

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**TRINIDAD AND TOBAGO**

**SUPPORT TO STRENGTHEN TRINIDAD AND TOBAGO'S PUBLIC FINANCIAL  
MANAGEMENT SYSTEM**

**(TT-L1042)**

**PROJECT PROFILE**

The project team consisting of prepared this document: Dana King (ICS/CTT), Project Team Leader; Jorge Von Horoch, Alejandro Pareja, Jorge Kaufman, Juan Pablo Cuesta, Nathalie Hoffman (IFD/ICS); Leslie Harper (IFD/FMM); Neeca Brathwaite (CCB/CTT); Gregory Dunbar, Shirley Gayle Sinclair (FMP/CTT); Betina Hennig (LEG/SGO); and Marcio Cracel (Consultant).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## PROJECT PROFILE (PP)

### I. BASIC DATA

<b>Project Name and Number:</b>	Support to Strengthen Trinidad and Tobago's Public Financial Management System (TT-L1042)
<b>Project Team:</b>	Dana King (ICS/CTT), Project Team Leader; Jorge von Horoch, Alejandro Pareja, Jorge Kaufman, Juan Pablo Cuesta, Nathalie Hoffman (IFD/ICS); Leslie Harper (IFD/FMM); Neeca Brathwaite (CCB/CTT); Gregory Dunbar, Shirley Gayle Sinclair (FMP/CTT); Betina Hennig (LEG/SGO); and Marcio Cracel (Consultant).
<b>Borrower:</b>	The Republic of Trinidad and Tobago
<b>Executing Agency:</b>	Ministry of Finance and the Economy (MoFE)
<b>Financial Plan:</b>	IDB: US\$30 million                      Counterpart: US\$0
<b>Safeguards:</b>	Policies triggered: N/A; Classification: "C"

### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Macroeconomic and fiscal performance.** An oil- and gas-rich country, Trinidad and Tobago (TT) had the highest reported GDP per capita in Latin America and the Caribbean (LAC) in 2013. The 2014/2015 budget has projected expenditure and revenue of TT\$64.664 billion (approximately US\$10.13 billion) and TT\$60 billion (approximately US\$10 billion), respectively; and deficit of 2.3% of GDP. The GDP is expected to grow 1.4% in 2014 and 2.1% in 2015.
  - 2.2 **Public Financial Management (PFM) performance.** Despite a strong macroeconomic situation, TT's PFM performance has room for improvement. The [2013 PRODEV Evaluation Tool \(PET\) assessment](#) rates TT 2.2 out of 5 for PFM; below the LAC regional score of 2.9 and 20<sup>th</sup> out of 24 evaluated countries. TT's [2013 Public Expenditure and Financial Accountability \(PEFA\)](#) grades included a D+ for composition of expenditure out-turn compared to original approved budget; D for availability of information on resources received by service delivery units; and C+ for quality and timeliness of annual financial statements and multi-year perspective in fiscal planning, expenditure policy, and budgeting.
  - 2.3 **PFM Modernization.** In 2014, the Ministry of Finance and the Economy (MoFE) prepared a PFM Reform Strategy to strengthen PFM that identified 2 cross-cutting and foundational PFM challenges: (i) an outdated PFM framework; and (ii) poor information management (IM).
- 2.1 **Outdated PFM framework.** TT's PFM framework has remained largely unchanged since TT became independent in 1962. Budget classification is not program-oriented; hindering linkage with policy priorities, transition to a performance-informed budget, and generation of expenditure reports according to

international best practices.<sup>1</sup> Budget execution processes involve verification and authorization redundancies that hinder timely decision making and action. On average, payments require 6 weeks to process and initiation of civil servant pension payments 6.5 months from retirement. Treasury operations are geared toward bookkeeping (daily expenditure and revenue recording) rather than full engagement in the budget execution process.<sup>2</sup> Finally, TT's current framework lacks formal process documentation and training to facilitate PFM. For example, lack of investment management guidelines and training for Line Ministries (LM) and the Project Planning and Reconstruction Division (PPRD)<sup>3</sup> facilitates approval of capital expenditure projects without screening for linkage with the Government's articulated policy priorities.

2.2 **Poor IM for PFM.** Poor IM for PFM is largely attributable to: (i) low functionality and non-integration of PFM information technology (IT) and (ii) lack of an overarching IT governance structure.

a. **Low functionality and non-integration of PFM IT.** PFM applications lack functionality and integration. 0 of the 7 IT applications used by Budget, Treasury, or the PPRD are interoperable with LM applications. As a result, paper-based exchange of all PFM information is required. This creates information asymmetries, prolongs completion of PFM functions, and increases the number of steps per process. Though LMs generate monthly accounting reports, PPRD receives capital expenditure information at only 2 points in the fiscal year: when reviewing LM fiscal year budget allocation requests and at mid-term budget review. Similarly, Treasury currently completes monthly and annual bank reconciliations 2 months after month's end and 4 months after fiscal year end, respectively.<sup>4</sup> In principle, these should be completed monthly and within a month of financial year closing, respectively. Finally, outdated IT platforms hinder effective IM. Budget preparation and execution subsystems operate on a FOXPRO platform, which is unable to manage large volumes of data, provides minimal support for Web, and is among the most vulnerable databases currently being used.<sup>5</sup>

b. **Lack of an overarching IT governance structure.** Lack of an overarching governance structure for PFM IT operations is a key cause of TT's weak IM. The MoFE lacks a governance framework to guide PFM IT management

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<sup>1</sup> For example, the Government Finance Statistics (GFS) framework, recommended by the IMF. The GoRTT has expressed interest in exploring a move to an accrual-based accounting when the new cash-based system becomes stable. The current accounting method is not compliant with the international public sector accounting standards (IPSAS).

<sup>2</sup> For example, while the Treasury oversees internal audit processes, its authority is limited to the reporting of LM fiduciary breaches and does not include enforcement of best practices. This contributes to GoRTT's overall weak internal audit systems.

<sup>3</sup> PPRD is responsible for preparation of the capital expenditure component of the national budget.

<sup>4</sup> Data transfer between Ministries requires manual data entry by the recipient LM into its database; extending timeframes for data processing and analysis as well as completion of basic tasks.

<sup>5</sup> Microsoft discontinued the FOXPRO software in 2007 and has not provided vendor support in 10 years.

internally or with LM involved in PFM. Currently, there are 0 documented IT governance policies<sup>6</sup> that cover all MoFE units and systems; as evidenced most acutely with respect to risk management. A 2014 PFM IT assessment found MoFE IT units rate 1 out of 5<sup>7</sup> – the lowest possible rating – on 7 of 9 information security management areas.<sup>8</sup> In the same vein, MoFE has no governance policy or mechanism to guide coordination with LM that provide information to, use information from, or use IT applications of MoFE systems.

- 2.3 To address these shortcomings the Government of the Republic of Trinidad and Tobago (GoRTT) has requested IDB support to modernize the PFM framework<sup>9</sup> and implement an Integrated Financial Management Information System (IFMIS).
- 2.4 **Strategic alignment.** The project is aligned with the public sector management priority area of the Country Strategy (CS) with the Republic of TT 2011-2015 (GN-2638). In this respect, the project will support strengthening of public expenditure coordination, planning and monitoring; as well as improved information flows for decision making. The project will also support financial management, a cross-cutting area of country systems identified for support under the CS. This project will contribute to the Ninth General Increase in the Resources of the IDB (AB-2764) (GCI-9) lending program priority target to support development in small and vulnerable countries and to the product of public financial systems implemented or upgraded. Lastly, the project is aligned with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2) and will support the outcome PFM systems upgraded.
- 2.5 **Project objective.** The project's general objective is to improve TT's PFM through modernization of TT's PFM framework<sup>10</sup> and IM. The project comprises the following 2 components:
- 2.6 **Component 1: Support for PFM Modernization (US\$4,000,000).** The objective of this component is to support the modernization of PFM frameworks. Activities to be financed include: (i) development and implementation of a Treasury accounting framework to operate with the new concepts to be introduced

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<sup>6</sup> IT governance policies should cover asset implementation and operation; user and provider roles and accountabilities; business continuity and sustainability; resource assignment; cost reduction; alignment with organizational goals; and auditing, among other issues.

<sup>7</sup> This assessment was prepared by an independent consultant contracted by the MoFE. See Annex IV

<sup>8</sup> These are: (i) asset management; (ii) vulnerability device management; (iii) network monitoring and analysis; (iv) incident response; (v) awareness and training, (vi) risk assessments and security policy, and (vii) existence of security policy. Ratings were derived by applying the ISO 27002:2005 information security management assessment framework.

<sup>9</sup> The Government's PFM Strategy, the design of which the IDB supported, covers: (i) budget; (ii) capital expenditure; (iii) treasury operations; (iv) IT for PFM; (v) debt management; (vi) public procurement; (vii) external audit; and (viii) IFMIS. This project will support areas (i), (ii), (iii), (iv), and (viii). TT is implementing Strategy recommendations in areas (v), (vi), and (vii) through independent, Government-led initiatives. The Strategy has been presented to Cabinet though has yet to be formally approved.

<sup>10</sup> PFM framework refers to any process, procedure, policy, regulation, or law touching on the conduct of PFM.

by the proposed Chart of Accounts and IPSAS-compliant; (ii) design and implementation of an internal audit framework to improve PFM control, transparency and reporting; (iii) the review and update, as necessary, of the legal framework governing PFM<sup>11</sup>; (iv) establishment of training programs in subjects related to budget classification, budget preparation, treasury operations, accounting, reporting and internal control; (v) strengthening of the PFM Modernization Unit (PFMMU) to support implementation and management of the PFM Strategy, including hiring of long and short-term advisors to support internal coordination and capacity building; and (vi) change management support.<sup>12</sup>

- 2.7 **Component 2: Support for IFMIS implementation (US\$26,000,000).** The objective of this component is to improve IM for PFM through implementation of an IFMIS.<sup>13</sup> Activities to be financed include: (i) business process reengineering to support IM in an automated environment; (ii) IFMIS implementation, including customization, data migration, and integration services; (iii) establishment of a training program for users and IT staff on IFMIS operation; (iv) establishment of a centralized IT governance structure, framework and data center within MoFE to manage IFMIS; (v) documentation of IT governance practices and procedures to guide PFM IT management; (vi) support to LM PFM IT units to facilitate coordination and integration with IFMIS (including acquisition of hardware and software); and (vii) establishment of a GoRTT-wide IFMIS help desk.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Institutional framework.** The lending instrument is an investment loan. The MoFE will be the executing agency (EA) for this operation. The PFMMU, which sits within the MoFE, will serve as the Project Implementing Unit, as it is mandated to oversee and coordinate PFM reform. The PFMMU has experience executing IDB operations, as it has implemented ATN/OC-13062-TT, a US\$1.5 million technical cooperation under which the diagnostics used to design this loan were prepared. To strengthen PFMMU's implementation capacity, loan resources will be used to finance 1 Procurement Specialist and 1 Financial Specialist.

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<sup>11</sup> Updates to policies and regulations would fall within the authority of the Executive Branch; while legislative updates would require Parliamentary approval. It is not anticipated that failure to achieve Parliamentary approval of a proposed legislative amendment would affect this operation's critical implementation path.

<sup>12</sup> Change management is a structured approach for ensuring that changes are thoroughly and smoothly implemented, and that the lasting benefits of change are achieved. Change management support to be financed under this operation includes: ensuring and engaging executive sponsorship for the change; gaining buy-in for the changes from affected parties; involving the right people in change design and implementation; change impact assessment and related mitigation strategy; stakeholder preparation for change adaptation. Financed activities will include stakeholder communication, coordination, and training.

<sup>13</sup> IFMIS enhances IM by providing real-time financial information to administer programs, formulate budgets, increase control and transparency, and manage resources. IFMIS will be a fully integrated solution to automate the core PFM functions - from budget preparation to budget expenditure management and review – as well as other information systems with which the core functions communicate, such as accounting, human resources, payroll, debt management, cheque processing (Government Payment System), and revenue (district revenue offices, inland revenue and customs).

- 3.2 **Risks.** Stakeholder resistance has been identified as a risk to project implementation. To mitigate this risk, the loan will finance phased roll-out of project activities and change management support.
- 3.3 **Sector knowledge.** In 2010, IDB approved US\$100 million for Public Capital Expenditure Management I (2479/OC-TT) to support (i) policy design and public investment management; (ii) public procurement; and (iii) PFM and audit.<sup>14</sup> In 2011, IDB approved Technical Support for Design and Implementation of PFM Reform (ATN/OC-13062-TT) to finance preparation of the PFM reform strategy; diagnostics and targeted capacity strengthening programs for the Budget, Treasury, and PPRD; and PFMMU establishment.<sup>15</sup> IDB support to strengthen financial systems and IM in TT is consistent with other, recent efforts throughout LAC. In 2013, the Bank approved Program to Strengthen the Public Investment System (CO-L1126) to strengthen the public investment monitoring and tracking system; including financing of an Integrated Information Technology Platform for public investment. Currently, the Bank is preparing 4 loan operations (CO-L1140, UR-L1098, BH-L1035, and DR-L1070) to enhance IM and financial management; including support for IFMIS implementation.

#### IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the environmental and social classification for this project is "C".

#### V. OTHER ISSUES

- 5.1 **Sustainability.** Efficiency gains and savings generated by project activities are expected to offset the increased recurrent costs associated with the IFMIS. To ensure sustainability, the POD will include a cost-benefit analysis and integrate recommendations from assessments of other IFMIS projects.<sup>16</sup>

#### VI. RESOURCES AND TIMETABLE

- 6.1 POD distribution to QRR is expected for January 9, 2015; Draft Loan Proposal approval by OPC for February 20, 2015; and for consideration by the IDB Board for March 25, 2015. Transactional resources required for project preparation are estimated at US\$58,745. Personnel requirement will be 0.937 FTE (Annex V).

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<sup>14</sup> 3 Operational Inputs were financed to complement 2479/OC-TT. ATN/FI-12795-TT, ATN/KK-12714-TT, and ATN/OC-13062-TT supported strengthened procurement, external audit, and PFM (see para 3.3).

<sup>15</sup> TC resources were complemented with loan resources 1808/OC-TT and 1523/OC-TT, which financed the PFMMU Coordinator.

<sup>16</sup> See Diamond, Jack and Khemani, Pokar. Introducing Financial Management Information Systems in Developing Countries. IMF Working Paper (2005); IFMIS: A Practical Guide. USAID (2008); and Dener, Cem, Watkins, Joana Alexander and Dorotinsky, William Leslie. Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't. World Bank (2011).

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## SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	
IDB Sector	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
Type of Operation	Other Lending or Financing Instrument
Additional Operation Details	
Investment Checklist	Institutional Development Investment
Team Leader	King, Dana Michael (DANAK@iadb.org)
Project Title	Support to Strengthen Trinidad and Tobago's Financial Management System
Project Number	TT-L1042
Safeguard Screening Assessor(s)	Hoffman, Nathalie Alexandra (nathalieh@IADB.ORG)
Assessment Date	2014-09-08

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	Loan Operation	
Safeguard Policy Items Identified (Yes)	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
	The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)
Potential Safeguard Policy Items(?)	No potential issues identified	
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.	



Additional Comments:

### ASSESSOR DETAILS

Name of person <input type="checkbox"/> who completed screening:	Hoffman, Nathalie Alexandra (nathalieh@IADB.ORG)
Title:	
Date:	2014-09-08

### COMMENTS

No Comments

## SAFEGUARD SCREENING FORM

PROJECT DETAILS	
IDB Sector	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
Type of Operation	Other Lending or Financing Instrument
Additional Operation Details	
Country	TRINIDAD AND TOBAGO
Project Status	
Investment Checklist	Institutional Development Investment
Team Leader	King, Dana Michael (DANAK@iadb.org)
Project Title	Support to Strengthen Trinidad and Tobago's Financial Management System
Project Number	TT-L1042
Safeguard Screening Assessor(s)	Hoffman, Nathalie Alexandra (nathalieh@IADB.ORG)
Assessment Date	2014-09-08

PROJECT CLASSIFICATION SUMMARY		
Project Category: C	Override Rating:	Override Justification:
		Comments:
Conditions Recommendations	<ul style="list-style-type: none"> <li>No environmental assessment studies or consultations are required for Category <input type="checkbox"/> C operations.</li> <li>Some Category <input type="checkbox"/> C operations may require specific safeguard or monitoring requirements (Policy Directive B.3). <input type="checkbox"/> here relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.).</li> <li>The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline <input type="checkbox"/> Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports.</li> </ul>	

SUMMARY OF IMPACTS <input type="checkbox"/> RIS <input type="checkbox"/> S AND POTENTIAL SOLUTIONS	
Identified Impacts Risks	Potential Solutions

DISASTER RIS <input type="checkbox"/> SUMMARY	
Disaster Risk Category: Low	
Disaster <input type="checkbox"/> Recommendations	<ul style="list-style-type: none"> <li>No specific disaster risk management measures are required.</li> </ul>

**ASSESSOR DETAILS**

<b>Name of person <input type="checkbox"/> ho completed screening:</b>	Hoffman, Nathalie Alexandra (nathalieh@IADB.ORG)
<b>Title:</b>	
<b>Date:</b>	2014-09-08

**COMMENTS**

No Comments

## **Environmental and social strategy**

- 1.1 **General objective.** The objective of this operation is to improve the Government of the Republic of Trinidad and Tobago's public financial management (PFM) through modernization of Trinidad and Tobago's PFM framework and Information Management. The program comprises two components: (i) Support for PFM modernization; and (ii) Support for IFMIS implementation.
- 1.2 According to the results of the IDB "Safeguards Policy Filter Report", and the safeguard and Environmental Policies, this operation is classified as "C" category, given the low impact on environmental and social issues.
- 1.3 Consideration will be given during project preparation to compliance to the policies triggered during the screening, in particular:
  - a. Indigenous People Policy OP-765.
  - b. Disaster risk Management Policy OP-704.
  - c. That the operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).
  - d. That consultations with affected parties will be performed equitably and inclusively with the views of all stakeholders taken into account, including in particular: (i) equal participation of women and men; (ii) socio-culturally appropriate participation of indigenous peoples; and (iii) mechanisms for equitable participation by vulnerable groups.

### Index for Completed and Proposed Sector Work

Topic	Description	Estimated Dates	References and Electronic Links
Project Request	GoRTT request for operation	July 2014	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39051468">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39051468</a>
Budget	Operation Costs	September 2013	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39051469">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39051469</a>
	IT Diagnostic (Volume I and II)	February 2014	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084396">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084396</a>
	Treasury Division Diagnostic		<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084402">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084402</a>
	Budget Division Diagnostic		<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084389">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084389</a>
	PPRD Diagnostic		<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084582">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084582</a>
	PFM Strategy (Volume I and II)		<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084405">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084405</a> <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084410">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084410</a> <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084415">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39084415</a>
Technical options and design aspects	Project Economic Evaluation	November 2014	

Topic	Description	Estimated Dates	References and Electronic Links
	Project preparation support (detailed budget preparation by component and activity, Procurement Plan, PMR, and support to preparation of the PEP)	October-November 2014	
	Preparation of Operations Manual	May 2015	
Analysis of institutional capacity / human resources, procedures and other aspects of implementation capacity	SESI	November 2014	
Data collection and analysis for reporting the results	Preparation of Results Matrix with results indicators (targets and baseline)	October-November 2014	

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