

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

TRINIDAD AND TOBAGO

PUBLIC CAPITAL EXPENDITURE MANAGEMENT PROGRAM I

(TT-L1019)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Jorge Luis Von Horoch (ICF/ICS) Project Team Leader; Leslie Harper (ICF/ICS); Benjamin Santa Maria (ICS/CTT); Emmanuel Abuelafia (VPC/CCB); Gabriel Castillo (CCB/CTT); Magda Theodate (PDP/CTT); Denise Salabie (PDP/CTT); Hyun Jung Lee (LEG/SGO); and Melissa Gonzalez (ICF/ICS).

CONTENT

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	2
A.	Introduction	2
B.	Background, Problems Addressed, and Justification	2
C.	Objective and Components.....	10
D.	Key Results Indicators.....	12
II.	FINANCING STRUCTURE AND MAIN RISKS	12
A.	Financing Instruments	12
B.	Environmental and Social Safeguard Risks	13
C.	Other Key Issues and Risks.....	13
III.	IMPLEMENTATION AND MANAGEMENT PLAN	14
A.	Summary Implementation Arrangements.....	14
B.	Summary of Arrangements for Monitoring Results and Program Evaluation	15
C.	Complementary Bank interventions and Technical support activities	15

Annexes	
ANNEX I:	DEM Summary
ANNEX II:	Policy Matrix

Electronic Links
MANDATORY
1. Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35418567
2. Means of Verification Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35388218
3. Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35388204
OPTIONAL
1. Medium -Term Action Plan for Building a Monitoring and Evaluation Capability http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377485
2. Legislative Proposal to provide for Public Procurement and Disposal of Public Property http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377486
3. Exchequer and Audit Act http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377489
4. Draft for discussion: Supporting Economic Performance in the Caribbean by Strengthening Capacity (CARTAC) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377491
5. A Monitoring and Evaluation Policy for the Social Sector http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377496
6. Facing the Issues – Turning the Economy Around – Budget 2011 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377502
7. Public Financial Management Performance Assessment Report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377503
8. Fiscal Management and Accountability Bill – Explanatory Note http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35377507
9. Independent Macroeconomic Assessment http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35420443
10. Economic Analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35451161

Abbreviations

AGD	Auditor General's Department
CTB	Central Tenders Board
EU	European Union
EAA	Exchequer and Audit Act
EDB	Economic Development Board
GORTT	Government of the Republic of Trinidad and Tobago
IFMIS	Integrated Financial Management Information System
MOF	Ministry of Finance
PBL	Policy-Based Loan
PEFA	Public Expenditure and Financial Accountability
PSIP	Public Sector Investment Program
PFM	Public Financial Management
SC	Steering Committee

PROJECT SUMMARY
TRINIDAD AND TOBAGO
PUBLIC CAPITAL EXPENDITURE MANAGEMENT PROGRAM I
(TT-L1019)

Financial Terms and Conditions			
Borrower: Republic of Trinidad and Tobago		Amortization Period:	20 years
Executing Agency: Ministry of Finance (MOF)		Grace Period:	5 years
		Disbursement Period:	12 months
Source	Amount		
IDB (OC)	US\$100,000,000	Supervision and Inspection Fee:	*
Other/Cofinancing	-	Interest Rate:	LIBOR-Based
Local	-	Credit Fee:	*
Total	US\$100,000,000	Currency:	US dollars Single Currency Facility
Project at a Glance			
Project Objective/Description: The objective of the program is to support the new GORTT's major reform effort to enhance and modernize public capital expenditure management. The program's objective will contribute to the government's overall objectives of enhancing efficiency, effectiveness, transparency, and accountability in the use of public resources. The reforms combine policy initiatives and government actions in three areas: (i) policy design and public investment management; (ii) public procurement, and (iii) public financial management and audit. The first area of intervention aims at improving the investment planning and prioritization, while the second and third areas of interventions seek to improve the tools for project implementation. For each area of intervention, the program will establish targets related to changes in the relevant legal framework, as well as procedures and/or instruments necessary to achieve the desired objectives. The program will be structured under the programmatic policy-based loan modality with three independent but related operations.			
Special contractual conditions: This loan will be disbursed in one installment once the operation is eligible for disbursements and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that the policy conditions described in the Policy Matrix have been duly fulfilled (see paragraphs 1.32, 1.35, and 1.40).			
Exceptions to Bank policies: None			
Project qualifies for: SEQ[] PTI[] Sector [] Geographic[] Headcount []			

(*) 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 provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Introduction

- 1.1 The recently elected Government of the Republic of Trinidad and Tobago (GORTT) has indicated its intention to re-orient government priorities by adequately targeting public sector investment programs that will sustain growth, alleviate poverty, develop human capital, and promote public sector efficiency. In this context, the GORTT recognizes the need to revamp its capital expenditure management to ensure that the programs under the Public Sector Investment Program (PSIP) lead to expected outcomes.
- 1.2 This new strategic vision and direction, with respect to public investment, requires sound technical and institutional capacity to ensure efficiency in the spending of public money. For this purpose, the GORTT, through the MOF, has requested the Bank's support to design and implement a set of policies geared to enhance public capital expenditure management.
- 1.3 The program will support the GORTT in pursuing long-term policy reforms that combine policy initiatives and government actions in three areas: (i) policy design and public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area addresses issues related to policies, practices, and mechanisms for improved project cycle management, including better strategic vision in the pre-investment stage. The second and third areas are considered to be key pillars to enhance project investment implementation.

B. Background, Problems Addressed, and Justification

- 1.4 After 15 years of positive economic growth, the economy stumbled in 2008, registering a significant economic slowdown starting in late 2008, which implied a 3.5 percent decrease in economic activity in 2009. The downturn in economic activity, particularly in the manufacturing and services sectors, resulted from the negative growth experienced by the country's major trading partners, ensuing from the impact of the global downturn. Economic growth resumed in the last quarter of 2009, mainly fuelled by higher energy price and growth is expected to be around 2.5 percent in 2010. Growth expectations are positive going forward but much more modest than the growth rates observed in previous years. There has been an increase in inflation in recent months due to increases in domestically produced food prices.
- 1.5 In parallel with the economic slowdown, the country's fiscal situation has deteriorated over the last couple of years. The fiscal deficit amounted to 4.4 percent of GDP in FY 2008/09 compared with a surplus of 7.8 percent of GDP in FY 2007/08. The estimated fiscal deficit for FY 2009/10 is 5.4 percent of

GDP (if the financial sector rescue package is included in the calculation)¹ while the FY 2010/2011 budget projects a fiscal deficit of 5.5 percent of GDP.

- 1.6 The high level of fiscal deficit is partially explained by the decrease in economic activity, and consequent decrease in tax revenues. The financing needs for FY 2010/11 are estimated around US\$1200 million and the proposed operation will contribute towards financing the fiscal deficit². Furthermore, the GORTT's policy decision to maintain an ambitious public investment plan sought to mitigate the impact of the crisis, as well as to meet commitments to ongoing capital projects. The total figure for public capital investment increased from 6.6 percent of GDP in FY 2007/2008 to 7.2 percent of GDP in FY 2008/09 and 6.7 percent of GDP for FY 2009/10.
- 1.7 It is worth noting that even though the fiscal situation deteriorated, the GORTT did not withdraw funds from the Heritage and Stabilization Fund (HSF)³. However, the stock of Net Public Sector Debt increased from 34.1 percent of GDP in 2008 to 49.8 percent of GDP by September 2010. The increase in the stock is explained by the public deficit and state enterprises non-guaranteed debt. In spite of the sharp increase in the stock of public debt, the external position of the country remains relatively solid. The country's international reserves amount to more than US\$ 9 billion (more than 11 months of imports) and the Central Bank is confident in its ability to maintain its *de facto* peg with the US dollar. The current account balance is highly dependent on the price of oil and has improved in the last years.

1. The Government's Development Approach and Public Sector Investment:

- 1.8 Faced with a prospective decline in energy resources over the next ten (10) years⁴ and the risks associated with commodity price shocks, the government has announced its intention to develop a diversification strategy. The desired economic transformation will rely on using government energy revenues to support the diversification of non-energy sectors through public investment in infrastructure and social programs. It is expected that these actions will help foster economic growth and social equity. As indicated in the first budget presentation by the Minister of Finance on September 8th 2010, the current administration is committed to reprioritizing spending to better serve the people and to encourage entrepreneurship and development by providing the necessary infrastructure to promote sustainable growth, job creation, and poverty reduction. The new policy

¹ The Central Government borrowed from the financial market \$ 3.1 billion (2.4 percent of GDP) to provide resources for a financially stressed private sector company under government control.

² The Central Government is expecting to finance the fiscal gap with both domestic and external financing.

³ The purpose of the HSF, established in March 2007, is to save and invest surplus petroleum revenues derived from production business in order to: (i) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas; (ii) generate an alternative stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and (iii) provide a heritage for future generations from savings and investment income derived from excess revenues.

⁴ Oil production has been steadily declining. For the period 2000 to 2010, oil production has fallen by approximately 25 percent.

direction aims at achieving inclusive development, and promoting competitiveness and a sustainable and growing economy.

- 1.9 The PSIP has been a significant contributor to gross domestic capital formation and total public investment averaged 12 percent of GDP over the last 5 years (approximately 7 percent of GDP by the Central Government, and 5 percent by the rest of the public sector). The budget for FY 2010/2011 indicates that the Central Government Investment Programme will amount to approximately TT\$ 7 billion (US\$ 1.16 billion), and a similar amount will be spent by state owned enterprises. The GORTT is aware that changing the spending priorities is a necessary but not a sufficient condition to achieve the ambitious strategic objectives set by the new administration.⁵ Given the challenging economic and fiscal circumstances confronting policymakers, there is a pressing need to enhance the GORTT's capacity to maximize the use of public resources available for capital investment by addressing technical and institutional constraints. The GORTT plans to address these issues in a comprehensive manner by strengthening the framework and capabilities for public sector investment programming and implementation management.

2. Challenges for a more effective and transparent Public Capital Expenditure Management:

- 1.10 **Main challenges in the area of intervention of the program.** For public investment to play an important role in fostering economic growth and development, sound technical and institutional capacity are required to ensure that public resources are channeled effectively. First, there is a need to enhance the project cycle, including planning and pre-investment studies, to ensure prioritization of investment in areas with the highest social and economic benefits, as well as solid monitoring and evaluation capacity. Second, the government needs improved management tools to better implement those projects once selected. This includes: (i) a public procurement system, that is competitive, fair, efficient, and transparent; (ii) a financial management system, that enables planning, effective allocation of resources; and (iii) an effective reporting and auditing processes, that will help facilitate transparency, and which will provide feedback regarding the quality of decision making and management process. In this context, this program will address the following challenges:
- 1.11 Policy design and public investment management: The effective planning and management of public investment projects is a challenge in Trinidad and Tobago. Despite the high demand for public investment, the GORTT's capacity to maximize the use of resources available for capital investment is constrained by:

⁵ The "[Prosperity for all: Manifesto of the People's Partnership](#)," is a manifesto developed by the People's Partnership, which returned to government as the majority party in May 2010. This manifesto summarizes the party's plans and initiatives that they will pursue while in power. The seven pillars of the People's Partnership Manifesto, which has been adopted as Government policy, are designed to do the following: i) foster people-centered development; ii) ensure national and personal security; iii) entrench good governance, iv) steer the country towards a diversified knowledge intensive economy; v) move towards eradicating poverty and promoting greater social justice; (vi) present an accommodating foreign policy, (vii) and expand the use and availability of Information and Communication Technology.

- a. absence of a Medium Term Fiscal Framework, which limits the potential of the PSIP to function as a planning tool and deprives the decision making process of a comprehensive picture of the fiscal implications of project proposals. Projects included in the PSIP are not developed within fiscal frames. The 2008 Public Expenditure and Financial Accountability (PEFA) assessment highlights the lack of a multi-year perspective in fiscal planning (PI-12);
- b. lack of standardized systems, methodologies, and procedures for the preparation and approval of investment projects that limit the ability of the system to support the application of consistent criteria to the resource allocation process. Transparency is also compromised by this weakness, an issue which assumes additional significance in the context of the range of agencies that participate in the government's component of the PSIP;
- c. absence of a formal strategic guidance for prioritizing and optimizing investment projects to ensure project alignment with the country's development goals;
- d. absence of a formal system of prior independent technical review of project investment proposals, as well as formal selection criteria for the prioritization of public sector investment projects. Currently, none of the projects submitted for Cabinet approval have a ex-ante independent economic and social evaluation. Current arrangements allow for the submission of project proposals directly to the Cabinet without the benefit of prior technical review;
- e. an incipient monitoring and evaluation system that limits the follow up of public investment projects, resulting in many cases in delays in the execution;
- f. insufficient capacity to manage investment projects and limited integration of the stages of pre-investment, design, execution, and evaluation;
- g. insufficient analytical work at the pre-investment stage, and low funding for pre-investment studies. Out of a total central government allocation of TT\$ 7 billion (US\$ 1.16 billion) to the PSIP, only TT\$ 9.9 million (US\$ 1.65 million) (approximately 0.14 percent) is earmarked for planning and project development work;
- h. need for better coordination among institutions managing social projects and a system for monitoring and evaluation of policies and projects for social development. These deficiencies often make it difficult to determine whether resources for social programs are being used wisely to achieve the intended objectives.

- 1.12 Aware of this situation, the GORTT is committed to formulating and implementing a comprehensive and integrated framework for investment management that effectively tackles the above-mentioned deficiencies.
- 1.13 Public Procurement: The current legal and regulatory framework embodied in the Central Tenders Board (CTB) Ordinance of 1961, applies mainly to government ministries and departments and some statutory authorities. There are other agencies using public funds, including state own enterprises, other statutory authorities and civil society organizations involved in service delivery whose procurement practices fall outside the scope of the Ordinance. Some agencies bypass the CTB, entering into contracts with Special Purpose Companies (state owned) that in turn procure using their own procurement regulations and that are employed for carrying out projects funded through the Infrastructure Development Fund. As indicated in the White Paper for the Reform of the Public Sector Procurement Regime of 2005, the exclusion of several significant procurement agencies from the purview of the CTB results in parallel procurement systems, raising concerns related to guidance and control, lack of transparency and accountability and unfair practice.
- 1.14 In addition, the scope of public procurement envisaged by the current legal and regulatory framework is largely limited to the tendering stage. Regulatory requirements establish open competition as the default method for carrying out procurement. However, the 2008 PEFA assessment indicates that there have been regulatory circulars issued by the Central Tender Board which allow for less competitive methods when properly justified.
- 1.15 The current practices do not favor easy access to public information. There is no central registry for procurement requirements. Moreover, insufficient data exists to assess the procurement method used and so provides no basis to determine the proportion of contracts awarded above the open competition threshold.
- 1.16 The lack of general oversight and standardization of processes and procedures are additional weaknesses of the system. First, there is no agency in charge with the responsibility for systemic monitoring and dispute resolution in relation to public procurement. Second, there is a lack of uniformity of procedures across agencies, leading to an absence of necessary standardization on procurement documentation and practice. As a result of these deficiencies, the GORTT procurement system scored below average (D+) in the 2008 PEFA assessment (see PI-19).
- 1.17 The GORTT recognizes the need for a new legal framework that applies to all procurement using public funds and employing objective standards, in conformity to international best practices, in all stages of the process and to all the actors in the process.
- 1.18 Public financial management and audit: The financial management regulatory framework for government institutions is defined in the Exchequer and Audit Act (EAA) (see optional electronic link #3). In concordance with the Constitution, the

EAA addresses the Consolidated Fund; the budgetary process; the timeliness of financial reporting; controls and reporting; the prerequisites for the issuance of government guarantees; and regulates the borrowing operations of the government. The position of the Auditor General is enshrined in the Constitution. The Auditor General is appointed by the President after consultation with the Prime Minister and the leader of the opposition. The Constitution requires that all officers, courts, authorities, and all enterprises that are owned or controlled by the State be audited annually and grants the Auditor General authority over access to all books, records, returns, and documents relating to the accounts. The Auditor General reports are disseminated to parliament and the Minister of Finance.

- 1.19 The Public Financial Management (PFM) system is focused mainly on expenditure control. While the PFM system functions reasonably along traditional lines, there is need for the system to be modernized so that it is able to provide real-time and adequate financial information. In the 2008 PEFA, Trinidad and Tobago scored B on timeliness and regularity of accounts reconciliation (PI-22) and D on availability of information on resources received by service delivery units. The accounting and reporting system for non-salary expenditure is cash based, manual, and is not well integrated or interfaced between operating units or information sub-systems. The relatively poor score received in this area (C+) in the 2008 PEFA assessment indicates the need to improve the effectiveness of internal controls for non-salary expenditure. Furthermore, the system lacks the application of modern approaches and techniques in the area of fiscal planning and management. There have been several attempts by several Government Departments to automate core components of the expenditure control system. However in the absence of legal authority to change the system, agencies are forced to maintain dual systems. The GORTT is aware of the need to modernize its PFM, to enhance efficiency, effectiveness, transparency, and accountability in the use of public resources.
- 1.20 In the area of external audit, the Office of the Auditor General has been undergoing an institutional strengthening project with the aim of increasing the efficiency and effectiveness of audits conducted under the purview of the Department. While there has been some progress, the project has been slowed due mainly to insufficient staff to discharge its functions properly. In particular, the ability of the institution to conduct audits in statutory bodies and state owned enterprises is seriously limited by the lack of qualified audit staff to conduct field work and reviews. The Department needs to enhance its skills and services in a range of areas including auditing in an information technology environment, auditing of information system and controls, fraud auditing, and forensic auditing. In addition, there is no explicit mandate to audit non-public entities using public monies. These weaknesses are areas of improvement that if properly addressed will enhance the financial management and accountability system of the State.

3. Strategy for the programmatic series:

- 1.21 For the first operation, the program will focus on the definition and formal approval of the content and structure of the policies and reforms in each area. For the second operation, the program will focus on implementation of key regulations and institutional arrangements of the reforms defined in the first operation. Finally for the third operation, the program will support the implementation of additional reforms that are necessary for the successful implementation of the overall reform and the attainment of initial outputs.
- 1.22 The present operation, the first of the programmatic series, represents the initial step towards the achievement of the overall program objectives, laying the foundation for the rest of the program.
- 1.23 **The Strategy of the Bank with Trinidad and Tobago.** This program is directly aligned with the 2004-2007 IDB Country Strategy with Trinidad and Tobago (GN-2335), which was subsequently updated in 2008 (GN-2477) and again through 2010 (GN-2570). The Country Strategy calls for “promoting public sector modernization to improve efficiency and effectiveness.” This program will directly contribute to those goals by supporting the government in the reform of its systems to improve public capital expenditure management and to the achievement of efficiency gains related to public expenditure in general, public investment specifically, and the public procurement of goods, services, and works. A new Country Strategy for 2011-2015 is currently under preparation. Based on ongoing dialogue with the GORTT authorities, the 2011-2015 Country Strategy is expected to prioritize reforms supported by this program, including interventions to improve efficiency, effectiveness and sustainability of public investment, and improvements in the procurement, audit, and financial information management systems.
- 1.24 **The Ninth General Capital Increase (GCI-9).** The GCI-9 outlines key objectives and strategic goals for the IDB to follow in years to come. This program is consistent with the “Lending to small and vulnerable countries” target.
- 1.25 **Coordination with other Bank operations in Trinidad and Tobago.** Over the last eight years, the Bank has provided the GORTT with technical and financial assistance in areas directly related with the key components of this program through two investment loan operations, and one non-reimbursable technical cooperation program. The Public Sector Reform Initiation Program (1523/OC-TT), approved in 2003, supports the development of a long-term strategy to modernize the public sector and provides resources to enhance the management capacity in key ministries. The E-Government and Knowledge Brokering Program (1808/OC-TT), approved in 2006, promotes more effective and greater utilization of information and communication technologies. This E-Government program aims to increase the competitiveness of the economy and to provide government services in a more efficient, responsive, and transparent manner. In addition, the PRODEV technical cooperation ATN/OC-10209-TT, approved in

2006, supports the preparation of technical studies and a medium-term action plan to enhance government capacity to manage for results. With PRODEV support, the GORTT will develop a results-based system to measure performance against the government's goals as outlined in the 2010 Manifesto.

- 1.26 Finally, the Bank provided specific technical assistance through the preparation in 2005 of the Country Procurement Assessment Report, in conjunction with other donor agencies, and technical missions to identify specific needs in the MOF for Bank support in areas related to results-based budgeting, integrated financial management information systems, and monitoring and evaluation systems. The present programmatic series will complement and reinforce the Bank support to the GORTT's efforts to modernize its public expenditure management capabilities.
- 1.27 Resources from the above mentioned investment loan operations will be used for technical assistance, training, dissemination, and consensus-building activities that will facilitate the reform implementation process agreed for this programmatic series. In particular, key program targets related to the design and implementation of information systems and the development of monitoring and evaluation mechanisms will be supported by the E-Government and Knowledge Brokering Program (1808/OC-TT). In addition, some capacity building and institutional strengthening activities envisaged under the reform program will be financed with resources from the Public Sector Reform Initiation Program (1523/OC-TT).⁶ In this regard, on August 20, 2010, the Minister of Finance requested the Executing Agency (Ministry of Public Administration) of both loan operations to finance the technical assistance necessary to support the core reforms under the program, including the coordination and management of the activities for the modernization of the Government's financial management systems.
- 1.28 **Lessons learned from other Programmatic Policy-Based Loans (PBLs).** An important lesson that has been learned from other Programmatic PBL programs is that it is critical to support the government not only in the formulation of plans but also in the implementation of the reforms associated with institutional development. Technical assistance is crucial for the review of processes, methodologies, guides, and information systems and training. Additionally, it is important to support the government in the development of knowledge as well as in the process of consensus building for the formulation and implementation of policy reforms. In this regard, the two loans mentioned in paragraph 1.25 that have available resources and are eligible for technical assistance will be critical to the successful implementation of the reform program.

⁶ Active loan operations could fund the support to (i) review existing legal and policy framework that guide fiduciary management, (ii) strengthen the operational units responsible for fiduciary management, (iii) implement an integrated financial management system, and (iv) review existing legal and policy framework that guide procurement reform.

C. Objective and Components

- 1.29 **The objective of the program** is to support the GORTT's major reform efforts to enhance and modernize public capital expenditure management. The program's objective will contribute to the government's overall objectives of enhancing efficiency, effectiveness, transparency, and accountability in the use of public resources. The reforms combine policy initiatives and government actions in three areas: (i) policy design and public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area of intervention aims at improving the investment planning and prioritization, while the second and third areas of interventions seek to improve the tools for project implementation. For each area of intervention, the program establishes targets related to changes in the relevant legal framework, as well as procedures and/or instruments necessary to achieve the desired objectives. The program is structured under the Programmatic PBL modality with three independent but related operations.
- 1.30 **Components.** The conditions prior to disbursement of the loan for each component are detailed in the program's Policy Matrix (see Annex II). Successful implementation of the reforms included in this program presupposes a stable macroeconomic environment that is compatible with the program's objectives. As a condition for disbursement of the first loan, the government will maintain a macroeconomic policy framework consistent with the program's objectives.

1. Component 1. Policy design and public investment management:

- 1.31 The objective of this component is to improve the quality of public investment by enhancing the policy formulation process that guides the investment decisions and establishing a system to screen proposed public investment projects based on objective criteria. In this regard, the program supports the establishment of an Economic Development Board (EDB), which will consult with stakeholders and play an advisory role in policy formulation. It is expected that the EDB will play an important role providing strategic guidance for prioritizing and optimizing government expenditures. The EDB will operate under the direction of the Ministers of Finance (MOF), and Planning, Economic and Social Restructuring and Gender Affairs. It will report to the Prime Minister through the Ministerial Council for Economic Development. The EDB will be guided by the seven pillars for sustainable development articulated in the Manifesto of the People's Partnership (see footnote 4). EDB's core mandates relevant for this program are: (i) the design of a new framework for the economic development of the T&T economy; (ii) to promote the alignment and strategic incorporation of existing and long term plans into the new T&T Development Framework; and (iii) to formulate recommendations for the implementation and execution of these development plans. In relation to the modernization of the public investment management system, the program will support properly sequenced reform interventions at the levels of the regulatory framework, the organizational structure, policy and procedures and capacity development. In addition, the

program will seek to enhance the policy design and monitoring capacity for social investment projects to contribute to the objectives of poverty reduction and growth.

- 1.32 For the first operation, the program conditions are: (i) the approval by Cabinet of the establishment of the EDB to improve policy formulation and consultation with stakeholders; (ii) the Cabinet approval of the framework for enhancing the system for management of public investment projects; (iii) the establishment of a multiyear forecasting framework for fiscal and macroeconomic aggregates to guide the preparation of future annual budgets; and (iv) the establishment of an agency at the ministry level to enhance policy analysis and institutional coordination to improve efficiency of social programs.

2. Component 2. Public procurement:

- 1.33 The objective of this component is to support the GORTT's reforms to enhance efficiency in public procurement, through the introduction of legislation and practices which are fair and transparent. The reform aims to promote enhanced competition and to generate savings in public procurement of goods, services and works. In order to achieve this objective, the GORTT will adopt a new legal and institutional framework in accordance with best international practices, aimed at enhancing transparency and accountability. The new framework will cover all entities that carry out public procurement for the GORTT. New legislation will be enacted to establish the legal framework and prescribe operating principles. The details of process and procedures will be developed in implementing instruments, including regulations, guidelines, and handbook. The separation of principles and implementing instruments will enable the GORTT more flexibility to accommodate market and technological changes and separate policy issues from operational issues.
- 1.34 Under this component, the program will also support critical government actions for the implementation of the new legislative framework. In this regard, the program will focus on the establishment and operation of the institutions created under the new Act, the issuance of new regulations and guidelines, the adoption and dissemination of improved public procurement tools, methodologies, and practices.
- 1.35 For the first operation, the condition prior for disbursement will be the presentation to parliament of a legislative proposal for the modernization of public procurement. The proposal defines a procurement system governed by the underlying operating principles of value for money, transparency, and accountability.
- 1.36 The legislative proposal includes provisions to enable: (i) increasing openness and accountability; (ii) greater scrutiny by the public; (iii) stakeholder participation in the development of policies and guidelines; (iii) flexibility to accommodate technological change; and (iv) greater monitoring of contract execution.

3. Component 3. Public financial management and audit:

- 1.37 The objective of this component is to modernize public financial management and strengthen the capacity of the Auditor General's Department (AGD). Under this component, the program will support the modernization of the legal framework, processes, and information system for a more transparent and effective public financial management. This component will also include the program's reforms and interventions to enhance integrity in government by strengthening the institutional capacity of the AGD. .
- 1.38 The programmatic series support the introduction of a modern Integrated Financial Management Information System (IFMIS), accompanied by the modernization of processes and tools. For this purpose, the GORTT will undertake the necessary changes in regulations and amend the legislative framework to enable its implementation. This will require, a new legislation for electronic transactions to allow for government electronic payments using IFMIS.
- 1.39 In relation to the external audit system, the program will support the implementation of critical actions to address the weaknesses identified in the area of external scrutiny and audit. These actions and directives will be reflected in a policy note approved by Cabinet.
- 1.40 For the first operation, the conditions prior for disbursement of the loan funds are: (i) the approval by Cabinet of a policy note on the modernization of the PFM system. The note sets the framework, principles and core management arrangements for the modernization of the PFM; and (ii) the approval by Cabinet of a second policy note setting out the core actions to enhance the external audit function in Government.

D. Key Results Indicators

- 1.41 Disbursements of the loan funds under the program's first operation will be subject to fulfillment of the conditions established in the Policy Matrix (see Annex II). The expected outcomes of the planned program activities are indicated in the Results Matrix (see mandatory electronic link #3). The expected outcomes of the programmatic series are: (i) modernized public sector investment management system; (ii) improved transparency and accountability in public procurement; and (iii) enhanced public financial management and control systems.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 Given its depth and breadth, the agreed program is structured in three independent but related operations under the programmatic policy-based loan modality. This financing arrangement is considered the most appropriate because it is a flexible

and effective mechanism to support complex and long term reforms that require sequenced actions for implementation and broader dialogue. As such, the triggers for the second and third operations will be refined as progress is made in the adoption of the reforms.

- 2.2 This first operation, to be financed from the Ordinary Capital resources of the Bank, consists of a series of policy and operational reforms whose compliance will be precedent for a sole disbursement of US\$ 100 million. The first operation is expected to disburse before the end of 2010. The financing of the following two operations will be subject to the achievement by the GORTT of the triggers for the second and third operations respectively referred to in the Policy Matrix. This operation has been designed in accordance with the guidelines set forth in the New Lending Framework (document GN-2200-13) and in the “Policy-based loans: Guidelines for preparation and implementation” (document CS-3633).

B. Environmental and Social Safeguard Risks

- 2.3 Given the nature of the program involving institutional strengthening activities, no social or environmental issues are foreseen. Based on the afore-mentioned, according to Policy Directive B-13, and based on the results of the Safeguard Policy Filter Report, the operation is classified as “C.”

C. Other Key Issues and Risks

- 2.4 **Requirement for close collaboration with other donors.** The Government requested that the program design be consistent with and complement other programs sponsored by multilateral or bilateral institutions. In that regard, the Bank has been working in close coordination with the other donors, particularly the European Union (EU), on the development of the program. The program takes into account the recommendations that were put forth in the PEFA report and action plan, which were prepared by the EU in 2008. The EU has made an important shift from project support to sector budget support programs, amounting to 120 million Euros under its bilateral development cooperation with the country. The disbursement of these funds is subject to reaching targets agreed between the GORTT and the EU. A general precondition for all EU programs is related to progress in ongoing public finance management reform. By setting a framework and the milestones for the reform in financial management and supporting the GORTT efforts for implementation, the present program will help GORTT meeting the above mentioned EU target.
- 2.5 The conditions for the disbursement of the operation represent the GORTT’s long-term commitment to a reform agenda to improve effectiveness and transparency in public expenditure management, particularly in capital expenditures. Although some conditions include submission to parliament of proposed legislation, others involve the drafting of policy and regulatory frameworks that will require further legislative drafting and enactment in the medium term; it is expected that these efforts will be supported by the subsequent

operations. The programmatic structure of the operation allows for flexibility in the design of the details of the second and third operations while maintaining the overall objectives.

- 2.6 The implementation of a number of visible reforms under this program requires a high level of political support from both the executive and legislative branches in order for the reforms to yield their full potential benefits in the medium- to long-term. This risk is mitigated by the high political commitment of the GORTT senior authorities to the implementation of the program as indicated in the policy letter presented for this operation (see mandatory electronic link #1).
- 2.7 Some key reform initiatives could affect vested interest of specific groups that may resist changes, obstructing the implementation of the improved accountability mechanisms, and internal control measures. This risk will be mitigated through a coordinated effort in the following actions: raising public awareness of the need for reform, maintaining a continuous dialogue with the GORTT and providing valuable technical assistance through technical cooperations and existing loans.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary Implementation Arrangements

- 3.1 **Special contractual clauses. This loan will be disbursed in one installment once the operation is eligible for disbursements and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that the policy conditions described in the Policy Matrix have been duly fulfilled (see paragraphs 1.32, 1.35, and 1.40).**
- 3.2 The executing agency will be the MOF, which will provide the evidence of compliance with the program's conditions (and for the subsequent individual operations). The MOF will establish a program Steering Committee (SC) with the responsibility to provide overall program guidance and oversight. The SC will review the progress on the execution of the policy reforms, and will interface with other institutional actors to facilitate the implementation of the program. The MOF Permanent Secretary or his/her designate will chair the SC, and its membership will include the representatives of the institutions with specific responsibilities in the implementation of the reforms.
- 3.3 The MOF will appoint a Program Coordinator who will be responsible for: (i) providing support to the entities involved in the implementation of program's initiatives; (ii) coordinating program execution in technical matters; (iii) revising and presenting the work plans and progress reports to the SC; (iv) monitoring the timely compliance of targets and performance benchmarks set out in the policy matrix agreed between the GORTT and the Bank (see annex II); (v) collecting evidence of compliance with the program's targets; (vi) collecting the information needed for the indicators specified in the Results Matrix; and (vii) assisting with

the procurement and processing of the contracts required for the implementation of the agreed program interventions.

B. Summary of Arrangements for Monitoring Results and Program Evaluation

- 3.4 The implementation of the reform program will be monitored by the GORTT through the MOF and the SC with technical support from the project team. The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the Program and on the fulfillment of the conditions defined as triggers for the subsequent operations, as reflected in the Policy Matrix. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the advancement of the program. The meetings will focus on: (i) verifying the degree of compliance with the indicators for the program and its components, as indicated in the Results Matrix; (ii) taking stock of the successes and shortcomings of program design and execution and its effectiveness in working toward the country's development objectives; and (iii) recommending corrective or monitoring measures for the second and third operations of the programmatic series.
- 3.5 At the end of the programmatic series, the Bank will prepare a project completion report to assess results achieved by the program, its long-term sustainability and lessons learned to improve the design and execution of future operations.

C. Complementary Bank interventions and Technical support activities

- 3.6 Most of the activities to achieve the commitment for the first operation are in an advanced stage of completion and it is expected that all commitments will be achieved before the end of the year. Some of the activities for achieving the goals of the second and third operations will be supported with technical assistance provided by the loans 1808/OC-TT and 1523/OC-TT (mentioned above in 1.27). The objectives and components of the former program are directly aligned with the technical assistance that the government will require for the activities associated with the second and third operations. For example, electronic government solutions will be needed for the improvements that will be made to the IFMIS as part of the public financial management reforms and for electronic public procurement as part of the public procurement reforms.

Development Effectiveness Matrix
Summary

Indicator	Score	Maximum Score
<i>I. Strategic Relevance</i>	Low-High	
1. IDB Strategic Development Objectives	2.0	10
Country Diversification	2.0	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.0	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	8.4	10
Country Strategy Sector Diagnosis	6.0	6
Country Strategy sector objective & indicator	2.4	4
<i>II. Development Outcomes - Evaluability</i>	Partial Satisfactory	
3. Evidence-based Assessment & Solution	7.5	10
4. Evaluation & Monitoring Plan	5.1	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
<i>III. IDB's Role - Additionality</i>		
7. Additionality	7.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	0.0	3

I. Strategic Relevance: The project is a Programmatic PBL in Trinidad and Tobago, a C country. Its objective is not linked to the current Bank corporate initiatives and it does not establish evidence of the use of country systems. The country strategy presents an empirically based diagnosis for the sector.

II. Evaluability: The project has an evaluation of current deficiencies in the sector provided through a PEFA assessment. There are no alternative solutions considered. The project impact and outputs are correctly defined. The main deficiency are the definition of outcomes and the fact that not all indicators are SMART. General mechanisms for monitoring have been defined, the Ministry of Finance will appoint a Program Coordinator who will be responsible for monitoring the timely compliance of targets and performance benchmarks set out in the policy matrix. There is reference to the sources of the data to be collected. Nevertheless, there is no evaluation plan with the principal activities to be undertaken and the responsible party for each. There is no cost-benefit or cost-effectiveness analyses. The project has identified all risks, but not all the required mitigation measures have indicators.

III. Additionality: It is expected that this project will improve the public capital expenditure management of Trinidad and Tobago by enhancing efficiency, effectiveness, transparency and accountability in the use of public resources.

ANNEX II

POLICY MATRIX

Objective	First Operation Triggers	Second Operation Triggers	Third Operation Triggers
Enhanced Macroeconomic Stability	The macroeconomic framework of the borrower is consistent with the objectives of the program.	The macroeconomic framework of the borrower is consistent with the objectives of the program.	The macroeconomic framework of the borrower is consistent with the objectives of the program.
Component 1: Policy Design and Public Investment Management			
1. Improve the quality of public investment through the operation of a system to enhance planning and screening of proposed public investment projects based on objective criteria (economic, financial and social).	<p>(1.1). Establishment of an Economic Development Board (EDB) to improve policy formulation and consultation with stakeholders, approved by Cabinet.</p> <p>(1.2) Policy Note on framework for enhancing the system for management of public investment projects, approved by Cabinet.</p> <p>(1.3) Multiyear forecasting framework for fiscal and macroeconomic aggregates to guide the preparation of future annual budgets, established.</p> <p>(1.4) Agency at the ministry level to enhance policy analysis and institutional coordination to improve efficiency of social programs established.</p>	<p>(1.5) Recommendation/guidance for strategic selection criteria for public investment projects prepared by the Economic Development Board.</p> <p>(1.6) Rules for the formulation and evaluation of public investment projects, approved by Cabinet.</p> <p>(1.7) Multiyear budget forecast attached to the budget proposal which includes a breakdown by expenditure (recurrent and capital). Capital Budget for FY 2012 linked to the rolling three-year PSIP.</p> <p>(1.8) System for monitoring and evaluation of policies and projects for social development designed and officially approved.</p>	<p>(1.9) Strategic selection criteria for public investment projects approved by the Ministry of Finance, and all new investment projects (above the Cabinet approved threshold, included in the PSIP): (i) are in accordance to the strategic selection criteria; and (ii) have a previous independent appraisal.</p> <p>(1.10) Three-year PSIP incorporated into the Medium Term Budget Framework (at least 5 Ministries).</p> <p>(1.11) First phase of the system for monitoring and evaluation of policies and projects for social development implemented.</p>

Component 2: Public Procurement			
2. Enhance the efficiency in public procurement, through the introduction of legislation and practices which are fair, efficient and transparent.	(2.1) Legislative proposal for the modernization of public procurement, presented to Parliament. The proposal defines a procurement system governed by the underlying operating principles of value for money, transparency and accountability.	(2.2) Regulations of the new legislation issued. (2.3) Institutions created by the new Act are in operation, and their key authorities are appointed. (2.4) Procurement guidelines consistent with the new Act issued. (2.5) E-procurement strategy that includes a detailed implementation plan, approved by Cabinet	(2.6) Adoption of standard bidding documents by all procuring entities (as defined by the new Act) for the procurement process. (2.7) Website with improved capabilities and functionalities for the dissemination of procurement related information in operation. Information of awarded contracts regularly published. (2.8) First phase of the e-procurement strategy implemented. (2.9) Ministries submit their budget proposals together with their procurement plans.
Objective	First Operation Triggers	Second Operation Triggers	Third Operation Triggers
Component 3: Public Financial Management and Audit			
3. Modernize public financial management and strengthen the capacity of the Auditor General's Department.	(3.1) Policy Note on the modernization of public financial management system, approved by Cabinet. The note sets the framework, principles and core management arrangements for the modernization of the PFM. (3.2) Policy Note setting out the core actions to enhance the external audit function in Government, approved by Cabinet.	(3.3) Amendments to regulations that enable the implementation of the Integrated Financial Management Information System (IFMIS) issued. (3.4) Design of the new IFMIS completed and its implementation initiated. (3.5) Legislative proposal for Electronic Transactions presented to Parliament. (It will enable government electronic payments using IFMIS). (3.6) Core actions defined in the Policy Note under implementation.	(3.7) Core modules of the IFMIS in operation in the MOF. (3.8) Adoption of guidelines to allow public access to detailed budget information through MOF web portal. (3.9) Regulations of the new electronic transactions act issued. (3.10) Formal mechanism to follow up Audit recommendations implemented and in operation. (3.11) Key milestones of the Institutional Strengthening program of the Auditor General Department achieved.