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IDB COUNTRY STRATEGY
with
Trinidad and Tobago
(2004-2007)

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ABBREVIATIONS

CARICOM	Caribbean Community
CPE	Country Program Evaluation
CSAC	Civil Society Advisory Council
CSME	Caribbean Single Market and Economy
CSP	Country Strategy Paper
CET	Common External Tariff
ECS	Early Childhood Services
FTAA	Free Trade Agreement of the Americas
MDGs	Millennium Development Goals
MNS	Ministry of National Security
MOE	Ministry of Education
MOF	Ministry of Finance
PER	Public Expenditure Review
PLIPDECO	Point Lisas Industrial Port Development Corporation Limited
PATT	Port Authority of Trinidad & Tobago
PNM	Peoples National Movement
SEPF	Social and Economic Policy Framework
SME	Small and medium enterprise
UNC	United National Congress
WASA	Water and Sewage Authority
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This Country Strategy Paper (CSP) articulates the IDB's strategy with Trinidad and Tobago for the 2004-2007 period. Strategy development has benefited from an extensive process of dialogue with the Government that took office in October 2002 and with all major stakeholders. Several meetings, in Trinidad and in Tobago, resulted in key elements presented in this document. The Bank will continue this consultative process during strategy implementation. The CSP also benefited from the results of major studies recently completed on the country's key long-term development challenges. Finally, the findings of the Country Program Evaluation (CPE) for Trinidad and Tobago (1985-1999) have also been taken into account.

Trinidad and Tobago has many strengths and advantages – a relatively high per capita income, a sound macroeconomic framework, good social indicators, a long tradition of institutional stability, a mostly favorable location and abundant natural resources. Nevertheless, in order to continue to develop the country must address problems related to its dependence on oil and gas, the public sector's lack of capacity and a high level of poverty. Even after ten consecutive years of economic growth and continued good prospects into the future, the economy continues to be dominated by the oil and gas sector to a degree that growth and jobs in the non-oil sector are stifled. The public sector's capacity to foster private sector investment and growth, particularly in the non-energy sector and in a competitive global economy, is insufficient. At the same time, the country is grappling with significant social problems, including increasing crime and violence, growing youth-at-risk issues, poverty, and the provision of social services. With respect to social services, there are problems of efficiency, quality and equitable access. Again, the public sector's capacity to carry out its role in providing services is insufficient.

Against this backdrop, for the longer term, the major challenge facing Trinidad and Tobago is promoting sustainable and equitable development and, consequently, to reduce poverty. This challenge has been captured in the Government's call, in consensus with major stakeholders, for achieving developed country status by the year 2020 – Vision 2020. However, Trinidad and Tobago – if it is to meet this major long term challenge and ultimately achieve the goals of Vision 2020 - must begin to confront in the near to medium term a set of pressing development challenges in the areas of: (i) private sector development and economic diversification; (ii) public sector reform and modernization; and (iii) social development, with improved public services and more efficient delivery.

The last Country Paper for Trinidad and Tobago (GN-1950-2) was approved in July 1997. Implementation of this strategy has been only partially effective, especially in regard to the lending program. This is partly due to the public sector's weak capacity for sound project cycle management, but also to the dynamic political environment that hampered or stalled the reform-oriented operations in the Bank's portfolio. Nevertheless, the Bank's strategy and program has played a useful supporting role in the development of Trinidad and Tobago. The success of MIF operations, especially in the financial sector, is considered a bright spot. The CPE, which covered a longer time period, suggests that the Bank's program has been overly complex, broad and ambitious, and with less than adequate regard for the political context.

The list of pressing challenges the country must now face is not significantly different from those presented in the previous strategy. What is different is the approach taken to overcome these

challenges, reflected in a national consensus to achieve Vision 2020 – a long term goal against which progress can be charted and measured. The Bank’s strategy for 2004-2007 embraces this long term goal as a context in which to define how best the Bank can contribute to and focus its support for the development of Trinidad and Tobago over the next several years and beyond. This is a key feature of the strategy. Other key features include a re-commitment to completion of reform-oriented programs in execution, a preference for relatively smaller and less complex new projects, an emphasis on the role of the private sector and identifying opportunities for direct support, intensified dialogue with civil society, the need for political consensus and, finally, a recognition of Tobago’s special circumstances and development challenges.

Taking into account the near to medium term challenges facing the country, the Bank’s country strategy for the period 2004-2007 sets out three principal and inter-dependent areas of strategic focus. These three areas are: (i) promoting private sector development to achieve economic diversification; (ii) promoting public sector modernization to improve efficiency and effectiveness, and upgrade capacity; and (iii) promoting social development through improved public services. In each area, criteria have been established to guide conceptualization and the design of operations, and also to use as guidelines in the country program dialogue in order to define new operational priorities consistent with the strategy.

An indicative operational program for 2004-2007 has been developed, in consultation with the national authorities, as an integral part of the country strategy. This indicative program includes eight loan operations with a total estimated value, as a baseline lending scenario, in the range of US\$165-235 million. The strategy allows for flexibility to expand this program in line with possible Bank lending directly to the private sector and/or to support new operations in the out-years stemming from the public sector reform “road map” exercise that is now underway. The Bank’s country and sector work program will include, at a minimum, a comprehensive review of the social safety net, a study on regulatory issues in the social sector and a study on judicial reform. The analytical work program may also include, together with the World Bank, a public expenditure review.

Strategy implementation will not be without risks. In regards to the private sector, there are four potential problems: (i) the response of the private sector; (ii) the appropriateness and efficacy of available Bank instruments; (iii) a public policy risk; and (iv) a negative business environment risk. Addressing these four risks poses a challenge and every effort will be made, through an active dialogue with the authorities and all major stakeholders, to adjust the Bank strategy to changing conditions. In particular, the Bank would support an explicit public-private partnership, maybe in the format of a "Social Compact", in which the stakeholders may address the key policy issues facing the country. In regards to the public sector, the major risk is failure of the consensus building process necessary for the preparation of the “road map”. The Bank will collaborate with the donor/lender community, and help to ensure that relevant stakeholders are both involved in the road map’s preparation and informed about its status. Finally, the successful implementation of this strategy rests upon the assumption that the economic and political environments are stable. The Bank will continue to support the country's efforts to maintain a stable environment, including its efforts to build up savings in a Revenue Stabilization Fund so as to prevent large volatility in fiscal revenues if the prices of oil and gas drop.

STRATEGY MATRIX*

Development Objectives	Government Strategy	Other Bilateral/ Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
				Recent/Ongoing	Proposed	IDB Strategy/Program Implementation	Country Level Outcomes/Targets
A. Promoting private sector development to increase economic diversification							
<i>I. Improving the business environment to facilitate private sector development.</i>							
Business environment initiative: To improve the business climate to increase private sector job creation.	Vision 2020 key area. Moreover, in the short term the Government's essential outcome of the policy agenda is the creation of sustainable employment opportunities in all sectors of the economy.	EU. Caribbean agriculture and fisheries program. UNDP. Establishment of a micro credit system. ILO. Program for the promotion of management labor cooperation. ILO. Identification, elimination, and prevention of worst forms of child labor. ILO. Labor market information system.	To improve the business environment by focusing on the reduction of the transactions costs of the economy.	Signing and initiating preparatory work related to the Aide Memoire indicating T&T adherence to the Business Climate Initiative.	Loan to implement the business climate initiative (US\$10-20 million, 2004).	Approval by the Prime Minister of an action plan to improve the business environment by 2005. Approval of the IDB proposed loan, or a substitute action, with the objective of implementing the action plan to improve the business environment by 2005.	Unemployment levels drop to single digits by 2010 from 10.5% in 2003. Improving T&T WEF competitiveness ranking by 2007 from 49th in 2003.
Information and communications technology initiative: To improve information and communications technology to facilitate economic growth and job creation, making the economy more competitive.	To deploy information and communication technology to accelerate social and economic development. To facilitate these initiatives the Government will develop a national broadband strategy, liberalize the telecom sector, and implement new laws to facilitate the payments system and consumer protection.		To improve ICT by improving the legal framework, implementing e-gov, train personnel, and improve connectivity.	Project preparation and dialogue with the authorities.	Loan to improve the information and communications technology to increase total factor productivity by producing ICT goods and services. (US\$35 million, 2005).	Approval of the IDB proposed loan, or a substitute action, with the objective of improving information and communications by 2005. Government-wide portal running by 2005, and broadband costs drop 5-10% by 2007.	

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Development Objectives	Government Strategy	Other Bilateral/ Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
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Secured transactions, property rights and developing land markets initiative. To develop a more dynamic and efficient land market.	To create a more vibrant and efficient land market, thus realizing the potential of land tenure reform for poverty reduction and environmental sustainability. Legislation has been drafted and is before Parliament for debate.		To improve legislation to make commercial transactions secure. Implementation of the land adjudication, land tribunal and land registry legislation prepared under a previous Bank loan.	MIF operation, US\$650K TC to improve property rights by making use of secure transactions. Investment and Agricultural Sector Reform Program (loan cancelled, RTC ongoing).	Completion of MIF secure transactions CT. Loan to improve property rights and develop the land market (US\$15-25 million, 2006).	Legislation regulating commercial transactions passed by Parliament by 2005. Approval of a loan, or substitute action, with the objective of developing land markets by 2006. Property rights defined in 200,000 parcels by 2009, and the Land Court Established by 2008.	
Trade and integration initiative. To promote private sector diversification through trade expansion of the non-energy economy.	To develop a strong, resilient economic base that can withstand the instability associated with the global environment and secure a foundation for the realization of Vision 2020.		To improve non-energy trade performance.	INT/ITD analysis of trends, opportunities and weaknesses of T&T in the Regional and Global context. Trade Sector Support Program (TT0052).	Focus on executing the Bank loan facility Trade Sector Support Program.	T&T has an integrated information trade sector system, and personnel trained to devise and execute policy, conduct negotiations, and implement agreements by 2007.	
Tobago's tourism protection initiative; To maintain Tobago's tourism potential by preventing environmental degradation.	To promote tourism as an economic pillar for national development via a multi-dimensional approach that includes: promoting national identity, developing tourism products, and tourism promotion.	EU. Regional weather radar warning system project. WB-GEF. Establishment of a National Parks and Wildlife Authority.	To resolve the wastewater problem in Tobago and potential future damage to the environment, in particular the coastal zone.	Engaging the Government in discussions about the institutional and regulatory framework of the water sector, including the role of WASA.	Loan to prevent the environmental degradation of South West Tobago by improving collection, treatment, and disposal of wastewater in South West Tobago. (US\$30-50 million, 2006).	Approval of a loan, or substitute action, with the objective of preserving Tobago's tourism potential by 2006. Reduction in key indicators: biochemical oxygen demand, fecal coliform bacteria and suspended solids by 2010.	
<p>2. Direct support to the private sector to diversify the economy by accelerating development of the non-energy sector.</p>							
Diversify the economy by: Reducing negative consequences of the dependence on the energy sector. Increasing manufacturing in downstream high tech industries, and local participation in upstream activities.	Maintain the real exchange rate stable by implementing a prudent fiscal and monetary policy, including containing primary spending and debt growth.	EU. Caribbean business services Ltd, phase II. People's Republic of China. Establishment of a small business leasing company.	Promoting a more competitive economy by reducing dependence on gas and oil exploitation and supporting diversification.	PRI, IIC, MIF efforts to support private sector development.	Implementing the Private Sector Development Strategy (GN-2270-3) by increasing the supply of funds and products that the Bank Group may offer directly to the private sector.	The Bank Group portfolio of direct lending to the private sector in T&T reaches 10% of the total portfolio of the Bank in the country by 2007.	The value added of the non-energy sector grows in real terms at 3% per year on average for the period 2004-2010.

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Development Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
				Recent/Ongoing	Proposed	IDB Strategy/Program Implementation	Country Level Outcomes/Targets
B. Promoting public sector modernization to improve efficiency and effectiveness, and upgrade capacity							
Road map to public sector modernization initiative. To resolve the structural problems facing the public sector.	To ensure that the public service develops the capacity and the will to provide the highest degree of citizen satisfaction possible by improving the quality of public management systems.		To prepare a road map to modernize the public sector. This road map will be the result of several activities involving a consensus building process.	Public Sector Reform Initiation Program (TT-0057).	The implementation of the Public Sector Reform Initiation Program (TT-0057) will result in a road map for public sector modernization.	Road map for public sector modernization ready by 2006. Government-Bank agreement on Bank support for road map implementation by 2006.	The public sector becomes more efficient by: (i) increasing the share of capital spending in total public sector spending of the Central Government from current 5%; (ii) reducing the per capita cost of providing services in education and health without reducing quality and coverage and creating a counter cyclical social safety net; (iii) improved infrastructure capacity, and less than 25% of the national road network assessed as in poor condition by 2007 from 47% in 2003.
Identification of gaps to prepare the road map initiative. Identifying complementary actions that should support the preparation of the road map.		EU. Caribbean anti-money laundering program. WB. Postal sector reform program.	To engage the authorities to discuss complementary activities to support the preparation of the road map.		Prepare a PER and a Judicial system study.	The Bank prepares a PER and a judicial system study, or substitute action, by 2005.	(i) increasing the share of capital spending in total public sector spending of the Central Government from current 5%; (ii) reducing the per capita cost of providing services in education and health without reducing quality and coverage and creating a counter cyclical social safety net; (iii) improved infrastructure capacity, and less than 25% of the national road network assessed as in poor condition by 2007 from 47% in 2003.
Information and communications technology initiative. To improve information and communications technology to facilitate economic growth, and jobs creation, by making the private sector an efficient user and provider of technology.	To create an appropriate environment for ICT through policy initiatives and the introduction of pathfinder projects which should improve competitiveness.		To improve ICT by revising the legal framework, implementing e-gov, train personnel, and improve connectivity.	Project preparation and dialogue with the authorities.	Loan to improve the information and communications technology to increase total factor productivity by producing ICT goods and services, (US\$35 million, 2005).	Approval of a loan, or substitute action, with the objective of improving ICT by 2005. Implementation of ICT legislation; establishment of a document management information system; development of an integrated human resource information system; and creation of an integrated Freedom of Information Database and Website by 2007.	Specific outcome indicators related to the second group, roman numeral ii above, will be defined with the authorities and presented in the next programming exercise.
National highways initiative. To upgrade public sector capacity to provide transportation services.	To facilitate the flow of people, goods, and services; decrease travel time; reduce vehicle operating costs; and regulation of axle-loads by expanding the road network and rehabilitating existing roads.	EU. Rural electrification. CDB. Southern roads development program.	To improve and sustain road services provided by the main National Road Network; to contribute to a more competitive and diverse economic base through reduced vehicle operating cost; and to provide incentives for the development of small contractors.	National Highway Program (TT0043) extended for two years to July 2005.	Completion by focusing in routine road maintenance.	Actual direct cost of routine maintenance reduced to about US\$5k per km by 2007.	

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Development Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
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C. Promoting social development by improving social public services							
Health sector reform initiative. To improve the delivery of health services.	Additionally to the development objectives of the IDB loan, the Government will follow through with its commitments as a signatory to the Caribbean Cooperation in Health II. This is a mechanism that fosters increasing collaboration with other Caribbean countries to achieve the objectives of the Caribbean Charter for Health Promotion.	EU-WB-UNDP-ILO. Support to national strategic plan for HIV/AIDS. EU. Strengthening of medical laboratories. UNDP. Institutional strengthening of the Ministry of Health, including the emergency health system.	(i) Strengthening policy-making, planning and management capacity; (ii) separating provision of health services from financing and regulatory responsibilities; (iii) shifting public spending and redirecting private spending to high priority problems and cost-effective solutions; (iv) establishing new administrative and employment structures that encourage accountability and efficiency; (v) reducing preventable morbidity and mortality through lifestyle changes and social interventions; and (vi) ensuring the financial sustainability of health services delivery system.	Health Sector Reform Program (TT0024) extended for three years to 2006.	The authorities and the Bank engaged in consultations and decided to focus on completion to fully implement the program in line with the original objectives of the program.	Implementation of the Comprehensive Health Plan to modernize the sector by 2007. Establishment of national indicators and monitoring system by 2007.	Household Poverty drops from the 1997 18% level to single digits by 2010. Improvement in national income distribution reflecting improvement in economic condition by 2010. The Gini coefficient drops from 0.39 level in 1997-1998. MDG: Reduce under 5 mortality rate from 20/1000 in 2002 to 8 by 2015. Reach MDG goal: access to an improved water source from 90% in 2001 to 95% in 2015.
Secondary education initiative. To improve the delivery of education services.	To pursue constant improvements in efficiency and effectiveness of the education system.	EU. Support to post-secondary/tertiary education. CDB. Developing master plan for COSTAATT post secondary education. CDB. Establishment of the T&T Institute of Technology.	(i) Universalizing five years of equitable, high quality education; (ii) transforming the educational content and teaching methodologies to meet the needs of a modern skilled based-economy; and (iii) developing more efficient management of resources, while strengthening sectoral management capacity.	Secondary education program (TT0023).	The Bank will concentrate on completion by supporting MOE through regular missions and provision of technical expertise. These efforts are complementary to the preparation of the road map, that should address issues such as salaries and working conditions.	Increase access to secondary education from 75% to 100% by 2010. 30% increase in use of educational technologies in teaching in every subject area by 2007. Fully staffed 8 ed districts by 2007.	

STRATEGY MATRIX*

Development Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
				Recent/Ongoing	Proposed	IDB Strategy/Program Implementation	Country Level Outcomes/Targets
Affordable housing initiative. To establish a more equitable, efficient and transparent system of affordable housing.	To implement the comprehensive policy framework reflected in: "A National Housing Policy: A Guide for Shelter, A Strategy for Equity, A Commitment to Employment, and A Vision of Caring".		(i) To improve housing conditions for low-income groups; (ii) to make public expenditure for housing more efficient and equitable; and (iii) to provide incentives and assist institutions, both public and private, in their transition to new more market-driven roles.	Second Stage National Settlements Program (TTU050) In light of the program's slow start up, the Bank has agreed to an eleven-month postponement of the mid-term evaluation from December 2003 to November 2004.	The Bank will concentrate on implementation by supporting the executing unit and the private sector stakeholders in the financial and construction sectors to accelerate their involvement in providing mortgage financing for low-income housing and in the production and delivery of low-cost solutions.	3,000 low-income housing mortgages approved and 5,400 families in squatter settlements have been issued statutory leases by 2007.	
Social safety net initiative: to effectively protect the population with a social safety net.	To continue implementing the package of social interventions outlined in the Social Programming Document. These activities may be grouped in: poverty eradication; human resource development; social equity and inclusion; wellness and well-being, among others.	EU. Poverty reduction project. WB. Poverty assessment survey. UNDP. Preparation of a national gender policy and action plan. UNDP. Preparation of the second national human development report. UNDP-GEF Small grants program for poverty alleviation and environment and energy practice.	To transform current social programs, via consolidation, into a counter-cyclical safety net. To revise and update the regulatory framework in the social sector.		To prepare a study on social safety nets, including a diagnostic on the status of the social safety net, identifying the major gaps. To prepare a study focusing on the current regulatory framework in the social sector, and how it may complement the preparation of the road map.	Studies, or substitute actions, detailing a targeting mechanism for a counter cyclical safety net ready by 2005.	
Citizen security initiative. To improve the wellbeing of the population by addressing the issue of high crime and violence.	To continue implementing programs and policies designed to reduce the level of criminal activity, while simultaneously strengthening preventive measures.		Design a citizen security program to prevent crime and reduce violence rates and levels of insecurity through the implementation of preventive actions as well as mitigation and control of associated risk factors.	Developing preliminary diagnostic of the crime and violence situation, to identify the principal types of crime and violence affecting the population as well as principal associated risk factors.	Loan to improve citizen security (US\$5-10 million).	Approval of a loan by 2005, or substitute action, with the objective of improving citizen security. Plan to reduce crime by preventive actions prepared and implemented by 2008.	

STRATEGY MATRIX*

Development Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators	
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Early childhood initiative. To increase human capital by improving and/or providing access to early childhood services.	To increase and improve access, achieving and sustaining quality, by construction, furnishing, equipping and staffing early childhood centers.		Support implementation of the new standards, and monitor and upgrade sector performance.		Early Childhood loan (US\$10-20 million, 2005).	Approval of a loan by 2005, or substitute action, with the objective of improving early childhood services. 90% of early childhood service providers meet the country's standards by 2007.	
Potable water and sanitation initiative. To improve the provision and sustainability of water supply.	To continue improving wastewater/sanitary services; improving the water supply; promoting a culture of preservation; reducing water loss; and implementing institutional strengthening programs for development of human capital and optimizing investments.		To ensure that the provision of water is sustainable.	In the context of the dialogue related to the preparation of the proposed South West Tobago loan, the Bank and the authorities are engaged in discussing key sustainability issues of WASA.	Potable Water and Sanitation loan (US\$30-50 million, 2006).	Approval of a loan, or substitute action, with the objective of improving water services by 2007. WASA reaches financial sustainability, in the context of a transparent system of user charges and subsidies, by 2010.	
Community development fund initiative.	Government has identified social service delivery to the people of Trinidad and Tobago as a national priority and in this regard has indicated its interest in working with the Bank on the development of a second Community Development Fund operation. Interest in working with the Bank on a program of this nature has been endorsed by the Cabinet.	CDB approved the Baecoo, Tobago, community development program in September 2004. This is an operation designed to fit the needs of Tobago, and therefore, the size of the loan is small.	To develop an effective mechanism to rationalize and target social service delivery and address the issue of poverty alleviation.	The Bank's final disbursement date for the Community Development Fund Loan (LO:872/OC TT) occurred on March 27, 2004. The Project Completion Report of this operation should be ready by December 2004.	Community Development Fund II loan (amount to be determined, 2005).	Approval of a loan, or substitute action, with the objective of developing projects in poor communities by 2005. Plan to address the needs of poor communities, identified by a poverty map by 2005.	

* See Annex IV for a description of the difference between the Bank output performance indicators and the country outcome performance indicators.

I. INTRODUCTION

- 1.1 This Country Strategy Paper (CSP) articulates the IDB's strategy with Trinidad and Tobago (T&T) for the 2004-2007 period and incorporates the recommendations of OVE's T&T Country Program Evaluation of September 2001 (CPE) (RE-256). The last Country Paper for T&T was approved in July 1997 (GN-1950-2).
- 1.2 The last national elections took place in October 2002, with the Peoples National Movement (PNM) winning 20 out of 36 seats in Parliament. Political support for the PNM was subsequently reaffirmed as a result of the local Government elections held in June 2003. Despite this political mandate, the main Opposition Party (United National Congress-UNC) has made it clear that it will not support any major initiatives that require more than a simple majority in Parliament until there is Constitutional Reform on issues, among others, of representation in Parliament.
- 1.3 In spite of this political friction, throughout 2003-2004 Government made an effort to forge partnerships with key stakeholder groups to define a blueprint for the country's future. The objective is to reach the status of a developed country by the year 2020: Vision 2020.
- 1.4 In this context, there are signs of emerging consensus. The Prime Minister and the leader of the UNC have recently begun a series of meetings to discuss an agenda for advancing constitutional reform. Key legislative initiatives affected by this situation include the Police Reform Bill and the Anti-Kidnapping Bill—both of which are seen as a response to escalating crime and a growing concern for security. Efforts to initiate comprehensive public sector modernization could also be affected since constitutional provisions protect important elements of the public sector regulatory framework¹. Consequently, while some relative calm has returned to the policy making environment, the PNM administration faces several important challenges in the governance area. How these challenges are met will likely have implications for the achievement of Vision 2020.

Box 1: Vision 2020

The Government, in conjunction with a private-sector led consultative group, is seeking to develop a strategy to guide Government action over the next 16 years that will allow Trinidad and Tobago to achieve “developed country status by the year 2020”. Referred to as “Vision 2020”, the goal is to create an economic and social environment that will allow all citizens of T&T to enjoy a quality of life based on the highest standards of modern human development in the areas of education, health, housing and personal security, among others. It is recognized that this will require an accelerated rate of economic growth and well focused, strategic and effective Government and private sector investment of oil and gas revenues. This goal is also being pursued in a manner that is consistent with regional integration efforts toward a Caribbean Single Market and Economy (CSME) by 2005.

To define the Vision 2020 Strategy the Government established a private sector-led “Core Group” to build consensus around key development issues and to propose strategic interventions. The group has 28 sub committees, each having representation from a broad cross-section of society--public and private sectors, academia and civil society--with a variety of perspectives from different political affiliations. The Core Group is in the final stages of preparing an action plan, and the consultation process has recently started.

- 1.5 The delay in the presentation of the CSP reflects this political environment and the Bank's desire to broaden and deepen the spectrum of contributing inputs. This process, developed during 2003, included several meetings with Government officials, representatives of the private sector, labor, academia, and the rest of society; it culminated with meetings held in January and March 2004, during which the Bank and the authorities discussed the key development challenges for T&T. The Bank also commissioned five studies analyzing long-term development challenges in Trinidad and Tobago. These studies were presented in Washington D.C. in February 2004, and in Port of Spain in July 2004. The recommendations--especially about tax, debt, real exchange rate, competitiveness, international integration and social issues--resulting from the discussions at the conference in Washington, as well as from informal discussions with the authorities and other stakeholders, have been incorporated into this document².

II. KEY DEVELOPMENT CHALLENGES

- 2.1 The major development challenge for Trinidad and Tobago is to promote sustainable and equitable development and, consequently, to reduce poverty. Sustainable development will in turn improve the likelihood of achieving the Vision 2020 goal. Although this is a development challenge that could define, in the broadest terms, the Bank's supporting role with most countries, it does particularly apply to T&T. This is the case because T&T is a middle-income country³ with good prospects for economic growth; but which, nevertheless, also faces great risks.
- 2.2 The country has stated its intention to follow a path that is consistent with addressing structural problems so as to achieve the Vision 2020 goal. T&T is at a crossroads characterized by a choice between implementing only small incremental changes, or more fundamental reforms. Either way the prospects are good, and this reflects well on the country at the regional level [the Caribbean Court of Justice will be located in Port of Spain, and Government has also a good chance of hosting the FTAA headquarters]. Looking ahead, effectively addressing structural problems will require a deeper understanding of the dual characteristic of the economy as defined by the energy sector, along with the unique characteristics of the country--specifically, its public administration and its level of social development.
- 2.3 T&T has a dual economy, energy and non-energy, in which developing the gas and oil industry produces wealth in the energy sector but does not create a significant number of new jobs, nor do the benefits significantly spill over to other sectors. In the past, excess reliance on the performance of the energy sector has been a problem when abrupt negative changes in prices of gas and oil permeated the economy and resulted in large volatility⁴ of fiscal revenues.
- 2.4 In addition to the economic risks related to this dual economy, the country will also face political risks. These political risks are the consequence of the near equilibrium between the two most important political parties, and how this fragile political context affects the capacity of the country to modernize its public institutions, which are in turn a necessary condition to achieve Vision 2020 objectives. An interesting characteristic of T&T is the apparent independence of economic performance from the political cycles. Political

uncertainties in the recent past, especially in the 1996-2002 period, did not negatively affect economic performance, but unfortunately it had a large negative effect on the pace of institutional reform.

- 2.5 The country should also improve the current level of social development. T&T may be considered a wealthy state in the region, but it exhibits pockets of poverty that are inconsistent with the country's wealth. The authorities recognize that special and prompt attention should be given to ameliorate these problems--in health, education and the social safety net. Moreover, improving the condition of the poor in the near term is also a necessary condition to achieve Vision 2020 objectives.
- 2.6 An additional factor in the analysis is the changing international environment, where trade opportunities and risks ahead represent an issue as large as the domestic issues. T&T's private sector has been successful in taking advantage of CARICOM's Common External Tariff (CET) and non-tariff barriers, and exports to CARICOM member countries have increased significantly. The opportunities and risks of opening to a global market are far greater than those at the regional level, and to succeed T&T will need to modernize its economy.
- 2.7 Fortunately, gas and oil wealth provide resources and a cushion in time during which the country may address these issues. The window of opportunity for change, however, is small because current gas and oil reserves are estimated to last about 20 years with current extraction rates and technology. New discoveries and technological improvements in the industry will expand the exploitation period. However, gas and oil reserves are finite.
- 2.8 In the near term, and aiming at addressing the major development challenge, the country must try to find answers to at least the following three questions: (i) how to provide incentives for the creation and maintenance of sustained and more diversified economic growth?; (ii) how to modify the public sector to play its part in the future?; and (iii) how to prioritize social development initiatives so that the needs of the poor are attended in the near term? In other words, to meet the longer term challenge of promoting sustainable and equitable development to reduce poverty--essentially to achieve Vision 2020 goals--the focus should be on the following three areas: (i) economic diversification; (ii) public sector modernization; and (iii) social development. While not the only areas where the country needs to focus, they are the ones considered to be priorities in the near term.

A. Economic diversification

- 2.9 Trinidad and Tobago's economic performance has been exceptionally good for the last 10 years. Since 1993, the economy has been growing steadily, at an average annual rate of 4% in the context of low inflation. As a result, T&T's GDP per capita is among the highest in the Caribbean, about US\$7,800, and it is one of the few Caribbean countries with an investment grade rating, along with The Bahamas, Barbados, and Bermuda. The success of T&T is due to the energy sector and also to good economic management in this period⁵, during which the real exchange rate, although first appreciating and later on depreciating, has been remarkably stable for a country producing and exporting gas and

oil--shown in Table 1 and Figure 1. Looking ahead, to maintain this level of performance the country will face some difficult challenges. Of the challenges ahead, the greatest lies in eliminating the dual characteristic of the economy, by transforming it from an energy-dependent one to a largely service- and export-oriented one.

Table 1: Indicators of Recent Economic Developments

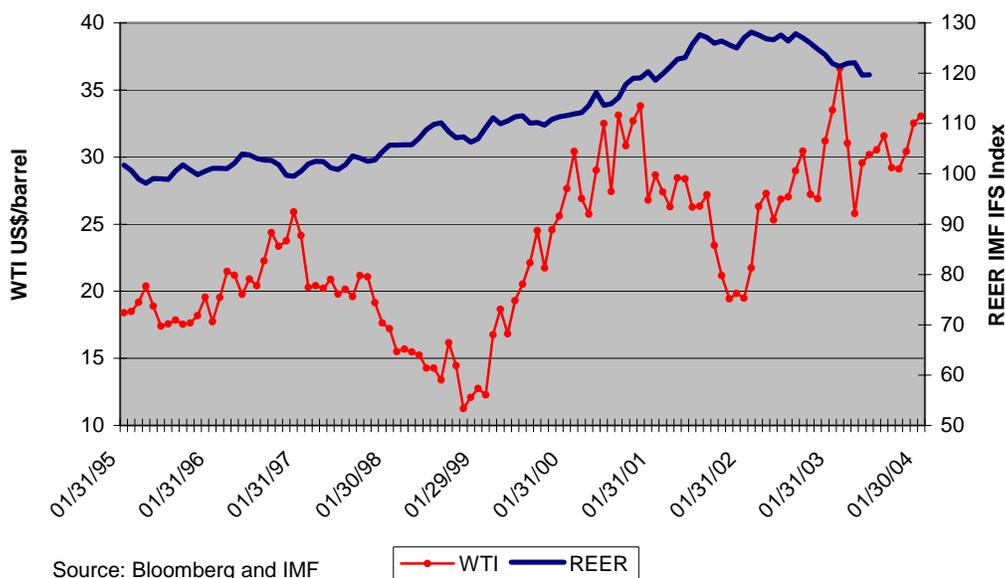
Indicator	Year				
	1999	2000	2001	2002	2003p
Real GDP growth (%)	4.4	7.3	4.0	7.1	13.2
Current fiscal balance of the public sector (% GDP)	1.6	6.6	5.4	-0.9	5.5
Overall fiscal balance of the public sector (% of GDP)	-4.2	-1.0	-2.1	-5.1	1.2
Overall fiscal balance of the Central Government (% of GDP)	-0.6	0.2	1.5	-1.6	2.0
Consumer prices (% annual change, period average)	3.4	3.5	5.5	4.2	3.8
Real effective exchange rate (period average, 1995=100)	110	115	124	127	126
External current account balance (% of GDP)	0.5	6.5	5.0	0.9	12.5
External trade balance (% of GDP)	1.0	11.8	8.1	2.7	12.3
Oil export price (US\$ per barrel)	19.3	28.2	24.3	25.0	28.9
Total public sector debt (% of GDP*)	56.1	54.4	55.0	59.3	55.9
Total domestic public sector debt (% of GDP*)	33.5	31.9	36.2	40.9	38.0

* Fiscal year.

Source: Ministry of Finance, IMF and IDB

- 2.10 The economy can be divided in two separate, mostly independent, sectors: the gas and oil sector representing about 1/4 of the economy, and the rest of the economy. The strength of the energy sector is reflected in the fact that T&T is the most important world provider of ammonia and methanol, and is also the largest supplier of Liquefied Natural Gas to the USA. In this dual economy, the energy sector is a source of self-financed investment--therefore independent of national savings--and fiscal revenues. As in other countries endowed with substantial energy resources, the benefits of a large investment in the sector do not easily spill over to the rest of the economy. Beyond the labor intensive plant construction phase, the currently booming energy sector is not creating a comparably large number of jobs. Therefore, the economy's duality results in a wealthy sector, with excellent growth prospects, and a lagging remainder of the economy.
- 2.11 From 1998 to 2002 the energy sector grew twice as fast as the rest of the economy. Moreover, despite the country's relatively long involvement in the energy sector, local content in the provision of goods and services to the sector remains low. There are, however, opportunities to expand gas-related downstream high tech industries in the manufacturing sector, which represents only about 1/10 of the economy, and emerging opportunities to expand local participation in the provision of upstream goods and services.

Figure 1: Trinidad and Tobago REER and West Texas Intermediate (WTI) Prices



- 2.12 The links between these two economies are the Government and the financial sector. Government taxes and bank services define the transmission mechanism of the flows of resources generated in the energy sector to the rest of the economy. With only about 1/4 of the economy being created by this sector, the Government depends on gas and oil businesses for about 1/3 of its revenues. Government spending is, therefore, closely linked to the performance of the energy sector. The other transmission mechanism is via the banking sector, in particular the deposits, mostly transitory, of energy sector companies.
- 2.13 The performance of Government revenues and bank deposits lags that of the energy sector. In booming periods, additional revenues may cause a real appreciation of the exchange rate, resulting in Dutch-disease negative effects on the rest of the economy. The inevitable change in relative prices--via a nominal depreciation of the exchange rate or a price reduction of non-tradable goods--is a process whose main characteristic is an economic slowdown, which in turn increases unemployment and poverty.
- 2.14 In the past, temporary increases in the price of energy have been associated with increases in current public spending. This is the case in T&T because the fiscal position has deteriorated during the last decade, and especially since oil prices increased significantly in 1999. The overall balance of the public sector, however, improved from a deficit of over 5% of GDP in 2002 to a surplus just above 1% of GDP in 2003, and a similar result is expected for 2004. Nevertheless, increased spending does not correlate with quantity and quality of public services because past T&T experience shows that a large part of the additional public spending was inefficient⁶.

2.15 The authorities are aware of this issue and have been saving some of the increased fiscal revenues since 1999--to date savings amount to TT\$1.5 billion or about 2.4% of GDP--in a Revenue Stabilization Fund. The rules and regulations of the fund, however, have not been defined yet by law. Legislation on this matter is being prepared and may be presented to Parliament before the end of 2004. The internal discussion, as in other countries considering stabilization funds, is evolving around the objective of the fund: one end of the spectrum is to preserve wealth for future generations and therefore spend only the interest on the stock of wealth, as Norway does; the other end of the spectrum is to use it to smooth fiscal revenues and avoid the negative effects of price volatility, as Chile does.

2.16 Complementary to the issue of saving additional revenues accrued in periods of high prices are taxation and debt management issues. Tax rates are within those of the region and also comparable to energy-rich economies like Ecuador and Venezuela, except the royalty on gas is significantly lower than in those two countries--Table 2. However, VAT and income tax yields in T&T are low, which is also a characteristic of energy dependent economies characterized by weak enforcement of tax laws. Furthermore, from fiscal year 1998-1999 to 2002-2003 energy-related fiscal revenues increased by about 5% of GDP, whilst direct and indirect taxes fell by the same amount.

Box 2: Gas and Oil

The energy sector represents about 1/4 of the economy and about 1/3 of Central Government fiscal revenues, with gas production being about 4 times that of oil. The annual value of gas production is about US\$4.8 billion compared to US\$1.4 billion for oil. More importantly, T&T is becoming a key supplier of energy to the US and Spanish markets. Investment in this sector is large, and represents 6-8% of GDP, or about 25-30% of total investment.

During the last few years, investment has concentrated on gas extraction and its conversion into liquefied natural gas (LNG). This process, which requires cooling natural gas until it becomes liquid, is done in T&T and explains most of the new investment. The US Energy Information Administration estimates gas reserves at about 19,674-23,450 trillion cubic feet--about 0.5% of the world's reserves--and oil reserves at about 0.7 billion barrels--about 0.06% of the world's reserves. The wealth related to energy represents between 136%-235%--proven and possible reserves--of GDP, and at current extraction rates, reserves guarantee another 20 years of gas and oil production.

The rest of the economy shows the effect of substantial energy resources. Heavy industry, petrochemical plants, metals, fertilizers and manufacturing are also very important and represent about 7% of GDP. The expansion of these industries, and transformation to other alternative sources of energy in the near future, stand as key challenges to the sustainability of the non-oil sector.

Table 2: Comparative Tax Rates (%)

	VAT	Income ¹ tax	Oil royalty	Gas royalty
Trinidad and Tobago	15	35	10-12.5	0.3 ²
Ecuador	12	44.4	12.5-18.5	16
Venezuela	16	50	16.6-20-30	20
Barbados	15	40		
Jamaica	15	33 1/3		

Source: International Bureau of Fiscal Documentation

Note 1. Corporate income tax. For T&T, Ecuador and Venezuela it is the tax rate that applies to oil and gas business.

Note 2. Gas royalties are fixed at TT\$ 0.015/million of cubic feet for onshore activities, and at TT\$ 0.02/mcf for offshore production. The final equivalent royalty is about 0.3% of the value of the gas produced.

- 2.17 Finally, a combination of improved revenue and output performance—both associated with high energy prices--resulted in gross public sector debt reduction to about 56% of GDP by 2003. Moreover, public sector debt, net of Government deposits in the banking system and reserves accumulated in the Central Bank, is about 20% of GDP. Based on current economic prospects, the level of public debt is sustainable with a consolidated primary surplus of about 0.4% of GDP, consistent with the Government budget for this year. The composition of public debt is also adequate because 2/3 is in local currency. Relatively high debt, even considering all the previous facts which point in the direction of reducing debt risk, is a concern because abrupt changes in the price of gas and oil may result in severe liquidity problems.
- 2.18 Growth via diversification provides answers to the previous questions, and in T&T this should relate to increasing the products of the service sector, which represents about 3/5 of GDP. T&T is more diversified than Latin American energy-rich countries, Ecuador and Venezuela, but lags behind other economies in the region—such as Barbados and The Bahamas. The service sector has the potential of expanding; in particular, the banking sector⁷ could become a key player in the region because of its access to hard currency generated by the energy sector. Other than services, tourism, in Trinidad and in Tobago, as well as energy-related downstream highly technical industries, should also continue developing and take advantage of trade opportunities.
- 2.19 To facilitate the diversification of the economy by enhancing communications technology, the Government, the private sector, academia and other stakeholders drafted a National Information and Communications Technology Plan (NICT), which has been labeled *fastforward*⁸. Consultants have supported five working groups who are preparing recommendations on human resources, economy and finance, government, infrastructure and legal issues. The Government is now moving, with Bank support, to implement these recommendations. Complementary to these efforts, the country needs to address the high transaction costs of the economy. Legislation has been prepared to make transactions more secure. Another area that complements secured transactions is improving property rights and land titling.

B. Public sector modernization

- 2.20 Public administration exhibits characteristics inconsistent with addressing the issues, under the purview of the public sector, that will facilitate reaching Vision 2020 goals. The critical problems that characterize public administration are: a high current-to-capital expenditure ratio, a bottom-heavy civil service, an inadequate incentive structure, centralized core management functions and decision making process, the challenge of implementing new trade rules, and inadequate public infrastructure. As a consequence, the provision of public goods and services is below desirable levels⁹.
- 2.21 *High current-to-capital spending ratio.* Central Government spending is concentrated in current spending--wages, transfers and subsidies--because the Government uses public enterprises to channel public investment. For this reason, capital spending is low in the Central Government and lacks adequate management systems. The natural tendency is to

continue increasing current spending, responding to the demands of a growing economy, at the high cost of postponing investment. Overall public investment, including public enterprises and statutory bodies, reflects a higher level of investment as Government uses these institutions to complement Central Government spending.

- 2.22 *Bottom-heavy, poorly paid civil service.* The civil service is traditionally the employer of last resort in T&T. Although the trend is reversing, the public sector still employs about 14% of the work force compared to 30% in 1987. This problem is currently being addressed, with Bank support, by Government. However, it is still a major issue because low wages have resulted in the inability to retain qualified personnel and therefore there is a high concentration of public servants at the lower levels of the civil service.
- 2.23 *Centralized core management functions and decision making process.* Central Government's human resources management function is centralized in four organizations: (i) Personnel Department, a unit that oversees benefits, evaluation, salaries, and industrial relations; (ii) Public Services Commission, a unit that oversees appointments, promotions, transfers, discipline, and separation; (iii) Public Management Consulting Division, a unit that oversees the establishment of new positions, institutional design, and systems and procedures; and (iv) Pensions Division, a unit that oversees pensions. By their nature these four organizations have to coordinate on several levels to make decisions that affect public servants. Current organization is not conducive to strong coordination efforts between agencies, resulting in delays and inefficient procedures. Moreover, inefficiencies in the decision making process across the board of public administration are exacerbated by a lack of delegation. For example, the Cabinet has to decide on about 3,000 issues per year, or about 60 decisions per meeting.
- 2.24 *New trade rules.* The public sector will also need to adjust to the more liberal economic environment currently being negotiated¹⁰ through CARICOM, FTAA, and EU/ACP processes under WTO trade rules. Timely implementation of the agreements reached in these negotiations, including both legislative and regulatory changes, will be critical in order to ensure full compliance with new commitments, on the one hand, and to help the private sector take full advantage of the opportunities resulting from freer trade, on the other. Import-competing industries and preference-receiving exporters will have to prepare for much tougher competition in their respective markets. The identification of new export products and markets, and greater diversification away from petroleum exports, will be critical in this respect.
- 2.25 *Inadequate infrastructure.* Increasing competitiveness and economic diversification requires good public infrastructure. The recession of the 1980s has had a toll on the country's infrastructure, and the rapid expansion of the energy-based industries imposes special additional needs. In spite of major investments in infrastructure, certain systems remain inadequate in view of the rapidly expanding economy. While increased physical investments are required in many areas, potential for gains exists through improvements in cost-effectiveness of projects, better control to prevent cost overruns in projects, and improved maintenance. Moreover, the public sector should focus on regulatory aspects and promote project financing by the private sector in areas such as ports, water and sewerage facilities.

2.26 These problems that characterize public administration result in under-provision of public sector goods and services to the population, with negative effects on the economy and also on social development. The process required to address these issues takes time because it requires building consensus to make difficult decisions in the face of competing interests. Partly for this reason, the third and related challenge takes on importance: to promote social development by improving social public services. These are public services that may have a direct impact on the poor and that should be addressed first, because of their social implications and also because there is general agreement around these issues.

C. Poverty reduction and social development

2.27 Preliminary analysis of poverty trends and inequality point to a reduction in both indicators, but also provide evidence of relatively high levels of poverty that is highly concentrated in "pockets of poverty". At the same time, the level of public spending is high and, therefore, there is room for rationalizing spending with the objective of improving the efficiency, coverage and impact of public social services. Preliminary estimates show that the cost of reducing or even eliminating poverty--the resources necessary to increase income of the poor in the country above the poverty line--may not be too high. If this preliminary analysis is correct, then an extraordinary effort of reassigning public spending could have a strong impact on poverty reduction. T&T intends to define more aggressive targets than the Millennium Development Goals, especially for poverty reduction. The MDG poverty goal, and most others, will be met by T&T. The public sector, therefore, has a large role to play in the near term whilst the economy diversifies. The rest of this section presents a diagnostic of the areas where efforts will be concentrated.

2.28 The Government's social programs, which number over 120 and account for 10 % of expenditures, are not properly targeted for lack of information. A Cabinet sub-committee, chaired by the Prime Minister, is looking into rationalizing social service delivery programs. Also, an effort is underway to analyze the 1997/98 Living Conditions Survey and to initiate a third survey in 2004/2005. The need for a timely poverty profile is heightened by the expected growth that will be anchored to the energy sector in the medium term and the conclusion of multilateral trade agreements, which are likely to increase the need for safety net programs for the poor and for others adversely affected by the changes. This is an area of great promise because redesigning social programs, in the context of improved measurements and good targeting, could have a real impact on poverty reduction in the near term.

2.29 Access to, and quality of early childhood education is poorly provided and contributes to income inequality in the country. However, during the past decade the Government has sought to improve the quality of services in this area and to achieve universal access. This area has been recognized as a priority goal of Vision 2020, including the introduction of standards of professional practice for early childhood (EC) service providers and staff. The consultation document on Proposed Standards for Regulating Early Childhood Services was approved by Parliament in 2003. In this context, the Ministry of Education (MOE) has given EC service providers two years within which

Minimum Standards are to be met. The Minimum Standards encompass the following eight critical areas: registration and licensing of Early Childhood Care and Education Centers; staffing; early childhood development practices; standards for EC environments for children from birth to three years; appropriate EC standards for children three to five years of age; record-keeping; health and safety standards; and the physical environment. There is strong leadership in support of EC policy and of supportive management structures.

- 2.30 Water infrastructure, in particular, requires special attention. About 90% of the population has access to a public water supply and 20% to a conventional sewage system. However, water supply is not adequate and wastewater treatment plants do not operate properly for lack of maintenance. WASA, the Water and Sewage Authority, was operated from 1996 to 1999 under a management contract with a private operator. However, the Government did not see fit to renew this contract and control of WASA operations reverted to the old public model. Government has yet to commit to increased participation of the private sector to improve services. Nonetheless, it does seem amenable to private sector participation through BOLT-type contracts--build, operate, lease and transfer--particularly for the construction, operation and maintenance of wastewater treatment plants and the outsourcing of meter installation and billing systems.
- 2.31 Lack of security is a growing problem for the citizens of T&T. After almost a decade of steady decline in the rate of serious crimes, kidnappings, wounding and shootings increased over 100% since 1998; murder rates increased over 75% and rapes over 8%. Domestic violence is an additional concern. Recent evidence from the region shows unequivocally that violence slows economic growth and impedes social development. The most obvious cost of violence is the value of resources used to treat its consequences; these are related to increased expenditures in health services as a result of violence. Less obvious, but perhaps more important, is the impact on economic growth that is generated by the effect of violence on incomes and on investment and productivity. Incomes are affected by violence as employees decide to work fewer hours or are less willing to work at dangerous times or in dangerous neighborhoods.

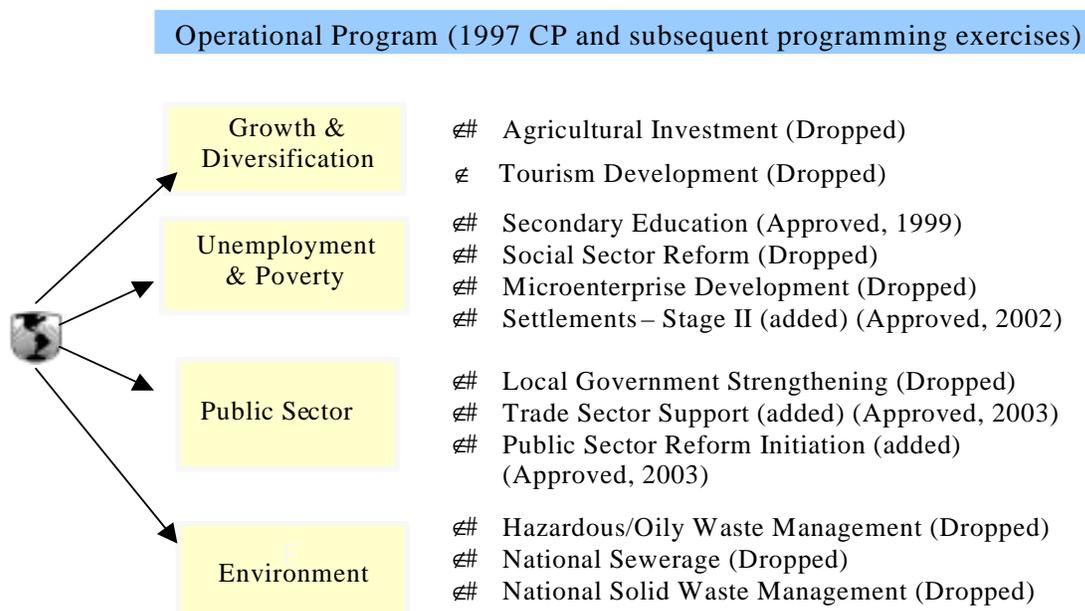
III. PAST STRATEGY AND PORTFOLIO ISSUES

A. Assessment of past strategy

- 3.1 The last Country Paper for Trinidad and Tobago was approved in 1997. It identified the following main development challenges: (i) to promote sustainable economic growth and diversification; (ii) to reduce unemployment and poverty; (iii) to reform the public sector; and (iv) to improve natural resource management and environmental protection. The Bank's strategy has been targeted to help address these challenges, focusing on priority areas where the Bank's support would have greatest impact.
- 3.2 In many respects, the Bank has been only partially effective in implementing its strategy since 1997, especially with respect to the lending program. Of the 9 operations identified in the 1997 CP, only one--Secondary Education--was approved. All the others were dropped due to a combination of factors including re-thinking of sector strategy

(Sewerage, Waste Management and Local Government), availability of grant funding (Microenterprise and Social Sector Reform), failure to complete stage-setting reform efforts (Agriculture) and lack of national consensus (Tourism). The political uncertainty¹¹ during 2001 and 2002 has also taken a toll. Three loan operations that were not identified originally in the CP have been approved in response to changing circumstances and priorities in the country – Settlements (Stage II), Trade Sector Support and Public Sector Reform Initiation (Figure 2).

Figure 2: Strategy Implementation Status



3.3 In addition, the Government's demand for Bank loans was affected by the emergence of a Central Government fiscal deficit and the desire to be seen as pursuing a prudent fiscal policy, which was deemed necessary in order to obtain, in 1999, and subsequently protect an investment grade rating for Government bonds by foreign rating agencies. As an alternative to Bank loan financing, the authorities tended to expand off-budget financing through state corporations since this form of government financing was not specifically reflected in the published budget and the procurement rules were less stringent. By contrast, Bank-funded operations would raise Government budgetary expenditures, which then would contribute to the fiscal deficit.

3.4 Nevertheless, the Bank's program has played a supporting role in Trinidad and Tobago's development and public sector reform effort. The Bank's greatest impact on the country during the current strategy cycle, since 1997, has been through support for reforms in the education and health sectors, and in strengthening and consolidating financial regulations. Although support for the financial sector was not specifically envisaged in the CP of 1997, a number of operations funded by the Multilateral Investment Fund (MIF) that began in the late 1990s were useful in strengthening the regulatory environment. As a result, the financial sector in T&T is now stronger and better regulated, and this has led to a growing financial sector role for T&T in the broader Caribbean economy.

- 3.5 At the sectoral level, the Bank has played an important partnership role in health, education, community development and housing. However, weak policies and practices in the area of social and economic targeting has at times limited the impact of these projects and programs in reducing poverty and improving economic and social equity. Moreover, the Bank has consistently overestimated the institutional capacity of the Government, while under-estimating the time required to implement politically “difficult” policy reforms and operationally complex programs. These considerations have been factored into the more recent loans (settlements and trade, for example), which are also smaller in size and more focused.
- 3.6 In general, the Bank’s program has been more successful in areas calling for investments and civil works than in areas related to policy and institutional reform. For example, implementation of infrastructure works under such programs as National Highways and Health Sector Reform have advanced well ahead of their related reform-oriented activities. Nevertheless, it is also fair to say that the Bank’s technical expertise and policy advice have contributed to the achievement of important qualitative improvements and efficiencies. In addition, a sizable and active portfolio of technical cooperation projects, financed primarily by the MIF, has contributed to a strengthening of the environment for a growing, competitive and better-regulated private sector.
- 3.7 Historically, the Government has taken a prudent approach toward its public investment program and borrowing from the Bank. This partially accounts for the fact that the active portfolio includes only eight approved loan operations, spanning the period 1995 to the end of 2003. As in many countries, institutional capacity needs to be improved. However, to a greater extent, the limitations on strategy implementation are largely attributed to the inability of the Government to sustain a high priority for reform. Over the 1997-2001 period neither of the two major political parties could marshal a sufficiently strong majority in the Parliament to effectively advance a reform-oriented agenda.
- 3.8 Over the past two years, strategy implementation has been improving. Yet, clear limitations remain. Several projects require special attention. Although comprehensive remedial action plans have been agreed to as part of individual project extensions, reflecting a Bank-Government re-engagement effort to carry through with reforms, it is too early to tell if all project goals will be met. In addition, the portfolio has been caught in a catch-22 type situation, whereby the previous administration that took over the complex projects that were approved in 1995-1996, opted to try to complete these projects before developing new ones. At the same time, delays in carrying out the substantial policy and institutional reform components of these approved projects have meant their execution is taking much longer than anticipated. The result has been an overall slow and weak portfolio performance with an operational focus on implementation management. Nevertheless, over the past 12 months two new loans, one in the area of trade development and the other to develop a program for public sector reform, have been approved. On-going program dialogue with the current administration suggests that new borrowing will grow over the medium term.
- 3.9 The CPE for Trinidad and Tobago, covering the period 1985-1999, highlighted a number of other useful conclusions regarding the effectiveness of strategy implementation that

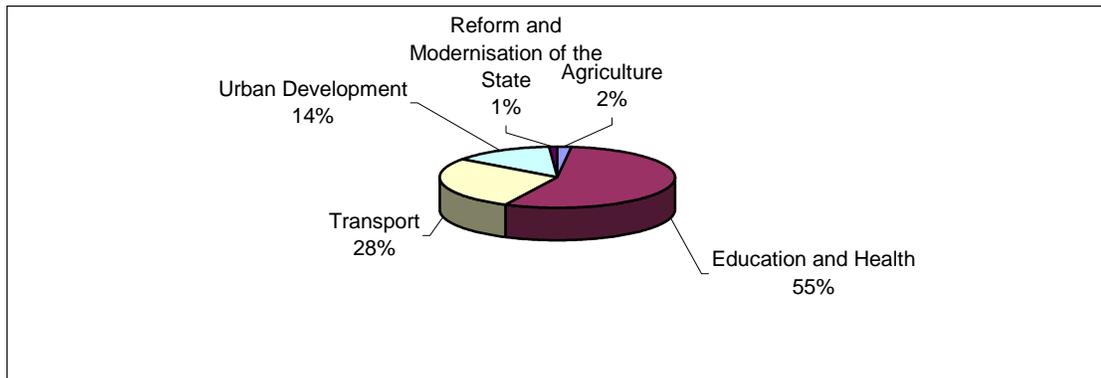
are consistent with the above assessment. The document points out the negative consequences stemming from the dominance of the energy sector in the economy. It also suggests that the fundamental development objectives guiding both the Bank and the country should be re-visited with a view to establishing more realistic medium-term goals. Finally, the CPE recommends that the Bank should focus its efforts on a few strategic areas and not attempt to cover the entire spectrum.

- 3.10 Similarly, a recent assessment prepared for the Bank for the period 1990-2003 reinforces the lessons learned from the portfolio review exercises and the results from the CPE¹². According to this report, looking to the immediate future, continued high-growth in the energy sector is expected to bring abundant financial resources, while the country as a whole continues to face serious problems of absorptive capacity. Facing this new context of favorable and unfavorable conditions, the Bank should concentrate on the constraint of data availability, promoting efforts to deepen the knowledge base regarding relevant aspects of the economy and society. Special attention should be given to the problem of institutional capacity, as it appears regularly in project reviews and evaluations as a critical factor affecting the quality of Bank performance. Finally, there is no substitute for pro-activeness on the part of the Bank and its representatives by directly engaging and seeking to relieve the constraints that adversely affect its performance. This applies both to constraints internal to the Bank and those that arise from the local in-country environment. It also applies as much to institutional capacity constraints as to constraints arising from lack of local ownership and national consensus.

B. Summary of portfolio issues

- 3.11 The Bank's loan portfolio in Trinidad and Tobago consists of eight operations amounting to a total value of US\$438 million, of which US\$152.7 million (35 %) has been disbursed. These eight operations include the Second Stage Settlements Program that was approved in May 2002, and a Trade Sector Support Program and a Public Sector Reform Initiation Program both approved in 2003. The Bank is the country's largest source of external financing.
- 3.12 The IIC has two small operations in execution. The first is an outstanding loan balance of US\$5.4 million that is a draw-down from a line of credit of US\$10.0 million issued to Republic Bank for on-lending to small and medium sized enterprises in Trinidad and Tobago, Guyana and Suriname. In addition, the IIC has an 8.5 % shareholder interest in Development Finance Limited (DFL), an entity dedicated to serving the small business sector. At present, the Private Sector Department (PRI) has no loan activity in Trinidad and Tobago.
- 3.13 Figure 3 shows a break-down of the loan portfolio by sector. Two large operations, in health and education, account for 55%.

Figure 3: Active Loan Portfolio as of December 2003



- 3.14 The average age of the loan portfolio is 5 years. However, if the three most recent operations are factored out, the average age of the remaining 5 operations in the portfolio is 6 years and 9 months against an average original execution period of 5 years. These five operations account for 85.5 % of the approved loan resources and 84.5 % of the undisbursed balance. Four of these five loan operations have already been extended beyond their original completion target dates.
- 3.15 The Bank's portfolio also comprises four regular TCs for a total amount of US\$646,000, including the C&D Action Plan and two regional TCs. Of this total amount, US\$302,000 or 47 % has been disbursed, reflecting the relatively modest nature of the TC portfolio at present. Three of these operations have been approved within the last two years and are focused on innovative areas – the prevention and control of money laundering in one case, and judicial sensitization on the issue of domestic and gender based violence in the others.
- 3.16 There are eight MIF operations presently in execution for an amount of US\$5.7 million, of which US\$2.9 million (51 %) has been disbursed. Two of these operations were approved in 1995 and came to a close in December 2003. More recently approved operations include Alternative Dispute Resolution, Secured Transactions, Modernization of Telecommunications, Airport Security and Improving Accounting and Auditing Standards.
- 3.17 Overall performance of the loan portfolio, despite some improvement, remains relatively weak. In terms of implementation progress and prospects for achieving development objectives, the portfolio's performance leaves substantial room for further improvement. Three out of eight loan operations are considered problem projects, with classifications of "unsatisfactory" in implementation progress and "low probability" in achieving development objectives. Another loan is classified as unsatisfactory in implementation progress. Disbursement performance, despite some improvement last year, is still disappointing. On the positive side, however, it should be pointed out that there were no serious loan administration problems with counterpart funding or the management of revolving funds, compliance with contractual clauses is generally satisfactory and procurement is carried out in accordance with Bank policies.

- 3.18 In contrast, the performance of the regular TC and MIF portfolio is considered satisfactory. The MIF portfolio, in particular, is considered a bright spot as implementation of MIF grant-funded projects has proceeded well. Implementation progress is “satisfactory” for most TC and MIF operations and achievement of their development objectives is presently rated as “probable” for all these operations.
- 3.19 In addition to specific project-related issues, a number of challenges that cut across the portfolio and affect its performance have been identified. These obstacles to sound execution and better development effectiveness include: i) a weak human resource base within the public sector, fueled mainly by the inability to attract and retain qualified professionals at the management and staff levels, along with other institutional capacity problems, ii) a political environment that is insufficiently supportive of timely implementation of fundamental reforms and institutional change, and iii) a cumbersome, overly centralized and bureaucratic government procurement and expenditure control system.
- 3.20 Looking ahead, portfolio performance is expected to continue to improve. Although implementation of policy reforms and institutional strengthening activities under several programs have proven so far to be difficult, re-commitment by Government to implementing the respective Action Plans is expected to produce positive results. Continued institutional strengthening within the Ministries, as well as closer monitoring, will hopefully move these operations out of problem status. Efforts to promote broad public sector reform and the development of new operations to improve public administration, priority areas of attention for 2004 and 2005, will hopefully achieve positive results in these areas over the longer term and contribute to sustainable improvements in portfolio management and performance.
- 3.21 The periodic assessment of current operations in Trinidad and Tobago, as presented in the Country Portfolio Review (approved in April 2004), provides a number of important lessons learned that should prove useful to consider in future efforts to improve performance and strategy implementation. These lessons, some of which are consistent with specific CPE recommendations, include the following:
- ⚡ The country takes significantly longer to implement projects than initially planned. Even for those complex operations that originally call for extended timeframes, the execution periods are unrealistic against the challenge of weak public administration. The relatively better performance of the MIF portfolio indicates that smaller, more focused operations tend to reduce the risk of serious delay.
 - ⚡ Close collaboration and partnering between the Bank, project managers and technical personnel of the line Ministries and executing agencies has helped to facilitate early identification and analysis of problems as well as the definition and implementation of corrective measures. This also strengthens national ownership of projects. The Bank is able to serve as a bridge between an executing agency and line Ministry officials.

- ⚡ For larger complex programs there is often a mismatch in the phasing of reform-oriented activities vis a vis physical infrastructure, where reforms usually lag behind or physical infrastructure jumps ahead. There is often no firm mechanism to ensure during execution the early phase-in of reforms or that the two types of activities keep pace as structured in the implementation schedule.
- ⚡ The practice of off-budget financing for public investment projects, particularly to try to fast track infrastructure and civil works, has been a source of imbalance in relation to Bank-funded projects that also focus equally on the need for institutional strengthening. More importantly, this practice points to the need to address more systemic issues such as procurement, transparency, implementation capacity and financial management.
- ⚡ Operations involving more complex organizational change are adversely affected by the absence of adequate change and stakeholder management. Not enough emphasis is given to developing effective communication strategies that would lead to stakeholder awareness, understanding and active support for successful program implementation.
- ⚡ When performance indicators and means of verification, as well as baseline data, are not sufficiently defined and determined at the design stage, difficulties are encountered in measuring the progress and effectiveness of the projects during execution. Moreover, the weakness of data gathering systems and the low capacity to monitor and report on the part of executing agencies tend to undermine the ability of Government and the Bank to identify and solve issues or ensure that development objectives are being met. Ownership for establishing performance and outcome indicators on the part of executing agencies and line ministries, as part of project monitoring and evaluation, could be stronger.

3.22 By way of illustration, the story told below in Box 3 about the Health Sector Reform Program reflects many of the lessons that have been mentioned above.

Box 3: What went wrong with the Health Sector Reform Program

This loan was approved in July 1996 for US\$134 million (about 1.3% of 2003 GDP) and is currently classified as unsatisfactory in implementation and with low probability of achieving its development objectives. The objective of this operation may be summarized as follows: to improve the provision of public services in health by bringing the service providers geographically closer to the demand for those services throughout the country. For this reason, the key component of this operation included decentralizing the provision of health services and, for all practical purposes, transferring those to the Regional Health Authorities (RHA), independent of the Central Government, via signing annual service agreements between the Ministry of Health (MoH) and the RHA.

This operation is significantly delayed because the Bank was too optimistic in the design, in particular by promoting decentralized Central Government services without the benefit of the enabling conditions provided by wider public sector reform. Periods of political uncertainty and wavering political momentum for the project over the last 7 years also contributed significantly to the delays in project implementation. To drive the reform agenda, the design of the project should have built in, as the first priority, the development of the appropriate human resource base throughout the public sector to support the reform. As a second priority, there should have been the incremental introduction of regional health authorities informed by the a-priori development of appropriate management support systems, a business plan, operational manuals and protocols. Moreover, the absence of wider public sector reform is making it extremely difficult for the MoH to drive the reform agenda in the health sector given that the existing machinery of Government is not set up to deal with the robust and ambitious institutional changes now being presented by the project. Against this background, the borrower has sought to address these concerns by adopting several innovative strategies and tactics, which provided the basis for the Bank to grant a 3-year extension to the program in November 2003.

3.23 The Bank's experience and results of the portfolio review exercise also point to a number of recommendations that should be considered for country strategy development and future programming with Trinidad and Tobago, as well as project conceptualization and design. Some of the key recommendations are summarized below.

- ⌘ Government will need to sustain its commitment to improved performance, including the initiation of comprehensive portfolio reviews chaired by the Ministry of Planning and Development on a semi-annual basis.
- ⌘ The development of additional human resource and institutional capacity within line Ministries should be a priority in order to improve portfolio performance, and the Government's procurement system should be modernized.
- ⌘ The participatory approach to be taken by Government and the Bank with civil society should include consensus-building dialogue with all political parties.
- ⌘ During country programming, a priority should be placed on smaller operations that focus on institutional strengthening and policy reform first, where appropriate, before moving to larger investments; and where operations require complex organizational and process change, a component for change management should form part of project design.

- ≠ At the point of project design, a major emphasis should be placed on building good logical frameworks, with outcome indicators and baseline information.

IV. BANK OBJECTIVES, STRATEGY AND AGENDA FOR DIALOGUE

A. Objectives

- 4.1 The overall objective of the Bank's strategy for the longer term is to support the country's efforts to achieve the goal of Vision 2020. In order to meet this long-term goal, the country will need to meet the challenge of developing a competitive economy with sustained growth and improved equity to reduce poverty. The Bank will, in this regard, support and take into account the Government's stated objective¹³: "Notwithstanding growing national prosperity, major socio-economic challenges remain. Among these are the need to ensure that wealth and income distribution is equitable, that the dynamic energy sector does not overshadow and crowd out the non-oil sectors and that every Trinidad and Tobago citizen is well equipped and supported to ensure that he or she can benefit fully from the emerging society of Vision 2020."

B. Strategy

- 4.2 In pursuit of the above objective, the Bank's strategy for the 2004-2007 period will support the country's efforts in three principal and inter-dependent areas of focus: (i) promoting private sector development to increase economic diversification; (ii) promoting public sector modernization to improve efficiency, effectiveness, and upgrade capacity; and (iii) promoting social development by improving social public services.
- 4.3 Key features of the Bank's strategy include: (i) a major emphasis on timely completion of current programs in execution; (ii) a shift in the balance of Bank activities towards more support to the private sector; (iii) a preference in new operations for smaller and less complex project designs than in the past, taking into account stakeholder participation and political feasibility throughout the project cycle; and (iv) the use of criteria to help guide the country dialogue and setting of priorities for future Bank-supported programs during the period 2004-2007. The Bank will, when appropriate, consider gender issues in the conceptualization of new operations.
- 4.4 The Bank recognizes the special needs of Tobago and, in the context of the above objectives, supports identification of initiatives that will improve the productive base of the Tobago economy, including enhancement of the island's tourism potential, thereby improving the quality of life of its people. In designing operations for Tobago, the Bank will consider the specific characteristics of the island and the administrative rules in place to coordinate public administration as reflected in the Tobago House of Assembly Act¹⁴.

1. Principal areas of strategic focus

a) Promoting private sector development to increase economic diversification

- 4.5 The private sector needs to continue to develop by becoming more competitive and diversified in order to reduce risks related to the dual economy, thereby improving opportunities and employment. The Bank may contribute to this process by: (i) offering the Government support for improving the business environment, and, (ii) by offering direct support to the private sector. The following crosscutting criteria will be used to identify and prioritize new Bank projects/programs to promote private sector development:
- ≠ The extent to which they are likely to reduce the transaction costs in the economy.
 - ≠ The extent to which they focus on the development of high value-added employment-generating activities such as tourism in Trinidad and in Tobago, and the financial services sectors.
- 4.6 The paragraphs below describe proposed Bank initiatives, based on the above-mentioned criteria, to support private sector development by improving the business environment and by lending directly to the private sector.
- 4.7 **Improving the Business Environment.** There is a wide range of activities that may be grouped under this strategic area. However, using the defined criteria, the Bank will continue to pursue the following initiatives: business environment; information and communications technology; Tobago's tourism; secured transactions, property rights and developing land markets; and trade and integration.
- 4.8 *Business environment initiative.* The Bank and the Government of Trinidad and Tobago signed a Business Climate Initiative Aide Memoire¹⁵ in November 2003. The Initiative calls for: (i) a Diagnostic Assessment to identify a prioritized list of issues to improve the business climate; (ii) agreement on a Business Climate Action Plan, the implementation of which the Bank would support with an array of operational instruments; and (iii) agreement on a system to monitor and evaluate the effectiveness of the Action Plan's implementation.
- 4.9 The development and implementation of a competitiveness enhancement program¹⁶ should be a key element of this initiative. The program should focus on building enterprise capabilities and incentives, with emphasis on small and medium size firms, to change behavior in two key areas, which have been identified as fundamental to increase private sector competitiveness: working more effectively to jointly address competitiveness obstacles and to progressively develop effective industrial clusters; and identifying, adapting and implementing more productive technologies. In addition, the program should strengthen the institutional framework to support on a permanent basis the implementation and updating of a Competitiveness (Business Climate) Agenda that includes policy and institutional reforms, as well as programmatic interventions.
- 4.10 *Information and communications technology initiative (ICT).* The Bank is already supporting the development and implementation of a National ICT Strategy: *fastforward*.

The objective of Bank intervention is to increase total factor productivity by producing ICT goods and services¹⁷. The areas of interest include both supply and demand, and should exploit synergies and network externalities. In the context of preliminary discussions with the authorities, the Bank has identified the following areas of interest: institutional, legal and regulatory framework; e-government; human capital development; connectivity; and enterprise development in ICT.

- 4.11 *Secured transactions, property rights and developing land markets initiative.* The objective of Bank activities in this initiative is to support the development of a more dynamic and efficient market by enhancing legislation to allow for the use of movable goods and land as collateral. In this context, the Bank is implementing a US\$650,000 MIF operation (ATN/MT-7064-TT) that has supported drafting legislation that will provide the legal framework to reduce uncertainty in commercial transactions. Legislation has been drafted and is before Parliament for debate. A future Bank action would concentrate on clarifying land tenure and securing rights through the implementation of the Land Adjudication, Land Tribunal and Land Registry legislation. These laws were prepared under previous Bank-funded programs.
- 4.12 *Trade and integration initiative.* An important component of the country's diversification strategy is to improve non-oil trade performance¹⁸. The Bank approved last year a Trade Sector Support Program facility for US\$5 million (TT-0052). Implementation of this operation will help the authorities in their efforts to reduce the risks related to new trade agreements. The facility involves working with the authorities in the following areas: (i) to improve the institutional structure and functioning of the Ministry of Trade, Industry and Consumer Affairs; (ii) to develop trade expertise and knowledge in the public sector; (iii) to improve trade policy; and (iv) to provide support to the private sector as it adjusts to the new trade agreements.
- 4.13 *Tobago's tourism protection initiative.* Tobago presents unique opportunities for developing the tourism industry. However, poor natural resource management, especially sewerage treatment, threatens the tourism industry¹⁹. The Bank's preliminary discussions with the authorities have identified the following priorities: collection, treatment, and disposal of wastewater in South West Tobago, including water source optimization; and coastal zone management initiatives, that may include activities such as a master plan for the coastal management of Tobago, and public awareness.
- 4.14 **Direct support to the private sector.** The Bank Group, in the context of the Bank's recently approved Private Sector Development Strategy (GN-2270-3), may offer direct support for specific private sector projects and engage the private sector in dialogue that would lead to concrete actions. The Bank is in the process of implementing this new strategy²⁰, and while the operational details are developed and approved, the Bank will be more proactive in using current PRI, MIF and IIC windows and Bank Group products for the private sector.
- 4.15 PRI's current mandate is to support the development of local capital markets and private infrastructure in power (generation, transmission and distribution), transportation (ports, airports, roads and pipelines), water and waste, and telecommunications. Because in most

cases the provision of infrastructure in these sectors is not currently in private hands, PRI will concentrate on working with RE3 and MIF to support restructuring and privatization²¹ of key sub-nationals responsible for these sectors. For the most part, these entities tend to be autonomous and are managed along private sector lines, raising finance without the benefit of Government guarantee. For this reason, these institutions currently do not qualify for Bank support.

- 4.16 In certain cases, these entities are looking for funding for investments that would complement private sector involvement in the form of assets contributed to joint ventures or project vehicles involving the private sector. PRI is willing to apply for waivers to fund these public sector entities' investments in these operations. As the Government would not guarantee these loans, the source of repayment could be the proceeds of upfront or periodic canons received from the concessionaires, with dividends received from joint ventures, or with the proceeds of the eventual privatization of the borrowing entities themselves. The Bank could provide these loans against commitments by these entities to develop the required partnerships with the private sector.
- 4.17 PRI will also seek direct lending and capital markets opportunities in specific infrastructure projects. The projects that PRI will prioritize are in sectors that have the potential to increase T&T's competitiveness as a regional hub. Projects identified to date are in three sectors: (i) telecommunications, prioritizing projects in the international connectivity sector such as regional submarine fiber optic cable, that is currently dominated by incumbents which charge extremely high prices for international capacity; (ii) gas pipelines in the Eastern Caribbean; and (iii) ports, supporting the privatization efforts of the Port Authority of Trinidad & Tobago (PATT), as well as the projects of the semi-private PLIPDECO. PRI can contribute to the improvement in port infrastructure, which is key to the development of Trinidad & Tobago as a regional transportation hub. PRI is also interested in financing private sector investment in road infrastructure if the Government decides to develop concessions in that sector.
- 4.18 Finally, PRI will capitalize on, and support development of T&T's position as a financial center. T&T's banks, which are very liquid in short-term funds, are expanding operations across the Caribbean. PRI's strategy is to stimulate long term lending and investment in the private sector by these institutions. This can be achieved by partnering with certain local banks to supply long term US\$ funds that can be on lent to the private sector to finance infrastructure and other sectors. This will permit T&T's banks to compete with international banks and will also reduce the tenor mismatch between the assets and liabilities of T&T's financial institutions, thereby reducing risk in the financial system overall. PRI will also seek to provide risk mitigation guarantees to capital markets issues that are placed in T&T and Caribbean markets, either in US\$ or local currency. This will extend the average tenor of capital markets issues in the region, and encourage the use of local currency as local currency rates converge towards US\$ levels. Other capital markets operations may involve PRI support for specialized funds intended to increase the level of domestic investment in the energy sector, which to date has been funded largely through foreign direct investment.

- 4.19 To date, MIF grant resources have been especially successful in supporting efforts to strengthen the financial sector, through banking and credit union system reform. Additionally, MIF has also supported improving the regulatory environment in important areas such as telecommunications, as well as the provision of credit to SMEs. During 2004-2005, the MIF is focusing on two projects that seek to improve the competitiveness of SMEs, primarily in the non-oil manufacturing sector, to enable them to provide services to international oil companies operating locally. These are: i) assistance to implement health and safety standards in SMEs; and ii) funding to implement business process outsourcing programs among SMEs. These efforts on the part of MIF are in keeping with the Government's focus on private sector competitiveness and the need for SMEs in T&T to gain a greater share of procurement from multinationals operating in the country.
- 4.20 Furthermore, SMEs in T&T will also benefit from several regional initiatives currently in the pipeline for the Caribbean, including: i) a program to integrate the private sector more fully into the region's trade negotiation process; ii) assistance for the establishment of a Caribbean Credit Rating Agency, to be managed in T&T; and iii) a program to improve SME competitiveness through the implementation of trade-related quality standards. Future MIF operations for T&T will continue to respond to priorities in both the public and private sector, but in the context of a number of new areas currently highlighted in the MIF Work Program for 2004, such as corporate social responsibility, sustainable tourism and entrepreneurship.
- 4.21 The IIC recognizes the important role that the economy of T&T plays in the Caribbean. Thus, a challenge for T&T is to be able to strengthen its capacity to become a major value-added producer and service provider in the Caribbean region, in particular among the English-speaking Caribbean. The IIC strategy is to support this effort by providing direct loans to companies that are planning to expand into the Caribbean. By providing financing to these companies, the IIC expects to contribute to enhancing the role of T&T within the region and promote intra-regional trade.
- 4.22 Given the IIC's success in working through financial intermediaries in the region, and aware that the financial services sector is another high value added activity, the IIC also looks to support this sector by providing loans to financial intermediaries in T&T that are expanding their reach through acquisitions or the establishment of banks in other neighboring countries. The loans to financial intermediaries are for on-lending to a larger number of small and medium size enterprises and in smaller amounts that the IIC could not provide on a direct basis. In line with this strategy, the IIC has in its pipeline of possible projects: a line of credit to a principal financial institution in T&T, a possible refinancing and expansion financing of a poultry manufacturer, and the expansion financing of a beverage producer that has a regional presence.

b) Promoting public sector modernization to improve efficiency and effectiveness, and upgrade capacity

- 4.23 An efficient and effective public sector is a necessary condition to achieve the Vision 2020 goal. Moreover, modernizing the public sector--redefining and streamlining its role

over time--will also facilitate development of the economy by improving the regulatory framework and reducing delays that adversely affect the business climate.

- 4.24 The Bank is committed to this objective and is already providing support with the approval of the Public Sector Reform Initiation Program in December 2003 (TT-0057). This US\$5 million facility is aimed at the development and initial implementation of a long-term strategy to modernize the public sector. The plan or “road map”, which will result from the project through a consensus-building approach, should be ready by December 2005. It will include actions to improve the composition of public spending by optimizing the size, management, structure, organization, functioning, human resources, legal framework, accountability, and service delivery mechanisms of the Government.
- 4.25 This task is complex, requiring stakeholder participation and consensus building, and therefore time, to design and implement a plan to modernize the state. While the road map is being prepared, the Bank will consider additional initiatives that address the most pressing needs of public administration in the near term. The Bank recognizes the Government's urgency in modernizing public administration to improve the absorptive capacity to take advantage of the new, and large, fiscal revenues related to gas and oil. This approach--to focus on the preparation of a road map to modernize the public sector and also to provide support in key, priority areas before the road map is ready--requires an additional effort to focus on the completion of the Bank's current portfolio, especially reviewing operations with strong public sector reform components, and building an operational bridge between the implementation of these operations and the proposed approach. This is necessary to provide credibility and leverage to the preparation of the road map.
- 4.26 The implementation of this public sector reform initiation program, and also the identification of any gaps that become evident as a result of the ongoing dialogue between the Bank and the Government, will help to define specific programs or projects in the three to five-year period ahead. The Bank will be flexible in the near term, in order to gain specificity in the long run.
- 4.27 **Prioritizing new operations that promote public sector modernization.** The identification and prioritization of new Bank projects/programs will be weighed against the extent to which their reform components are consistent with the preparation and implementation of the road map.
- 4.28 The following paragraphs describe initiatives to consider while the road map is prepared, based on the criterion mentioned above. Upon completion of the road map, the Bank will discuss with the authorities, in the context of a programming mission or a Country Strategy Update, new actions to support the implementation of the road map.
- 4.29 *Road map to public sector modernization initiative.* This is the key initiative of the public sector modernization strategic area. The Bank would concentrate on the consensus building aspect of this operation in the context of the National Strategic Development Plan (Vision 2020), find complementarities with other Bank initiatives and coordinate with other development institutions, and revise the timeline of these

complements to the preparation and subsequent implementation of the road map. The Bank will consider all other initiatives in the context of the road map preparation. This approach will ensure that other Bank support is consistent with the authorities' plan for modernizing the public sector, and will increase the leverage of the future implementation of the road map.

- 4.30 *Identification of gaps to prepare the road map initiative.* In the process of preparing the road map the authorities and the Bank expect to find knowledge gaps. Filling the gaps is also an important activity in the preparation of the road map, and the Bank will support the authorities' efforts to address those, for now, unknown issues.
- 4.31 *Public Expenditure Review.* The Bank and the World Bank are willing to jointly prepare a public expenditure review (PER). This study is a necessary activity to design the road map, and will provide important detailed information and analysis about fiscal issues. Moreover, the study terms of reference will be prepared in coordination with the team executing the road map loan. Preliminary issues of interest refer to the analysis of the provision of public services, especially with respect to how the priorities are defined, efficiency and efficacy issues, and focus on targeting. The PER will also analyze the issues related to the revenue stabilization fund, debt management, tax policy, and tax administration issues.
- 4.32 *Information and communications technology initiative (ICT).* This initiative has been discussed in paragraph 4.10, in the context of the strategic area of supporting private sector development. The Bank stresses the inter-relationship of this initiative, and highlights the institutional components: institutional, legal and regulatory framework; e-government; and human capital development. The public sector component refers to increasing the efficiency, effectiveness and transparency of the public sector by establishing a government-wide portal, along with the implementation of "quick win, low risk solutions" already identified by the Bank and the authorities.
- 4.33 *National highways initiative.* The authorities and the Bank will focus on finalizing the Bank operation (TT0043) now in execution. The final disbursement date of the National Highways Program was extended for two years to July 12, 2005. This extension was necessary because progress on the major component of the operation was delayed by stakeholder opposition to related reforms. The improved efficiency of routine road maintenance with a targeted reduction of cost to US\$5,000 per kilometer was not achieved because of stakeholder opposition to the reform component requiring layoffs. Currently, implementation of the pivotal program component is executing well but a delay in the delivery of designs for works related to the rehabilitation of some roads in the final phase of the project is expected to translate into delays in the start-up of construction and attendant completion dates.
- 4.34 *Judicial system study.* This is another area where the authorities and the Bank need basic information and analysis to clearly specify possible actions. Preliminary discussions with authorities indicate that there are several areas of interest. However, the Bank would like to concentrate on those in which implementation may not generate political friction, and that are complementary to the efforts of the road map, the secure transactions MIF

operation, and the citizen security initiative presented in the following section. For this reason issues that are good candidates for this study are related to a review and analysis of the legal and financial framework that regulates commercial transactions with the objective of identifying rigidities that may add unnecessary friction to the economy.

c) Promoting social development by improving social public services

- 4.35 The third strategic pillar for the period 2004-2007 addresses social development challenges in health, education, and social safety programs by focusing on quality, delivery and targeting. The Bank recognizes the links with the other two pillars: accelerating social development will facilitate private sector development because it will address the issues of pockets of poverty and income distribution²², a condition for an environment conducive to private sector investment; and social development will improve the chances of success of the preparation and implementation of the road map to modernize the public sector.
- 4.36 Moreover, the Bank is re-engaging the Government through dialogue and actions to improve the execution of health and education programs, and has recently approved an extension in the case of health. The Bank will concentrate on completion of these two reform efforts, and link it to the preparation of the road map. Finally, the Bank will support Government efforts to improve the social safety net by improving the targeting mechanism and rationalizing the provision of services--eliminating duplication and increasing efficacy and efficiency.
- 4.37 **Prioritizing new operations that promote social public services for social development.** The identification and prioritization of new Bank projects/programs will be weighed against the following-cross cutting criteria:
- ⌘ The extent to which they increase the efficiency of the provision of services by eliminating duplication and overlapping between Government agencies--inter-agency criterion.
 - ⌘ The extent to which they increase the efficiency of the provision of services by improving service delivery--intra-agency criterion.
 - ⌘ The extent to which their reform components are politically feasible, determined by bipartisan support.
 - ⌘ The extent to which they are relatively small, less complex, well targeted, and within the execution capacity of the executing agencies.
- 4.38 The Bank will continue to pursue to completion the following initiatives to support social development by addressing health, education, and housing. Additionally, based on the above-mentioned criteria, the Bank proposes the following initiatives: community development fund, social safety net, regulatory frameworks, citizen security, early childhood and water issues.
- 4.39 *Health sector reform initiative.* The Bank's operation (Health Sector Reform Program, TT0024) has suffered from serious problems in the past because the pattern of spending has been unevenly biased towards the physical infrastructure component, while resources budgeted for reform aspects of the program, namely, Human Resource and Information

Systems/Information Technology components have been under-utilized. The authorities and the Bank engaged in consultations on this issue and agreed to a 3-year extension to fully implement the program in line with the original objectives. The structured, methodical and fully participatory approach in which the Ministry of Health has pursued the development of the extension request and 3-year action plan portends a successful completion of this operation.

- 4.40 *Secondary education initiative.* As in health, the Bank has also encountered resistance to reforms related to the Secondary Education Modernization Program (TT0023) reflecting the weak institutional capacity of the Ministry of Education (MOE). Institutional reform of the MOE, including decentralization of services to district offices and schools, is a key element of the program. However, little progress has been made in this area due to a lack of expertise and the need to re-create commitment for this policy decision (2001-2003). Again, as in health, Government has spent considerable amounts on physical infrastructure, while Bank resources have so far focused mainly on “qualitative” components. Although considerable achievements have been made in the qualitative areas, they have not translated into high disbursements. The Bank will concentrate on completion by continuing to collaborate very closely with the MOE through regular missions and provision of technical expertise in selected areas. It is also expected that the recently approved Public Sector Reform Initiation Program will address issues such as salaries and working conditions that will support MOE’s efforts to improve project implementation.
- 4.41 *Affordable housing initiative.* Since approval of this program in 2002, progress has been made in the implementation of only some of the components. These include squatter upgrades and the development of the administrative mechanisms for greater incorporation of private sector contractors and financial institutions for the construction of subsidized lower-income housing. Similar to health and education reform operations, this program is characterized by slow implementation and an uneven adoption of the reform components. In order to address the key issues affecting this program, the Bank is collaborating closely with the executing Ministry and the private sector stakeholders in the financial and construction sectors in order to accelerate their involvement in providing mortgage financing for low-income housing and in the production and delivery of low-cost solutions. C&D funds are being used to support three consultancies to help provide a stronger basis for informed decisions by both the Government and the Bank on the strategic changes to the way in which the Government operates in the sector, consistent with the framework defined in the loan contract. Options for adjusting the program in light of recent developments within the sector are being examined. Meanwhile, steps are also being taken to strengthen institutional capacity for program execution within key agencies impacting the housing sector.
- 4.42 *Community development fund initiative.* The Bank’s final disbursement date for the Community Development Fund operation (872/OC TT) was March 27, 2004. Government has identified social service delivery to the people of Trinidad and Tobago as a national priority and in this regard has indicated its interest in working with the Bank on the development of a second Community Development Fund operation. Interest in working with the Bank on a program of this nature has been endorsed by the Cabinet.

The results of the Long Term Development Study on Poverty Reduction and Social Development in Trinidad and Tobago lend support to the need for developing an effective mechanism to rationalize and target social service delivery and address the issue of poverty alleviation. The Bank is therefore engaged in preliminary discussions with the Government on a possible loan operation to finance Government's next phase of this program.

- 4.43 *Social safety net initiative.* A study on the social safety net will include a diagnostic on its status, and will also identify the major gaps in the provision of a safety net. A key issue to be analyzed will be the transformation of current social programs, via consolidation, into a counter-cyclical safety net focusing on targeting of programs to the poor. For this reason, the study will also provide an overview of successful conditional cash transfers used in other countries.
- 4.44 *Regulatory framework of the social sector initiative.* The study will focus on the current regulatory framework in the social sector, and how it may complement the preparation of the road map. The study will also address the prioritizing process in the social sector, its link to the budgetary process, and the current decision making process that results in balancing short-term needs, current spending and long-term investment.
- 4.45 *Citizen security initiative.* A program may be developed to improve citizen security through the prevention and reduction of violence and the strengthening of crime management capabilities of the Ministry of National Security (MNS). The program would elaborate an integrated national crime and prevention strategy. Moreover, the program would enhance the capacity of the MNS to coordinate projects related to violence prevention and to monitor trends in crime and violence. Finally, the program would support community action to prevent violence by mitigating and controlling principal risk factors.
- 4.46 *Early childhood initiative.* Preliminary ideas to be included in this initiative have the objective of facilitating the development and implementation of a strategy to: (i) implement the new Standards for Regulating Early Childhood Services (ECS), approved by Parliament in 2003; (ii) monitor and upgrade sector performance; (iii) development of a special program for children with disabilities; (iv) development of an adequate curriculum for early childhood education, including for children with disabilities; and, (v) development of an education media production using cultural expressions for stimulation. Possible lines of action include: governance activities that would provide stability and coherence by establishing a single body regulating ECS, clarifying institutional roles, and operationalizing an inter-ministerial framework for monitoring and supporting early childhood services; professional development activities to enhance the capacity of ECS specialists; technical assistance for strategic planning and financial management; and developing a birth-to-five strategy, including activities designed for ECS in Tobago.
- 4.47 *Potable water and sanitation initiative.* WASA should be modernized to address the following issues: (i) increasing revenues to improve the current ratio of operating revenues covering less than 50% of operating expenses; (ii) reducing the ratio of staff to

water connection of about 8/1000; (iii) reducing pipe breaks in the distribution system, that currently exceed 600 breaks/100 km/year, and water losses, estimated to be close to 50%. Water and sewerage rates do not cover operational and adequate maintenance expenses. In addition, accounts receivable are high (TT\$206 million as of September 2002, equivalent to 6.4 months of billings). As a result, WASA's financial position is precarious as current liabilities exceed current assets. The present tariff structure is complex (16 pricing categories) and less than 4% of connections are metered.

2. The operational program

- 4.48 The Bank's indicative operational program for 2004-2007 is concentrated on promoting private sector and social development (Table 3). This includes five operations that are currently in the pipeline: improving business environment, information and communications technology, South West Tobago environment, land adjudication and registration, and potable water. These operations will be developed so as to reflect the strategy framework proposed in this document. The strategy is also proposing additional operations to be considered, including: citizen security, early childhood development, and Community Development Fund II. Finally, preliminary discussions with the authorities have identified the following areas of common interest that may be considered: youth development, culture, entrepreneurship development, and environmental management.

Table 3: Indicative Bank Operational Program (2004-2007) by Focus Area

Project Name	Amount (US\$m)
Promoting private sector development	
Bank Group direct lending to the private sector (2004-2007)	demand driven-case by case analysis
Improving the Business Environment (2004)	10-20
Information and Communications Technology-private sector components (2005)	10
Tobago South West Environment Project (2006)	30-50
Land Adjudication and Administration (2006)	15-20
Promoting public sector modernization	
Information and Communications Technology-public sector components (2005)	25
Loans resulting from the outputs of the Public Sector Reform Initiation Program TT0057 (2006-2007)	tbd
Promoting social development	
Early Childhood Development (2005)	10-20
Potable Water and Sanitation (2007)	30-50
Community Development Fund II (2005)	tbd
Citizen Security (2005)	10-15

- 4.49 The lending program is also flexible and leaves open two doors: Bank Group direct support to the private sector, and the Bank's support for the implementation of the road map to modernize the public sector that should result from the completion of the Public Sector Reform Initiation Program (TT-0057). In the latter case, the Bank will work with

Government in an effort to design those operations by 2006, to avoid the complications of program preparation during an election year.

- 4.50 The indicative operational program for 2004-2007 is presented by estimated year of approval in Annex 1, and Table 4 presents a projected lending scenario that is based on Annex 1. Net cash flows will continue to be negative reflecting the repayment of Bank loans and the fact that the country has alternative sources of financing. The Bank will continue supporting Government to strengthen capacity to execute Bank operations and improve disbursement performance. All the IDB debt indicators are below the recommended thresholds.
- 4.51 The Government and the Bank consider that maintaining macroeconomic stability is a necessary condition to reach Vision 2020 goals. Macroeconomic stability should be complemented by ensuring that social public services are protected during economic downturns, which could be guaranteed by explicitly defining the level of public sector funds that are needed to maintain minimum levels of social public services. The Bank would therefore monitor closely the following macroeconomic indicators that would guide discussions with the authorities, in the context of the programming dialogue, about the macroeconomic context:
- ≠ The growth of primary spending of the Government as a ratio of the growth rate of the economy as a whole.
 - ≠ The share of public sector investment in total public sector spending.
 - ≠ The share of public sector social spending in total public sector spending.
 - ≠ The growth of public sector debt in relation to the growth rate of the economy as a whole.
 - ≠ The nature of guidelines that may be established by the Government regarding the accumulation and use of funds related to gas and oil exploitation.
- 4.52 These indicators are selected because they should be conducive to achieving the Vision 2020 goals by: (i) ensuring that excessive public sector spending does not negatively affect the competitiveness of the economy by appreciating the real exchange rate when gas and oil prices are high; and (ii) ensuring that when gas and oil prices are low, public sector investment and public sector social spending are protected by resources saved by the Government when gas and oil prices were high.

Table 4: Lending Scenario (US\$ million)

	2002	2003	2004	2005	2006	2007
Loan approvals	32.0	10.0	15.0	87.5	57.5	40.0
Loan disbursements	24.5	30.7	35.0	42.1	56.0	60.0
Repayments	43.0	45.4	60.7	66.1	70.3	48.0
Interest and charges	24.3	26.3	24.3	24.8	29.2	29.9
Net cash flow	-42.8	-41.0	-50.0	-48.7	-43.5	-18.0
IDB debt outstanding	438.6	444.3	418.6	394.6	380.3	392.3
IDB Exposure Guidelines *						
IDB debt service/exports (8%)	1.7	1.5	1.6	1.7	1.8	1.4
IDB debt service/total debt service (30%)	10.9	10.6	11.1	10.7	10.7	7.7
IDB exposure (18%)	0.9	0.9	0.8	0.8	0.8	0.8

- 4.53 The macroeconomic outlook is good and the Bank does not anticipate fiscal constraints in absorbing the proposed lending program. The economy will continue to positively reflect the favorable investment climate in the energy sector, especially when the fourth LNG train starts production next year. The economy should also continue growing during the following years as a result of continued investment in gas-related downstream and upstream industries and in the non-energy sector. For these reasons the proposed lending program should be considered the **baseline lending scenario**, one that could be significantly increased to a **high lending scenario** to include Bank support to implementing the road map. The triggers for this high lending scenario are: (i) the result of the road map exercise to modernize the public sector; and (ii) macroeconomic stability.
- 4.54 Ex ante it is not possible to define more precisely the loans and other forms of Bank support to the country in this high lending scenario because it will depend on the outputs of the road map, which at this time is in the early stage of preparation, and direct lending to the private sector that cannot be anticipated with greater certainty at this time. However, based on the analysis performed in preparing the road map loan and the National Strategic Development Plan [Vision 2020], the Bank identifies that future Bank actions in the area of public sector modernization may seek to: increase public investment; improve human capital in the public sector; decentralize, when appropriate, some services; improve the decision making process; and improve efficiency, efficacy, and transparency in the provision of public services. The Bank, in the context of future programming exercises and the dialogue agenda, will define with the authorities the loans of the high lending scenario.

Table 5: Macroeconomic Outlook to 2007

	2002	2003	2004	2005	2006	2007
Real GDP growth (%)	7.1	13.2	6.2	6.3	13.7	6.0
Saving-Investment balance (% of GDP)						
Investment	26.0	26.0	27.0	27.5	26.0	26.5
of which private	19.8	21.7	21.3	20.1	19.9	20.7
of which public	6.2	4.3	5.7	7.4	6.1	5.8
Foreign savings	-0.9	-12.5	-6.2	-4.5	-8.2	-9.5
National savings	26.9	38.5	33.2	32.0	34.2	36.0
of which private	25.6	33.5	26.3	25.6	28.4	30.2
of which public	1.3	5.0	6.9	6.4	5.8	5.8
Total public sector debt (% of GDP)	59.3	55.9	58.0	54.1*	48.3	49.1
of which domestic	40.9	38.0	36.8	33.9	28.4	25.9
of which external	18.4	17.9	21.2	20.2	19.9	23.2
Public sector overall balance (% of GDP)	-5.1	1.2	1.2	-1.0	-0.3	0.0
IDB disbursements/Public sector investment (%)	4.3	6.1	4.8	4.1	5.7	6.0

Ministry of Finance estimates are lower than Bank estimates for 2005 at 50.3% of GDP.

Source: Economist Intelligence Unit, IMF, Ministry of Finance, and IDB.

3. Country and sector studies program

- 4.55 In the context of the preparation of this document the Bank prepared six studies dealing with the following long-term issues: fiscal policy, labor markets, competitiveness, poverty, the environment, and trade and integration. These studies provided the analytical foundation for this document, and the Government is using them in their consideration of policy issues.
- 4.56 The Bank, moreover, is in the process of setting up a "virtual library" for T&T. This comprehensive web-based library will include, in electronic format, the studies prepared for T&T since 1997 in a number of areas that include; macro-economy, environment, poverty, education, health, and finance. Studies to be included in the virtual library have been prepared by the Bank, the World Bank, the CDB, the IMF, the Government, the Central Bank of T&T, academia, think tanks, and other institutions. The Bank is already working on the identification of the studies, and in the design of the database that will support the library.
- 4.57 The Bank's work program of country and sector studies for T&T will therefore be presented after the Bank has completed the virtual library, sometime during the third quarter of 2004. This will permit the Bank to identify knowledge gaps, and address them in the context of future programming. This should assist in avoiding duplication and unnecessary overlapping, and improve coordination with other institutions.
- 4.58 For 2004 and 2005, however, the Bank will prepare three studies on issues relating to the social safety net, regulatory issues in the social sector, and the judicial system. The broad scope for these studies is provided in paragraphs 4.43, 4.44 and 4.34, respectively. The Bank will discuss with the authorities the terms of reference of the studies.

4. Strategy implementation risks

- 4.59 The Bank strategy focuses on two clients: the private and public sectors. The implementation risks between these two are quite different.
- 4.60 The strategy towards the private sector faces four potential problems: (i) the response of the private sector; (ii) the appropriateness and efficacy of available Bank instruments; (iii) a public policy risk; and (iv) a negative business environment risk. The first risk has to do with the perception that the Bank may be a source of inexpensive capital for projects with some public sector participation, and may attract rent-seeking behavior. The second risk is Bank-related and it has to do with raising expectations of the private sector, and then not being able to fulfill those either because the instruments offered may be inflexible, or because the Bank's due diligence process may be too cumbersome compared to the rest of the domestic and international financial sector. The third risk relates to the negative effects on the economy's competitiveness of the appreciation of the real exchange rate due to fiscal mismanagement. The fourth risk is the failure to address regulatory and other gaps in the legal framework or in the functioning of capital markets that result in a negative business environment.

- 4.61 Addressing these four risks poses a challenge for the Bank. With respect to the first one, the Bank should promote a clear understanding between the Government and the private sector about the rules of the game to reach the Vision 2020 objectives. The public-private partnership necessary to succeed when the FTAA becomes effective should be explicit, maybe in the format of a "Social Compact", and the Bank may support the partners' efforts to reach such an arrangement. The Bank may address the second risk internally by following up on the recently approved Private Sector Development Strategy (GN-2270-3) by providing clear guidance on the operational aspects of the implementation of the strategy. The third and fourth private sector strategy risks require that the Bank be pro-active in its dialogue with the authorities about public policy and regulatory issues.
- 4.62 The major risk of the strategy towards the public sector is failure of the consensus building process that is an important element of the Bank-supported operation. The strategy assumes that this road map approach will be successful, because lessons of experience in implementing complex operations point to the importance of gaining broad stakeholder support. The Bank will therefore seek the support of the donor/lender community, and will engage those authorities not directly involved in the preparation of the road map with the objective of sharing information about the status of its preparation.
- 4.63 Finally, the successful implementation of this strategy rests upon the assumption that the economic and political environments are stable. In the recent past the political environment has been dynamic. Although the economy has been growing for 10 years in the context of a stable real exchange rate, the dependence on gas and oil poses large risks because a sudden and prolonged drop in prices would have a negative effect on the economy. The Bank should be prepared to support the Government to prevent such negative effects. The combination of the Bank's resources with the funds saved during the periods when gas and oil prices are high will close the current account gap and prevent a negative adjustment in the real economy. The Bank can do little to ensure a stable political environment.

5. Consultation with civil society

- 4.64 The Bank's strategy has been built on extensive consultations with civil society during 2003 and 2004. Several meetings, both in Trinidad and in Tobago, resulted in key elements presented in this document. The Bank will continue this consultative process during the implementation of the strategy, specially through the regular meetings being held by the Country Office with the Civil Society Advisory Council (CSAC), which represents a wide spectrum of society, to discuss the issues of Bank support and project implementation. Members of this group include Government representatives at the permanent secretary level, union leaders, private sector representatives, members of academia, and NGO representatives.

6. Indicators for program assessment

- 4.65 The performance indicators contained in the Strategy Matrix are designed to facilitate assessment of the implementation and developmental effectiveness of the program. Benchmark specificity varies depending on the availability of baseline information, the

extent of sector knowledge and dialogue, and the state of project development. See Annex IV for a description of the difference between the Bank output performance indicators and the country outcome performance indicators. The Bank proposes a mid term review, by the end of 2005, to update these indicators and also the related strategic framework and resulting work program.

C. Agenda for country dialogue

- 4.66 *Road Map.* The Bank's strategy to support the modernization of the state depends on the results of the Public Sector Reform Initiation Program (TT-0057) and the National Strategic Development Plan (Vision 2020). The Bank and the authorities need to discuss means to continue to reach and inform public servants about the objectives of the program. This operation, and its ambitious goals, requires the goodwill and participation of public servants. The information campaign has already begun with a workshop for Permanent Secretaries and their advisors.
- 4.67 *Completion of loans in execution.* To complement these efforts, and to give more credibility and leverage to the preparation of the road map, the Bank will review with the authorities four operations in execution that have strong public sector reform components, and decide on further reformulating those components that could undermine the preparation of the road map. These operations include the Health Sector Reform Program (TT-0024), the Secondary Education Program (TT-0023), the Second Stage Settlements Program (TT-0050), and the National Highway Program (TT-0043).
- 4.68 *New timelines and priorities for the Bank program.* In order to ensure completion of programs currently underway with Bank funding, and subsequent continuity, the Bank and the authorities need to continue updating the timelines defining the priorities of the operations, and consider re-formulation or cancellation of those activities that cannot be completed.
- 4.69 *Coordination efforts of the donor community.* The Bank would like to continue to deepen the coordination efforts of the donor community, composed of the representatives of the most important international institutions active in T&T--i.e. CDB, the WB, the IMF, the EU, the ILO, and UNDP. The objective of this effort is to promote synergies and avoid duplication. An output of this effort is to prepare and maintain a Donor/Lender Matrix showing the different programs in implementation and in preparation for T&T.
- 4.70 *Virtual library.* The Bank is developing a virtual library to identify the knowledge gaps in T&T and, based on that information, to define a program of studies for the period 2004-2007. Complementary to this effort, the Bank has started discussions with the authorities towards developing a dataset of the most relevant economic and social indicators. This dataset will help to identify outdated and missing indicators, and the Bank will consider providing financial and technical support to update the dataset. Current indicators, especially those that might monitor poverty and other social issues, are outdated and cannot be used for policy purposes that require targeting public services.
- 4.71 *Identification of TCs.* To complement the lending program, the Bank will identify with the authorities those priorities that may be supported by TCs, and in this context the Bank

proposes possible financing of a National Data Network to address the lack of reliable data. Another area is related to legal drafting of key legislative reforms. The Bank may explore with the authorities specific actions to provide support, including preparing an inventory of legislative initiatives, and its priorities. This exercise is a key activity of the policy dialogue with the Government, and will be updated in the context of the programming exercises of the Bank.

- 4.72 *Trade issues and a social compact.* The Bank would like to propose that the authorities establish a consensus building process, maybe in the form of a "Social Compact", to address trade issues related to the FTAA. In this context, the Bank suggests partnering with the ILO since T&T has signed Convention 144 Tripartite Consultation (International Labor Standards), which promotes dialogue between the Government, private sector and labor representatives. The objective of Convention 144 is primarily to discuss issues that relate to ratifying ILO conventions. In this case T&T has not ratified Convention 168 (Employment Promotion and Protection against Unemployment Convention), which could be used as a vehicle to discuss trade issues.
- 4.73 *Off budget financing.* Although off budget financing is not used as widely as before, the Bank should continue to encourage the authorities to consider alternatives and other solutions.
- 4.74 *Mid term review of the strategy.* Looking ahead toward a constructive mid-term review of the strategy (paragraph 4.65), ongoing dialogue with Government and major stakeholders should concentrate not only on progress of the implementation of the strategy and the status of performance indicators, but also address the broader strategic issues in the context of improving the development effectiveness of Bank programs. Similarly, the preparation and implementation of the road map, which will play a key role in improving public sector management in Trinidad and Tobago, will also facilitate this review process.
- 4.75 *Private sector development.* To support the implementation of this strategy, and aligned with Bank's Private Sector Development Strategy (GN-2270-3), ongoing dialogue with Government and major stakeholders should concentrate on preparing a strategy to address specific issues and propose specific actions to resolve major obstacles for private sector development.

Endnotes

¹ This is the case because the Constitution provides special status to some public institutions with the objective of insulating them from the political process. For example, the service commissions (Civil Service, Teaching, Police, Statutory Authorities) are vested with the power to recruit and discipline public servants. These are independent bodies established by constitutional provisions and appointed by the President. While the insulation from the political process has contributed to the traditional stability of the public service, achievement of practical levels of managerial autonomy has proved elusive, with implications for efficiency, accountability and effective management in the public service. While some short-term remedies might be available, the consensus of the experts is that a permanent resolution of this issue would require a revisiting of the related constitutional provisions within the parameters of accountability, transparency and the preservation of the independence and stability of the public service.

² The studies analyze the key issues of fiscal policy, labor markets, poverty, competitiveness, and the environment. Additionally the Bank's INT/ITD department produced a study on trade and integration. Copies of these studies are available in the Region's archives.

³ As a middle income country T&T does have appropriate resources to finance development projects. The role of the Bank, in this context, requires a special effort in identifying the areas where to offer support, both technical as well as financial. As an example the World Bank explicitly defines a strategy for middle-income countries that stresses the central role played by the Country Strategy Paper equivalent, the Country Assistance Strategy (CAS), as the key vehicle for focusing the WB's assistance to the country. It also highlights the role of economic and sector work, and tailor made operations that include programmatic adjustment lending, and in that context, a deferred drawdown option.

⁴ Part of the economic literature recognizes that gas and oil economies, overall, develop slower than other economies without these endowments, "*The Political Economy of Resource-Driven Growth*", Richard Auty, European Economic Review, 2001. An opposite view is presented in "*Mineral Resources and Economic Development*", Wright and Czelusta, prepared for the conference on sector reform in Latin America, Stanford Center for International Development, November 2003. For yet a different view, one in which crisis creates opportunities for higher growth, see "*Crises and Growth, a Re-Evaluation*", Ranciere et al, Working Paper 10073, October 2003, NBER.

⁵ Most of the new investment in the energy sector explains the increased extraction of gas and production of LNG. Prices of energy since 1999 have also been unusually high.

⁶ In the past, large increases in energy-related revenues were used to increase spending as if new revenues were permanent. When conditions worsened, however, large and painful fiscal adjustment followed, with social dislocation and negative effects on the poor. See the 2003 IMF Article IV documents for a more explicit description of these boom-bust cycles.

⁷ The banks will have to strengthen their risk management units to balance the new risk related to exposure to regional public and private debt.

⁸ The fastforward plan may be found at <http://www.nict.gov.tt/plan/documents/default.asp>.

⁹ For a detailed description of some of these problems see paragraphs 1.8 through 1.16 of the Loan Proposal document: Trinidad and Tobago Institutional Development Sector Facility, Public Sector Initiation Reform Program (TT-0057).

¹⁰ The Bank is supporting the authorities to better prepare for these negotiations through national and regional operations. See INT/ITD, Trinidad and Tobago Trade and Integration Sector Note, March 2004.

¹¹ The UNC won a 19-17 victory in 2001. The Government collapsed after one year following an internal split amidst allegations of corruption. The resulting 2002 general elections failed to produce a clear result with each party winning 18 seats. Following this electoral deadlock, the President appointed PNM leader Patrick Manning as Prime Minister to head what was essentially an interim administration until the October 2002 elections, which was won by the PNM.

¹² RE3/OD6: *Trinidad and Tobago: Evaluation of IDB's Strategy Formulation and Implementation* by Donald J. Harris.

¹³ Social and Economic Policy Framework 2004, Charting the Course to 2020, Empowering People!, Ministry of Finance, Government of the Republic of Trinidad and Tobago.

¹⁴ Act No. 40 of 1996. Act to repeal and replace the Tobago House of Assembly Act, Cap. 25:03, to provide for the membership, powers and functions of the Tobago House of Assembly and its Executive Council and matters incidental thereto.

¹⁵ The IDB Executive Vice President visited Port of Spain on November 5, 2003, and an Aide Memoire was subsequently signed by the Minister of Planning and Development. The document was approved by the Cabinet of the Government of Trinidad and Tobago.

¹⁶ RE3/OD6: *Competitiveness* by Michael Fairbanks, Marcela Escobari and David Rabkin of the On the Frontier Group, May 2004.

¹⁷ Recent studies of countries that have accelerated their rates of growth in Total Factor Productivity (TFP), such as the US and Finland, have concluded that this acceleration is closely tied to greater production and use of ICT goods and services.

¹⁸INT/ITD, *Trinidad and Tobago Trade and Integration Sector Note*, March 2004.

¹⁹ RE3/OD6: *Environment and Natural Resources Management* by Charles Kretch and *Natural Resources and Economic Development* by Don McKinnon - Planning and Environmental Management from Dillon Consulting, May 2004.

²⁰ The Bank is discussing expanding the authority for IDB Private Sector operations (GN-2302) beyond infrastructure, capital markets, and trade finance to include all sectors, subject to an exclusion list.

²¹ The Divestment Secretariat, in the Ministry of Finance, manages issues resulting from the privatization process, including debt management, pensions, industrial relations, and civil matters. The ongoing divestment and restructuring include the following: Caroni Limited Group, Port Authority of Trinidad and Tobago, National Enterprises Limited, Trinidad and Tobago Forest Products Limited, Export-Import Bank of Trinidad and Tobago, and the National Broadcasting Network. "*Development in the State Enterprise Sector*", March 25 2004. Divestment Secretariat.

²² RE3/OD6: *Poverty Reduction and Social Development* by Ralph Henry and Kairi Consultants, May 2004.

INDICATIVE OPERATIONAL PROGRAM 2004 – 2007
LENDING

Project Name (Number)	Amount (US\$ million)
2004	
Improving the Business Environment	10-20
2005	
Information and Communications Technology	35
Citizen Security	10-15
Early Childhood Development	10-20
Community Development Fund II	tbd
2006	
Tobago South West Environment Project	30-50
Land Adjudication and Administration	15-20
2007	
Potable Water and Sanitation	30-50
2004-2007	
Bank Group direct lending to the private sector	Demand driven-case by case analysis
2006-2007	
Loans resulting from the outputs of the Public Sector Reform Initiation Program	tbd
Total	165-235

TECHNICAL COOPERATION/MIF

Project Name (Number)	Amount (US\$ million)
Health and Safety Standards in SMEs (MIF)	0.35
Improve Competitiveness of SME (MIF)	tbd.
TOTAL	0.35

THE ROLE OF OTHER MULTILATERAL ORGANIZATIONS

The Bank is the largest multilateral institution providing support to T&T, followed by the World Bank and the Caribbean Development Bank. This Annex presents a brief description of the lending program and pipeline of these institutions, and a Donor/Lender Matrix that also includes the European Union, UNDP, ILO, and PAHO.

Multilateral Exposure in Trinidad and Tobago (US\$ million)	
Institution	Amount
IDB	434.9 ^a
CDB	75.7 ^b
WB	85.0 ^c

Notes:

a. November 2003.

b. December 2003.

c. December 2003.

Caribbean Development Bank

The CDB's comparative advantages¹, local knowledge, efficiency in processing small loans, and comprehensive country coverage in the Caribbean makes it an ideal IDB partner to support the country's efforts to reach Vision 2020 goals. The CDB's program in execution includes four operations: (i) Southern Roads Development, a US\$35 million loan almost fully disbursed; (ii) a US\$21 million program to the private banking sector for on-lending to small and medium enterprises in the agricultural and tourism sectors including a First Agricultural and Industrial Credit, a US\$5 million loan 80% disbursed, and the follow-up to the previous loan, Second Agricultural and Industrial Credit, also for US\$5 million; (iii) Trinidad and Tobago Institute of Technology, a loan for US\$7.5 million, 85% disbursed; and (iv) recently signed programs to provide technical assistance in institutional strengthening and integrated community development to the Tobago House of Assembly. The CDB is also preparing operations in the following areas: tourism, and education.

World Bank

The WB is in the process of preparing a new CAS to replace the one of 1999. The WB and the Bank are coordinating the preparation of the CAS and the CSP, especially in the area of economic and sector work. Initial discussions have started to jointly prepare a Public Expenditure Review and a Country Financial Accountability Assessment.

The key overriding objective of the CAS is to support the Government's efforts to reduce poverty and achieve the MDGs through a dual track strategy: improve competitiveness

¹ Caribbean Development Bank, Strategic Plan 2000-2004, The Road into the New Millennium, December 9, 1999.

and improve the delivery of social services in education and health. The Bank and the WB will coordinate any support to early childhood education. The WB is already providing technical assistance to help the Government strengthen asset/liability management.

European Union

The EU, although not an IFI, is also an important donor to T&T. In the context of the ACP-EC Partnership Agreement, the Cotonou Convention, the EU prepared a Country Strategy Paper for the period 2002-2007 in December 2001. The EU strategy coincides with the Bank's strategy and proposes the overall objective of improving the quality of life of all citizens. The EU support is to foster human development by focusing on grant programs in education and health. In education the EU will support increasing the capacity and quality of tertiary/post secondary education, and also to popularize and mainstream science and technology in everyday life. In the health sector the EU will support a comprehensive strategy and program for preventing the spread of HIV/AIDS.

Institution/Country		Donor/Lender Matrix (As of September, 2004)		
Project	Status	Amount	Modality	
European Union	a) Support to Post Secondary/Tertiary level Education***	Preparatory study underway (4 months)	28 million Euros	Grant
	b) Support to National Strategic Plan for HIV/AIDS****	Study complete. Financial Proposal with HQ	7.13 million Euros	Grant
	c) Poverty Reduction Project (main components: micro-projects, micro-credit, surveys of living conditions, poverty audit of all Government programmes, Community networking, decentralized delivery)	On-going (2002-2007)	6 million Euros	Grant
	d) Rural Electrification**	About to begin	2 million Euros	Grant
	e) Caribbean Business Services Ltd (CBSL) Phase II	On-going (2003-2006)	2 million Euros	Grant
	f) Technical Cooperation Facility	About to begin	1 million Euros	Grant
	g) Strengthening of Medical Laboratories (through CAREC – regional)	On-going (2002-2005)	7.5 million Euros	Grant
	h) Caribbean Anti-money laundering programme (CALP)	On-going (1995-2004)	4 million Euros	Grant
	i) Caribbean Agriculture and Fisheries Programme	Ends April 2004	22.2 million Euros	Grant
	j) Regional weather radar warning system project	About to begin	13.2 million Euros	Grant
	Development of Master Plan for COSTAATT (Post-secondary Education)	Approved 2003, scope of work being redefined in the context of the establishment of the University of Trinidad and Tobago.	US\$1 Million	Loan (?)
	Caribbean Development Bank	Establishment of the Trinidad and Tobago Institute of Technology (TITT)	2000	US\$7.54 Million
Southern Roads Development Programme		Began in 1995	US\$35 Million	Loan
Private sector program to the banking sector for on-lending to small and medium enterprises in the agricultural and tourism sectors including a First Agricultural and Industrial Credit, a US\$5 million loan 80% disbursed, and the follow-up to the previous loan, Second Agricultural and Industrial Credit, also for US\$5 million.		On going	US\$ 21 Million	Loan to the private sector
Technical assistance in institutional strengthening to the Tobago House of Assembly.		Signed 2004	US\$ 600,000	Loan
Buccoo Community Development Project in Tobago will include a Environmental Impact Assessment, among other projects.		Signed 2004	US\$ 500,000	Loan
Establishment of a National Parks and Wildlife Authority		2002	IBRD US\$8.2 Million GEF US\$4.2 Million	IBRD (to be arranged) GEF = Grant
Postal Sector Reform Project		1998	US\$14.8 Million	Loan
HIV/AIDS Prevention and Control Project		2003	US\$20 Million	Loan

Donor/Lender Matrix (As of September, 2004)				
Institution/Country	Project	Status	Amount	Modality
	Poverty Reduction a) Poverty Assessment Survey b) Public Expenditure Review Financial Sector Review	To start in 2004	Note defined.	Reimbursable TC.
People's Republic of China	Establishment of Small Business Leasing Company a) Poverty Alleviation: Establishment of a Micro-credit system in Trinidad and Tobago b) Institutional Strengthening and support to the Ministry of Health	2000 1998 2003 2003	TT\$20 Million US\$400,00 US\$12.8m US\$3.02m	Loan Grant and Government Cost Sharing Government Cost Sharing Government Cost Sharing
	Assistance to the Ministry of Health in the Upgrading and Institutional Strengthening of its Emergency Health System			
	Preparation of a National Gender Policy and Action Plan	2003	US\$60,000	Jointly funded UNDP Core funds, CIDA and Government Cost Sharing
UNDP	Preparation of the Second National Human Development Report	2002	US\$300,480.	Jointly funded by UNDP Core funds, CIDA and Government Cost Sharing
	c) HIV/AIDS: UN chairs a THEME Group on HIV/AIDS where all UN Branches participate (i.e. PAHO, ILO metc.).	Ongoing	Mainstreaming - US \$10,000 NHDR - US \$61,034 Leadership - US \$12,000	Jointly funded by UNDP and all UN Branches
	e) Small Grants Programme (UNDP/SGP) for poverty alleviation; and GEF/SGP for Environment and Energy Practice.			Grant GEF/SGP US\$165,000 (2003)
	a) Social Dialogue Programme for the Promotion of Management Labour Cooperation (PROMALCO)	Start 2001- End by 2004: 2 years extension	US\$1,862,096 (1 st phase) extension US\$1,590,000	
ILO www.ilo.org	b) Child Labour -Identification, Elimination and Prevention of Worst Forms of Child Labour in the Anglophone – and Dutch-Speaking Caribbean -National Programme for the Prevention and elimination of Child Labour in Jamaica	Started 2001 to end by 31/05/05 Started 2001-June 2004	US\$750,000 US\$562,687 US\$66,600 US\$50,000 Research: US\$2407 US\$39,188	

Donor/Lender Matrix (As of September, 2004)				
Institution/Country	Project	Status	Amount	Modality
	c) Labour Market Information Caribbean Labour market Information System (CLMIS)	Started 2002 to end by 31/12/04	US\$ 1,057,000	
	f) HIV/AIDS and the world of Work in the Caribbean - Guyana country project - Belize country project - Barbados, Jamaica, Trinidad and other Caribbean countries	Started 2003 to end by 2006 Started 2004 to end by 2007	US\$308,000 US\$311,000 US\$ 1,600,000	

*** For both National Plan for HIV/AIDS and Tertiary Education feasibility/ preparatory studies have been undertaken. However, proposals have not been approved yet by EU headquarters. Funds have been committed but not approved.

** Rural Electrification: Financing Agreement is to be signed by GOTT.

MILLENNIUM DEVELOPMENT GOALS

Trinidad and Tobago current development level is higher than the Region's average, and therefore the country is well placed to achieve most MDG's targets. Government is sponsoring a multidisciplinary effort, within the framework of Vision 2020 initiative, to define new and more demanding targets for the country. Progress in addressing the Millennium Development Goals (MDG) has been mixed and, placed within the context of the national goal of reaching developed country status, the following issues arise: first, while poverty eradication is an important development challenge, Trinidad and Tobago now needs to target its initiatives at a much higher trajectory than the US\$1 a day benchmark set by the MDG. A major problem in efficiently addressing this issue is the weakness of the institutional infrastructure. This weakness is most evident in the dearth of current statistical data to support policy making and efficient resource allocation, an issue that is currently addressed under the Bank's Public Sector Reform Initiation Program.

Notwithstanding this critical weakness, available estimates (1997 Household Budgetary Survey results) suggest that some 18% of households are classified as poor and that only marginal improvements have been realized in narrowing income disparities from 1957 to 1997—in spite of significant gains recorded over the period in terms of infrastructure development, access to education and per capita income. The data also suggest that the under 24 age group is most acutely affected by poverty with some 57% of those classified as poor coming from this group—in each age cohort within this group the percentage of those classified as poor exceeds population share.

The authorities are strongly committed to redressing existing imbalances and, in pursuit of this objective, have restructured arrangements for the management of social services delivery and implemented several increases in transfers to households over the last 2 fiscal periods. There remains a strong case, however, for priority to be assigned to strengthening the institutional infrastructure for social services delivery with particular emphasis on information systems, transparent targeting mechanisms and decentralization of service delivery. Equally important is the need to strike a more appropriate balance between consumption- and investment-led approaches as response mechanisms.

The goal of universal access to primary education has already been reached. Of current relevance for Trinidad and Tobago, therefore, is the need to focus on quality and on increasing access to early childhood care and training opportunities. The country is also currently addressing a major challenge of improving the quality and relevance of its secondary education system and increasing enrollment levels at the tertiary level and strengthening capacity to provide relevant technical education and training. In the area of gender disparities in the education system, the data on access to primary and secondary education reflects no significant bias against females. The country is now grappling, however, with a growing problem of male deviance in the secondary school system, which, available research suggests, has roots in academic under achievement and which could be associated with spiraling crime rates.

CSP Matrix, Bank Outputs and Country Outcomes

This Annex describes the criteria used to select the performance indicators, presented in the last two columns of the matrix, of the Bank's strategy matrix.

The T&T CSP is built upon three pillars: (i) to promote private sector development; (ii) to promote public sector modernization, and (iii) to promote social development. Moreover, the first pillar is decomposed in two subcomponents: (a) to improve the business environment; and (b) to provide direct support to the private sector. Furthermore, the CSP proposes initiatives within each pillar, which identify Bank actions to accomplish the development objectives of each pillar.

CSP output performance indicators were selected for each initiative, and country performance outcomes were selected for each pillar. This presentation allows for future monitoring of the implementation of the strategy by measuring change in output indicators directly related to actions supported by the Bank. Moreover, country performance outcomes are also appropriate indicators because those point to the final outcome for the country, where Bank actions, added to those of many other actors, determine the final outcome.

For example, the first development objective presented is to develop the private sector by improving the business environment. The Matrix shows the Bank's initiatives--business environment initiative, ICT initiative, Tobago's tourism protection initiative, secured transactions initiative, and trade and integration initiative--that the CSP is proposing to diversify the economy by improving the business environment. The next to last column shows CSP output performance indicators, those that are directly related to Bank supported initiatives. The last column shows the country outcome performance indicators. It is worth making explicit the fact that the actions shown, including actions by the Government and other multilateral institutions with the same objective, are insufficient to achieve the proposed country performance outcome. The most notable actions omitted in the matrix, in this example, are the actions that the private sector must perform to achieve this objective. This omission is large because the private sector is the principal actor in the process of achieving this objective. Moreover, even though the most glaring omission is the private sector, there are others too. For example, diversification will also depend on the unforeseen conditions related to trade issues, some of which include the reaction of the private sector in other, competing, economies. Nevertheless, the CSP presents the country performance indicators as outcomes because they provide useful benchmarks, regardless of the fact that the Bank cannot attribute to its actions the failure or success of the country's outcome.

Because the T&T CSP should be a flexible tool to accommodate unforeseen changes in the context in which the Bank and the country work together, the Matrix presented in this CSP is dynamic and subject to revisions as needed. The CSP includes three sets of criteria to identify new Bank actions, for each strategic pillar, that should help steer the direction of new initiatives that may result from unforeseen changes. In principle, the matrix should be revised as part of the programming exercise. New Bank actions that were not envisioned in this strategy will result in specific new Bank performance outputs. Similarly, if in the future the Bank and the country decide to eliminate Bank actions that

are proposed in this strategy, then the Matrix should be revised to reflect the elimination of those specific outputs related to those actions eliminated. The revisions should include Bank performance outputs, and few or no revisions to the country performance outcomes, unless there is a qualitative shift in the country's strategy.

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