2015 on the back of large one-off receipts.<sup>39</sup> Corporate income tax (CIT) paid by non-oil companies, personal income tax (PIT), and value added tax (VAT) accounted for, respectively, 30 percent, 24 percent, and 23 percent of total non-energy revenue (excluding one-offs) in 2015. Non-energy revenues are currently constrained by tax legislation and administration issues. Effective taxation is low due to several exemptions granted in the legislation governing VAT and CIT, which narrow their tax bases.<sup>40</sup> The recent VAT reform lowered the statutory rate from 15 percent to 12.5 percent and broadened the tax base; yet several exemptions and zero-rated goods and services persist. The CIT statutory tax applicable to most non-energy companies is 25 percent, but the legislation envisages several exempt bodies (e.g., hotel proprietors, commercial farmers, mortgage companies, public bodies, and state-owned banks) and

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<sup>34</sup> Corporate income tax on hydrocarbon producers and the supplemental petroleum tax are the two items classified as energy revenue, while the non-energy corporate income tax, personal income tax, and value added tax are the major items in the non-energy revenue category. Unless otherwise specified, the source of fiscal data referred to in this paragraph is the Central Bank of Trinidad and Tobago.

<sup>35</sup> International experience shows that resource-rich countries often expand government expenditures when benefitting from a windfall of resource-related fiscal revenue, and some at least partially save these resources in sovereign wealth funds or similar arrangements (IMF, 2012, *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries*; IMF, 2016, *Fiscal Policy: How to Adjust to a Large Fall in Commodity Prices*). In Trinidad and Tobago, since early 2000s booming energy prices and revenue led to a significant increase in government primary expenditures (see CDC chapter 2, and Cotton, Finch, and Sookraj, 2013). As the Government spends in non-tradable resources, energy income booms are associated to an appreciation of real exchange rate (Hilaire, 2000).

<sup>36</sup> Driven by rising oil and gas prices, together with growing volumes of natural gas, the energy revenue increased from 10 percent of GDP in 2004 to nearly 20 percent in 2008. It fell to 16 percent of GDP in 2009 when commodity prices dropped. Subsequently, the energy revenue fluctuated between 16 and 17 percent of GDP in 2010-2014, as prices recovered but natural gas output stabilized. It fell to 11 percent of GDP in 2015 and further to 5 percent in 2016. Non-energy fiscal deficit, defined as non-energy revenue minus total expenditure, rose from an average 13 percent of GDP during the 2004-2008 boom to 18 percent of GDP in the 2010-2014 boom.

<sup>37</sup> See Mercer-Blackman (2015) for an analysis of determinants of energy taxation and revenue volatility.

<sup>38</sup> In nominal terms, energy revenue fell from TT\$34 billion in FY2007/08 to TT\$18 billion in FY2008/09, and from TT\$28 billion in FY2013/14 to TT\$8 billion in FY2015/16.

<sup>39</sup> The figure in 2015 includes one-off receipts—most notably assets sales and repayments of loans extended to public enterprises—amounting to 3 percent of GDP.

<sup>40</sup> See CDC chapter 3, pp. 48-51 for a comprehensive assessment of VAT and CIT exemptions.

exempt incomes (e.g., several forms of interest and income from venture capital), without a well-documented public purpose.<sup>41</sup> Another constraint on revenue generation stems from the industrial promotion regimes that grant tax benefits based on opaque procedures.<sup>42</sup> There is no regular assessment of the existing tax expenditures benefitting non-energy activities to quantify the forgone revenue and inform policy decisions to preserve or reform them.<sup>43</sup> The effective revenue collection is also deficient because of inefficiencies in tax administration agencies and a weak enforcement of tax obligations. Tax administration agencies have deficiencies in terms of information management.<sup>44</sup> The Bureau of Inland Revenue (BIR) lacks a single, digitalized registry of taxpayers; instead, it uses a mix of databases and manual storage systems that make it difficult to acquire data on various tax liabilities for any given taxpayers.<sup>45</sup> There is inadequate information exchange and coordination between the BIR and the Customs and Excise Division. The initiative to establish a Revenue Authority (RA) to facilitate such coordination and strengthen revenue collection is expected to be implemented in 2017.<sup>46</sup> Going forward, the exhaustion of oil and gas reserves is expected to reduce the energy output and associated revenues (e.g., royalties and profits of petroleum companies); therefore, it is necessary to diversify sources of government revenue and mobilize more resources from non-energy sectors—although without introducing distortions that reduce incentives to invest and thus contribute to the economic diversification.

**3.6 The expenditure policy is biased toward transfers and subsidies and cannot be afforded in a sustainable manner given the reduced energy revenue expected over the medium term.**<sup>47</sup> During the commodity price booms, the budget expenditure increased steadily from 27 percent of GDP in 2004 to 37 percent in 2015. Transfers and subsidies accounted for nearly 70 percent of the expansion of public expenditure, rising from 12 percent of GDP to 19 percent in 2004-2015; thus, they currently represent nearly half of the government budget. Buoyant energy revenues and the absence of well-established institutions and procedures to target, monitor, and evaluate spending programs, have contributed to the rapid growth of transfers and subsidies.<sup>48</sup> In particular, the main drivers of this expenditure category have been fuel subsidies, transfers to state-owned enterprises,

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<sup>41</sup> Oil, gas, and petrochemical companies also benefited from corporate income tax incentives introduced in 2010 (e.g., accelerated depreciation allowances, exploration expenditure write-offs) that intended to promote additional investments.

<sup>42</sup> For instance, tax exemptions in the agricultural sector may be granted for up to 10 years. These exemptions require approval from the Minister of Finance, after consultation with either the Small Business Development Company or the Industrial Development Corporation. For a comparative view and policy recommendations for LAC, see Corbacho, A., V. Cibils, and E. Lora, eds., *More than Revenue: Taxation as a development tool*; Springer, 2013.

<sup>43</sup> Tax expenditures favoring non-energy companies were as high as 5 percent of GDP in 1997, according to a study conducted by the Central Bank of Trinidad and Tobago (Dobson and Ramirez, 1999, *Towards a Tax Expenditure Budget for Trinidad and Tobago*). No official report assessing their merit, opportunity, and magnitude of tax expenditures is prepared regularly.

<sup>44</sup> See: Henry, A. "Overview of the Proposed Trinidad and Tobago Revenue Authority". TTRA Management Company Limited. <http://finance.gov.tt/wp-content/uploads/2013/11/pubDED792.pdf>. See also *Principles of Good Tax Administration*. Practice Note. OECD 2001.

<sup>45</sup> Other weaknesses include weak systems for internal investigation and enforcement; lack of strategic plan or timeframe to conduct audits; lack of a single coercive procedure or prioritization for taxes, social security and customs; and fragmented collection of VAT by different divisions. See: Villela, L. *Challenges in fiscal revenue collection*. IADB 2012

<sup>46</sup> According to the FY2016/17 Budget Statement, the Government expects to raise an additional TT\$100 million in 2017 as a consequence of the improvement in tax administration associated to the establishment of the Revenue Authority.

<sup>47</sup> Unless otherwise specified, the source of fiscal data referred to in this paragraph is the Central Bank of Trinidad and Tobago. The category Transfers and Subsidies refers to accounts of the Consolidated Fund, Unemployment Fund, Road Improvement Fund, Infrastructure Development Fund, and Heritage and Stabilization Fund.

<sup>48</sup> In October 2010, the Cabinet created the National Transformation Unit (NTU) as a division of the Ministry of Planning and Development, which prepares and oversees the capital investment budget. One of the NTU's core functions is Monitoring and Evaluation (M&E) of capital investment projects as well as the provision of support to line ministries for rolling out M&E of their key programs. However, NTU's work is not supported by a legal framework for an evaluation system; there is no evidence that the M&E framework the NTU developed in 2014 is currently being applied internally or in other line ministries, and no M&E manuals or methodologies have been produced (IDB, 2014, PRODEV Evaluation Tool Progress Report).

and pensions.<sup>49</sup> Going forward, two areas open opportunities to reform and rationalize the expenditure policy: subsidies to fuels and electricity, and transfers to state-owned enterprises. International experience suggests that energy subsidies raise environmental issues since very low prices lead to overconsumption and discouraged the implementation of energy efficiency or conservation measures.<sup>50</sup> In Trinidad and Tobago, explicit fuel subsidies reached nearly 3 percent of GDP per annum during the 2010-2014 commodity boom, decreased to nearly 1 percent of GDP in 2015 as oil prices dropped, and the Government intends to reduce them further by raising pump prices.<sup>51</sup> Implicit subsidies to the electricity sector are provided by granting a below-market (subsidized) price of natural gas to the Trinidad and Tobago Electricity Commission (T&TEC, the state-owned power utility). As a consequence, the country has the lowest electricity tariff in the region; furthermore, its renewable energy sources cannot compete against the T&TEC's electricity tariff in the wholesale market.<sup>52</sup> With regard to transfers to state-owned enterprises, which increased from 1.6 percent of GDP in 2004 to 2.9 percent in 2015, there is no regulatory framework that permits oversight of budgetary resources transferred for them to meet their debt-servicing and operational costs. In addition, public-utility tariffs have not been reviewed for several years and in some cases do not ensure cost recovery, e.g., the Water and Sewerage Authority (WASA, the state-owned water utility) has not changed water tariffs since 1993, its operating revenue covers only 37 percent of the operating expenses, and the budgetary transfers to the company amounted to 1.2 percent of GDP in 2015.<sup>53,54</sup> Given the energy revenue shortfalls expected over the medium term, the Government intends to rationalize transfers and subsidies to preserve fiscal sustainability. Furthermore, it aims to reduce current expenditure to create budget space to finance a higher volume of capital expenditure required to facilitate the economic diversification. In this regard, Trinidad and Tobago's public investment has been constrained by the expansion of current expenditures, as well as by the institutional segmentation, weak capacity for planning and executing capital projects, and lack of strategic coordination between the public and private sectors.<sup>55</sup>

### **3.7 Deficiencies in public financial management and procurement systems severely undermine the Government capacity to formulate and execute budget and public-service delivery.** Trinidad and Tobago underperforms the LAC average in the 2013 PEFA

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<sup>49</sup> Regarding pensions, the Senior Citizen Grant, a universal pension payment established in 2010, currently represents 1.5 percent of GDP. An analysis of the evolution of subsidies and transfers through time is difficult because this expenditure category includes more than one hundred allocations for numerous programs administered by several bodies (e.g., line ministries, statutory bodies, NGOs, and local governments), some of which are of a small size.

<sup>50</sup> The effects of energy subsidies on consumption and adoption of technologies are analyzed in World Bank (2010), *Subsidies in the Energy Sector: An Overview*; and IMF (2015), *Counting the Cost of Energy Subsidies*. These studies also summarize findings of analytical research estimating the impact of removing energy subsidies in selected developing countries.

<sup>51</sup> IMF, 2016, *Trinidad and Tobago: Selected Issues Paper* analyzes the fiscal and environmental implications of fuel subsidies. It also presents empirical evidence suggesting Trinidad and Tobago is among the 15 countries with the lowest gasoline price in a worldwide comparison.

<sup>52</sup> The IDB's *Sustainable Energy for Trinidad and Tobago: Final Report* presents a comparison of average electricity tariffs among Caribbean countries in 2011, and finds that Trinidad and Tobago's tariff of US\$0.06 per kWh is the lowest in the region, while Jamaica's is US\$0.36 per kWh and Barbados' is US\$0.32 per kWh. The Report also finds that the (subsidized) electricity tariff is far lower than the estimated cost of electricity produced using renewable energy sources or energy-efficient technologies.

<sup>53</sup> TT-L1026 *Financial Analysis* prepared by IDB staff. The Caribbean Development Bank's *Assessment of the Water Sector in the Caribbean Summary Report* presents a comparison of tariff benchmarking among Caribbean water utilities, and finds that Trinidad and Tobago's tariff of US\$0.27 per m<sup>3</sup> is among the lowest in the region, while Jamaica's is US\$0.98 per m<sup>3</sup> and Barbados' is US\$1.38 per m<sup>3</sup>. According to the FY2016/17 Budget Statement, WASA requires major financial support from the Government—channeled through overdraft facilities, loan financing, and subventions—because its annual shortfall between revenue and expenditure often exceeds TT\$1 billion.

<sup>54</sup> State-owned enterprises and statutory authorities also pose significant fiscal risks as their liabilities guaranteed by the Central Government are as large as 20 percent of GDP.

<sup>55</sup> Capital expenditure amounts to 4.5 percent of GDP, compared to 3.2 percent in Jamaica and 2.8 percent in The Bahamas.



indicators related to policy-based budgeting and procurement. The Government lacks an integrated, electronic system to manage budget planning and monitor execution; instead, line ministries use spreadsheets to transmit budget planning and execution reports.<sup>56</sup> According to the most recent Annual Report on Performance prepared by the Ministry of Planning and Sustainable Development, only half of the budget was monitored as of 2013.<sup>57</sup> Procurement processes are often non-competitive and executed slowly. While the Procurement Law approved in 2015 does envisage improved processes, its implementation has been rather gradual, e.g., a fully functional and staffed procurement regulation office is not in place yet. Overall, the lack of good-quality, timely budget information is a constraint on decision-making concerning budget management and public-service delivery.<sup>58,59</sup> Transparency and political accountability are also diminished because the citizens do not have access to reliable information on expenditures and policy outcomes either. In this regard, Trinidad and Tobago ranks 34th out of 100 countries in the 2015 Open Budget Index, inasmuch it only meets the minimum benchmark in terms of budget information made available to the general public.

### 3.8 This Country Strategy will support the adjustment of fiscal policy and the modernization of public institutions. The CS will focus on:

- (i) supporting reforms to tax legislation and administration to increase collection of VAT and non-energy CIT and to reduce total revenue volatility. Specifically, the CS will support (a) initiatives to review of VAT and CIT legislation to eliminate exemptions, loopholes, and tax expenditures that do not have a sound public-policy justification, and (b) actions to improve the collection performance of tax administration agencies and strengthen their enforcement capacity, including support to the establishment of the Revenue Authority.
- (ii) assisting reforms to legislation and policies governing transfers and subsidies to rationalize the volume of government spending and to increase its efficiency. Specifically, the CS will assist (a) initiatives to assess the targeting, eligibility, and exit strategies of transfers and subsidies, (b) actions to enhance the capacity of line ministries to monitor, evaluate, and audit their priority expenditures, and (c) the formulation of mechanisms to redesign energy subsidies and enhance the

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<sup>56</sup> TT-L1042 Support to Strengthen Trinidad and Tobago's Public Financial Management System.

<sup>57</sup> The Report also reviews budget allocations to high-priority sectors such as health, sanitation, education, and transportation, and is rife with missing data. At the line ministry level, the absence of data and monitoring capacity is even more visible, notably in the education and health sectors. These difficulties are reflected in a relatively low score (0.6 out of 5 in 2007, 1.9 in 2013) on the Monitoring of Government Management category of the Monitoring and Evaluation Systems pillar of the PRODEV Evaluation System. Absence of ex post evaluations of public programs prevents the Government from knowing which programs are meeting their objectives and to formulate solutions for those which are not.

<sup>58</sup> Timely and frequent reconciliation of budget data from different sources is fundamental for informed decision-making. The 2008 PEFA Assessment gave Trinidad and Tobago a score of C for regularity of Bank reconciliation, noting that while the Ministry of Finance operates a Treasury Single Account reconciled to the cash book on a monthly basis, it takes eight weeks to complete the reconciliation process. Workarounds are used to facilitate budget management in response to delayed submissions and incompleteness of annual budget information. For example, the budget reconciliation and clearance of the Government's suspense accounts take place within four weeks after the close of a given month, and are force closed as part of end-of-year procedures; however, a few identified accounts remain unreconciled from year to year and eventually contribute to inefficiencies, e.g., an increase in the overdraft's average annual balance and related financial costs—in this regard, from FY 2011/2012 through 2013/2014, the average annual balance of the suspense accounts was TT\$5.3 billion. With regard to implications on public-service delivery, the 2013 PEFA Assessment observed that no reporting on the resources (in cash or in kind) disbursed to the front-line service-delivery units (such as schools and primary care facilities) is carried out on a routine basis, and thus it is difficult to monitor and evaluate effectiveness of programs with public funding.

<sup>59</sup> Inadequate quality of economic and social statistics produced by the National Statistical Office compound the challenges posed by poor information from public financial management and procurement systems, and limit the Government's capacity for program design, monitoring, and evaluation. Furthermore, weak institutional capacity and lack of information constrain the quality of legal and regulatory frameworks, e.g., in the financial sector where further upgrade of the existing regulatory framework is still necessary to avoid potential macro-financial distress in the future.

regulatory framework to promote sustainable energy. In response to a reduction of fuel and electricity subsidies—which is likely to create incentives for adopting energy efficiency measures and developing renewable energy sources—the IIC and MIF will support public entities and local firms that incorporate energy-efficient technologies and infrastructure.

- (iii) supporting reforms to public financial management and procurement systems to enhance budget planning and implementation and to increase transparency and accountability. Specifically, the CS will support (a) the introduction of an Integrated Financial Management Information System for collecting real-time data from all line ministries and delivery units (including training to government officials), (b) the implementation of the Procurement Law, (c) initiatives to enhance monitoring and evaluation of budget planning and execution, as well as openness in public reporting, and (d) actions to strengthen public agencies with regulatory mandates, particularly concerning the financial sector.

**3.9 The IIC and MIF will look for opportunities to facilitate adequate responses to the adjustment of fiscal policy.** The IIC can support these efforts through consultation and advisory services products, ensuring that regulatory reforms aimed at crowding in private sector investment and spurring business activity achieve their objectives.

**3.10 The cross-cutting themes of climate change and gender have important linkages with the current fiscal policy and the possible adjustments during the Country Strategy.**

- (i) **CLIMATE CHANGE:** There is a need to reduce the carbon footprint of Trinidad and Tobago, which is affected by the current fiscal policies: subsidies encourage excessive usage of fossil fuels and thus increase greenhouse gas emissions; furthermore, they discourage the adoption of energy efficiency or conservation measures. In particular, subsidized electricity from large natural gas-fired power plants makes it uneconomical to invest in alternative, clean energy sources with high upfront capital costs—most notably, wind and solar systems. A fiscal adjustment program that reduces these subsidies can contribute to the gradual introduction of new technologies with higher energy efficiency, as well as the development of renewable energy.
- (ii) **GENDER:** Lack of household survey data and administrative records on program beneficiaries prevents assessing the impact of a fiscal adjustment program from a gender perspective in Trinidad and Tobago. The fiscal adjustment program can preserve women’s economic opportunities by avoiding a drastic rationalization of transfers to households headed by women, and by maintaining budget support to the programs that largely contribute to women’s participation in the labour market (e.g., early childhood education).<sup>60</sup>

**3.11 The actions will contribute to the Government’s development plan to reform budgeting and expenditure systems, as well as to consolidate public finances.** In pursuit of macroeconomic stability, the Government has embarked on a fiscal plan that

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<sup>60</sup> See Stotsky, J., 2016, Gender Budgeting: Fiscal Context and Current Outcomes, IMF WP/16/149. The modernization of public-sector institutions should consider opportunities to further advance Trinidad and Tobago’s remarkable record in terms of women holding public offices with a high level of responsibility. While currently nearly 40 percent of ministerial positions and more than one-quarter of parliamentary seats are held by women, gender parity has not been achieved yet.

aims to achieve a balanced budget by 2020, with a limit in public sector debt of no more than 65 percent of GDP.<sup>61</sup> The plan involves fiscal reforms and institutional changes aimed at reducing dependence on energy revenues and containing government expenditures through the elimination of waste and corruption and the reallocation of spending away from subsidies and transfers and towards investment on essential infrastructure. The actions are also aligned with the IDB's Update to the Institutional Strategy 2010-2020. Specifically, the actions respond to the policy objectives of creating a more distributive fiscal policy, as well as to the crosscutting objective of improving the institutional capacity of the State to enforce the rule of law.

## ***B. Promoting Private Sector Development***

- 3.12 Economic diversification requires a structural transformation to be carried out by a dynamic and innovative private sector with the active support of public policies.** Productivity growth and external competitiveness are outcomes that ultimately result from private sector development. Public policy has a major role in setting up an adequate infrastructure to facilitate logistics and mobility, as well as in shaping a business environment where entrepreneurs can thrive. In this regard, two major problems are identified: (i) the deficiencies in logistics and mobility, and (ii) the excessive regulations and government inefficiencies that do not facilitate business and trade.
- 3.13 Mobility and logistics are constrained by a road infrastructure that is saturated or even underdeveloped in some areas, which undermines economic productivity.** The North-South highway and the three East-West corridors provide connection among major urban centers, but are prone to congestion during peak hours of daily commuting—reaching a volume-to-capacity ratio between 0.64 and 2.28.<sup>62</sup> Congestion also happens in roads outside of the core network for they are narrow, follow difficult alignments, and were built without a strategic urban planning.<sup>63</sup> In this regard, the Ministry of Works and Transport's 2009 Road Condition Survey found that 32 percent of roads were in poor or critical condition. Poor road conditions are a consequence of inadequate maintenance, institutional fragmentation and technical inefficiencies in the government agencies responsible for road works.<sup>64</sup> In the case of East and South coasts, the maintenance of road networks is also difficult because of the coastal erosion and recurrent floods. Congestion and reduced mobility lead to lengthy travel times for commuting workers and goods transportation, which eventually reduces economic productivity and impose

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<sup>61</sup> For details, see FY2016/17 Budget Statement before the Parliament.

<sup>62</sup> Land Sector Final Report of the Comprehensive National Transportation Study, Parson Brinkerhoff Quade & Douglas, Inc., 2006. According to the Transportation Research Board's Highway Capacity Manual Special Report 209, a volume-to-capacity ratio higher than 1 results from road operation with extremely low speeds caused by intersection congestions, delays, and adverse signal progression.

<sup>63</sup> IDB Analysis of Mass Transit Alternatives in Trinidad and Tobago prepared in 2016 notes that road traffic congestion is also a result of a high motorization (with 282 vehicles every 1,000 people, compared to a LAC average of 176 vehicles) and an inadequate public transportation service. Private car ownership increased during oil and gas booming years when both incomes and fuel subsidies rose. The study assesses alternatives for establishing mass transit systems.

<sup>64</sup> A background study for the IDB National Highway Program (932/OC-TT) undertaken by three international consulting companies in 2004 found that Trinidad and Tobago was spending US\$7,300 per km annually on routine road maintenance, a figure deemed too high due to inefficiencies in government-executed maintenance programs as well as fragmentation and varying capacities in the responsible agencies. The study proposed policy reforms to reduce the routine road maintenance cost to US\$5,000 per km annually and expand the program coverage. More recently, a background analysis for the IDB Road Maintenance Reform Program PBL (TT-L1021) carried out in 2011 found that those institutional weaknesses had persisted, and observed that the cost of routine road maintenance had been reduced to US\$5,152 per km annually but still exceeded the regional annual average of US\$2,000 per km. There has been no update of the 2009 road condition survey.

significant costs.<sup>65</sup> Estimated cost of time lost and fuel spent due to congestion is US\$267-345 million per year.<sup>66</sup> Carrying out international trade operations is more expensive when domestic mobility and transport are inadequate, which eventually undermine export potential and constrain opportunities for economic diversification.<sup>67,68</sup> Besides, adverse environmental effects result from the mobility and logistics constraints because vehicles used for long hours in congested areas generate higher levels of carbon dioxide emissions, and thus aggravate the overall greenhouse gas emissions in the country.<sup>69</sup> Addressing weaknesses in road infrastructure can thus contribute to reducing these excessive emissions related to congestion.

**3.14 Excessive regulations and government inefficiencies hinder the development of local firms in non-energy sectors.** Regulations and public sector inefficiencies are severe constraints for private sector development in Trinidad and Tobago, undermining its business environment and trade potential. In the World Bank's Doing Business Report 2016, the country ranks 88th out of 189 countries, but the areas of weakness actually relate to business and trade regulations, e.g., obtaining a construction permit (144th out of 189 countries), registering property (151st), and trading across borders (114th). Firms have to deal with an excessive regulatory burden aggravated by inefficiencies in the public sector and a culture of bureaucratic control.<sup>70</sup> It is time consuming for local firms to interact and exchange information with multiple government agencies. For instance, there is no national single IT platform that connects all businesses and government agencies involved in trade and logistics.<sup>71</sup> The lack of a single electronic window for trade and business facilitation often creates a burden for firms since they have to prepare paper documents and submit them to several agencies whose approval is required for goods to be released.<sup>72</sup> A heavy regulatory burden can be highly inefficient even for the public sector itself; for instance, customs inspects nearly 40 percent of all import containers when the international best practice is to examine 5-7 percent only, and thus hinders foreign trade. Trinidad and Tobago is currently developing a single electronic platform to simplify trade-related administrative processes.<sup>73</sup> Concerning export promotion and investment attraction, there

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<sup>65</sup> IDB Analysis of Mass Transit Alternatives in Trinidad and Tobago prepared in 2016 found that the Western corridor is 8km long and it takes as much as 36 minutes to reach POS; on the Eastern Corridor POS to Sangre Grande is 45 km long and could take up to 2 hours to commute; and, on the Southern Corridor POS to San Fernando is 45 km long and could take as much as 2 hours to commute.

<sup>66</sup> McKinsey and Co, Solutions Development: Traffic and Transportation 2011.

<sup>67</sup> Studies in other LAC countries have shown an inverse correlation between transport costs and level of exports: in Colombia, for example, a 1 percent reduction in *ad valorem* transport costs can increase agricultural exports by as much as 7.9 percent (IDB, 2013, Too Far to Export: Domestic Transport Costs and Regional Export Disparities in Latin America and the Caribbean).

<sup>68</sup> Air and maritime networks are also becoming unable to cope with the growing demand for transportation of passengers and cargo. The airports of Piarco and Crown Point need to expand and upgrade their operational safety and peak-hour runway capacity management. The port of the capital, Port-of-Spain, lacks infrastructure capacity to accommodate large vessels and handle cargo storage efficiently (e.g., a Panamax vessel is being offloaded/loaded in 83 hours as compared to 24 hours in a well-equipped and efficient port); in addition, the maritime services available comprise a few operators and direct connections.

<sup>69</sup> The National Climate Change Policy (2011) indicates that carbon dioxide emissions have doubled from 1990 levels of 1,313 Gg to 2,622 Gg in 2006, and highlights that this rising trend correlates with the increase in the number of registered vehicles from 150,000 to 275,000 over the same period.

<sup>70</sup> An excessive bureaucratic control may open opportunities for corruption, an acute problem in Trinidad and Tobago: the country ranks 72nd out of 168 countries in the International Transparency's Corruption Perception Index 2015, which is a level of perceived corruption higher than in the Caribbean region.

<sup>71</sup> TT-L1044 Strengthening of the Single Electronic Window for Trade and Business Facilitation.

<sup>72</sup> According to the OECD, the reduction of formalities and manual procedures and the adoption of automated procedures—which are directly impacted by the electronic single window—represent a potential saving of 9 percent in the trading cost facing firms (Moisé, Evdokia, Orliac, Thomas and Minor, Peter. OECD Trade Policy Paper. "Trade Facilitation Indicators. The Impact on Trade Costs," 2011). In Mexico, the electronic single window has achieved annual savings of US\$14 million per year (OECD, "Single Windows as Trade Facilitators: Evidence from the OECD Trade Facilitation Indicators," 2013). The economic analysis undertaken in the loan proposal TT-L1044, projects a net gain for Trinidad and Tobago of US\$5.6 million by 2020,

<sup>73</sup> The platform, known as TTBizLink, currently hosts 46 transactional e-services administered by 24 government agencies across seven separate Ministries involved in the processing and clearance of goods; thus, it helps eliminate paper-based documents that need to be taken physically to multiple agencies to be examined and approved before the goods are released. Though TTBizLink has

are five agencies with various competencies which work in isolation and do not capitalize on their complementarities.<sup>74,75</sup> With regard to finance, the country lacks an integrated legal framework for secured transaction systems and collateral registries that can facilitate access to finance and improve creditworthiness of private firms.<sup>76</sup>

**3.15 This Country Strategy will support the modernization of infrastructure relevant for logistics and mobility, and the public policies for business and trade facilitation. The CS will focus on:**

- (i) supporting efforts to improve the transportation infrastructure underpinning mobility and logistics in the country, incorporating aspects pertaining to climate change resilience in coastal zones using innovative adaptation measures. Specifically, the CS will support (a) initiatives to increase spending in road maintenance and improve asset management strategies (including creating a regulatory framework for private sector involvement through PPPs and other instruments), and (b) actions to formulate and implement environmentally-friendly mobility solutions in urban areas like traffic management and public transportation. The IIC can play a major role in supporting investment opportunities to expand and upgrade the infrastructure network, including through PPPs in coordination with the MIF. In particular, the IIC will seek opportunities to improve connectivity, supporting the expansion and upgrading of infrastructure in areas that serve as the international gateways to the two islands. Similarly, the IIC will pursue opportunities to streamline and synchronize trade logistics services and information across the value chain for cargo handled at Trinidad and Tobago ports.
  
- (ii) assisting legislative and procedural reforms strengthening institutions in the areas of business and trade regulation to facilitate the development of local firms, including their potential to export, access credit, and attract investments; specifically, the CS will assist (a) initiatives to simplify customs procedures and systematize information in government agencies involved in trade and logistics (following the model of the electronic single window for trade), (b) actions to build capacity and synergies in government agencies responsible for export promotion and investment attraction, and (c) initiatives to develop secured transaction systems and collateral registries that facilitate access to finance. The IIC can establish

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been effective in reducing the time and cost of doing business, it takes an average of 92 hours and US\$749 per container to export, and 122 hours and US\$885 per container to import, significantly higher than best-practice countries such as Singapore where exporting one container takes 14 hours and US\$372 and importing requires 38 hours and US\$260 (World Bank, 2016 Doing Business Report). TTBizLink allows traders to submit all import, export, and transit information required by regulatory agencies via a single electronic gateway; however, the gateway is not linked to the Port of Spain, which has its own examination and approval processes. Thus, a next step in developing TTBizLink would be to integrate it among all border management agencies,

<sup>74</sup> These five agencies are InvesTT, TTIFC, Ministry of Tourism, Ministry of Energy, and TT Freezone Company, according to an IDB report assessing investment attraction strategies requested by the Ministry of Trade and Industry in 2016.

<sup>75</sup> Greenfield foreign direct investment (FDI) creates new domestic capital formation and generates employment, while also encouraging technology innovation, export market access, foreign exchange, higher productivity and increased firm competition. See Lensink, R. and Morrissey, O. (2001) "Foreign Direct Investment, Volatility and Growth" DESG; Aitken, B., Hanson, G.H. & Harrison, A.E. (1997) "Spillover, Foreign Investment and Export Behaviour" Journal of International Economics, 43; Ferrett, B. (2003) "Intra- and Inter-Firm Technology Transfer in an International Oligopoly" Globalisation, Productivity and Technology Research Paper 2003/49; and Bitzer, J. and Gory, H. (2005) "The Impact of FDI on Industrial Performance" Globalisation, Productivity and Technology Research Paper 2005/09.

<sup>76</sup> Security risks associated to crime and violence impose significant costs on local firms and thus constrain their growth opportunities. Trinidad and Tobago is placed 136nd out of 140 countries in terms of business costs of crime and violence in the World Economic Forum's Global Competitiveness Report 2015-2016; thus, it is one of the worst performing cases worldwide as nearly 26 percent of businesses reported being victims of crime. Given high levels of crime and violence, local firms incur substantial costs to protect staff and property, which reduces profits and investible funds. Private companies have reported that crime-related costs absorb 4 percent of annual sales and are 4.5 times higher than expenditure in research and development (World Bank Enterprise Survey 2010). Effective policy interventions addressing security risks can then contribute to increase firms' productivity and competitiveness.

partnerships with financial institutions to promote innovation finance and ease exporter's access to foreign exchange and working capital. Building on its established partnerships and networks, the MIF can assist in supporting entrepreneurship, innovation, and export growth.

**3.16 The IIC and MIF will look for opportunities that complement the IDB's work to increase the competitiveness of the business sector by promoting diversification and expanding access to finance.** The IIC will seek to support both product and market diversification by expanding access to finance among non-energy sector firms with internationalization plans. Similarly, the IIC will selectively engage with firms in energy related services with potential for innovation and diversification towards clean energy. The IIC, MIF, and IDB will focus on increasing firms' access to credit and assisting companies to achieve productivity gains through investments promoting innovation and adoption of modern business practices. The IIC will also accompany IDB efforts to support the establishment of an integrated legal framework for secured transaction systems and collateral registries through advisory services and consultations with private and public stakeholders.

**3.17 The cross-cutting themes of climate change and gender shape opportunities to improve the productivity and external competitiveness of the private sector.**

- (i) **CLIMATE CHANGE:** Climate risks affecting Trinidad and Tobago's coastal zones (e.g., floods and erosion of the coast line) and the expected climate change impacts (e.g., sea level rise and increased precipitation events) create vulnerabilities for physical infrastructure along the coast, including roads and settlements.<sup>77</sup> Mitigating these climate-related factors can contribute to strengthen private-sector business opportunities in activities that depend upon the coastal environment, most notably tourism and fisheries. Furthermore, there are private-sector business opportunities also in carrying out economic activities instrumental to climate change adaption and mitigation, e.g., mangrove restoration and green roofs. The IIC can help companies improve competitiveness and reduce costs by introducing energy efficient technologies.
- (ii) **GENDER:** Women are likely to be more affected than men by the challenge of mobility in Trinidad and Tobago. An IDB study for LAC suggests that women tend to make more trips of shorter distances carrying children and packages, given their socially-constructed role as care givers; as a consequence, mobility constraints reduce women's time and employment opportunities more than men's.<sup>78</sup> Improving transport and road infrastructure can then contribute to narrow this gender-based mobility gap. The 2013 Women's Entrepreneurial Venture Scope assessed business climate for women entrepreneurs; Trinidad and Tobago ranked below the LAC average in all but one of six indicators, thus revealing constraints on women's

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<sup>77</sup> The estimated mean damage due to increased tropical storm events in Trinidad and Tobago under a moderate climate scenario is US\$26 million per year (IDB, UWI, IH Cantabria, and Factor CO2; Understanding the Economics of Climate Change Adaptation in Trinidad and Tobago).

<sup>78</sup> See IDB Violence Against Women and Girls Transport Resource Guide for an analysis of gender differences in men's and women's use of transportation infrastructure that might bias seemingly gender-blind programs in that sector. For Trinidad and Tobago, however, lack of data prevents a detailed analysis of the impact of the county's limited public transportation system on women's earnings, unemployment, time use, and safety.

entrepreneurship.<sup>79</sup> The IIC can offer products that encourage firms and businesses environments offering equal opportunities.

- 3.18 **The actions will contribute to the Government's goals of improving business environment and private sector development, as well as to the National Climate Change Policy (2011).** The actions are also aligned with the IDB's Update to the Institutional Strategy 2010-2020. On the basis of improved mobility and logistics, competitive edge, and business environment, the Country Strategy will help address gaps in productivity, innovation, economic integration, and infrastructure services. In addition, this strategic area coincides with the IIC Business Plan 2016-2019 objectives to promote infrastructure for development and enhance private provision of basic goods and services.<sup>80</sup>

### ***C. Fostering Human Development***

- 3.19 **Rising standards for health, education, housing, sanitation, and citizen security is essential to improve people's living conditions, and to strengthen the abilities and skills of the working force.** Human development is fundamental to increase living standards of people, affecting both their wellbeing and their labor productivity. The expansion of non-energy activities is expected to offer better employment and income opportunities to a workforce with adequate health and education conditions, who, in turn, expect their households to have access to quality housing and sanitation services. Social programs and infrastructure investments carried out by the public sector can help fostering human development and help citizens better integrate to labor markets in a more diversified economy. Five major problems are identified in this regard: (i) an insufficient quality of health despite of universal access, (ii) a gap between formal education outcomes and both international academic standards and qualifications demanded by employing firms, (iii) the unaffordability of adequate housing for low-income groups, (iv) the deficiencies of the water and sanitation infrastructure, and (v) the deteriorating conditions of citizen security.
- 3.20 **Quality of health services is insufficient to address the challenges of maternal and infant mortality and the diffusion of non-communicable diseases (NCDs).** Maternal and infant mortality remain a challenge despite of the country's high income level and universal access to public health services. Maternal mortality rate is 46 deaths per 100,000 live births, while the infant mortality rate is 25 deaths per 1,000 live births.<sup>81</sup> High mortality rates are due to public hospitals using outdated protocols for labor, birth, postpartum care, and newborn care, which are not based on current research and modern practices.<sup>82</sup> In particular, infant mortality chiefly occurs due to prematurity and outdated practices to detect risk factors in prenatal consultations and to carry out high-risk births. The NCDs account for 80 percent of deaths and mainly include heart disease, hypertension, cerebrovascular

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<sup>79</sup> Indicators assessed are property rights, costs of doing business, business sophistication, supporting regulation, female headed households, and supplier diversity initiatives (the only one where the country exceeded the LAC average).

<sup>80</sup> CII/GN-310, IIC Business Plan 2016-2019, November 2015.

<sup>81</sup> There rates are high compared to OECD countries, as in most of them the maternal mortality rate is below 8 and the infant mortality rate is below 20 (CIA Factbook).

<sup>82</sup> Outdated practices remain in place concerning labor and birth, according to interviews with birth attendants and health personnel in Trinidad conducted in April 2015; e.g., laboring women are kept lying down in bed and are not allowed to have a support person, or eat solid foods, and delivery occurs with the women's legs in stirrups. Furthermore, protocols on postpartum and newborn care are not being followed due to weak supervision and training. For instance, national guidelines encourage the initiation of breastfeeding before discharge from hospital; however, according to Unicef (Statistics at a Glance), in 2013 only 41.2 percent of newborns actually initiated breastfeeding, 12.8 percent were exclusively breastfed in their first six months, and 83.4 percent were introduced to solid, semi-solid, of soft foods in their first six to eight months.

disease, diabetes, cancer, and chronic respiratory illness.<sup>83</sup> NCDs tend to occur prematurely and therefore affect individuals still active in their working life, imposing an estimated loss of 383,254 Disability-Adjusted Life Years (which is the largest figure on a per capita basis among Caribbean countries).<sup>84</sup> Risks of NCDs are associated to widespread life habits and behavior in Trinidad and Tobago like alcohol use, physical inactivity, and obesity-prone diets, including among children.<sup>85</sup> In addition, the public health system's approach to NCDs is inadequate inasmuch it heavily focuses on treatment of NCDs, as opposed to screening and prevention.<sup>86</sup> Other weaknesses of the public health system, most notably the lack of primary care staff and reliable health information management systems, also affect its effectiveness and efficiency in dealing with maternal mortality, infant mortality, NCDs. Shortages of primary care staff result from non-competitive remunerations offered by public health institutions, as well as from low staff retention in the absence of a structured career path.<sup>87</sup> The Regional Health Authorities are constrained in their capacity to exchange information, share diagnostics, and monitor outputs because they use a paper-based medical record system, which is susceptible to inaccurate patient data recording or the outright loss of records.<sup>88</sup> To address these weaknesses, the Government has expressed interest in introducing PPP models to promote private sector involvement in the management, operation, and maintenance of public hospitals, e.g., the Couva Hospital and Training Facility.

- 3.21 Quality of primary and secondary education fails to provide students with updated knowledge and skills that meet international academic standards, while higher education (including on-the-job training programs) is not adequately aligned with the demands of employing firms in the labor market.** Universal access to a full education cycle—either free-of-charge or subsidized and including early childhood education—is a major achievement for Trinidad and Tobago.<sup>89</sup> Nevertheless, learning outcomes are subpar: evidence from the 2009 Program for International Student Assessment (PISA) and the 2011 Progress in International Reading Literacy Study (PIRLS)

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<sup>83</sup> Theodore, Karl. (2011). Chronic non-communicable diseases and the economy. HEU Center for Health Economics at UWI.

<sup>84</sup> World Health Organization; Global Health Estimates; Disease Burden. Preliminary estimates of the economic burden from NCDs related to diabetes, hypertension, cancer, and respiratory disease are more than US\$900 million, including a US\$570 million loss due to reduced productivity related to diabetes and hypertension mortality and morbidity (Economic Burden of Non-Communicable Diseases in Trinidad and Tobago: Preliminary Estimates, RTI International, May 2016).

<sup>85</sup> Trinidad and Tobago Ministry of Health and Pan-American Health Organization (2012). Trinidad and Tobago Chronic NCD Risk Factor Survey.

<sup>86</sup> A focus on NCD treatment eventually increases the burden on public finances. For instance, the public expenditure on drugs for CVD, diabetes, cancer, and hypertension grew from US\$5 million in 2004 to US\$62 million in 2011 (Ministry of Finances, 2011, Budget Estimates of Development Program). Beneficiaries of the Chronic Disease Assistance Program—which provides free prescription drugs to treat chronic diseases—rose from 200,000 in 2009 to 680,000 in 2012 (Ministry of Health, 2012, Evaluation of the CDAP Program).

<sup>87</sup> The 2013 Human Resources for Health Assessment, conducted by the Trinidad and Tobago Ministry of Health and Pan-American Health Organization, found that 55 percent and 34 percent of vacancies for physicians and nurses, respectively, remained unfilled. Nurses, in particular, leave the public sector to work in the private sector or even abroad. Insufficient remunerations relate to a low level of public health expenditure for regional standards: Trinidad and Tobago's public health spending represents 2.6 percent of GDP, below Jamaica's 3.4 percent of GDP and Barbados' 3.2 percent of GDP.

<sup>88</sup> TT-L1039 Health Services Support Program. International evidence demonstrates that Health Information Management Systems can improve the quality of care, enhance clinical decisions, modernize administrative processes, detect potential medical prescription errors, and generate significant healthcare delivery cost savings (Blaya et al., 2010; E-Health Technologies Show Promise in Developing Countries. Health Affairs; and Girosi et al., 2005, Extrapolating Evidence of HIT Savings and Costs. Rand Corporation).

<sup>89</sup> Spending in public education amounts to 3 percent of GDP, against the Latin America's average of 4.9 percent of GDP.



indicate Trinidad and Tobago's student performance is poor relative to OECD countries.<sup>90,91</sup> To address some of these issues, the Ministry of Education conducted a diagnostic and concluded that the primary curriculum, which dated back to 1998 and 2004, lacked "currency and articulation with other levels of the education system" and did not address the needs of students from different backgrounds and with different learning needs.<sup>92</sup> In addition, the curriculum did not develop in students the skills and competencies such as ICT competency, critical thinking, and problem solving.<sup>93</sup> Thus, while a new curriculum was designed in 9 subject areas, its implementation is challenging because the Ministry lacks capacity and resources to train principals and teachers in the 530 primary schools under its purview. In addition, public primary schools often have inadequate infrastructure that is not conducive to better learning.<sup>94</sup> For higher education students, there is a visible gap between the knowledge and skills they are imparted and those actually demanded by employers in the labor market. According to the World Bank Enterprise Survey 2015, a poorly educated workforce was deemed the major obstacle for making business in the country by nearly 40 percent of the surveyed firms. Programs such as the Government Assistance for Tuition Expense (GATE) and the Scholarships for Advanced Training (SAT), which target funding to tertiary education, have expanded access to higher education, e.g., more than 190,000 students benefitted from GATE since 2004.<sup>95</sup> Even though GATE and SAT intend to target funding on the basis of national skill needs, the enterprise survey suggests the quality and pertinence of the skills imparted do not adequately match the needs of employing firms.<sup>96</sup> Furthermore, there is a concern related to the emigration incidence among program beneficiaries, because an estimated 79 percent of the Trinidadian labor force with tertiary education migrated to OECD countries between 1965 and 2000.<sup>97</sup> Other programs like the On-the-Job-Training (OJT) and the Community-based Environmental Protection and Enhancement Programme (CEPEP) offer opportunities for on-the-job training and public employment, but often in low-productivity job; thus, the beneficiaries still face difficulties to transition to the workforce in the private sector. Overall, there is limited monitoring and evaluation of education, apprenticeship, and public employment programs in terms of effectiveness. In addition, these programs lack adequate coordination with the Trinidad and Tobago National Employment Service that intends to improve matching between job-seekers and employers in both the public and private sectors.

### **3.22 Access to housing of adequate quality standards is limited for low-income groups, leading to extended informal settlements lacking basic services.** Despite the

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<sup>90</sup> Among the 65 countries that participated in the 2009 PISA, Trinidad and Tobago ranked 52nd in both Reading and Mathematics, with average scores of 416 and 414, respectively, which are below the OECD average scores. Furthermore, 45 percent of the 15-year old students assessed did not attain the baseline proficiency level 2 in Reading, compared to 19 percent of OECD's students. In the 2011 PIRLS, Trinidad and Tobago scored 471 against the international average score of 500.

<sup>91</sup> In addition, learning is unequal; the 2009 PISA showed that 75 percent of the more affluent students reached the baseline proficiency level 2 in Reading, while only 40 percent of the poorer students did. Some public schools have traditionally catered to students from elite backgrounds, thus raising equity issues (De Lisle et al., 2010).

<sup>92</sup> Ministry of Education, Curriculum Planning and Development Division. 2015. "Primary Curriculum Reform". IDBdocs 4072-8493.

<sup>93</sup> The University of the West Indies, School of Education. 2016. "Independent Review of the Primary School Curriculum Revision Exercise for the Ministry of Education" IDBdocs4072-8455.

<sup>94</sup> Raupp et al. (2015) IDBdocs 4017-3683 and Jackson (2016) IDBdocs 4010-3912.

<sup>95</sup> GATE provides financial assistance for eligible citizens pursuing approved tertiary level programs, while SAT finances undergraduate and postgraduate degrees in approved programs to Trinidad and Tobago citizens studying in the country or abroad. See CDC chapter 3 for an evaluation of these programs. Budgetary allocations to GATE and SAT amounted to nearly 0.5 percent of GDP in 2015. The Government intends to reform GATE by adopting a cost sharing approach and introducing means testing whereby students will receive a share of the tertiary education tuition depending on their families' income.

<sup>96</sup> In view of the potential mismatches between tertiary curricula and required skills in the labor market, the Government has recently appointed a task force to revise the GATE's targeting scheme and set criteria for eligibility of programs and institutions.

<sup>97</sup> See Mishra, 2006, Emigration and Brain Drain: Evidence from the Caribbean, IMF WP06/25.

expansion of real estate developments and mortgages since the early 2000s, an acute housing deficit remains and low-income groups cannot afford quality shelters.<sup>98</sup> During the commodity-price booms, real estate prices grew faster than average wages and made housing unaffordable for low-income households.<sup>99</sup> Since the 2008 financial crisis the private sector has reduced housing construction vis-à-vis the State-related companies (e.g., the Housing Development Corporation), who have better catered the middle- and upper-income segments of the housing market. Currently, fiscal and housing policies continue to support more housing ownership relative to rental.<sup>100</sup> In addition, policies do not encourage high-density housing (i.e., apartment buildings that save on land and provision of service infrastructure) relative to land-intensive, single-family, detached homes.<sup>101</sup> This constrains opportunities for private construction companies as they hold development lands in small quantities while the State and state-owned enterprises own half of the available land. In turn, the government-sponsored construction programs have not received sufficient budgetary resources to meet the demand from low-income households who cannot afford new dwellings built by the formal construction sector, nor qualify for mortgage finance.<sup>102,103</sup> As a result, squatting and informal settlements expanded significantly since the early 2000s. The Land Settlement Agency estimates 55,000 households are squatting on State lands and 30,000 households on private lands, and many do not meet the legal eligibility criteria to request the regularization of land tenure under provisions of the 1998 Law 25.<sup>104</sup> Living standards of these households are low because informal settlements exhibit irregular and unpaved roads as well as poor construction and sanitation conditions, lacking piped water, WC toilets, sewer connections, and drainage.<sup>105</sup>

### **3.23 Deficient water and sanitation services, particularly in urban areas, pose health risks and damage environment, logistics, and mobility.**<sup>106</sup> More than 90 percent of the population has access to water, sanitation, and solid waste collection services. However, serious deficiencies concerning quality and reliability of service pose risks to public health

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<sup>98</sup> Challenges in the housing sector include not only solving the existing deficit but also satisfying the demand for housing going forward. According to the National Spatial Development Survey, no less than 5,000 new units per year should be built in order to accommodate expected population growth and family life patterns over the next twenty years. Housing Development Corporation data show that only one-quarter of that figure is currently being met by public housing programs.

<sup>99</sup> The house price-to-wage ratio has been consistently above 10 in the last two decades, above the affordability benchmark of 4.

<sup>100</sup> The Government policy has typically favored home ownership through mortgage interest tax relief subsidies and the dominance of Ownership over Rental options in the social housing offerings of the HDC. The rationale for this preference is outlined in the Vision 2020 Draft National Strategic Plan: "The state, in partnership with the private sector and international agencies, must facilitate the establishment of new, affordable houses, along with the refurbishment of existing residences in urban communities. This should lead to a high level of home ownership as more citizens opt for purchasing their own homes as opposed to renting or squatting" (p.32)

<sup>101</sup> Census data show that at least since 1990, single family detached homes consistently account for approximately three quarters of all dwelling units.

<sup>102</sup> Public housing construction is limited and did not exceed TT\$338 million in FY2015/16, a decline from the TT\$497 million in FY2014/16 according to Ministry of Finance data. As stated in footnote 95, social housing provides only one-quarter of the required supply of housing.

<sup>103</sup> Auguste et al. (2011) highlight that in Trinidad and Tobago, the public sector housing is expected to be made accessible to lower-income households who work in the informal sector and would be unable to secure a loan from any of the financial institutions. Banks have traditionally been cautious about providing mortgages to an individual lacking fixed income and collateral. The size of the loan is also a factor in that low-income households cannot access loans that would allow them to purchase houses from either the public or the private sector.

<sup>104</sup> Only about 23,000 households applied for Certificates of Comfort, a first step towards regularization of land tenure, within the statutory period of eligibility under Act 25 of 1998.

<sup>105</sup> It is costly to retrofit those dwellings with basic services and utility companies are reluctant to set up hard infrastructure in sites where land tenure rights are unclear. 2011 Census data suggest about a quarter of all households is squatting, based on those who explicitly identified as owning a house on squatted land and home owners who chose not to state their land tenure status. Data also suggest that squatters are twice as likely to lack piped water as households with regular land tenure, and three times more likely to lack a WC toilet.

<sup>106</sup> Data sources for information reported in this paragraph are IDB's TT-L1026 Financial Analysis and Final Report on Water Sector Strategy in Trinidad and Tobago, documents prepared in 2008. Data are broadly unchanged since then because no major investments have been undertaken in the water and sanitation in recent years.

and the environment. Water supply is unreliable as the Water and Sewerage Authority (WASA) provides 24-hour-a-day service to only 22 percent of its customers, while the other users have intermittent access and rely on water storage tanks to cope with recurrent shortages. Aged and poorly-maintained equipment and pipes contribute to the irregular water supply.<sup>107</sup> Drainage infrastructure—developed in the past without consideration of strategic urban planning—is also rather aged. It creates recurrent, severe floods in highly-urbanized areas like Port of Spain, thus negatively affecting mobility and logistics.<sup>108</sup> Wastewater treatment is inadequate, as nearly 70 percent of the population has no access to the central sewerage system and instead relies on septic tanks and soak-aways. Due to inadequate wastewater discharge, river streams used as sources of potable water are at risk of pollution with organic material and pathogens, which severely deteriorates environmental conditions.<sup>109</sup> Overall, low effective tariffs charged by WASA contribute to the deficiencies observed and constrain the financing available to upgrade infrastructure, maintain assets, and improve service delivery.<sup>110</sup> Most water connections are unmetered: only 4 percent of WASA's customer have water consumption metered, chiefly commercial and industrial users. Thus, there are weak incentives for households to conserve water and rationalize consumption.<sup>111</sup>

**3.24 Citizen insecurity related to crime and violence severely undermines opportunities for human development in Trinidad and Tobago.** An opinion survey conducted in 2014 by LAPOP found that 68 percent of Trinidadians identify security as the most important problem facing the country, which is the highest record in Latin America and the Caribbean.<sup>112</sup> The homicide rate is 28 per 100,000 inhabitants, almost five times the global average and the second highest figure among IDB Caribbean member countries.<sup>113</sup> Robbery and burglary rates also exceed global averages. Gang-related murders committed with firearms have increased in the 2000s, with the homicide victims and perpetrators being mostly young males.<sup>114,115</sup> Gangs and drug trade dent individual security in the neighborhoods where gangs operate, as individuals living there are three times more likely to experience a robbery or assault.<sup>116</sup> Violence is visible also in schools and thus negatively

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<sup>107</sup> See IDB's Final Report on Water Sector Strategy in Trinidad and Tobago for an analysis of insufficient investment and maintenance in water by WASA.

<sup>108</sup> Flooding events in Port of Spain impose economic costs estimated at US\$11.6 million a year, affecting more than 600 houses and 1000 commercial buildings.

<sup>109</sup> An Environmental Impact Assessment done for the San Fernando catchment detected extremely high levels of faecal coliforms in receiving waters (above 150,000 Cfu/100mls in the Ciperu River), well above internationally accepted levels (usually varying between 400 and 4,000 Cfu/100mls). A similar problem occurs in the Malabar catchment, where wastewater discharges are situated upstream of the source of potable water that supplies one-third of drinking water produced in Trinidad.

<sup>110</sup> In addition, WASA receives no revenue for 50 percent of the water supplied, which is largely as a consequence of physical losses (leakages) and commercial losses.

<sup>111</sup> Regulation and governance of the water and sanitation sector is deficient. For instance, while there is an economic regulator, there has been no adjustment in tariff since 1993. WASA is the regulated operator but it also hosts the Water Resource Agency (WRA) who regulates the country's water resources, thus creating a potential misuse of resources, e.g., WASA can instruct the WRA to grant permission to increase water abstraction even without due attention to efficiency of water supply and at the cost of environmental damage caused by increased abstraction. There is no national drainage authority and responsibilities to build and maintain drains and watercourses are fragmented.

<sup>112</sup> See <http://www.vanderbilt.edu/lapop>.

<sup>113</sup> UNODC, 2013, Global Study on Homicide.

<sup>114</sup> Gang-related murders increased from 3 percent of all murders in 2000 to 48 percent in 2013, and between 2001 and 2013, 73 percent of all murders were committed with a firearm. Seepersad, R. (2015). Crime and Violence Prevention in Trinidad and Tobago: Baseline Mapping Report, Inter-American Development Bank.

<sup>115</sup> Data provided by the Crime and Problem Analysis Branch of the Trinidad and Tobago Police Service.

<sup>116</sup> In the 2014 LAPOP survey, three-quarters of the population stated that gangs interfere with their daily lives and 42 percent perceived gangs were more active now than they were a year ago. In addition, 21 percent of respondents living in neighborhoods where gangs operate reported some form of criminal victimization in the year prior to the survey, as opposed to just 8 percent of respondents living in neighborhoods without gangs. People living in neighborhoods with gangs were more often victims of robbery and assault (10.9 percent and 13.5 percent) compared with people living in neighborhoods without gangs (3.2 percent and 4.2 percent).

affects teaching and learning conditions. In a recent study conducted in 10 primary schools, 78 percent of children reported being hit by other students, 65 percent being kicked, 40 percent having money taken from them, and 55 percent being hurt using an object (e.g., a stick).<sup>117</sup> One reaction to this violent environment has been a call for corporal punishment to be formally reintroduced in schools, a response that further illustrates the societal tendencies to respond to violence with more violence.<sup>118</sup> Policy interventions to increase citizen's security can then improve living standards and contain the extension of violence towards areas essential for human development like education.<sup>119</sup>

**3.25 This Country Strategy will support the improvement of health and education standards and the provision of better housing, water, and sanitation services to deserving groups.** The CS will focus on:

- (i) supporting policies to reduce maternity and infant mortality and to prevent and control NCDs. Specifically, the CS will support (a) initiatives to increase maternal and child health by scaling up interventions such as the adoption of standardized, modern prenatal, birth, and postnatal care protocols, and the training of qualified personnel in identifying early signs of pregnancy complications, (b) actions to establish national health information management systems (which are necessary for evidence-based decision-making on clinical matters, patient management, continuity of care, and administration of health facilities), (c) initiatives to reorganize and strengthen primary care delivery towards addressing NCDs along with the formulation of national policies on nutrition, physical activity, and alcohol use (including communication campaigns for NCD awareness and behavioral change among the youth), and (d) the development of strategies for recruitment and retention of staff in public hospitals.
- (ii) assisting reforms to education policies to raise academic standards and close gaps between formal education and labor market needs. Specifically, the CS will assist (a) actions by the Ministry of Education to implement the recently-updated curriculum for primary education (including training teachers of selected schools, and preparing coaches for poor-performing students in Reading and Maths), (b) the introduction of improved monitoring and evaluation procedures for education

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<sup>117</sup> Seepersad, R. (2014). Bullying and Victimization in Selected Primary Schools in North Trinidad. Citizen Security Programme, Ministry of National Security and Ministry of Education. The study collected data on victimization and self-reported delinquency from a sample of 1,248 students in 10 primary schools in north Trinidad.

<sup>118</sup> Corporal punishment of children is lawful in public and private schools. In June 2004, the Education Minister released government-commissioned research into indiscipline in schools that recommended the reintroduction of corporal punishment. That research notwithstanding, as of 2014 the official position of the Ministry of Education was that corporal punishment should not be administered in schools.

<sup>119</sup> See paragraph 3.36 for further elaboration. The Justice system and the Police services lack organizational capacity to respond to increasing criminal activity, particularly armed and gang-related violence. The Trinidad and Tobago Police Service crime detection rates are low and have been declining since 2000. In the case of murder, detection rates averaged 64.8 percent between 1990 and 1999, and then plummeted to 13 percent by 2013. The raw numbers of crimes and clearances began to diverge substantially in 2000 when crimes soared, but clearances did not follow. Insufficient organizational capacity to detect and respond to the changing nature and volume of crimes led to declining rates of detection. In addition, poor relations between communities and the Police Service create distrust and discourage crime reporting; this, in turn, hinders the effectiveness of police investigations. Of those criminal cases that make it to trial, only around half result in a conviction: nearly 40 percent of cases in the Magistrates Courts in 2010-2014 and 24 percent of cases in the Supreme Court in 2007-2013 resulted in guilty pleas, while 8 percent and 38 percent respectively resulted in convictions after trial (Seepersad, 2015). Incarceration rates have declined since 2000 but remain high at 259 incarcerated persons per 100,000 people, against the global average of 144 incarcerated persons per 100,000 people. The prisons operate at 118 percent of capacity according to the World Prison Brief, 2013. Nearly half of the prison inmates are pre-trial detainees, and also half of the convicted inmates are incarcerated for non-violent crimes: according to the Trinidad and Tobago Prison Service, in 2013 the daily average number of inmates in all facilities combined was 3,649 and the daily average number of prisoners on remand was 1,926. Of 3,107 total convicted inmates, 211 were incarcerated for breach of immigration, city, or curfew regulations, loitering, obscene language, or breaking a traffic law; 1,379 were incarcerated for possession of cocaine or marijuana or failure to pay child support. Under these conditions, rehabilitation opportunities are limited and the recidivism rate is high at 50 percent.

programs, (c) improved coordination between tertiary education programs (GATE, SAT), apprenticeship and public employment programs (OJT, CEPEP), the National Employment Services, and the private sector, in order to better align the support provided to students with the needs of employing firms, (d) initiatives to rehabilitate and maintain school infrastructure, and (e) improve the collection and analysis of relevant data to inform policies that address low-productivity jobs in the labor market.

- (iii) supporting reforms to legal frameworks and policies to increase housing affordability and construction standards. Specifically, the CS will support (a) the participation of the private sector in land development and housing construction through incentives for multi-family units, rental housing, land assembly, and other housing solutions suitable to all household income levels and both urban and downtown locations, (b) reforms to regulations and statutory requirements that constrain land development and housing upgrading (e.g., the legal minimum residential plot size and the lack of condominium legislation), (c) initiatives to strengthen land governance and public land management, and (d) reforms of legal frameworks to make more households living in informal settlements eligible for land tenure regularization and basic services upgrading, following the model of neighborhood upgrading projects. The IIC will partner with the public sector to incentivize private participation that helps to expand the supply of affordable urban housing, supporting, for example, private sector-led construction of purpose built rental housing on State lands.
- (iv) assisting reforms to legal frameworks and policies to improve service-delivery in the water and sanitation sector. Specifically, the CS will assist (a) initiatives to reduce non-revenue water by improving management and maintenance of the water supply infrastructure; (b) reforms to ensure financial sustainability of water utilities (including reviewing tariffs and rationalizing subsidies); (c) programs to expand the populations' access to centralized sewerage systems; and (d) improvements to water resources management and the development of a drainage strategy to reduce floods in urban areas, including the institutional strengthening of the Drainage Division. Provided that utility companies improve their financial performance, IIC can support private investment in water infrastructure.
- (v) assisting citizen security policies while adopting a multi-sectorial approach to the related challenges. Specifically, the CS will support (a) initiatives to institutionalize a prevention-focused approach to crime and violence in which citizen security policies involve coordination between the Ministries of National Security, Health, and Education; (b) strengthening monitoring and evaluation capabilities at the Ministry of National Security with respect to programs addressing crime and violence, with the objective of better informing the Ministry's strategies for policing and crime prevention; and (c) strengthening data generation, compilation, and analysis concerning citizen security.

**3.26 The IIC and MIF will look for opportunities that complement the IDB's work to foster human development.** The IIC will selectively promote PPP investments, including in the area of health, and the MIF will support PPP design and regulation. The MIF's current focus on inclusive urban centers can assist in formulating solutions to improve access to basic services, thus improving living conditions.

### 3.27 The cross-cutting themes of climate change and gender are fundamental for making further progress on human development.

- (i) **CLIMATE CHANGE:** Climate events affect the living standards and economic opportunities of low-income households in Trinidad and Tobago and thus weigh on human development. Low-income households engage relatively more in productive activities that have a high sensitivity to climatic changes (e.g. fisheries and small-scale agriculture), which then affects their ability to generate income. In addition, they often live in low-quality housing and informal settlements lacking climate-resilient infrastructure and water and sanitation services.<sup>120,121</sup> As far as water and sanitation are concerned, the expected climate change impacts (e.g., sea level rise and increased precipitation events) will affect natural ecosystems and water resources, thus potentially affecting living conditions. In addition, environmental damage currently results from uncontrolled discharge of untreated wastewater to river streams. Actions aimed at adapting to, and mitigating, climate change can then improve human development.<sup>122</sup> In particular, investments to upgrade housing and infrastructure conditions help to build resilience to climate shocks affecting vulnerable groups. The IIC can support climate-resilient housing by working with local partners to provide financing schemes for repairs and upgrades that are environmentally sustainable.
- (ii) **GENDER:** There are gender-based gaps in health and wages in Trinidad and Tobago. Women suffer with more chronic illnesses (including diabetes, hypertension, and auto-immune diseases) than men do, with incidence rates of 25 percent and 19 percent, respectively.<sup>123</sup> These diseases also impact on poor outcomes concerning births and maternal mortality. Compared to other women in LAC, Trinidadian women also suffer a high incidence of cervical cancer (30 cases per 100,000 women, ranking 9th among 32 LAC countries), breast cancer (70 cases per 100,000 women, ranking 11th), and breast cancer mortality (39 cases per 100,000 women, ranking 5th).<sup>124</sup> Deficiencies in health service provision partly explain these outcomes. For instance, in a focus group study conducted in 2013, women cited problems to access health screening services provided by hospitals and NGOs, including services being offered at inconvenient times and places, poor customer service, and violence in their communities.<sup>125</sup> Furthermore, half of the women diagnosed with cervical cancer have never had a Pap test, which could have detected human papilloma virus (HPV) and other sexually-transmitted infections. Regarding wages in the labour market, women are rewarded by nearly 60 percent men's reward, at comparable levels of education. UNDP data on returns

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<sup>120</sup> Floods and erosion of coast line tend to damage those settlements.

<sup>121</sup> The rate of occurrence of communicable diseases could increase with climate change, and those diseases are more prevalent among the poor. See USGCRP, 2016: The Impacts of Climate Change on Human Health in the United States: A Scientific Assessment. Crimmins, A., J. Balbus, J.L. Gamble, C.B. Beard, J.E. Bell, D. Dodgen, R.J. Eisen, N. Fann, M.D. Hawkins, S.C. Herring, L. Jantarasami, D.M. Mills, S. Saha, M.C. Sarofim, J. Trtanj, and L. Ziska, Eds. U.S. Global Change Research Program, Washington, DC, 312 pp.

<sup>122</sup> As elaborated in the Sustainable Development Goals of Clean Water and Sanitation (SDG 6), Sustainable Cities and Communities (SDG 11), and Climate Action (SDG 13).

<sup>123</sup> WHO. Chronic Disease Fact Sheet. [http://www.who.int/chp/chronic\\_disease\\_report/media/Factsheet1.pdf](http://www.who.int/chp/chronic_disease_report/media/Factsheet1.pdf). Men have a higher mortality rate associated with chronic diseases, HIV/AIDS, and respiratory disease, with 43 cases per 100,000 men against 18 cases per 100,000 women.

<sup>124</sup> Ferlay J, Soerjomataram I, Ervik M, Dikshit R, Eser S, Mathers C, Rebelo M, Parkin DM, Forman D, Bray, F. GLOBOCAN 2012 v1.0, Cancer Incidence and Mortality Worldwide: IARC Cancer Base No.11 [Internet]. Lyon, France: International Agency for Research on Cancer; 2013. Available from: <http://globocan.iarc.fr>, accessed on May 16, 2014

<sup>125</sup> Kambon, Asha. 2013. Research Response Women and Service Providers. Diagnostic study carried out for the IDB.

to schooling—measured by the gross national income (GNI) per capita in PPP terms—indicates that women earn an average income of US\$1,838 per year of schooling while men earn US\$ 2,992.<sup>126</sup> Both Trinidadian women and men receive nearly 11 years of formal education, on average, and therefore the wage gap does not reflect differences in education achievement.<sup>127</sup> Instead, the wage gap results from differences in the jobs each gender group tends to do, i.e., there is a gender-based segmentation of the labour market. Working women are employed in low-wage service sectors (82 percent of employed women and 51 percent of men), while working men are employed in high-wage industrial sectors (44 percent of employed men and 15 percent of women).<sup>128</sup> The wage gap is more acute for married women and single-parent women; thus, there is a marriage penalty as well as a motherhood penalty for Trinidadian women participating in the labour market. Overall, in order to close gender gaps in health and wages, policy interventions should improve women’s access to preventive health and promote women’s participation in high-wage segments of the labor markets.<sup>129</sup>

- 3.28 The proposed actions will contribute to the Government’s objectives of improving the quality of human capital, reducing poverty, and providing inclusive infrastructure.** The proposed actions are aligned with the IDB’s Update to the Institutional Strategy 2010-2020. The initiatives to foster human development will help close gaps in social inclusion, equality, and productivity, in line with the policy objectives of the IDB’s Update to the Institutional Strategy 2010-2020. Furthermore, this strategic area coincides with the IIC Business Plan 2016-2019 objectives to expand coverage of goods and services to disadvantaged populations, provide inclusive infrastructure, and create new opportunities.<sup>130</sup>

#### ***D. Further Considerations on Cross-cutting Themes***

- 3.29 CLIMATE CHANGE. Trinidad and Tobago, a small island developing state, is vulnerable to the adverse impacts of climate change.** The Article 4.8 of the United Nations Framework Convention on Climate Change (UNFCCC) recognizes the country is exposed to climate change impacts, most notably sea level rise, temperature increase, and changing precipitation patterns. The Government has stated the expected climate changes will be addressed from the perspective of adaptation and mitigation.<sup>131</sup> In this regard, an IDB study concluded Trinidad and Tobago should implement adaption and mitigation actions which include the mangrove restoration in the two islands, the establishment of a meteorological alert system connected to the weather monitoring system, the development of emergency protocols, the establishment of national building codes, and the use of green roofs.<sup>132</sup>

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<sup>126</sup> UNDP. Gender-related Index: <http://hdr.undp.org/en/content/table-5-gender-related-development-index-gdi>

<sup>127</sup> Reddock, R. 2010. Gender and Achievement in Higher Education. *Journal of Education and Development in the Caribbean*; Vol 12 (1).

<sup>128</sup> Trinidad and Tobago’s 2010 census demonstrated that women laborers were heavily concentrated in low skilled, low paying jobs in commercial and service industries as shop and store clerks, as restaurant workers, workers in catering establishments or as domestic workers in private homes.

<sup>129</sup> See CDC chapter 3 for further elaboration. Interventions should consider redesigning the model of sexual and reproductive health by offering user-friendly, integrated services that address gender gaps in health, as well as strengthening the opportunities for women to participate in the labor market by reducing the motherhood penalty (e.g., through increased publicly-funded ECCE centers).

<sup>130</sup> CII/GN-310, IIC Business Plan 2016-2019, November 2015.

<sup>131</sup> Trinidad and Tobago’s Intended Nationally Determined Contribution (INDC) submitted to the UNFCCC in October 2015. National Climate Change Policy for Trinidad and Tobago, 2011.

<sup>132</sup> IDB, 2014. Policy options for reducing greenhouse gas emissions in the oil, gas and petrochemical industry.

- 3.30 **Trinidad and Tobago also faces a significant challenge concerning its commitment to contribute to reducing global greenhouse gas (GHG) emissions.** The country chiefly produces fossil fuels and heavily subsidizes domestic consumption of energy; thus, reducing GHG emissions is expected to require substantial economic and institutional changes. In particular, meeting the Intended Nationally Determined Contribution (INDC) submitted to the UNFCCC in October 2015 could cost US\$2 billion and involve structural changes in three key economic sectors: industry, transportation, and energy generation.<sup>133</sup> While the adjustment of fiscal policy can reduce distortions created by energy subsidies, the economic diversification can help developing other sectors whose emission profiles are less acute. In line with the Paris Agreement on Climate Change to which Trinidad and Tobago subscribed, there is a strong imperative to shift to renewable and clean energy and to promote energy efficiency.
- 3.31 **The IDBG intends to increase climate finance resources to support the transition towards lower carbon, more resilient economies.**<sup>134</sup> Initiatives and actions to be assisted by the IDBG include: (i) policy reforms across sectors and thematic areas to introduce climate change considerations, e.g., reforms to fiscal and national accounting policies; (ii) policies to establish a multi-sectorial approach to climate resilience and disaster risk management; (iii) efforts to generate, compile, and analyze climate-related information, with the objective of improving decision maker's understanding of climate issues and capacity to act upon; and (iv) capacity building, information dissemination, and public awareness on climate issues. Interventions supported by the IDBG are not confined to the public sector but also include the private sector. The MIF will complement the efforts of the IIC and IDB to support climate resilience measures in inclusive urban centers. In addition, the MIF and IIC can promote partnerships with financial institutions to develop and implement access to green financing for private firms, as well as to improve financial institutions' identification and mitigation of climate risk within their portfolio and asset base. The MIF will continue to support climate smart agriculture solutions. The IIC can also provide financing and advisory services that encourages that adoption of energy efficiency practices and other environmentally sustainable business practices.
- 3.32 **GENDER. Gender and violence are linked by the extended phenomena of intimate partner violence (IPV) and family violence in Trinidad and Tobago.** Official criminal statistics are likely to underrepresent the true magnitude of the IPV and family violence, as it is suggested by studies finding that 65 percent of cases go unreported to the police.<sup>135</sup> Women may be discouraged from reporting because perpetrators are very rarely arrested, among other reasons. Exposure to IPV is higher for low-income women due to the lack of resources to cope with it, including services to report IPV and support victims.<sup>136</sup> Overall,

<sup>133</sup> The INDC sets out the carbon-reducing activities including targets, approaches, estimates and costs. The 2014 IDB study suggests a similar cost of emissions reduction (US\$1.54 billion by 2030) for the oil, gas and petrochemical industry. IDB, 2014. Policy options for reducing greenhouse gas emissions in the oil, gas and petrochemical industry.

<sup>134</sup> The IDBG has set a goal to increase climate-related financing to 30 percent of the IDB/IIC Group's combined total project approvals by December 31, 2020 (IDB AGM Resolution AG-6/16 AND CII/AG-2/16). The Bank has subscribed the Joint Statement by the Multilateral Development Banks at Paris, COP21: "Delivering Climate Change Action at Scale: Our Commitment to Implementation."

<sup>135</sup> The UNDP Citizen Security Survey conducted in 2009 found that 8.3 percent of respondents reported being a victim of domestic violence—this is 6.3 times higher than indicated in official crime data by the Police Service. Self-reported data analyzed by Anyanwu (2011), Rawlins (1998, 2000), and the Women and Development Studies Group (1994) suggest the prevalence of domestic violence in Trinidad and Tobago is substantially higher than that indicated in official statistics.

<sup>136</sup> Benson, Michael et. al. 2003. Neighborhood Disadvantage, Individual Economic Distress and Violence Against Women in Intimate Relationships. *Journal of Quantitative Criminology*; Vol. 19; No. 3, September.



the annual cost of youth violence and sexual and intimate partner violence is estimated to be 2.8 percent and 0.5 percent of GDP, respectively.<sup>137</sup>

- 3.33 The IDB will continue assisting policies addressing violence against women.** The Bank will assist efforts from different angles: (i) support the formulation and approval of the National Policy on Gender (which has been under consideration since 2009), along the lines of the Inter-American Convention on the Prevention, Punishment, and Eradication of Violence against Women; (ii) support the provision of medical, psychological, and legal assistance for victims of intimate partner and family violence; (iii) raise awareness on violence against women; and (iv) efforts to generate, compile, and analyze of gender-disaggregated data around gender violence as well as other constrains to women's development, e.g., through the first national Women's Health Survey.

#### IV. INDICATIVE LENDING FRAMEWORK

- 4.1 The Government's financing needs over the 2016-2020 Country Strategy period would be approximately US\$3.8 billion per annum, on average, equivalent to 15 percent of the 2015 GDP.** Around one-third of these needs are expected to be met through external financing sources, and two-thirds through the domestic debt market. Under the indicative financing scenario described below, the IDB's disbursements would contribute to meet 1.9 percent of the total financing needs, and provide 5.7 percent of the financing sought from external sources.
- 4.2 Under the indicative financing scenario, the IDB could approve US\$50 million per year in new SG operations in 2017-2020.** Approvals will then total US\$200 million over the Country Strategy period. Based on conservative assumptions concerning the execution of the current active portfolio and the new operations to be approved in 2017-2020, the IDB could disburse US\$60 million in 2016, US\$60 million in 2017, and US\$80 million in 2018-2020.<sup>138</sup> Disbursements will then total US\$360 million over the Country Strategy period. On average, the estimated annual debt service is US\$61.4 million, of which principal repayments are US\$50.2 million. Average annual net loan flow and net cash flow are US\$21.8 million and US\$10.6 million, respectively. IDB debt would slightly decrease from 2.6 percent of GDP in 2015 to 2.5 percent of GDP by 2020.
- 4.3 Budget support operations are unlikely to be requested by the Government earlier than 2018.** The Government has issued a sovereign bond in international markets in 2016, securing favorable conditions in terms of maturity and borrowing costs. As the bond offer was oversubscribed by potential investors, the Government may choose to undertake new issuances in 2017 and 2018, although it may possibly face increasingly tighter financing terms. Within legal limits, the Government can also withdraw a limited amount of resources from the Heritage and Stabilization Fund.

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<sup>137</sup> See CDC, chapter 3.

<sup>138</sup> Disbursements in 2017-2020 refer to target figures.

## V. STRATEGY IMPLEMENTATION

- 5.1 **Portfolio execution.** Given the lessons learned in implementation during the previous Country Strategy, the country team will continue to support overall project governance and reinforce project execution capacity, ensuring stakeholder engagement and coordination. Specifically, we will facilitate capacity building and training among stakeholders to help address coordination and governance issues. These efforts will be complemented by other initiatives such as hosting a stakeholder engagement workshop to encourage key decision-makers to buy-in to the project. In addition, we will ensure there are clear and documented procedures for procurement, financial management, and project administration. A Task Force created under the previous strategy will examine execution issues and offer concrete and adaptable solutions to improve execution performance. It will work directly with Project Executing Units (PEUs) to address bottlenecks and formulate solutions to procurement, financial management, engineering, and general project management issues. The Bank will also continue to facilitate knowledge exchanges among PEUs to ensure direct and real time dissemination of execution experience and sound risk management practices. In addition, it is expected that there will be partial cancellations of some existing loan resources early in the strategy period, as part of a collaborative approach with the Government of Trinidad and Tobago to restructure the portfolio.<sup>139</sup> Close attention will be paid to project design, emphasizing readiness for execution. For example, the Bank will allocate Technical Cooperation resources for pre-feasibility studies to support the design of potential transport and housing programs. Programming discussions will focus on the medium term emphasizing the preparatory work required before an operation can be added to the formal pipeline.
- 5.2 **Country Systems.** In line with IDB's Charter, international mandates and various declarations in support of Good Governance to which Trinidad and Tobago is a signatory, the development and use of national country systems in project execution remain a priority. Consistent with the Bank's strategy for expanded use of country systems, the IDB will continue to support the 2014 PFM Reform Strategy's prioritized action plan. Its implementation would ensure the modernization of public finance management structures and improve efficiency, effectiveness, accountability, and transparency in the use of public resources.
- 5.3 The Bank will support country systems through the implementation of the Trinidad and Tobago PFM Strategic Plan and the Strategic Plan of the Auditor General that is being developed and informed by the results of a Supreme Audit Institution Performance Measurement Framework (SAI-PMF) assessment. Specifically, the Bank aims to improve: (i) the strategic allocation, control, and stewardship of public resources; (ii) the information management for evidence-based decision making; and (iii) the institutional independence and mandate of the Auditor General's Department. Key areas include: (a) the implementation of an Integrated Financial Management Information System (IFMIS), which aims to strengthen the budget, treasury, accounting, and reporting subsystems; (b) the reforms to the Internal Audit governance and structural framework, with the objective of enhancing effectiveness in prevention, detection, and reporting of fraud and corruption; (c) the implementation of the new Procurement Law; and (d) the rollout of the Strategy Plan of the Auditor General's Department. Support from the Government will be sought to

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<sup>139</sup> In 2016, there was a partial cancellation and rescoping of the Health Services Support Program TT-L1003 (US\$61.6 million) and also a partial cancellation for the Citizen Security Program TT-L103 (US\$1.73 million). Discussions regarding other potential cancellations for non-performing projects in the portfolio are ongoing.

conduct assessments of the procurement system, a critical first step in order to advance the use of country systems by the end of the CS period.

- 5.4 Table 1 summarizes the status and expectations for the use of fiduciary systems by the end of the CS period.

**Table 1: Use of Country Systems**

IDB Strategic Objective	Use of Country Systems	Baseline 2016	Estimated Use 2020	Foreseen Actions
Institutional Capacity Effectiveness and Efficiency	Budget	100%	100%	Monitoring of enhancements
	Treasury	100	100	Monitoring of enhancements
	Accounting / Reporting	0%	15%	Monitoring of enhancements and
	Internal Audit	0%	10%	Monitoring of enhancements and
	External Audit	44%	50%	Monitoring of enhancements
	National Informative	0%	0%	Assessment
	Price Comparison	0%	100%	Assessment and Validation
	Contracting of Individual	0%	0%	Assessment
	NCB Partial	N/A	N/A	N/A
	NCB Advanced	0%	0%	Assessment

- 5.5 **Donor Coordination.** The European Union (EU) has been active in the areas of public financial management, innovation, and competitiveness via technical assistance grants for budget support. In each area, there has been open dialogue between the IDB and EU. The Governments of China and Canada are both prominently involved in the health sector via government to government arrangements to construct health facilities. In areas that support the use of country systems, namely procurement and financial management, there is ongoing coordination dialogue with the EU and the United Nations Development Programme, which has been supporting the government on implementation of a new procurement law. The Bank will coordinate with the EU on Public Financial Management and Innovation. With respect to other Multilateral Development Banks, there have been no World Bank (WB) loan programs recently. The WB has maintained dialogue in areas of efficiency of public expenditure and public financial management, and in 2013 completed a Report on the Observance of Standards and Codes in the area of Accounting and Auditing. In 2014, the Caribbean Development Bank approved one loan operation in the area of energy sustainability. At this time, there is only one co-financed initiative (the Caribbean Regional Fund for Wastewater Management – CreW) with the Global Environment Facility and the United Nations Environment Programme. The EU’s Caribbean Investment Facility and the Cofinancing for Renewable Energy and Energy Efficiency framework agreement between IDB and the Japan International Cooperation Agency provide further opportunities for coordinating the development and implementation of co-financed projects.

- 5.6 **IIC and MIF contribution.** In order to identify SG-NSG operational synergies, the IDB will include members of the IIC and MIF in regular portfolio reviews and in identification missions, when deemed necessary by the Country Representative, for the delivery of a comprehensive response to client needs. Generally, opportunities in transport/logistics and access to finance could be considered with the IIC as well as possible financing opportunities to promote SME development. It is expected that the MIF will continue to play a key role as a technical and financing partner to the private sector and civil society.

Sectors for further investment to develop and expand the business ecosystem to be prioritized by the MIF will include a strong focus on: (i) monetizing/commercialization of innovations; (ii) development of nascent and high potential export sectors such as the creative industries, energy services, cocoa and chocolate; (iii) acceleration of SME development and competitiveness, particularly via strategic adoption and leverage of ICT; and (iv) community and other private partnerships to solve issues facing urban communities.

## VI. RISKS

- 6.1 **Macroeconomic risks.** The country possesses sizable buffers: the Heritage and Stabilization Fund, a high level of international reserves, and a low level of external public debt. These buffers can contribute to financing fiscal and external deficits for at least the next 2-3 years. Hence, there is the risk of macroeconomic policy adjustment being postponed as a consequence of political resistance by vested interests to the institutional reforms and budget consolidation program that are necessary to support economic diversification and preserve fiscal sustainability in the medium term. There is also the risk of a further decline in global prices of oil and gas, which could contract government revenues and thus force an abrupt fiscal retrenchment with adverse consequences for vulnerable groups. Macroeconomic risks will be mitigated and monitored by close supervision of economic performance and policies in order to support corrective measures, as well as by assisting the Government in the strategic area of Strengthening Public Sector Institutions and Governance.
- 6.2 **Natural disasters.** The islands are exposed to a wide range of natural hazards (e.g., tropical storms, extreme rainfall, hurricanes, and landslides) and a natural disaster of significant proportions during the Country Strategy period could undermine potential for growth and employment. The Bank will continue to support climate change adaptation and mitigation actions, as well as disaster risk management measures in the public and private sectors, in keeping with the cross-cutting theme of climate change.
- 6.3 **Portfolio execution risks.** Lack of project management capacity, frequent changes to the structure of government agencies, and reassignment of key decision-makers engaged in program execution, may continue to delay implementation and undermine efforts to coordinate agencies and deliver timely results during the Country Strategy period. In order to mitigate these risks, the IDBG will (i) collaborate with project executing teams providing technical support in the areas of procurement, engineering, financial management, and general project management through the Task Force and operations staff during key stages of project execution; (ii) facilitate capacity building through training and knowledge transfer, in order to address weaknesses in project management capacity, increase awareness of procurement practices, and strengthen leadership skills; (iii) engage in frequent stakeholder consultations and communication to ensure buy-in at all levels throughout the program cycle; and (iv) include change management activities in each project plan. While these measures will assist in addressing the execution issues faced by line ministries, the IDBG will also ensure close collaboration with the Ministry of Planning and Development (IDB's Focal Point), including the provision of consultancy support to advise on their coordination efforts. In light of the implementation challenges, a portfolio restructuring exercise will likely be necessary during the Country Strategy period

to ensure that all operations—loans in particular—achieve the development objectives intended for Trinidad and Tobago.

- 6.4 In addition, recognizing that there are knowledge and data gaps that limit the effectiveness of change within the Government, the IDBG intends to support the generation and analysis of data, with the view of promoting evidence-based decision making and evaluation practices. In this regard, the IDBG will collaborate to strengthen statistical agencies, and will include data gathering components in projects whenever possible.

**ANNEX I: Results Matrix**

<b>Government Priorities</b>	<b>Strategic Areas</b>	<b>IDB Strategic Objectives</b>	<b>Expected Results</b>	<b>Indicators</b>	<b>Baseline (Source)</b>
Economic and Social Stability	1. Strengthening Public Sector Institutions and Governance	1.1 Preserve fiscal sustainability	Increase non-energy revenue	Central Government non-energy revenue, as a % of GDP	20.5% (Central Bank of Trinidad and Tobago FY2014/15)
				Value Added Tax revenue, as a % of GDP	4.2% (Central Bank of Trinidad and Tobago and Ministry of Finance FY2014/15)
				Corporate Income Tax paid by non-oil companies, as a % of GDP	5.5% (Central Bank of Trinidad and Tobago and Ministry of Finance FY2014/15)
				Tax expenditures benefitting non-energy sectors, as a % of GDP	N/A
		Reduce volatility of total revenue	Standard deviation of the annual percentage variation of total revenue, over a 5 year period	5.6% (Central Bank of Trinidad and Tobago, FY2009/10 to FY2014/15)	
		Reduce transfers and subsidies	Transfers and subsidies, as a % of GDP	18.8% (Ministry of Finance FY2014/15)	
		Improve PEFA rating concerning multi-year perspective in fiscal planning, expenditure policy, and budgeting	PEFA Indicator PI-12 multi-year perspective in fiscal planning, expenditure policy, and budgeting	C+ (PEFA 2013)	
		1.2 Improve efficiency of public expenditure	Improve monitoring and evaluation of public management	PRODEV Index of monitoring and evaluation	1.3 (PRODEV Evaluation Tool 2013)

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)	
			Improve program and project management of public investment	PRODEV Index of ex ante evaluation and prioritization of investment projects	Intermediate Score in range 1.5 to 3 (PRODEV Evaluation Tool 2013)	
			Improve efficiency of public expenditure	World Economic Forum's Global Competitiveness Report - Index 1.08 Wastefulness of government spending	2.5 (WEF GCR 2016-2017)	
			1.3 Strengthen public financial management systems	Improve PEFA rating concerning procurement	PEFA Indicator PI-19 Competition, value for money, and controls in procurement	D (PEFA 2013)
				Improve PEFA rating concerning budget execution reporting	PEFA Indicator PI-23 Availability of information on resources received by service delivery units	D (PEFA 2013)
				Improve Open Budget Initiative rating	Open Budget Index	34 (OBI 2015)
An Enabling Business Environment	2. Promoting Private Sector Development	2.1 Improve infrastructure, mobility, and logistics	Improve quality of road infrastructure	World Economic Forum's Global Competitiveness Report - Index 2.02 Quality of roads	4.1 (WEF GCR 2016-2017)	
				% of highways, main roads, and secondary roads in poor or critical conditions (with International Roughness Index > 6)	32% (Ministry of Works and Transportation, 2009)	
			Improve logistics	World Bank's Logistics Performance Index – Overall LPI Score	2.4 (WB LPI 2016)	
				UNCTAD's Liner Shipping Connectivity Index	17.39 (UNCTAD LSCI 2016)	
		2.2. Improve the regulatory framework for doing business	Shorten overall distance to the frontier in Doing Business Report	World Bank's Doing Business Report – Overall Distance to the Frontier	62.58 (WB DBR 2016)	
			Reduce regulation burden	World Economic Forum's Global Competitiveness Report - Index 1.09 Burden of government regulation	3.2 (WEF GCR 2016-2017)	

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
		2.3. Improve trade facilitation	Shorten distance to the frontier in Doing Business Report for the Trading across border score	World Bank's Doing Business Report – Distance to the Frontier for the Trading across borders score	62.01 (WB DBR 2016)
		2.4 Improve access to finance for private firms	Increase credit to private sector provided by banks	Credit to the private sector provided by the banking system, as a % of GDP	34.3% (Central Bank of Trinidad and Tobago, 2015)
			Increase access to credit for SME	SMEs that have a line of credit or a loan from a financial institution, as a % of surveyed SMEs	60% (Compete Caribbean Enterprise Survey, 2013)
		2.5 Promote development of renewable energy sources	Increase the share of renewable energy sources in the energy matrix	Share of renewable energy sources in the energy matrix, in %	NA
		2.6. Improve security for business	Reduce economic cost of security risks for business	World Economic Forum's Global Competitiveness Report - Index 1.14 Business costs of crime and violence	2.5 (WEF GCR 2016-2017)
				Crime-related costs incurred by firms, as a % of annual sales	3.9 (World Bank Enterprise Survey, 2010)
Development and Protection of Human Capital	3. Fostering Human Development	3.1 Improve public health outcomes	Reduce impact and risk factors of Non-Communicable Diseases	Mortality rate due to non-communicable diseases, as number of deaths per 100,000 population	740 (Male) 417 (Female) (PAHO/WHO 2014, NCDs: ischemic heart disease, cerebrovascular disease, hypertensive diseases, cancers, diabetes, chronic respiratory illness)
				Prevalence of overweight/obesity among primary school age children (% of children 5-13 years)	23% (TT NCDs Risk Factor Survey 2014)



Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
				Prevalence of diabetes (% population ages 20-79)	13.6% (World Development Indicators 2015)
			Reduce maternal and infant mortality	Maternal mortality rate per 100,000 live births	65 (World Health Organization 2015)
				Infant mortality rate per 1,000 live births	25 (UNDESA 2015)
		3.2 Improve learning outcomes	Increase access to early childhood education	Gross enrollment rate in Early Childhood Care and Education (ECCE) centers	84% (Ministry of Education, Planning Unit, 2009)
			Improve quality of primary education	Number of primary schools applying the updated curriculum	NA
			Improve student performance	Percentage of students achieving the Intermediate and High Benchmark in PIRLS	53% (PIRLS, 2011)
		3.3 Increase access to quality housing	Increase availability of government-supported housing	Number of housing units built directly by the public sector or in partnership with private sector (per annum)	1,400 (Housing Development Corporation, 2015)
			Increase access to basic services in informal settlements	Percentage of squatter households with upgraded basic services (roads, drainage, potable water)	14% (Land Settlement Agency)
		3.4 Improve water and sanitation services	Increase reliability of water services	Percentage of WASA's customers that have 24-hours-a-day, continuous provision of water	22% (Water and Sewage Authority, 2008)
			Increase access to sanitation services	Percentage of WASA's customers connected to the centralized sewerage network	30% (Water and Sewage Authority, 2008)
			Increase coverage of operating expenses with operating revenues	Operating revenues as % of operating expenses	37% (Water and Sewage Authority, 2008)

### ANNEX II: Country Systems Matrix

IDB Strategic Objective	Expected Results	Indicator	Baseline (2016)	Indicative Target	Timing
Strengthening and use of country systems	Increased use of financial management sub systems (accounting and reporting, internal audit and external control)	a) % of IDB projects using the accounting and reporting subsystem b) % of IDB projects using the internal audit subsystem c) % of IDB projects using the external control subsystem	a) 0% of IDB projects using the accounting and reporting subsystem b) 0% of IDB projects using the internal audit subsystem c) 44% of IDB projects using the external control subsystem	a) 15% of IDB projects using the accounting and reporting subsystem b) 10% of IDB projects using the internal audit subsystem c) 50% of IDB projects using the external control subsystem	<b>At the end of CS period</b>
	Increased use of procurement sub systems (shopping)	a) % of IDB projects using the shopping subsystem	a) 7% of IDB projects using the shopping subsystem	a) 100% of IDB projects using the shopping subsystem	<b>At the end of CS period</b>

**ANNEX III: Main Economic and Social Indicators**

	2010	2011	2012	2013	2014	2015
<b>Real Sector and Prices</b>	(Annual percentage changes, unless otherwise specified)					
Real GDP /1	-0.2	-1.3	0.3	2.1	0.8	-2.1
Real GDP - Energy /1	1.8	-3.7	-1.9	0.1	-1.9	-4.9
Real GDP - Non-energy /1	-1.8	0.6	1.8	3.4	2.8	-0.6
Headline Inflation	10.5	5.1	9.3	5.2	5.7	4.7
<b>External Sector</b>	(In percentage of GDP, unless otherwise specified)					
Exports (merchandise)	53.4	61.2	52.5	68.8	50.4	39.0
o.w. Energy Exports	44.8	51.6	39.8	55.7	41.9	30.4
Imports (merchandise)	30.9	38.9	47.4	46.3	39.1	34.2
o.w. Energy Imports	12.7	17.6	22.7	26.2	19.3	11.9
Trade Balance (merchandise)	22.5	22.3	5.2	22.4	11.4	4.8
Services Balance	2.3	-2.6	-2.7	-1.6	-1.6	-2.7
Income Balance	-5.1	-12.6	-13.8	-8.3	-8.4	-2.3
Current Transfers (net)	0.1	0.1	0.1	0.1	-0.1	-0.2
Current Account	19.8	7.3	-11.1	12.5	1.3	-0.4
Capital and Financial Account	-17.8	-4.2	8.6	-9.7	3.3	-5.2
Overall Balance	2.0	3.1	-2.5	2.9	4.6	-5.5
Variation in Int'l Reserves (US\$ billion)	0.4	0.8	-0.6	0.8	1.3	-1.5
<b>Central Government (on a FY basis) /2</b>	(In percentage of FY GDP)					
Revenue and Grants	34.0	31.5	31.3	30.8	33.6	32.7
o.w. Energy Revenues	17.6	18.1	16.9	15.5	16.2	10.9
Current Expenditure	28.9	27.6	28.2	28.8	31.3	31.9
o.w. Transfers and Subsidies	17.4	16.6	17.3	17.6	20.0	18.8
Capital Expenditure and Net Lending	5.0	4.6	4.4	4.9	4.9	5.0
Primary Balance	2.3	1.2	0.5	-1.3	-0.8	-2.4
Overall Balance	0.1	-0.7	-1.4	-2.9	-2.6	-4.2
<b>Debt Indicators (on a FY basis) /2</b>						
Net Public Sector Debt	35.3	31.2	39.4	39.1	40.9	45.4
CG External Debt	7.7	7.2	5.9	8.2	7.9	8.2
CG External Debt Service	1.1	1.0	1.3	0.8	1.1	1.3

Source: Central Bank of Trinidad and Tobago

Notes: 1/ CBTT estimates using QGDP Index

2/ E.g., the figures reported in 2015 correspond to FY2014/15

## ANNEX IV: Indicative Lending Framework

Figures in US\$ million, unless otherwise specified.

	2013	2014	2015	2016	2017	2018	2019	2020	Average 2016-2020
Approvals	162.1	111.1	66.9	0.0	50.0	50.0	50.0	50.0	40.0
Disbursements (target)	48.9	21.4	50.6	60.0	60.0	80.0	80.0	80.0	72.0
Repayments (principal)	47.6	40.3	39.3	43.0	52.0	52.0	52.0	52.0	50.2
Net loan flow	1.3	-18.9	11.3	17.0	8.0	28.0	28.0	28.0	21.8
Subscriptions and contributions	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital flow	1.3	-20.4	11.3	17.0	8.0	28.0	28.0	28.0	21.8
Interest and charges	11.2	10.6	10.5	10.0	11.0	11.0	12.0	12.0	11.2
Net cash flow	-9.9	-31.0	0.8	7.0	-3.0	17.0	16.0	16.0	10.6
IDB Debt	637.6	618.7	630.0	647.0	655.0	683.0	711.0	739.0	
IDB Debt (% of GDP)	2.6	2.6	2.6	2.8	2.7	2.7	2.6	2.5	
IDB Debt (% of Public External Debt)	25.0	25.0	25.5	23.3	20.7	19.5	18.3	17.1	

Source: IDB staff calculations.

Notes: (1) Disbursements in 2017-2020 refer to target figures.

## ANNEX V: Development Effectiveness Matrix

### COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

#### COUNTRY STRATEGY: TRINIDAD AND TOBAGO, 2016-2020

##### STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

##### EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	89%
- That provide corresponding <b>policy recommendations</b>	78%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	95%
- The indicators are outcome indicators and are SMART	82%
- The indicators have baselines	92%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

\* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

**CS Diagnostic:**

As part of the Country Strategy 2016-2020, a Country Development Challenges diagnostic was presented, under the title "Trinidad and Tobago: Country Development Challenges". The CS diagnostic is comprehensive and based on empirical evidence. **The diagnostic identifies 3 priority areas for Bank intervention: (i) strengthening public sector institutions and governance; (ii) promoting private sector development; and (iii) fostering human development.**

- The diagnostic clearly identifies and dimensions, based on empirical evidence, 100% priority area's specific constraints and challenges.
- The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 89% of the priority areas.
- The diagnostic provides corresponding policy recommendations for Bank actions, which are based on empirical evidence, for 78% of the priority areas.

**Results matrix:**

The section of the Results Matrix corresponding to the new strategic area includes **13 strategic objectives for Bank action, 29 expected results and 38 indicators to measure progress.**

- 100% of the strategic objectives are clearly defined.
- 100% of the expected outcomes are clearly defined.
- 95% of the CS Objectives are directly related to the main constraints identified in the Diagnosis.
- 82% of the indicators used are SMART.
- 92% of the indicators have baselines.

**Country Systems:**

The Bank will support country systems through the implementation of the Trinidad and Tobago PFM Strategic Plan and the Strategic Plan of the Auditor General that is being developed and informed by the results of a Supreme Audit Institution Performance Measurement Framework (SAI-PMF) assessment. Specifically, the Bank aims to improve: (i) the strategic allocation, control, and stewardship of public resources; (ii) the information management for evidence-based decision making; and (iii) the institutional independence and mandate of the Auditor General's Department. Key areas include: (a) the implementation of an Integrated Financial Management Information System (IFMIS), which aims to strengthen the budget, treasury, accounting, and reporting subsystems; (b) the reforms to the Internal Audit governance and structural framework, with the objective of enhancing effectiveness in prevention, detection, and reporting of fraud and corruption; (c) the implementation of the new Procurement Law; and (d) the rollout of the Strategy Plan of the Auditor General's Department. Support from the Government will be sought to conduct assessments of the procurement system, a critical first step in order to advance the use of country systems by the end of the CS period.

**Vertical logic.** *The CS has vertical logic.*

**RISKS.** This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.

The Strategy identifies three risks: (i) macroeconomic; (ii) natural disasters; and (iii) portfolio execution. Mitigation and monitoring measures have been identified for all the mentioned risks.

**ANNEX VI: Management Response to Country Program Evaluation Recommendations** <sup>140</sup>

Recommendation	Management's Response
<p><b>1. Rethink the engagement strategy with Trinidad and Tobago and work with country counterparts to design a country program that is commensurate with the country's institutional capacity and provides technical and financial support on a scale the country is able to use.</b></p> <p>a) Be more selective and consider less complicated and more strategically focused loans and grants that provide a lower-risk entry point into difficult reform areas.</p> <p>b) Invest in wide consultation to strengthen program ownership and ensure that all operations are aligned with the national and sector policy frameworks.</p> <p>c) Conduct more robust risk analysis as part of program design.</p>	<p><b><u>Partially Agree.</u></b></p> <p>Management agrees that there is a need to rethink the engagement strategy. The Bank has placed increased emphasis on addressing portfolio issues. In designing the country program, Management is mindful of the need to consider structural and systemic challenges. These challenges will continue to inform the preparation and design of reforms and investment loans.</p> <p>a) Management believes that the Bank could be more selective and strategically focused with its technical and financial support in this case. That said, Management partially agrees with the recommendation of considering less complicated loans and grants bearing in mind the need to work jointly with the Government to identify ways to simplify the design of programs that address complicated development challenges during the new CS period.</p> <p>b) Management agrees with the need for wider stakeholder consultation throughout the CS cycle, to align with areas of mutual interest, especially when undertaking difficult reform. Such actions would also help to address the risks associated with variable levels of stakeholder commitment due to frequent changes in public sector structure and personnel.</p> <p>c) Management also agrees with the need for more robust risk analysis earlier in the identification stage with a view to more strategic deployment of resources for project design and execution and building project cycle management systems. This may require additional investment in terms of time, effort and cost at the front-end by the Bank, in particular access to grant and Technical Cooperation (TC) resources. One good use of those resources is demonstrated, for example, through an ongoing consultancy, financed under a C&amp;D<sup>141</sup> Action Plan with full-time assignment at the Ministry of Planning &amp; Development for the purpose of improving the quality of project design and supporting efforts by Project Executing Units (PEUs) to accelerate the pace of execution of the IDB-financed portfolio.</p>
<p><b>2. Verify the implementation readiness of all investment projects before loan approval.</b></p>	<p><b><u>Partially Agree.</u></b></p> <p>Management agrees and takes the opportunity to inform that the Bank is engaging with the Government</p>

<sup>140</sup> The Matrix presented in this Annex corresponds to the document RE-495-4 distributed to the Executive Directors on December 6, 2016.

<sup>141</sup> Technical cooperation resources approved annually for small and vulnerable countries to support, for example, project preparation, execution and monitoring.

<p>a) Establish metrics and milestones to ensure that project design is comprehensive and complete, that major technical inputs for project disbursement eligibility have been delivered, that key requirements for project implementation have been addressed, and that potential bottlenecks (such as land acquisition) have been resolved.</p> <p>b) Identify entities and core staff to be involved in projects, and ensure that coordination mechanisms are operational.</p> <p>c) Define realistic delivery schedules and set benchmarks for cancelling slow-disbursing operations.</p>	<p>on potential mechanisms to improve implementation capacity. A good example is the Project Leadership Series that is being implemented to strengthen the capacity of PEUs for Bank-financed operations and to build awareness of project design and implementation within key government departments.</p> <p>In addition, using C&amp;D Action Plan resources, Vice President for Countries (VPC) execution resources and administrative budget, the Bank provided consultant support in the form of direct hands-on project management, procurement, financial management and engineering services to complement the work of the PEUs. The Bank has also provided direct support to the government Focal Points/Counterparts to enhance capacity to manage the portfolio and the relationship with relevant PEUs and the Bank. The actions described above are expected to strengthen executing capacity during the upcoming CS cycle. Given frequent changes in staffing within the public sector, it would be important to address the sustainability of these efforts.</p> <p>a) Management agrees with this sub-recommendation. During the loan preparation phase, the Bank will explore the following with the Government as guiding principles for designing Sovereign Guaranteed (SG) lending, as applicable:</p> <ul style="list-style-type: none"> <li>i. identify core project staff for PEUs and, where necessary, incorporate project execution within the performing Ministry;</li> <li>ii. use a project readiness checklist tool to ensure that impediments to execution, like land acquisition, are dealt with early in the project preparation process; and</li> <li>iii. develop broader consultation mechanisms with public, private and civil society stakeholders.</li> </ul> <p>The new Country Strategy will consider all of the above. Management notes that the examples of structural bottlenecks may be better characterized as design pre-requisites that help to better inform the scope and components and reflect a more realistic timeline for achieving project results.</p> <p>b) The Bank will use project eligibility review meetings as an early mechanism for in-depth assessment of these issues. Given the fluid nature of the structure of the public sector and its impact on coordination and governance arrangements, frequent and ongoing communication to secure buy-in from stakeholders will be necessary, as well as a specific focus on change management techniques in the design of individual operations.</p>
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	<p>c) Management agrees on adjusting project duration, scope and components to reflect a more realistic timeline for achieving results. On the issue of cancelling slow-disbursing operations, however, Management does not wholly agree on unilateral cancellation of operations, should a case arise, as such decisions should take into consideration the country's priorities. As is being done for non-performing loans in the existing portfolio, clear and explicit deadlines for corrective action will be set and formally communicated to the Government. Management believes that the efforts underway to improve portfolio execution will start accruing results and accelerate execution of slow-disbursing operations during the next CS cycle.</p>
<p><b>3. Be more diligent in designing and supervising Bank-financed institutional strengthening activities, ensuring they are sufficient to achieve intended objectives and are appropriately sequenced.</b></p>	<p><b><u>Agree.</u></b></p> <p>The Bank has proactively supported supervision efforts through fostering the use of project management techniques in PEUs, hands-on support in procurement to build PEU capacity for improved quality of deliverables, close accompaniment of PEUs in the preparation of project planning tools and requirements (PEPs, AOPs, etc) and adapting lessons learned from other countries in the Region.</p> <p>Also, institutional strengthening activities have been a part of the dialogue with the Government during technical and fiduciary inspection visits, as well as, in regular supervision and review meetings. Recognizing that past efforts did not translate into envisioned results, however, the Bank will reconsider the approach, which will also address Recommendation 4 below, and seek to re-emphasize the execution of institutional strengthening activities during the Annual Operation Plan approval exercise and monitor those activities more closely during project status review meetings.</p>
<p><b>4. In collaboration with government authorities, explore ways to strengthen and consolidate project selection, preparation, and implementation functions.</b></p> <p>a) Support Government efforts to develop and institutionalize a project management system.</p> <p>b) Consider combining core fiduciary and monitoring functions across programs and/or sectors where economies of scale can be identified.</p>	<p><b><u>Agree.</u></b></p> <p>Management agrees on the need for greater collaboration to strengthen and consolidate project cycle management.</p> <p>a) Cognizant of the ongoing work of other donors in this area, the Bank will seek to identify opportunities to further leverage those efforts. Dialogue with the Government is already underway with a view to creating a unit within the Ministry of Planning and Development that will oversee the IDB SG Portfolio, the Caribbean Development Bank, the United Nations Development Program and the European Union.</p>

	<p>b) The concept of combining core fiduciary and monitoring functions for multiple projects will be offered to the Government for consideration in the context of the dialogue for the new CS. Careful attention will be necessary to avoid increasing the risk of a potential supply driven solution, for which a more robust consultation may be required. In addition to strengthening the institutional capacity of a particular agency or PEU, the Bank will engage with the Government to strengthen inter-agency coordination.</p>
<p><b>5. Engage more deeply with the country's private sector through activities and consultations at various levels, including developing NSG products appropriate to the country context. Better coordinate the work of IDB and IIC to boost private sector development, including strengthening institutional and regulatory frameworks to promote access to finance.</b></p>	<p><b><u>Agree.</u></b></p> <p>The IDB Group (IDBG) has had several interactions at various levels with the local private sector to date, including visits from Senior Management, to better understand the business environment, engage with potential strategic partners and promote the new Inter-American Investment Corporation (IIC) and relevant financial instruments.</p> <p>That said, Management embraces the recommendation to better coordinate the work of the IDB and IIC, while actively working on identifying SG and Non-Sovereign Guaranteed (NSG) synergies through the dual responsibility for both windows that is given to IDBG Country Representatives.</p> <p>The IIC is also implementing mechanisms to increase SG-NSG coordination that will help improve origination efforts, including field presence and opportunities to develop instruments appropriate to the country context. The Bank will also seek to facilitate investments by local companies in other countries in the region. In addition, institutional and regulatory initiatives conducive to improving access to finance will be discussed with the Government as recommended, with a view to facilitating private sector opportunities.</p>
<p><b>6. Proactively support the generation and publication of data by working with the Government to strengthen the national statistical system and to promote transparency and evidence-based decision-making.</b></p>	<p><b><u>Agree.</u></b></p> <p>The Bank has supported studies with the Government on the need to strengthen and reorganize the Central Statistical Office (CSO). The Bank has constantly championed the relevance and importance of this issue and will include it in the Country Strategy discussions.</p>