

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

TRINIDAD AND TOBAGO

PROGRAMME TO STRENGTHEN FISCAL POLICY AND MANAGEMENT IN RESPONSE TO THE HEALTH AND ECONOMIC CRISIS CAUSED BY COVID-19 IN TRINIDAD AND TOBAGO

(TT-L1058)

LOAN PROPOSAL

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ABBREVIATIONS	
CAF	Development Bank of Latin America
CBA	Cost-Benefit Analysis
CEA	Cost-Effectiveness Analysis
COVID-19	Coronavirus Disease 2019
ECG	Evaluation Cooperation Group
ECLAC	Economic Commission for Latin America and the Caribbean
FTA	Fair Trading Act
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MoF	Ministry of Finance
MPD	Ministry of Planning and Development
MSME	Micro, small, and Medium Sized Enterprise
NIB	National Insurance Board
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PBP	Programmatic Policy-Based Loan
PPE	Personal Protective Equipment
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SME	Small and Medium Sized Enterprise
TC	Technical Cooperation
VAT	Value-Added Tax
WHO	World Health Organization

PROJECT SUMMARY
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Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
Republic of Trinidad and Tobago			Amortization period:	20 years
Executing agency			Disbursement period:	12 months
Ministry of Planning and Development (MPD)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	100,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	100,000,000	100	Weighted average life:	12.75 years
			Currency of approval:	United States dollars
Project at a Glance				
Project objective/description: The general objective of the programme is to strengthen the efficiency and effectiveness of fiscal policy and management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives of the programme are: (i) to promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery in the post-pandemic period.				
To meet this objective, the Bank has structured a programmatic Policy-Based Loan series consisting of two technically related and financially/contractually independent operations, as per document Policy-Based Loans: Guidelines for Preparation and Implementation (CS-3633-2).				
Special contractual condition prior to the first and sole disbursement of the first Programmatic Policy-Based Loan (PBP): The first and sole disbursement of loan resources will be subject to the borrower's fulfilment of the policy reform conditions of the first PBP established in the Policy Matrix (Annex II), the Policy Letter , and any other conditions set forth in the corresponding loan contract (see ¶3.4).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Macroeconomic context

- 1.1 The health and economic crisis caused by the Coronavirus Disease 2019 (COVID-19) pandemic is deeply impacting all of the world's countries, which has led to a widespread decline in economic activity.^{1,2} The macroeconomic and social effects of this crisis are expected to be tremendous in Latin America and the Caribbean (LAC), and their magnitude will likely vary depending on the characteristics of each country.³ The International Monetary Fund (IMF)⁴ expects South America to see a substantial drop in export revenue. In Central America and Mexico, the slowdown in the United States (US) economy will curb international trade, foreign direct investment, tourism flows, and remittances. In the Caribbean, the impact will primarily take the form of lower tourism demand due to travel restrictions. Beyond tourism, the steep drop in oil and gas prices is affecting commodity exporters in the Caribbean such as Trinidad and Tobago, through a loss in exports and fiscal revenues.
- 1.2 The downturn in both domestic and foreign economic activity in most countries of LAC is expected to drive down tax revenue, with oil-producing countries seeing a particularly significant drop.⁵ Combined with the anticipated increases in public spending to deal with the fallout from the crisis, this will likely result in considerably higher fiscal deficits. Moreover, the sharp depreciation in some countries currencies⁶ will increase debt service payments and total debt in local currency, weakening fiscal sustainability.⁷ Currency depreciations and the potential shortage of some products due to value chain disruptions would also raise inflation in the region. The soundness of local banking systems could also be affected if the crisis persists, as a result of business bankruptcies, higher unemployment, and sudden stops in capital flows.⁸
- 1.3 In Trinidad and Tobago, the economy is estimated to contract by 4.5% in 2020 as a result of the health crisis; by 2021 economic growth is expected to be 2.6%.⁹ The overall fiscal deficit will increase from 2.9% of GDP in FY2018/2019 to 8.3% for FY2019/2020, influenced by emergency expenditure and the negative effect of

¹ [G. Gopinath \(2020\)](#).

² [W. McKibbin and R. Fernando \(2020\)](#).

³ IDB (2020). Macroeconomic Report.

⁴ [A. Werner, \(2020\)](#).

⁵ Between the start of the year and 20 March 2020, the price of oil (West Texas Intermediate Crude) plunged 63% (Bloomberg).

⁶ Exchange rate depreciation in Brazil, Colombia, and Mexico exceeded 20% in the first three months of 2020 (according to the central banks of the respective countries).

⁷ At end-2019, a typical country in the region required a fiscal adjustment of around 1.6% of Gross Domestic Product (GDP) to stabilize the debt-to-GDP ratio at 57%, although the actual adjustments needed for each country varied widely. IDB (2020). Macroeconomic Report.

⁸ According to the [Institute for International Finance](#), cumulative net capital outflows in emerging markets since late January have surpassed the levels observed during the peak of the 2008 great financial crisis.

⁹ IMF (2020) [World Economic Outlook](#) (2020).

lower oil prices on fiscal revenues.¹⁰ Gross financing needs for the country are estimated at US\$2.5 billion. The fiscal deficit will be financed by domestic and external borrowing, and a drawdown from the sovereign wealth fund.¹¹ As a result, overall public debt is likely to be around 70% of GDP by the end of the fiscal year FY2019/2020. Before the COVID-19 crisis, inflation was subdued due to a depressed aggregate demand. For instance, at the end of December 2019 headline inflation was relatively unmoved, measuring only 0.4% (year-on-year). With a global economic recession following the COVID-19 crisis and a floating exchange rate, inflation is not expected to pick up substantially going forward. In the financial sector key performance indicators reveal that the banking system is well-capitalized, profitable and liquid, but the COVID-19 crisis may affect the quality of the sector's assets. Finally, at the end of March 2020, the country held US\$6.6 billion in foreign reserves, corresponding to 7.5 months of import cover. Table 1 summarizes the main macroeconomic indicators for Trinidad and Tobago.

Table 1. Selected economic indicators

	2015	2016	2017	2018	2019
Real GDP growth (% change)	1.8	-6.2	-2.3	-0.2	-0.02
Unemployment (% economically active population)	3.4	4	3.8	n.d.	n.d.
Inflation (end of period and in %)	1.5	3.1	1.3	1.0	0.4
Total income (% GDP)	35.7	29.7	23.9	27.2	28.5
Tax revenue (% GDP)	26.0	20.7	18.7	21.8	23.9
Total expenditure (% GDP)	37.4	35.0	32.8	30.7	30.9
Primary expenditure (% GDP)	35.3	32.5	29.8	27.7	27.9
Public sector fiscal balance (% GDP)	-1.7	-5.3	-8.9	-3.6	-2.4
Public sector debt (% GDP)	53.8	58.3	61.8	60.1	63.3

Source: IMF (2020)¹² and Central Bank of Trinidad and Tobago data centre (2020).

2. The COVID-19 pandemic and the health crisis

- 1.4 The Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) that causes COVID-19 was detected in China in late 2019 and spread very quickly to the rest of the world. On 11 March 2020, the World Health Organization (WHO) declared the disease a pandemic. On 10 May 2020, there were close to four million confirmed infections and about 275,000 COVID-19 deaths¹³ around the globe. While the spread of SARS-CoV-2 in LAC began later than in Asia and Europe, the number of cases in the region is also rising rapidly. As of 10 May, 2020, the number of confirmed infections in LAC was 342,823, with a death toll of more than 18,731,¹⁴

¹⁰ The fiscal year runs from October until September of the following year. For FY2019/2020, this covers the period October 2019 until September 2020.

¹¹ The country's Heritage and Stabilization Fund (HSF) holds about US\$6 billion in financial assets. The HSF rules have been amended on 25 March 2020, to allow a withdrawal up to US\$1.5 billion in case a pandemic or natural disaster is declared.

¹² [World Economic Outlook](#) (2020).

¹³ [WHO](#) (2020).

¹⁴ Report N° 111. [WHO](#) (2020).

figures that will quickly become obsolete. In Trinidad and Tobago, the numbers on that date were 116 and 8, respectively.

- 1.5 COVID-19 is highly contagious,¹⁵ with the average number of cases reported in a country increasing by approximately 33% on a daily basis.¹⁶ This high infection rate causes sudden spikes in cases that can decimate the capacity of healthcare systems because sick patients require specialized medical care. To prevent healthcare systems from collapsing, social distancing and isolation have become essential measures in the public health response, as they slow COVID-19 transmission¹⁷ and postpone demand for medical services.^{18, 19, 20, 21, 22} Implementing these types of measures is especially important in LAC, considering that the majority of the region's countries are not prepared to deal with a pandemic.²³
- 1.6 While social distancing and preventive isolation can reduce the speed with which COVID-19 is transmitted, these measures have not completely stopped the disease from spreading. Countries have therefore had to implement additional health measures. For example, in order to replicate relatively successful experiences such as that of the Republic of Korea, early health interventions are necessary to conduct mass testing of individuals in order to detect the virus and track possible cases of infection for subsequent isolation. These interventions have proven effective in ending health crises faster.^{24,25} In addition, healthcare services must be expanded to deliver care to infected individuals with severe symptoms. Both types of interventions require material and financial resources, which must be provided urgently and expeditiously. In many countries, including several in LAC, governments are ramping up spending on health. Paraguay, for example, announced a package of spending measures in this sector amounting to 2.7% of its GDP. Similarly, Chile, El Salvador, and Peru announced a series of health measures at an approximate cost of 0.65%, 0.27%, and 0.25% of GDP, respectively.²⁶ In the case of Trinidad and Tobago, the total amount allocated for this purpose is approximately to 2,5% of GDP.²⁷

¹⁵ [COVID-19 can spread from person to person through respiratory secretions and direct contact.](#)

¹⁶ Financial Times (2020).

¹⁷ Social distancing measures are very important when private decisions do not factor in the cost of not containing the contagion, although by restricting work and consumption, they deepen the economic crisis and increase the relevance of governments' fiscal performance. Eichenbaum et al. (2020) show that the value of lives saved can be greater than the economic cost of an effective and temporary distancing policy. M.S. Eichenbaum, S. Rebelo, and M. Trabandt. (2020). The Macroeconomics of Epidemics (No. w26882). National Bureau of Economic Research.

¹⁸ [J. Hellewell, S. Abbott, A. Gimma, N.I. Bosse, C.I. Jarvis, T.W. Russell, et al.](#)

¹⁹ [T. Day, A. Park, N. Madras, A. Gumel, and J. Wu.](#)

²⁰ [N. Ferguson, D. Cummings, C. Fraser, J.C. Caika, P.C. Cooley, and D.S. Burke.](#)

²¹ [A. Dénes and A. Gumel.](#)

²² Imperial College (2020).

²³ SCL (2020).

²⁴ [S. Correia, S. Luck, and E. Verner.](#)

²⁵ [K. Prem, Y. Liu, T.W. Russell, et al.](#)

²⁶ IDB/FMM (2020).

²⁷ [Regional Health Authority funding request for COVID-19. March 2020.\(Government of Trinidad and Tobago\).](#)

3. Public policy and fiscal management challenges during health crises

- 1.7 Public policy and fiscal management play a central role in ensuring the availability and timely execution of resources. Good practices during crises highlight the importance of having institutions, policies, processes, and information systems that are flexible, efficient, reliable, and transparent and that encourage accountability.²⁸ Nevertheless, in previous health crises, such as the outbreaks of Ebola and Severe Acute Respiratory Syndrome, fiscal management institutions and systems had weaknesses and became bottlenecks that reduced the public sector's response capacity in key areas.²⁹ The biggest challenges lie mainly in: (i) the lack of additional budgetary and financial resources to respond to the crisis; (ii) the unavailability of funds for service delivery units and for timely disbursements, with due regard to controls; (iii) the lack of transparency in the use of resources deployed as part of crisis response and reporting;³⁰ (iv) problems with business continuity in the face of large-scale staff shortages; and (v) insufficient coordination of interventions at various levels of government,³¹ considering that subnational governments are the first line of response and provide essential health services in many of the region's countries.³² Tackling these challenges requires changes in existing budgetary regulations for more efficient allocation and execution of public resources.
- 1.8 As in most Anglophone countries, the Chart of Accounts (CoA) is Trinidad and Tobago's coding framework for recording both budgetary and financial data in the public sector. While Trinidad and Tobago's CoA is not fully compliant with Government Financial Statistics (GFS), and it does not allow the direct mapping of the administrative budget into functional and sub-functional classifications, mapping tables have been developed to categorize spending using such classification.³³ To respond to the emergency, the Government of Trinidad and Tobago has shown agility and transparency, namely, it has modified the current budget in order to have the capacity to hire additional medical personnel, procure medical equipment and Personal Protective Equipment (PPE), upgrade hospitals and medical facilities, and prepare new and specific sites dedicated to treat infected people. The government has also created a health system parallel to the traditional health facilities to enhance its response to the pandemic. To finance these efforts, the Government of Trinidad and Tobago is seeking financial support from multilateral institutions and other sources for a total amount of US\$794.45 million.³⁴

4. The pandemic and its effects on household and business income

- 1.9 Social distancing measures, necessary during the health crisis to save lives, lead to a decrease in economic, labour, and hospitality sector. This, in turn, significantly reduces economic activity, resulting in job losses and lower household income.

²⁸ World Bank Group (2019).

²⁹ [S. Saxena and M. Stone \(2020\)](#).

³⁰ Including exploiting the fungibility of resources in treasury single accounts. According to Yaker et al. (2012), proper sole account management can help countries gain access to liquidity. I. F. Yaker and S. Pattanayak (2012).

³¹ Institute of Medicine (2012).

³² IDB (2018). Decentralization and Subnational Governments Sector Framework Document.

³³ Public Expenditure and Financial Accountability (PEFA) 2013 unpublished.

³⁴ [Statement to the House of Representatives on the Economic Effect and Financial Response to the COVID-19 Pandemic. Presented by the Minister of Finance, Honorable Colm Imbert, MP. Monday April 27, 2020.](#)

Unlike in developed countries, which have consolidated social security systems, such systems in LAC are inadequate and deficient partly due to the high levels of informal labour. The informal sector in LAC is estimated to account for 53% of the workforce (some 140 million workers). This high degree of labour informality is heavily concentrated among poor and low-income households.³⁵ In the case of Trinidad and Tobago it was estimated in 2016 that 43% of the labour force work in informality, meaning that it is not registered in the country's social security system because of shortcomings in social security programmes in LAC, in order to sustain their incomes in the face of labour shocks, the region's households depend on social protection programmes other than the social security programmes typically available to formal workers only. In times of widespread crisis, existing social protection programmes become overwhelmed, which is why governments tend to introduce new fiscal policies and/or social protection programmes to meet the greater household support needs.

- 1.10 In the case of Trinidad and Tobago, the government has recognized that the economic fallout from the COVID-19 has an economic impact on sectors such as tourism, hospitality, manufacturing, trade, distribution, among others, has transmitted itself to households, and affected more deeply poor households. And, there is a need to protect businesses, jobs and incomes, maintaining a level of economic activity. To finance these efforts the government estimates that it needs to offer a safety net to at least 75,000 households that represent about 200,000 people who participate in the formal sector, micro and small firms, hotels, parents of small children, and households that are part of the informal sector and are not registered in official rolls.³⁶
- 1.11 A policy that has proven effective in protecting household income during crises is to support the businesses where the individuals from those households' work,³⁷ as a way of preventing widespread job losses and bankruptcies. While the economic crisis caused by COVID-19 is affecting most of the economy, some sectors are harder hit than others, including tourism, recreation, and food services, as a consequence of the powerful impact that social distancing and isolation measures have on them. The sharp fall in sales also creates liquidity problems for businesses, in many cases exacerbated by the destruction of the payment chain. These liquidity problems tend to affect Micro, Small, and Medium-sized Enterprises (MSMEs) more acutely given their more limited access to financing. In LAC, this liquidity problem may be more severe than in developed countries considering the high rates of informal business, which makes access to financing difficult. The latest available data indicate that of the 11 million economic units in the region with at least one worker in addition to the employer, the vast majority (over 10 million) are micro and small enterprises (with 50 or fewer employees). These businesses employ 47% of the region's workforce.³⁸ In the case of Trinidad and Tobago, in 2015 it was estimated that there were nearly 20,000 Small, and Medium-sized Enterprises

³⁵ J. M. Salazar-Xirinachs and J. Chacaltana (2018).

³⁶ [Statement to the House of Representatives on the Economic Effect and Financial Response to the COVID-19 Pandemic. Presented by the Minister of Finance, Honorable Colm Imbert, MP. Monday April 27, 2020](#)

³⁷ International Labour Organization. A review of global fiscal stimulus.

³⁸ Thematic Labour Overview. "Small Enterprises, Large Gaps. Employment and Working Conditions in Micro and Small Enterprises in Latin America and the Caribbean." Regional Office for Latin America and the Caribbean, International Labour Organization (2015).

(SME) operating in the country, which employed over 200,000 people, or 32% of the labour force.³⁹

5. Public policy and income protection

- 1.12 Public policy and fiscal management can play a crucial role in economic crises such as the one caused by COVID-19,⁴⁰ protecting household income during the social distancing period and supporting the survival of businesses to keep jobs safe. Proper fiscal policy design and implementation for these purposes during the current crisis presents significant challenges. In order to maximize intervention efficiency, the fiscal measures introduced must benefit those individuals and sectors that need it most, when they need it most.⁴¹ With respect to the issue of selecting beneficiaries for both tax benefits and subsidies, targeting difficulties arise mainly due to the absence or lack of reliability of integrated systems containing information about individuals, owing to the fact that such systems generally contain partial, often outdated information, particularly in the case of individuals in informal labour situations.⁴² This incomplete information leads to both intentional and unintentional targeting errors, reducing efficiency in the use of public resources. To address this challenge, public policy design must focus on transparency in the use of these public resources, in order to increase accountability of executing agencies and reduce room for misuse.⁴³
- 1.13 Fiscal policies that support households are also usually difficult to reverse, especially if the benefit duration is prolonged. This is because individuals begin to consider such benefits as acquired rights, which raises the political cost of withdrawing them. One of the main lessons of the fiscal policy response in LAC to the 2009 global financial crisis was that various programmes introduced during the crisis to mitigate its effects ended up becoming permanent programmes that were not reversed once the economic shock had subsided.⁴⁴ This ended up eroding fiscal fundamentals in the medium term.⁴⁵ Thus, to encourage efficient use of public resources, time-bound provisions⁴⁶ must be considered in household and business support policies from the outset so that such policies do not become recurrent costs. In the case of Trinidad and Tobago, transfers and subsidies have persistently accounted for the largest share of total expenditure (52%, on average, for FY10-FY18). However, the government has indicated that all of the extraordinary social spending policies implemented during the health crisis will have a sunset duration of three months, with the understanding that it is possible to extend these depending on the economic situation in the post-pandemic period.⁴⁷

³⁹ Trinidad and Tobago Chamber of Industry and Commerce.

⁴⁰ K. Storesletten, C. Telmer, and A. Yaron (2001).

⁴¹ V. Gaspar and P. Mauro (2020).

⁴² Izquierdo, Pessino, and Vuletin (2018).

⁴³ S. Cecchini and A. Madariaga (2011).

⁴⁴ IMF (2015).

⁴⁵ Between 2008 and 2019, public debt jumped from 40percent of GDP to close to 60% of GDP for a typical country in the region.

⁴⁶ V. Gaspar and P. Mauro (2020).

⁴⁷ Guidelines for the Administration of the Social Assistance for persons who were retrenched; terminated or experience loss or reduced income in respect of the COVID-19 virus. Government of Trinidad and Tobago. March 2020.

6. The economy and public finance during recovery from the pandemic

- 1.14 While the global growth outlook is still highly uncertain, preliminary estimates from the Organization for Economic Cooperation and Development (OECD)⁴⁸ point to a decrease in worldwide growth in 2020 of between 3 percentage points of GDP.⁴⁹ For LAC, the preliminary estimates of the Economic Commission for Latin America and the Caribbean (ECLAC) indicate a 5.2% contraction in regional GDP⁵⁰ and an increase in unemployment of 10 percentage points. ECLAC expects this to lead to a spike in poverty, with 35 million new people sinking into poverty and 22.6 million descending into extreme poverty.⁵¹ In the case of Trinidad and Tobago, the IMF projects the economy to contract by 4.5% of GDP in 2020, with an expected recovery in 2021 (2.6%). Even though recent data on poverty and unemployment rates are lacking, the COVID-19 crisis will certainly increase both indicators for 2020. On average, the growth elasticity of poverty is estimated at 3%, which implies that poverty levels could well rise by 10% or more.
- 1.15 The economic crisis will take a heavy toll on countries public finances. The economic contraction will drive tax collection down considerably in the near term, with no immediate recovery.⁵² In countries that depend on income from non-renewable resources, this loss will be coupled with a deterioration in tax revenue due to a lower production value (through both prices and lower external demand). The loss of revenue, combined with higher spending to contend with the health, economic, and social crisis, will put pressure on fiscal and public debt positions. Considering that the region entered the crisis in a weak fiscal position on average,⁵³ many countries are expected to experience a high degree of fiscal vulnerability in the wake of the pandemic.⁵⁴ In Trinidad and Tobago, the Ministry of Finance (MoF) projects a loss of revenue for 2020 of about US\$1.35 billion and an additional spending to mitigate the health and economic crises of US\$147 million. The deterioration of the fiscal accounts is also driven by a decline of 35% of the price of natural gas, and a

⁴⁸ In November 2019, the global growth forecast for 2020 was 3%. [OECD Economic Outlook, Interim Report March 2020](#).

⁴⁹ Other earlier estimates based on an adverse scenario point to a drop in China's GDP of 1 percentage point, meaning a decline of 0.3 percentage points for the global economy (Goldman Sachs). According to [Robert J. Barro, José F. Ursúa, and Joanna Weng \(March 2020\)](#), if the mortality rate of the 1918 flu pandemic (2%) were to be applied to the current population, the health crisis would lead to a 6% decrease in GDP in the average country, comparable to the 2008-2009 Great Recession.

⁵⁰ Some private-sector analysts estimate a more severe recession in the region, with a 3.8% drop in real GDP in 2020 (Goldman Sachs, March 2020).

⁵¹ [COVID-19 Will Have Grave Effects on the Global Economy and Will Impact the Countries of Latin America and the Caribbean](#) (ECLAC, 2020).

⁵² During the 2008-2009 crisis, consumption tax fell close to 10% in a typical country of the region, and tax revenue dropped by as much as 3.5 points of GDP in some countries (IDB-Inter-American Centre of Tax Administrations, 2019).

⁵³ When the region entered the 2008-2009 global financial crisis, the primary balance of a typical country was above 2.5% of GDP and the overall position was balanced. For 2019, the primary deficit was -0.3% and the overall deficit was above 2.5% (IMF World Economic Outlook, 2020).

⁵⁴ According to preliminary estimates by Andrian and Valencia (2020), the fiscal deficit could increase in the short term between 4 and 8 percentage points of GDP in response to the downturn in economic growth and the increase in emergency public spending.

50% drop in the price of an oil barrel between January and March. This drop has been exacerbated by the depressed demand for oil during the month of April.⁵⁵

- 1.16 Given the severe impact of the COVID-19 health crisis on economic activity and public finances, the post pandemic period will require support policies to rebuild the economy and restore fiscal performance. To encourage a return to growth with equity, comprehensive plans will have to be developed and implemented as an economic stimulus to support the most vulnerable households and businesses. These plans will have to take into account budgetary constraints so as not to jeopardize fiscal sustainability. In many cases, they will have to include structural reforms that invigorate the economy from the bottom up and improve countries medium-term fiscal position at both the central and the subnational government level. In Trinidad and Tobago, the government's plans include, on the one hand, the full proclamation of the Fair Trading Act which provides the tools to protect firm rivalry as a condition for the efficient and dynamic functioning of markets and as a necessary element of productivity growth and innovation. This will, in turn, stimulate economic growth and contribute to the reduction of income and wealth inequality, particularly for lower income consumers who purchase goods and services in non-competitive markets. On the other, the recent approval of The Trinidad and Tobago Revenue Authority Bill by the Senate⁵⁶, which still requires a final approval by the House of Representatives and its full proclamation, is a critical step that signals the government's commitment to ensure long-term fiscal sustainability. Additionally, the creation of a Commission to prepare a recovery plan composed of business, civil society leaders and government officials also indicates that there is a political will to modernise the country in the post-pandemic phase. Other areas with opportunity for future reforms include the strengthening of the medium-term fiscal framework, the implementation of the new revenue authority, and policies to improve public spending efficiency.
- 1.17 **Bank operational work and technical support in the country.** Regarding public sector and fiscal management, the Bank is currently engaged with the MoF in a loan (3473/OC-TT) to strengthen the public financial management system in the country, mainly through the implementation of an Integrated Financial Management Information System (IFMIS) that aims at improving the efficiency and effectiveness of the allocation of public resources. Complementarily, through Technical Cooperation (TC) ATN/OC-13062-TT, the Bank carried out the preparatory work to enable IFMIS implementation by supporting key areas such as the preparation of a new Chart of Accounts.
- 1.18 The Bank has also been providing Trinidad and Tobago with support towards economic diversification and growth, through its operations and technical assistance. First, the loan 3112/OC-TT seeks to diversify the economy through the development of the IT-enabled services outsourcing sector. Key results include the development of the animation and game design sector which is net foreign-exchange earner and a prospective industry for youth employment and SMEs internationalization. Secondly, under 3575/OC-TT, the activities are geared

⁵⁵ [Statement to the House of Representatives on the Economic Effect and Financial Response to the COVID-19 Pandemic. Presented by the Minister of Finance, Honorable Colm Imbert, MP. Monday April 27, 2020.](#)

⁵⁶ Trinidad Express, May 3 2020.

towards facilitating the movement of goods, and in the case of the current pandemic, emergency goods. Through the digitalization of systems and processes involved in trade clearance, this programme will reduce manual processes thereby limiting the possible exposure of agents to risks associated with the pandemic. Lastly, the Bank's has actively contributed to the dialogue on financial management, growth and diversification issues, through the participation in national committees and regional technology events, on-going dialogues, dissemination of research and advisory services. The main lesson learned from the implementation of these operations and activities is that there is a need to strengthen the institutional coordination mechanism with relevant technical ministries/agencies to bolster the governance of the policy reforms.

- 1.19 **The Bank's experience and lessons learned in the region.** The IDB Group has provided support to the region during various crises (macroeconomic crises, health crises, and natural disasters) to mitigate their immediate effects and to design reforms for the recovery period. The Bank's support varies depending on the nature of the crisis to be addressed.⁵⁷ Therefore, specifically in the area of fiscal policy and management, this programme has considered lessons learned during the execution and implementation phases, from other operations such as the one that was carried out with the Government of Ecuador that focused in re-establishing macroeconomic stability, restoring fiscal sustainability, and safeguarding social spending in support of the vulnerable population (Emergency Program for Macroeconomic Sustainability and Prosperity/ 4771/OC-EC). Similarly, lessons have been gathered from the Macroeconomic Emergency Program to Protect Economic and Social Progress (4656/OC-BA) in Barbados, that supported the government in re-establishing macroeconomic stability and fostering a sustainable fiscal balance in the short and medium term, protecting social spending to safeguard the social progress made. Both projects were coordinated very closely with the IMF and in which a lesson learnt from their implementation is that continuous dialogue and coordinated efforts regarding technical assistance can improve the results when implementing reforms in this area. The Bank has also provided support to countries in their reform processes to improve tax policy and administration, public expenditure quality, and the strengthening of fiscal sustainability⁵⁸, trade and integration, and attraction of foreign investment.
- 1.20 **Coordination with other Bank projects.** This programme is consistent with the proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (GN-2996), as it forms part of the Bank's support to its borrowing member countries in the adoption of fiscal policies to mitigate the effects of the health crisis and alleviate the economic impacts. In order to support the government's response to the pandemic, an operation to support vulnerable populations affected by the Coronavirus is under preparation with the objective of contributing to ensuring minimum levels of quality of life for these populations. Also, the Bank is currently preparing a regional TC for the Caribbean region as well as a TC tailored to address the specific fiscal and economic needs of Trinidad and Tobago derived from

⁵⁷ The first contingent financing instrument for natural disasters was the Contingent Credit Facility for Natural Disaster Emergencies. Examples include the Dominican Republic (DR-X1003), Honduras (HO-X1016), Ecuador (EC-X1014), and others (RE-496-1).

⁵⁸ The most recent policy reform support programmes include the Program to Deepen Fiscal Reform in Colombia (4552/OC-CO), the Program to Support Fiscal Sustainability in Costa Rica (4819/OC-CR), and the Finances for Sustainable Development Program in Paraguay (4667/OC-PR).

COVID-19. This coordination seeks to leverage synergies to increase the impact of the Bank's interventions.

- 1.21 **Financial support to respond to the pandemic.** In terms of international financial assistance to address the unprecedented financial demands of COVID-19, the Government of Trinidad and Tobago is seeking financial support from multilateral institutions and other sources for a total amount of US\$794.45 million. The Republic of Trinidad and Tobago is sourcing US\$294.45 million from various multilateral agencies – US\$20 million from the World Bank, US\$150 million from the Development Bank of Latin America (CAF) and from the IDB US\$100 million of new direct COVID-19 resources and an additional US\$24.45 million being leveraged out of the current portfolio to support the health operation under preparation (¶1.20). The Government of Trinidad and Tobago is also pursuing a further US\$500 million for budgetary support from other external sources.

Table 2. Financial support to respond to the pandemic

Organization	Amount US\$ million
World Bank	20
Development Bank of Latin America (CAF)	150
IDB	124.45
Other (external sources)	500
Total	794.45

- 1.22 **Coordination with other donors.** During the preparation of this operation, the Bank consulted with the IMF, the World Bank, the European Union Delegation in Trinidad and Tobago and the CAF in order to share information and coordinate actions and activities in the country (see ¶1.21). The Bank consults on as needed basis with the CAF to coordinate activities. During the programme's execution, a collaborative process with multilateral and donor entities will be implemented, which will include technical coordination dialogue and coordination as well as senior -management meetings.
- 1.23 **Strategic alignment.** The programme is consistent with the Update to the Institutional Strategy (AB-3190-2) and is aligned with the development challenge of Social Inclusion and Equality, through measures to ensure the maintenance of essential health services in order to overcome the health crisis. The programme is also aligned with the crosscutting theme corresponding to Institutional Capacity and Rule of Law as it will strengthen fiscal policy and management to tackle the health, economic, and social crisis, and it will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12).⁵⁹ The programme is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic

⁵⁹ Four CRF level 2 indicators have been identified in the Annex I –Summary Development Effectiveness Matrix.

Outbreak (GN-2996). It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) as concerns strengthening public sector management, and it is consistent with the Fiscal Policy and Management Sector Framework Document (GN-2831-8), which highlights the importance of institutional strengthening to improve public expenditure quality as well as fiscal equity and social inclusion and with the Integration and Trade Sector Framework (GN-2715-11) as it will reduce traditional trade costs and associated regulatory costs through the implementation of a modern competition policy.

B. Objectives, components, and cost

- 1.24 **Objective.** The general objective of the programme is to strengthen the efficiency and effectiveness of fiscal policy and management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives of the programme are: (i) to promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery in the post-pandemic period. To meet this objective, the Bank has structured a programmatic Policy-Based Loan series consisting of two technically related and financially/contractually independent operations, as per document Policy-Based Loans: Guidelines for Preparation and Implementation (CS-3633-2).
- 1.25 This first operation mainly focuses on supporting policy measures undertaken during the pandemic period that aim to promote the availability and efficient execution of resources during the emergency, support household income and business liquidity, and begin to define a social, economic and fiscal plan to find a way out of the pandemic. The second operation in the series will seek to promote economic and fiscal recovery in the medium term by implementing policies that enable a return to growth with equity and fiscal sustainability in the post-pandemic period. The programme is organized into the following components:
- 1.26 **Component 1. Macroeconomic stability.** The objective of this component is to ensure that a macroeconomic context consistent with the programme objectives as set forth in the Policy Matrix and the sector policy letter is maintained.
- 1.27 **Component 2. Strengthening fiscal policy and management to respond to the health crisis caused by COVID-19.** The objective of this component is to promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis. In order to achieve this objective, programme measures will support changes to budget regulations with a view to providing necessary resources to the health sector and ensuring that those resources are executed in an efficient, orderly, and transparent manner. The programme will also support changes to regulations and strategies to improve coordination and implementation of actions for pandemic preparedness and response.
- 1.28 The programme's policy measures in this component are: (i) approved government decisions that redirect budgetary resources to the health sector for: (a) additional

hiring of health personnel to support COVID-19 efforts; and (b) purchase of medical inputs associated with the health crisis; and (ii) review of the consolidated budget statement that includes reallocations to cover health, social spending and transfers associated with the health crisis.

- 1.29 The second operation in the programmatic series will continue to promote the efficient, orderly, and transparent allocation and execution of public funds, with a view to promoting economic and fiscal recovery. In that manner, it will continue to strengthen the fiscal institutional framework through the borrower's implementation of the following measures: (i) conduct a COVID-19 public spending review to determine: (a) the required level of health services to manage the health consequences of COVID-19; and (b) the required level of health services to prevent a surge in COVID-19 cases; and (ii) prepare budget statements considering the resources required to finance the COVID-19 health services.
- 1.30 **Component 3. Strengthening fiscal policy and management to respond to the economic crisis.** The objective of this component is to strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households,⁶⁰ protect jobs, and increase liquidity for businesses during the health and economic crisis. To achieve this objective, the programme includes measures for the design and implementation of policies to support households, workers, and businesses, which incorporate lessons learned on the need to ensure that support measures are targeted and temporary. Accordingly, the policy measures included in this component are to: (i) refund tax income payments to all persons who are owed TT\$20,000 or less by the government; (ii) defer rental and mortgage payments for a three month-period to the Housing Development Corporation and The Trinidad and Tobago Mortgage Finance Company; (iii) provide Food Cards of up to TT\$510 per month over a three-month period for affected households; (iv) provide a salary relief grant of up to TT\$1,500 per month over a three-month period for affected citizens registered with the National Insurance Board (NIB); (v) provide rental assistance of up to TT\$2,500 per month over a three-month period for affected persons who are retrenched, terminated or experiencing reduced income; and (vi) establish the selection criteria to target beneficiaries of emergency programmes for households.
- 1.31 The policy measures that aim to provide temporary liquidity protection for businesses affected by the crisis, and thereby protect jobs, are to: (i) provide Value-Added Tax (VAT) refunds to businesses owed up to TT\$250,000 by the Government; (ii) issue VAT bonds to clear any VAT balances larger than TT\$500,000; and (iii) provide a total of TT\$50 million grant to affected Tobago hoteliers to upgrade their premises.
- 1.32 The second operation in the programmatic series will support policies that help align fiscal incentives with economic recovery. To achieve this objective, the programme will support government initiatives that rationalize fiscal benefits and reprioritize beneficiaries, with a view to promoting greater economic growth with fiscal equity.

⁶⁰ This includes vulnerable families that participate in existing social protection programs; vulnerable families that do not participate in social protection programs; and informally employed or unemployed individuals (without a source of income).

This will be done through: (i) review and adjustment of the COVID-19 emergency measures to determine their relevance and effectiveness in the post-pandemic era; and eliminate COVID-19 measures that are no longer deemed relevant in the post-pandemic period; and (ii) development of methodology/requirements to evaluate the results obtained from government programs for affected businesses.

- 1.33 **Component 4. Economic and fiscal strengthening for the post-pandemic period.** The objective of this component in the first operation in the programmatic series is to promote economic and fiscal recovery in the post-pandemic period. To achieve this objective, in the first operation in the programmatic series the borrower will implement the following policy measures: (i) create a high-level strategic Committee to guide fiscal policy and management of the health crisis; the committee should be responsible for providing: (a) fiscal costs related to the measures implemented for the duration of the health crisis; (b) estimates of the economic impact of the health crisis; and (c) fiscal framework/parameters associated with the fiscal management of the health crisis; (ii) establish an Inter-Ministerial Assessment and Advisory Committee to monitor and evaluate the fiscal, social and economic measures implemented as well as develop a socio-economic framework/plan in the context of the national priorities and global environment in the medium term; and (iii) proclamation of the full implementation of Fair Trading Act (FTA).
- 1.34 The second operation in the programmatic series will support implementation of structural measures for revenue, spending, and macro fiscal management, which will revitalize the economy and help improve the government's fiscal position in the medium term. In order to do this, the borrower will implement the following measures: (i) approve a medium-term fiscal framework, providing a path to fiscal sustainability in the post-pandemic period, including revenue and expenditure projections, as well as the identification of fiscal risks (i.e. changes in oil prices, natural disasters and contingent liabilities); (ii) in addition, this will be inclusive of strengthening tax administration by improving the accuracy and reliability of the taxpayer registration database, developing a taxpayer compliance improvement plan, increasing the rate of on-time tax payments, and improving the timeliness of VAT and income tax refunds; (iii) prepare a public spending assessment to identify cost savings in public spending, including leakages in social spending, and transfers, including subsidies and transfers to public bodies and state-owned enterprises; (iv) strengthen public investment management, including the establishment of prioritization criteria for public investment projects that help economic recovery; and (v) a medium-term socio-economic recovery plan to stimulate growth, competition and investment (Fair Trading Act), provide social protection, strengthen the productivity of key economic sectors and identify key social and economic reforms.

C. Key results indicators

- 1.35 The expected programme results are included in the Results Matrix (Annex III). The results indicators are: (i) the budget allocated to the health sector; (ii) health sector expenditure executed; (iii) percentage of total targeted households benefited from the provision of food cards due to the COVID-19 health crisis; (iv) percentage of total targeted households benefited by rental assistance due to the COVID-19 health crisis; (v) percentage of workers benefited by the provision of a salary relief grant; (vi) taxpayers owed TT\$20,000 or less that receive income tax refunds within 90 days; (vii) businesses owed TT\$250,000 or less that receive VAT refunds within

90 days; and (viii) actions set out in the plan for economic and fiscal recovery implemented.

- 1.36 **Economic analysis.** Based on the recommendations by the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects⁶¹ and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (ECG), which comprises the independent evaluation offices of the multilateral development banks),⁶² as provided for in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that an analysis of efficiency in the use of financial resources is unnecessary,⁶³ it was determined that an economic analysis would not be performed for this type of loan, as reported to the Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the programme's Development Effectiveness Matrix.
- 1.37 **Beneficiaries.** The direct beneficiaries of the first operation in the programmatic series are the citizens of Trinidad and Tobago, particularly those in the most vulnerable sectors, due to the positive social effects of the policy measures intended to improve the delivery of the health public services through the increase of available resources to address the health crisis. Additionally, the protection of household income and business liquidity will help reduce the impact of the crisis on the wellbeing of the country's citizens, particularly low-income individuals.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Financing instrument.** This operation has been structured as a programmatic policy-based loan (PBP) and is the first operation of a programmatic series consisting of two contractually independent but technically linked loans, in line with the guidelines for the preparation and implementation of programmatic policy-based loans set forth in document CS-3633-2. The programmatic modality was chosen because: (i) it promotes ongoing policy dialogue between the Bank and the country with the aim of providing continuous support during the pandemic and in the post-pandemic period; (ii) given the uncertainty regarding the length and severity of the crisis caused by the pandemic, this instrument leaves room for adaptation to evolving circumstances and monitoring of the programme's scope; and (iii) it facilitates the development, fine-tuning, and implementation of economic and fiscal recovery plans, with a view to resuming growth with equity and fiscal sustainability in the post-pandemic period.

⁶¹ Document RE-397-1: Currently, the economic analysis section is computed as the maximum between the Cost-Benefit Analysis (CBA) and the Cost-Effectiveness Analysis (CEA). Yet neither a CBA nor a CEA is applicable to policy-based loans.

⁶² Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁶³ According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of a policy-based loan is related to a country's financing gap, independent of the project's benefits.

- 2.2 **Dimensioning.** The amount of this operation will be US\$100 million (see ¶1.21), from the Bank's Ordinary Capital, which represents 33% of the total amount that will be financed by multilateral agencies in 2020 to respond to the health and economic crisis caused by COVID-19. This amount will be disbursed in one single tranche. The cost of the operation is justified by the public sector's financial needs and has no direct relationship to the cost of the programme's reforms, in accordance with document CS-3633-2 (paragraph 3.27 (b)). As previously mentioned, gross financing needs for the country in 2020 are estimated at US\$2.5 billion.

B. Environmental and social risks

- 2.3 Based on guideline B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this programme does not require ex ante classification of impacts. The operation supports the development of policies, standards, management tools, and other institutional strengthening actions. Therefore, no significant or direct adverse environmental and natural resources impacts are anticipated.

C. Fiduciary risks

- 2.4 No fiduciary risks associated with the operation have been identified. The operation's proceeds will go directly to the National Treasury in order to meet Trinidad and Tobago Government's financing needs. To that end, the executing agency has the necessary financial management tools and supervision systems. The resources will be disbursed once the policy measures set forth in the loan contract are fulfilled.

D. Other key issues and risks

- 2.5 **Public management and governance risks.** There is a high risk that measures for tax relief and protection of household income and business liquidity will not reach the sectors most affected by the health crisis due to incomplete databases of new beneficiaries. To mitigate this risk, the Bank will work closely with the country to coordinate the use and cross-referencing of tax rolls and social assistance rosters in order to better target these measures. There is also a medium risk that government transfers and other subsidies and tax moratoriums might be difficult to withdraw in the medium term. The Government of Trinidad and Tobago has already taken measures aimed at mitigating all of these risks, including the formation of a Recovery Committee composed of representatives from the business sector, civil society, and government that will plan a socio-economic recovery plan. There also exists a medium risk associated with the coordination between the MPD, the MoF and other agencies regarding the compliance of the policy conditions⁶⁴. The Bank will mitigate the risk by working closely with the MPD to ensure that all means of verification are sent in a timely fashion to the IDB.
- 2.6 **Development risk.** There is a medium risk that the packages of programme-supported measures to respond to the health and economic crisis will only be partially implemented, due to a lack of financial resources. To mitigate this

⁶⁴ Given the Parliamentary form of government, the MPD benefits from the normal institutional mechanisms that such form of governance provides to coordinate and obtain information from other Ministries at the Cabinet level.

risk, the Bank will coordinate financial support to the countries of the region with other multilateral institutions, such as CAF and the World Bank (see ¶1.22).

- 2.7 **Fiscal sustainability risk.** Given the severity of the health and economic crisis, along with other external factors such as the drop in oil prices, the fiscal and debt position of Trinidad and Tobago is expected to worsen significantly, which will generate a high fiscal sustainability risk⁶⁵. To mitigate this risk, the Bank, along with other international organizations, will provide support through a technical cooperation (in preparation) to develop and monitor implementation of post-pandemic economic and fiscal recovery plans that will put the country's public finances back on a sustainable path. It is important to note that the Government of Trinidad and Tobago has already created a Recovery Committee composed of key government officials, business leaders, and members of civil society in order to build consensus to prepare a plan that represents a shared vision for the future, and set the path of economic, social and fiscal reforms. Additionally, the Senate has recently approved the Revenue Authority Bill, signalling the country's commitment to returning to a path to sustainable social, economic and fiscal sustainability. Lastly, while the upcoming Parliamentary elections scheduled for the second half of 2020, might delay some of the activities indicated in the second operation of the programmatic series, the measures described above, namely, the appointment of a Recovery Committee with wide civic representation and the approval by the Senate of the Tax Authority Bill, signals that Trinidad and Tobago is taking measures to minimize delay of reforms associated to the democratic exercise of free elections.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower.** The borrower will be the Republic of Trinidad and Tobago. The borrower will execute the programme through Socio-Economic Policy Planning Division of the Ministry of Planning and Development with the support of the Ministries of Finance, Trade and Industry, Social Development and Family Services, and Health as well as the Trinidad and Tobago Fair Trading Commission.
- 3.2 **Executing agency.** The executing agency will be the MPD, which will have technical responsibility for programme execution and agrees to: (i) act, on its own or by means of a designee, as the official liaison with the Bank and submit reports and evidence of fulfilment of the operation's conditions, as well as any other report that the Bank requires, according to the agreed deadlines and terms; (ii) promote actions to achieve the policy objectives defined in the programme; and (iii) collect, record, and submit to the Bank all data, indicators, and metrics that help the Government of Trinidad and Tobago and the Bank monitor, measure, and evaluate the programme's results.
- 3.3 **Coordination mechanism.** The MPD will maintain an ongoing dialogue with the Ministries of Finance, Trade and Industry, Social Development and Family

⁶⁵ Taxes on the oil and gas industry are the core component of public sector financing in the country, representing 23.6% of total tax revenue in fiscal year 2018 (Source: Central Bank of Trinidad and Tobago).

Services, as well as the Trinidad and Tobago Fair Trading Commission, which will help coordinate policy implementation of measures. The Bank will coordinate online follow up meetings to provide technical support to the country if needed and to monitor the compliance of the policy measures that were included as part of this programmatic series.

- 3.4 **Special contractual condition prior to the first and sole disbursement of the first Programmatic Policy-Based Loan (PBP):** The first and sole disbursement of loan resources will be subject to the borrower's fulfilment of the policy reform conditions of the first PBP established in the Policy Matrix (Annex II), the [Policy Letter](#), and any other conditions set forth in the corresponding loan contract.

B. Summary of arrangements for monitoring results

- 3.5 **Monitoring.** Programme monitoring consists of verification of the agreed policy measures ([Monitoring and Evaluation Plan](#)). The executing agency and the Bank will meet regularly to monitor the operation's results and anticipate and resolve technical difficulties related to the operation's execution. The executing agency will submit to the Bank all information required for measuring fulfilment of programme targets and will provide timely information on progress toward those targets.
- 3.6 **Evaluation.** The evaluation strategy will consist of: (i) a "before and after" analysis of the outcome and impact indicators performance included in the Results Matrix; (ii) a review of the intervention's theory of change; (iii) a literature review of evidence on the effectiveness of similar interventions in comparable contexts; and (iv) a qualitative evaluation that provides complementary information on how the achieved results can be attributed to the programme. The evaluation's main questions will address whether the policies implemented helped achieve the programme objectives ([Monitoring and Evaluation Plan](#)). Additionally, a programme completion report will be prepared. Both the ex post evaluation and the programme completion report will be conducted at the end of execution of the programmatic series.

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the country government's commitment to the objectives and actions envisaged in the programme. Additionally, the Bank and the Government of Trinidad and Tobago agreed on a Policy Matrix that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary		TT-L1058
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of targeted anti-poverty programs (#) -Beneficiaries of employment support initiatives (#) -Micro / small / medium enterprises financed (#) Countries with strengthened tax and expenditure policy and management (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See p. 1.14 to 1.16 of the loan document.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Treasury.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The purpose of this note is to present an overall assessment of the evaluability of the project based on the standards described in the evaluability guidelines. The Operation is in the amount of US\$100,000,000 and is part of the Bank's operational response to Pandemic COVID-19. The program is structured as a programmatic policy-based loan and consists of two distinct but technically linked operations to help the country adopt measures in the short term to tackle the main challenges in their response to the health and economic crisis caused by COVID 19. This first operation mainly focuses on supporting policy measures taken during the pandemic period that aim to promote the availability and efficient execution of resources during the emergency, support household income and business liquidity, and begin to define a social, economic and fiscal plan to find a way out of the pandemic.

The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.

The loan proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of results and impacts. The result indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific objectives. The impact indicators reflect the contribution to the final health (Confirmed COVID-19 cases) and economic (Government primary balance) objectives of the operation.

The monitoring and evaluation plan proposes to carry out a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a review of the theory of change, updated review of international evidence, and qualitative studies. Monitoring and evaluation activities will be carried out by the Ministry of Planning and Development of Trinidad and Tobago.

POLICY MATRIX

Objective: The general objective of the programme is to strengthen the efficiency and effectiveness of fiscal policy and management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives of the programme are: (i) to promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery in the post-pandemic period.

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
Component 1. Macroeconomic stability			
Ensure a macroeconomic context consistent with the programme objectives as set forth in the Policy Matrix and the sector policy letter is maintained.	1.1 Ensure a macroeconomic context consistent with the programme objectives as set forth in the Policy Matrix and the policy letter is maintained.	i. Fulfilled.	1.1 Ensure a macroeconomic context consistent with the programme objectives as set forth in the Policy Matrix and the sector policy letter is maintained.
Component 2. Strengthening fiscal policy and management to respond to the health crisis caused by COVID-19			
Promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis.	2.1 The borrower will implement the following measures: <ul style="list-style-type: none"> i. Approved government decisions that redirect budgetary resources to the health sector for the: <ul style="list-style-type: none"> a. Additional hiring of health personnel to support COVID-19 efforts; and b. Purchase of medical inputs associated with the health crisis. ii. Review of the consolidated budget statement that includes reallocations to cover health, 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). 	2.1 The borrower will implement the following measures: <ul style="list-style-type: none"> i. Conduct a COVID-19 public spending review to determine: <ul style="list-style-type: none"> a. The required level of health services to manage the health consequences of COVID-19; and b. The required level of health services to prevent a surge in COVID-19 cases.

¹ This information is merely indicative as of the date of this document. In accordance with document CS-3633-2 (Policy- based- Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
	social spending and transfers associated with the health crisis.		ii. Prepare budget statements considering the resources required to finance the COVID-19 health services.
Component 3. Strengthening fiscal policy and management to respond to the economic crisis			
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households, ² during the health and economic crisis.	<p>3.1 The borrower will implement the following measures:</p> <ul style="list-style-type: none"> i. Refund tax income payments to all persons who are owed TT\$20,000 or less by the government. ii. Defer rental and mortgage payments for a three month-period to the Housing Development Corporation and The Trinidad and Tobago Mortgage Finance Company. iii. Provide Food Cards of up to TT\$510 per month over a three-month period for affected households. iv. Provide a salary relief grant of up to TT\$1,500 per month over a three-month period for affected citizens registered with the National Insurance Board. v. Provide rental assistance of up to TT\$2,500 per month over a three-month period for affected persons who are retrenched, terminated or experiencing reduced income. vi. Establish the selection criteria to target beneficiaries of emergency programs for households. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). iii. Fulfilled (II quarter, 2020). iv. Fulfilled (II quarter, 2020). v. Fulfilled (II quarter, 2020). vi. Fulfilled (II quarter, 2020). 	<p>3.1 The borrower will implement the following measures:</p> <ul style="list-style-type: none"> i. The review and adjustment of the COVID-19 emergency measures to determine their relevance and effectiveness in the post-pandemic era; and eliminate COVID-19 measures that are no longer deemed relevant in the post-pandemic period. ii. The development of methodology/requirements to evaluate the results obtained from government programs for affected households and persons.
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to increase liquidity for businesses during the health and economic crisis.	<p>3.2 The borrower will implement the following measures:</p> <ul style="list-style-type: none"> i. Provide VAT refunds to businesses owed up to TT\$250,000 by the Government. ii. Issue VAT bonds to clear any VAT balances larger than TT\$500,000. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). 	<p>3.2 The borrower will implement the following measures:</p> <ul style="list-style-type: none"> i. Review and adjust the COVID-19 emergency measures to determine their relevance and effectiveness in the post-pandemic era; and eliminate

² This includes vulnerable families that participate in existing social protection programs; vulnerable families that do not participate in social protection programs; and informally employed or unemployed individuals (without a source of income).

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
	iii. Provide a total of TT\$50 million grant to affected Tobago hoteliers to upgrade their premises.	iii. Fulfilled (II quarter, 2020).	COVID-19 measures that are no longer deemed relevant in the post-pandemic period. ii. Development methodology/requirements to evaluate the results obtained from government programs for affected businesses.
Component 4. Economic and fiscal strengthening for the post-pandemic period			
Promote economic and fiscal recovery in the post-pandemic period.	4.1 The borrower will implement the following measures: i. Create a high-level strategic Committee to guide fiscal policy and management of the health emergency. The Committee should be responsible for providing: a. Fiscal costs related to the measures implemented for the duration of the health crisis; b. Estimates of the economic impact of the health crisis; and c. Fiscal framework/parameters associated with the fiscal management of the health crisis. ii. Establish an Inter-Ministerial Assessment and Advisory Committee to monitor and evaluate the fiscal, social and economic measures implemented as well as develop a socio-economic framework/plan in the context of the national priorities and global environment in the medium term. iii. Proclamation of the full implementation of Fair Trading Act (FTA).	i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). iii. Fulfilled (I quarter, 2020).	4.1 The borrower will implement the following measures: i. Approve a medium-term fiscal framework, providing a path to fiscal sustainability in the post-pandemic period, including revenue and expenditure projections, as well as the identification of fiscal risks (i.e. changes in oil prices, natural disasters and contingent liabilities). ii. In addition, this will be inclusive of strengthening tax administration by improving the accuracy and reliability of the taxpayer registration database, developing a taxpayer compliance improvement plan, increasing the rate of on-time tax payments, and improving the timeliness of VAT and income tax refunds. iii. Prepare a public spending assessment to identify cost savings in public spending, including leakages in social spending, and transfers, including subsidies and transfers to public bodies and state-owned enterprises. iv. Strengthen public investment management, including the establishment of prioritization criteria

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
			<p>for public investment projects that help economic recovery.</p> <p>v. A medium-term socio-economic recovery plan to stimulate growth, competition and investment (Fair Trading Act implemented), provide social protection, strengthen the productivity of key economic sectors and identify key social and economic reforms.</p>

RESULTS MATRIX

Programme Objective:	The general objective of the programme is to strengthen the efficiency and effectiveness of fiscal policy and management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives of the programme are: (i) to promote the availability and timely execution of financial and material resources to respond to the effects of the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery in the post-pandemic period.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target	Final year	Means of verification	Comments
Confirmed COVID-19 cases.	Number.	32,078	2020	5,901	2020	World Health Organization reports.	The indicator allows a comparison between the estimated number of cases in 2020 (final target) versus the projected number of cases in a scenario of no government intervention (baseline) simulated with the use of epidemiological models ¹ . <ul style="list-style-type: none"> Expected cases in unmitigated scenario: Up to 32,078. Expected cases in social distancing scenario: Up to 5,901.
Government primary balance.	Percentage.	-8.3	2020	-3.5	2022	Official letter of the MoF/MPD.	Primary fiscal balance as a percentage of GDP. For 2020, the figure corresponds to the estimated primary balance, including response measures to the COVID-19 emergency.

¹ The unmitigated scenario corresponds to estimates from an SEIR model with $R_0=1.25$, while the social distancing scenario has been calculated with $R_0=1.15$. Source: IDB.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
SPECIFIC OBJECTIVE 1: Promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19						
Budget allocated to the health sector.	Percentage of GDP.	3.1	2019	3.6	Official letter of the Ministry of Planning and Development (MPD)/MoF.	Budget allocated to the Ministry of Health. The increase in the indicator will be measured at fiscal year-end 2020, based on the 2020 budget approved by Parliament and the corresponding increases due to the COVID-19 emergency. Ministry of Health budget: TT\$4.74 billion (2019) GDP: TT\$153.07 billion (2019 estimate).
Health sector expenditure executed.	Percentage.	97.9	2019	98.5	Official letter of the MPD/MoF.	Budget executed by the Ministry of Health. The indicator represents the percentage of allocated budget actually executed. Mid-year review Ministry of Health estimate: 4.64 billion (2019).
SPECIFIC OBJECTIVE 2: Strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis						
Percentage of the total number of households benefited by the provision of food cards due to the COVID-19 health crisis.	Percentage.	0	2019	15.2%	Official letter of the MPD/MoF.	The indicator calculates the percentage of the total number of households in the country benefited by food cards. <ul style="list-style-type: none"> • Total estimated households²: 421,169. • Target benefited households: 64,000. Formula: (Benefited households) / (Total estimated households).
Percentage of the total number of households benefited by rental assistance due to the COVID-19 health crisis.	Percentage.	0	2019	3.8%	Official letter of the MPD/MoF.	The indicator calculates the percentage of the total number of households in the country benefited by the rental assistance programme, which targets persons who are retrenched, terminated or experiencing reduced income. <ul style="list-style-type: none"> • Total estimated households: 421,169. • Target benefited households: 16,000. Formula: (Benefited households) / (Total estimated households).

² The total population is 1,389,858 (2018 WDI estimate) and the average household size is 3.3 (2011 Census).

Indicators	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
Workers benefited by the provision of a salary relief grant.	Percentage.	0	2019	21.4	Official letter of the MPD/MoF.	<p>The indicator calculates the percentage of the labour force that benefited from the programme. It includes workers registered with the National Insurance Board that receive a salary relief grant of up to TT\$1,500 per month as a result of the health crisis.</p> <ul style="list-style-type: none"> • Total labour force registered for national insurance: 420,000. • Target benefited workers: 90,000. <p>Formula: (Benefited workers) / (Total labour force registered for national insurance).</p>
Taxpayers owed TTD 20,000 or less that receive income tax refunds within 90 days.	Percentage.	0	2019	100	Official letter of the MPD/MoF.	<p>The indicator will be calculated based on the number of taxpayers requesting income tax refunds.</p> <ul style="list-style-type: none"> • Benefited taxpayers (owed a refund of TT\$20,000 or less): 25,000. <p>Formula: (Taxpayers that received income tax refund within 90 days) / (Total number of taxpayers that requested an income tax refund).</p>
Businesses owed TTD 250,000 or less that receive VAT refunds within 90 days.	Percentage.	0	2019	100	Official letter of the MPD/MoF.	<p>The indicator will be calculated based on the number of businesses requesting VAT refunds.</p> <ul style="list-style-type: none"> • Benefited businesses (owed a refund of TT\$250,000 or less): 3,800. <p>Formula: (Businesses that received VAT refund within 90 days) / (Total number of businesses that requested an income tax refund).</p>
SPECIFIC OBJECTIVE 3: Promote economic and fiscal recovery during the post-pandemic period						
Actions set out in the plan for economic and fiscal recovery implemented.	Percentage.	0	2019	80	Official letter of the MPD/MoF documenting the plans prepared and implemented.	<p>The indicator calculates the percentage of all actions set out in the economic and fiscal recovery plan that have been implemented.</p> <p>Formula: (Actions implemented) / (Total number of actions set out in the recovery plan).</p>

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
Component 2: Strengthening fiscal policy and management to respond to the health crisis caused by COVID-19						
Government decisions approved expanding budget lines for health sector spending, including budget reallocations.	Government decisions.	0	2020	1	Official Letter from the Ministry of Planning and Development or the MoF to the Bank confirming the approval of the government decision and the review of the consolidated budget statement; and attaching the government approved decisions to expand budget lines for health sector spending, including budget reallocations.	
Component 3: Strengthening fiscal policy and management to respond to the economic crisis						
Government decisions approved facilitating the refunding of income tax payments to individuals.	Government decisions.	0	2020	1	Official Letter from the MPD or the MoF to the Bank confirming the approval of the policy measures attaching the respective approved decisions.	
Government decisions approved for moratoriums on the payment of rental and mortgage payments to the Housing Development Corporation and The Trinidad and Tobago Mortgage Finance Company.	Government decisions.	0	2020	1		
Government decisions passed approving the criteria and implementation of a plan of temporary food cards and rental assistance for affected households.	Government decisions.	0	2020	1		
Government decisions approved to provide salary relief grant for affected citizens registered with the National Insurance Board.	Government decisions.	0	2020	1		
Government decisions approved streamlining value-added tax refunds for businesses.	Government decisions.	0	2020	1		
Government decisions approved authorizing temporary grants for businesses.	Government decisions.	0	2020	1		

Outputs	Unit of measure	Baseline	Baseline year	Final target (2020)	Means of verification	Comments
Component 4: Economic and fiscal strengthening for the post-pandemic period						
High-level strategic committee formed to address the crisis and guide decision-making for economic and fiscal strengthening afterward.	Committee.	0	2020	1	Official letter from the MPD or the MoF to the Bank confirming the implementation of the measures and attaching copies of the appointment of the respective committee.	
Fiscal framework prepared in the context of the national priorities and global environment in the medium term.	Fiscal framework document.	0	2020	1	Official letter of the MPD/MoF attaching the fiscal framework.	The fiscal framework will be developed by the Inter-Ministerial Assessment and Advisory Committee.
Legislation promoting and protecting competition policy.	Act.	0	2019	1	Official letter from the MPD to the Bank attaching the publication of the Fair Trading Act in the Trinidad and Tobago gazette.	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Trinidad and Tobago. Loan ____/OC-TT to the Republic of Trinidad and Tobago
Programme to Strengthen Fiscal Policy and Management in Response to the
Health and Economic Crisis Caused by COVID-19 in Trinidad and Tobago

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Trinidad and Tobago, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Programme to Strengthen Fiscal Policy and Management in Response to the Health and Economic Crisis Caused by COVID-19 in Trinidad and Tobago. Such financing will be for the amount of up to US\$100,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)