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TRINIDAD AND TOBAGO

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

(TT-L1042)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Dana King (ICS/CTT) Project Team Leader; Leslie Harper (IFD/FMM) Co-Team Leader; Jorge Von Horoch (IFD/ICS); Alejandro Pareja Glass (IFD/ICS); Neeca Brathwaite (CCB/CTT); Marcio Cracel (Consultant); Martin Rossi (Consultant); Shirley Gayle Sinclair (FMP/CTT); Gregory Dunbar (FMP/CTT); Jeetendra Khadan (CCB/CTT); Betina Henning (LEG/SGO); Melissa Gonzalez (IFD/ICS) and Nathalie Hoffman (IFD/ICS). Comments received from Carlos Santiso (IFD/ICS), Pedro Farias (IFD/ICS), Mario Sangines (ICS/ICS), Olga Gomez Garcia (SPD/SDV), Ariel Zaltsman (IFD/IFD) and Veronica Gonzales Stuva (IFD/IFD) contributed to the quality of the document.

CONTENT

ANNEXES

ELECTRONIC LINKS

REQUIRED

1. Project Execution Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39266355
2. Monitoring and Evaluation Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39301633
3. Procurement Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39266355

OPTIONAL

1. Annual Operating Plan (AOP)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39266355
2. Financial Analysis
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39270171
3. Detailed Budget
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39266355
4. Project Monitoring Report
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39266418
5. Safeguard and Screening Form for Screening and Classification of Projects
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39306904

ABBREVIATIONS

AOP	Annual Operating Plan
CITU	Corporate IT Unit
CoA	Chart of Accounts
COTS	Commercial, Off-The-Shelf
EA	Executing Agency
FA	Financial Analysis
FY	Fiscal Year
GCI-9	Ninth General Increase in the Resources of the IDB
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IA	Internal Audit
IDB	Inter-American Development Bank
IFMIS	Integrated Financial Management Information System
IM	Information Management
IMF	International Monetary Fund
IT	Information Technology
LM	Line Ministries
MTMF	Medium Term Macroeconomic Framework
MoFE	Ministry of Finance and the Economy
MPSD	Ministry of Planning and Sustainable Development
OECD	Organisation for Economic Cooperation and Development
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMMU	Public Financial Management Modernization Unit
PIU	Project Implementing Unit
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness
TT	The Republic of Trinidad and Tobago
WB	World Bank

PROJECT SUMMARY
TRINIDAD AND TOBAGO
SUPPORT TO STRENGTHEN TRINIDAD AND TOBAGO'S PUBLIC FINANCIAL MANAGEMENT SYSTEM
(TT-L1042)

Financial Terms and Conditions			
Borrower: Republic of Trinidad and Tobago **Executing Agency (EA)**: Ministry of Finance and the Economy (MoFE)		**Flexible Financing Facility***	
		Amortization Period:	25 years
		Original WAL:	15.25 years
		Disbursement Period:	5 years
Source	**Amount (Million)**	**Grace period:**	5.5 years
IDB (Ordinary Capital):	US$40	**Supervision and Inspection Fee**:	**
Local:	US$0	**Interest Rate**:	Libor Based
		Credit Fee:	**
Total	US$40	**Currency of Approval**:	US Dollars chargeable to the Ordinary Capital
Project at a Glance			
Project objective: The general objective of this project is to improve the efficiency and effectiveness of the Government of the Republic of Trinidad and Tobago to allocate public resources. The project's specific objectives are to improve: (i) strategic allocation of public resources; (ii) control and stewardship of public resources; and (iii) information management for decision making (¶1.18).			
Special contractual conditions prior to the first disbursement: (i) presentation of evidence that the borrower, through the MoFE, has hired the chief technical coordinator, who will also serve as the project manager, one procurement officer, and one finance officer pursuant to professional profiles satisfactory to the Bank; and (ii) presentation of evidence that the MoFE has approved, with the prior non-objection of the Bank, an operations manual for the project, including inter alia administrative, procurement, financial management (budgeting, cash management, payment/disbursement, procedures to ensure proper operation and maintenance of Bank-financed assets, accounting and reporting) policies, procedures and other internal control requirements to define overall project management (¶3.5).			
Exceptions to Bank policies: None			
Project qualifies for: SEQ ☐ PTI ☐ Sector ☐ Geographic ☐ Headcount ☐			

(*) Under the Flexible Financing Facility (FN-655-1) the Borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions, in all cases subject to the final amortization date and original WAL. In considering such requests, the Bank will take into account market conditions and operational and risk management considerations.
(**) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed and Justification

1.1 **Macroeconomic and fiscal performance**. An oil- and gas-rich country, Trinidad and Tobago (TT) expects an estimated TT$7.5 billion revenue decline and TT$4.5 billion in expenditure cuts over the 2014/2015 Fiscal Year (FY), due to the recent decline in oil and gas prices. Preliminary projections indicate that total public sector debt as a percentage of Gross Domestic Product (GDP) will rise to 43.8% in FY 2014/15 while the external debt is expected to increase to 10% of GDP.[1] With oil prices likely to continue to decline over the short-term, the government continues to seek to strengthen Public Financial Management (PFM) to ensure effective and efficient resource allocation during this period of fiscal constraint.

1.2 **PFM.** Given TT's current fiscal situation, the government is keen to strengthen PFM capacity in order to ensure continued delivery of economic and social development results. TT's most recent Public Expenditure and Financial Accountability (PEFA)[2] assessments identified PFM weakness in several areas.[3] Of these, the Government of Trinidad and Tobago has requested support from the Inter-American Development Bank (IDB) to strengthen budget preparation (PEFA indicators PI-5 and PI-12) and budget execution (PEFA indicators PI-21 and PI-22).

1.3 **Problem addressed.** The main problem to be addressed by this project is TT's central government's sub-optimal strategic resource allocation and sub-optimal efficiency in the use of resources for public service delivery. The specific

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[1] Corresponding figures for public sector debt and external debt for Fiscal Year (FY) 2013/14 were 42.4% and 7.3% of GDP, respectively. Public debt is expected to remain stable over the next two years and external and fiscal buffers remain strong with significant current account surplus and high international reserves (12.6 months of import coverage).

[2] The PEFA is overseen by a partnership of institutions, including the World Bank (WB), International Monetary Fund (IMF), European Commission, the UK Department of International Development, the Swiss State Secretariat for Economic Affairs, and the French Ministry of Foreign Affairs. PEFA assessments are unique in providing datasets on PFM performance that are comparable across countries around the world. PEFA indicators have been designed to assess countries' compliance with "good international practices" (PEFA 2005:5). PEFA assessment is usually led by an external PFM expert with support from a government technical team. The PFM expert conducts interviews with PFM stakeholders as well as gathers and reviews documentary evidence that will assist in the grading for each indicator. The government, through an appointed technical team, supports the identification of key stakeholders to participate in the assessment process, defines the assessment schedule, and reviews the final assessment report. The PEFA methodology requires that the PFM expert justify the scoring of each indicator, provide the sources of information and documentation used, and explain any difficulties encountered during the assessment as well as the approach used to overcome these difficulties and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out.

[3] In 2013, PEFA-identified PFM weaknesses that will not be addressed by this project include composition of expenditure out-turn compared to original approved budget; effectiveness in payroll; competition, value for money and controls in procurement roll control, effectiveness of internal controls for non-salary expenditure; availability of information on resources received by service delivery units; quality and timeliness of annual financial statements; and legislative scrutiny of the annual budget law and external audit reports.

problems to be addressed are: (i) budget preparation systems that do not facilitate a thorough and transparent allocation and execution of central government funds; and reduce the length of the budget planning perspective, thereby hindering the potential link between resource allocation and policy priorities; (ii) an Internal Audit (IA) framework that does not enable the necessary arrangements for an effective exercise of control and stewardship in the use of central government funds; and (iii) Information Management (IM) systems that lack inter-operational connectivity, which adversely affect data collection and dissemination, decision making, control, management, and reporting activities.

1.4 **Budget preparation – classification and planning perspective.**[4] TT's current budget classification system hinders the government's ability to closely track revenue and expenditure for strategic allocation and efficient use of public resources for public service delivery. For this reason, the 2013 PEFA gave TT a score of "C" on classification of the budget and "C+" on multi-year perspective in fiscal planning, expenditure policy and budgeting. At this time, TT´s national budget is based on administrative and economic classification. As in most Anglophone countries,[5] the Chart of Accounts (CoA) is TT´s coding framework for recording both budgetary and financial data in the public sector. TT´s CoA, which is currently inconsistent with Government Financial Statistics (GFS),[6] is not sufficiently developed (i.e. disaggregated) to directly transform the administrative budget into functional and sub-functional classifications. Given the lack of automation, it is not possible at this present stage to track amounts received both in cash and in kind by primary service delivery units -such as primary schools and primary health care facilities. An attempt to put together such an expenditure tracking report will be, as noted on PEFA 2013, burdensome on staff.[7] This deficit also prevents forward movement toward program-based budgeting that could take into account, and align, the government's policy objectives and how these policies are expected to be implemented in the short- or medium-term.

1.5 In addition, TT's budget classification system prevents alignment of fiscal policy with programmatic priorities to ensure budgetary alignment with a medium-term fiscal policy. Currently, TT´s government development strategy is translated into 3-year strategic plans by Line Ministries (LM), which are operationalized

[4] The budget classification refers to all coding schemes that are used to define both revenue and expenditure transactions at budget planning, budget approval, and budget execution. The budget classification, at some level of aggregation, is used to present the budget to the Congress or parliament for approval.

[5] Davina Jacobs, Jena-Luc Hélis, and Dominique Bouley, "Budget Classifications", Technical Notes and Manuals, IMF, Washington, 2009.

[6] The GFS system is designed to provide statistics that enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the general government sector or the public sector in a consistent and systematic manner. The GFS analytic framework can be used to analyze the operations of a specific level of government and transactions between levels of government as well as the entire general government or public sector.

[7] See page 55 of Quist, Ronald and Hegbor, Charles. Limited Repeat and Sectoral PEFA (2013) – TT – Final Report Volume 1 – Central Government. (2014).

annually through the budget. Both the strategies and the budget are developed without a fiscal envelope, as currently there is only a one -year budget forecast perspective. The absence of a medium-term budget planning perspective hinders TT's central government capacity to improve fiscal discipline and efficiency in public service delivery. The absence of multi-year planning has been identified by the International Monetary Fund (IMF) as one of most common weaknesses of budget preparation systems.[8] As explained by the IMF in the document "Guidelines for Public Expenditure Management", if there is no anticipation of future circumstances factored into the current fiscal decisions, this may have a negative impact on fiscal sustainability, as shortsighted policies often cannot be maintained in the long term. Moreover, a lack of planning might mean that imminent problems or recurrent consequences of capital spending are not foreseen.[9] The government's PFM reform strategy also states that it is "imperative that a Medium Term Macroeconomic Framework (MTMF) be adopted as the framework for policy decision-making and as the basis for developing a Medium Term Expenditure Framework […] to align the pursuit of government's main policy goals with resource constraints and […] facilitate the alignment of the MTMF […] with the Medium-Term Policy Framework (2011-2014) of the Ministry of Planning and Sustainable Development (MPSD)". Increasing the budget planning perspective (i.e. time horizon) is essential for facilitating the link between resource allocation and policy priorities.

1.6 **Internal Audit (IA).** As noted by the IMF, audit is "an integral part of government financial management."[10] The Organisation for Economic Cooperation and Development (OECD),[11] as well as the Institute of IA,[12] notes independence of IA is "a key factor to ensure its effectiveness in prevention, detection and reporting of [fraud and corruption];" and recommends that the IA "report to the highest level within the entity, namely the minister or equivalent." This comports with findings of national and regional audit offices.[13] For example, the Audit Office of Australia has underscored that operational independence of the IA – "that it is not subject to the authority of the areas of the entity it audits" - "assists in ensuring that IA acts in an objective, impartial manner free from any conflict of interest, inherent bias or undue external influence." TT's Exchequer and Audit Act provides for an independent IA unit within each LM accounting department; and endows the MoFE's Treasury Division with responsibility for

8 IMF, "Budget Preparation", "Guidelines for Public Expenditure Management" http://www.imf.org/external/pubs/ft/expend/guide3.htm

9 For that reasons, among others, the Government Finance Officers Association recommends as a best practice government budget forecasts for periods that extend over the medium term. See http://www.gfoa.org/financial-forecasting-budget-preparation-process

10 Diamond, Jack. The Role of IA in Government Financial Management: An International Perspective. IMF Working Paper (2002).

11 Internal Control and IA: Ensuring Public Sector Integrity and Accountability. OECD (2011).

12 International Professional Practices Framework. Institute of IA (2009).

13 See Public Sector IA: An Investment in Assurance and Business Improvement. Australian National Audit Office (2012); and IA in the Public Sector: Guidance and Good Practices for Saskatchewan. Provincial Auditor Saskatchewan (2013).

ensuring proper conduct of IA processes across the government and each LM's Accounting Officer (or Permanent Secretary) with direct responsibility for the oversight of both the individual LM's accounting and IA. This IA framework limits the MoFE's authority to reporting LM fiduciary breaches and does not enable the necessary arrangements within the LM to assure an independent exercise of control and stewardship in the use of central government funds. The 2013 PEFA Report gave TT a score of "C" for effectiveness of IA (PEFA indicator PI-21). This is consistent with TT's 2013 score of 2.6 for audit quality following the application of the Evaluation Tool "Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness", which is below the LAC average regional score of 3.1.

1.7 **Information Management (IM)**. Existing IM governance and tools do not allow timely and accurate decision making with respect to management of TT's public resources.[14] Timely and frequent reconciliation of data from different sources is fundamental for data reliability and informed decision-making.[15] The 2008 PEFA report gave TT a score of "C" for regularity of Bank reconciliation; noting that while the MoFE operates a Treasury Single Account,[16] held with the Central Bank that is reconciled to the cash book on a monthly basis, it takes eight weeks after the close of a given month to complete the reconciliation process. The PEFA attributes this delay mainly to the non-automatization of the reconciliation process.[17] In fact, the current manual system has led to workarounds to facilitate annual reconciliation. Reconciliation and clearance of suspense accounts take place within a month of the close of the month, and are force closed as part of the end of year procedures. Yet, few identified accounts[18] remain from year to year[19] contributing to inefficiencies, such as an increase of the annual amount that is on average on overdraft.

1.8 TT has been hindered from moving to a faster IM system by two factors. First, the existing PFM Information Technology (IT) governance structure is fragmented;

[14] See page 22 of Bindley-Taylor (2014); pages 20-21 of Kubasta, Celeste. Final Report on the Strategy for Reform in the Treasury Division of the Ministry of Finance and the Economy. (2014); and pages 7-8 of West, Arnott. "A Diagnostic Study of the IT Environment of the Ministry of Finance and the Economy, Inclusive of the Budget, Treasury, Economic Management and Debt Management Divisions" (2014).

[15] Two critical types of reconciliation are: (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances.

[16] The government operates a Treasury Single Account, known as the Exchequer Account, to which all classified revenue payments are deposited and from which all expenditure payments are made. Revenue payments that have not been classified with respect to source and/or purpose are deposited in the Suspense Account until such point as they may be classified and transferred to the Exchequer Account.

[17] The 2013 PEFA was a limited PEFA survey that did not review and score all 28 PEFA indicators. The 2008 PEFA is the last PEFA survey to review and score TT in the area of regularity of Bank reconciliations, as such, the score is taken from that survey. See page 66 of The DFC Group Spain, Quist, Ronald. The PEFA Public Financial Management Performance Assessment Report (2008).

[18] See pages 68-69 2008 PEFA Report.

[19] The average annual balance of amounts in the suspense account for FY 2011/2012 through 2013/2014 was TT$5.3 billion (approximately US$828,125,000).

preventing efficient information sharing and management of IT solutions and creating risks to information security. The MoFE lacks a centralized IT management framework to guide IT management internally or with LM.[20] Currently, there are no IT governance policies or standards that cover all MoFE units and systems.[21] A 2014 PFM IT assessment performed on the Corporate IT Unit (CITU), Budget and Treasury IT units showed that these units rate poorly on both risk management and governance. The CITU rates 1 out of 5 – the lowest possible rating – on 7 of 9 risk management areas.[22] Meanwhile, the three units do not share a common governance scheme - critical for IFMIS implementation - and only CITU and the Budget Division IT Unit work in a coordinated fashion. Average ratings for information security risk management and governance for each unit are provided in Table 1 below.

Table 1. Average IT scores[23]

IT Unit	Governance	Risk management
CITU	3	2.2
Budget	1	1.4
Treasury	2	1.7

1.9 Second, TT lacks IT solutions with comprehensive coverage, functionality, and integration.[24] In lieu of an integrated PFM IT solution, the government uses 12 stand-alone applications to conduct PFM; none of which are interoperable (between themselves or with LM applications) or have the functionality to facilitate electronic data exchange. The lack of interconnectivity among PFM IT solutions gives rise to a need for paper-based exchange of all PFM information. Paper-based information exchange creates information asymmetries, prolongs completion of PFM functions such as bank reconciliation, increases the number of steps per process, and prevents conduct of basic PFM functions such as cash management. International best practice calls for daily bank reconciliation and LM expenditure and revenue reporting on at least a quarterly basis. The Treasury Division completes monthly and annual bank reconciliations two months after month's end and four months after fiscal year end, respectively. Meanwhile, LM report comprehensive revenue and expenditure information centrally at only two points in the financial year. LM report revenue and recurrent expenditure on a monthly basis to the Budget Division. Annual projections are submitted at the beginning of the year and a review is conducted mid-year to formulate revised projections. Reporting lags also prevent effective cash management: in the 2013/2014 financial year, TT paid TT$441,671,000 in interest on overdrafts, of which 20% corresponded to the average annual balance in the Suspense Account.

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[20] See page 6 and 21 of West (2014).
[21] See page 21 of West (2014).
[22] See pages 22-25 of West (2014). The IT Assessment was conducted strictly of Budget Division, Treasury Division, and CITU.
[23] The rating scale goes from 1 to 5, being 1 the minimum and 5 the maximum possible scores.
[24] See pages 14-17 of West (2014) and pages 31-36 of Bindley-Taylor (2014).

1.10 **Lessons learned.** In 2010, IDB approved US$100 million for Public Capital Expenditure Management I (2479/OC-TT; TT-L1019); the first of a proposed three-part programmatic series to support: (i) policy design and public investment management; (ii) public procurement; and (iii) PFM and audit. Proposed second and third follow-on operations were to focus on implementation of key regulations and new institutional arrangements defined in the first operation. Following disbursement of 2479/OC-TT, the government continued to work toward achievement of policy conditions for the second programmatic operation. In 2011, the government established a Public Financial Management Modernization Unit (PFMMU) within the MoFE to design and lead a PFM reform program in TT. In 2014, the government approved a comprehensive PFM reform strategy prepared by the PFMMU to address TT's core PFM weaknesses. The reform strategy was prepared with support from an IDB technical cooperation that accompanied 2479/OC-TT: Technical Support for Design and Implementation of PFM Reform (ATN/OC-13062-TT; TT-T1018).[25]

1.11 The government has maintained continuous dialogue with the IDB on PFM activities associated with the programmatic series and met some policy conditions for the second loan in the series[26], confirming the validity of, and government's commitment to, the series strategic direction. This operation complements the programmatic series by targeting support to IFMIS design and implementation of key policy conditions for the series' second and third operations.

1.12 A key lesson learned from 2479/OC-TT and ATN/OC-13062-TT is the value of different types of financing instruments at each juncture of a reform process. The programmatic approach was adopted in 2010 because it was a flexible mechanism for initiating and accompanying a complex and dynamic reform process, while firmly grounding the process in a medium-term reform framework with clear overarching objectives. Following disbursement of 2479/OC-TT, it became clear that accompanying the broad reform agenda with more targeted IDB support to critical components of the agenda was necessary to ensure the achievement of reform objectives. Indeed, technical assistance provided by the Bank under ATN/OC-13062-TT was critical to achieving government consensus and approval of a PFM reform strategy. Similarly, this operation strongly complements the programmatic series and will support the achievement of the series' objectives through targeted assistance to achievement of IFMIS implementation.

[25] ATN/OC-13062-TT also provided support to the PFM Reform program in the areas of budget modernization as well as preparation of the technical specifications for an IFMIS; and capacity strengthening support to the MPSD in the area of project monitoring and evaluation.

[26] These include approval of a system for monitoring and evaluation of social development policies and projects; presentation to Parliament of a legislative proposal for Electronic Transactions, and implementation of core actions defined in the approved Policy Note. Further, progress has been made toward fulfillment of policy conditions: (i) regulations of the new procurement legislation (Act) must be issued; (ii) institutions created by the new procurement Act must be in operation, and their key authorities are appointed; (iii) procurement guidelines consistent with the new Act must be issued; and (iv) Cabinet-approved e-procurement strategy that includes a detailed implementation plan.

1.13 The Project Completion Report (PCR) for 2479/OC-TT[27] also identified other key lessons learned of particular relevance to this operation. These include: the importance of "comprehensive and continued training and knowledge transfer efforts to mitigate the natural resistance to change and to build the necessary capacity required to ensure the sustainability of these reforms." This lesson learned has been incorporated into the design of the operation through the financing of (i) training activities (including preparation of manuals and forms that may be systematically applied) for the MoFE and LM staff; and (ii) a change management firm to assist with the transitions in PFM conduct. For the Integrated Financial Management Information System (IFMIS) implementation, which represents approximately 70% of the total project budget, the project team drew on lessons from IDB project reports, as well as recent studies and practical guides on IFMIS implementation[28] The most relevant lessons incorporated are: (i) strong ownership and coordination are required to implement a complex IT system; (ii) the importance of using a country-specific approach in implementing PFM reform activities; (iii) the average implementation time for countries similar to TT is four years; and (iv) highly customizable software packages improve the speed of implementation and provide flexibility when in use[29]. All these lessons were considered in the design of this operation through: (i) the establishment of a detailed project execution scheme; (ii) the reliance on the PFM Reform Strategy prepared by the government to understand the appropriate sequencing and approach to reform in TT; (iii) the development of a five year IFMIS implementation timetable; and (iv) the proposed acquisition of a Commercial, Off-The-Shelf (COTS) IFMIS instead of in-house or custom product development.

1.14 **Project justification.** A robust PFM system is "essential to plan, budget and account for the resources that underpin the development of the state, build infrastructure and deliver services. Good PFM systems reduce leakages and ensure that money is used for its intended purpose."[30] This is particularly the case for resource-producing countries, such as TT, where resource revenues represent opportunities for development but challenges for management. The IMF found that, "If well-managed, resource revenues could represent a big economic opportunity for resource producing countries. […] However, the management of

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[27] For the PCR for 2479/OC-TT see: http://www.iadb.org/projects/TT-L1019.

[28] See PCR: Fiscal and Financial Management Program (GY0053). IDB (2009); Farias, Pedro and Pimenta, Carlos, "Integrated Financial Management Systems Oriented Towards Modern Public Management" within the Fiscal Institutions of Tomorrow. IDB (2012); Diamond, Jack and Khemani, Pokar. Introducing Financial Management Information Systems in Developing Countries. IMF Working Paper (2005); IFMIS: A Practical Guide. USAID (2008); Dener, Cem, Watkins, Joana Alexander and Dorotinsky, William Leslie. Financial Management Information Systems: 25 Years of WB Experience on What Works and What Doesn't. WB (2011); and Chene, Marie. The Implementation of Integrated Financial Management Information Systems. U4 Help Desk, Transparency International (2009).

[29] See West pages 25-27.

[30] Manuel, Marcus; Gupta, Sanjeev; and Ackroyd, Paul. Accelerating the transition out of fragility: The role of finance and public financial management reform. The sixth annual CAPE Conference 15-16 November 2010, London. IMF and Overseas Development Institute (2010).

resource revenues poses significant challenges in the form of the so-called "resource curse"—a complex phenomenon through which an abundance of resource revenues can translate into stagnation, waste, corruption and conflict. […] the existing large body of literature on the resource curse recommends the implementation of prudent macroeconomic policies and the strengthening of the institutional framework, and in particular, of the PFM system."[31]

1.15 As noted by the IMF, "A budget classification system provides a normative framework for both policy decision making and accountability. Classifying expenditures and revenues correctly is important for (1) policy formulation and performance analysis; (2) allocating resources efficiently among sectors; (3) ensuring compliance with the budgetary resources approved by the legislature; and (4) day-to-day administration of the budget."[32] A 2007 study from the OECD, among others, acknowledged that, "the medium-term framework facilitates the formulation of appropriate policies at the same time as unwanted fiscal development can be avoided."[33] A 2002 IMF study noted that, the audit function is "an instrument for improving the performance of government [...] which through its procedures in objectively acquiring and evaluating evidence improves financial reporting and performance more generally, with an adverse audit report acting as a "deterrent to poor performance."[34] Finally, a 2005 IMF study found extensive benefits of improved PFM IM through implementation of an IFMIS: "the lag in reconciliation with banking data has been reduced from up to two years to automatic reconciliation on a daily basis. Comprehensive and fully reconciled fiscal data and reports are available on a continuous basis."[35]

1.16 Additionally, 2009 IDB PCR for the Fiscal and Financial Management Program (GY0053; 1550/SF-GY; 1551/SF-GY) documented the effectiveness of a PFM strengthening program similar to the proposed Project in improving PFM. GY0053 financed activities similar to those to be financed under this project, such as: (i) modernization of the PFM legal and procedural framework;[36] (ii) PFM capacity strengthening;[37] and (iii) implementation of an IFMIS.[38] The PCR

[31] Daban, Teresa and Helis, Jean-Luc. A Public Financial Management Framework for Resource-Producing Countries. IMF Working Paper (2010).

[32] Jacobs, Davina, Helis, Jean-Luc; and Bouley, Dominique. Budget Classification. IMF Working Paper (2009).

[33] Ljungman, Gösta. The Medium-Term Fiscal Framework in Sweden. OECD (2007).

[34] Diamond, Jack. The Role of IA in Government Financial Management: An International Perspective. IMF Working Paper (2002).

[35] Diamond, Jack and Khemani, Pokar. Introducing Financial Management Information Systems in Developing Countries. IMF Working Paper (2005)

[36] Support for modernization of the PFM legal and procedural framework included support for enactment of a legislation to modernize PFM systems as well as issuance of regulations, capacity strengthening of the Ministry of Finance to enable it to comply and lead the implementation of the new framework, moving toward a multiyear expenditure scenario, and consolidating and expanding the implementation of an IFMIS.

[37] Capacity strengthening activities included: (i) training in the areas of budget, accounting, cash management, and IA; (ii) support for multiyear fiscal framework and stronger linkage between policy priorities and budget allocation; (iii) streamlining of budget preparation and execution processes; and (iv) support for compliance with international best practice in accounting and reporting.

[38] See http://www.iadb.org/en/projects/project-description-title,1303.html?id=GY0053.

evaluated GY0053 performance as satisfactory overall and as having achieved 6 out of 10 outcomes, including a 20% increase in the overall acceptance and implementation rates for audit recommendations.

1.17 **Strategic alignment.** The project will contribute to lending program priority of the Ninth General Increase in the Resources of the Inter-American Development Bank (AB-2764) (GCI-9) of support to development in small and vulnerable countries. It will also contribute to the regional development goal of institutions for growth and social welfare through the product of public financial systems implemented or upgraded, as defined in the Results Framework. It is aligned with the priorities outlined in the Country Strategy with the Republic of Trinidad and Tobago 2011-2015 (GN-2638), contributing to the expected result of strengthened budget process, the 2015 Country Program Document, and the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2).

B. Objective, Components and Cost

1.18 The general objective of this project is to improve the efficiency and effectiveness of the Government of the Republic of Trinidad and Tobago to allocate public resources. The project's specific objectives are to improve: (i) strategic allocation of public resources; (ii) control and stewardship of public resources; and (iii) information management for decision making. Direct beneficiaries of the project are TT's 32 Ministries[39] and 16 Departments as well as, more broadly, the population of TT. This project will finance the following components:

1.19 **Component I. Support for PFM Modernization (US$8,506,000)**. This component seeks to contribute to the modernization of PFM procedural and legal frameworks for budget preparation and execution. The component will finance the following activities:

a. Development and implementation of a new budget classification based on a Government Finance Statistics (GFS)-compliant CoA and a treasury accounting framework that complies with International Public Sector Accounting Standards. This will include the provision of support for the development and implementation of: (i) the new CoA and budget classification system, and training the staff of the MoFE on its use; (ii) detailed book-keeping and accounting procedures; and (iii) a detailed training and capacity building plan.[40]

b. Development and implementation of a change management strategy. This will include the development and implementation of: (i) a change management strategy and resulting change management plans, (ii) a

[39] The ministries will receive training and equipment under the project to use the IFMIS. No formal agreements are required for the ministries to participate in or benefit from project activities.

[40] These activities will support implementation of a Medium Term Fiscal Framework that would allow generation of budgets with a three year forecast perspective.

communications plan targeting key stakeholders; and (iii) mechanisms for continuous stakeholder feedback to assess gaps and implement corrective action.

c. Development and implementation of institutional instruments to sustain PFM modernization efforts. This activity will include: (i) the development and implementation of a sustainability strategy for the continual improvement of PFM; (ii) train-the-trainer programs within core PFM areas including Project Planning and Reconstruction Division of the MPSD and the MoFE's Budget and Treasury Divisions, as well as establishment of an e-learning platform; and (iii) hiring of a chief technical coordinator, who will serve as the project manager.

d. Design and implementation of the IA framework to improve PFM control, transparency, and reporting. This activity will include support for the implementation of recommendations of the IA report, as approved by the MoFE, and the corresponding training.

e. Review of the PFM legal framework and preparation of recommendations to strengthen the framework. This activity will include the review of the Exchequer and Audit Act and its existing Financial Regulations, and the making of recommendations on legislative and regulatory amendments to strengthen: IA, budget classification, automation, and reporting standards.[41]

f. Business process reengineering for budget preparation and execution processes. This activity will include the revision of existing business processes in view of automation and new financial methodologies as well as preparation of procedures manuals for Budget, Treasury and the Project Planning and Reconstruction Divisions' personnel to streamline procedures.

1.20 **Component II. Support for implementation of an Integrated Financial Management Information System (IFMIS) (US$28,251,803).** This component seeks to improve IM for PFM through implementation of an IFMIS. The component will finance the following activities:

a. Establishment of a centralized IT governance framework within MoFE. This activity will include: (i) the development of the documentation of IT governance practices and procedures for PFM IT management; and (ii) the establishment of a training program for MoFE IT staff, including training for development and implementation of an IT strategic plan.

b. Implementation of a COTS IFMIS solution with government-wide coverage, including customization, data migration, and integration services. This

[41] It should be noted that many of the changes envisaged for the achievement of project results, particularly with respect to the introduction of CoA and defining the IA function may not require Legislative changes and may only require Cabinet or Ministerial approval. Reforms that touch upon issues of structural and personnel changes and any changes in condition of service, will require the review of various legislative Acts covering Public Service structure and administration to determine what, if any, legislative changes may be necessary.

activity will include: (i) the operationalization of the COTS IFMIS solution[42] comprising: (a) the IFMIS software package;[43] (b) training for users and IT staff in the operation of the IFMIS solution including a train-the-trainers program; (c) purchase of data center hardware;[44] and (d) training of personnel to analyze IFMIS aggregated data; (ii) computer equipment to operate the IFMIS;[45] and (iii) implementation and roll out of a receipting system.

C. Key Results Indicators

1.21 The project's expected outcomes are improved: (i) strategic allocation of public resources; (ii) control and stewardship of public resources; and (iii) information management for decision making. The main outcomes, extracted from the complete Results Framework, are presented in Table 2.

Table 2. Expected outcomes

Outcome Indicator	Baseline	Target
PEFA performance indicator 5 - classification of the budget	C	B
PEFA performance indicator 12 - multi-year perspective in fiscal planning, expenditure policy, and budgeting	C+	B+
PEFA performance indicator 21 - effectiveness of IA	C	B
PEFA performance indicator 22 - timeliness and regularity of Bank reconciliation	B	B+
Annual balance of the suspense account in constant prices	TT$6.241 billion[46]	TT$0.0 billion
Intermediate Outcome Indicator	**Baseline**	**Target**
LM using the IFMIS	0%	100%

1.22 **Financial Analysis (FA).** The Bank's project team conducted a study to establish the financial benefits the project will generate. On a conservative basis, it is estimated that the implementation of the IFMIS cashiering module at revenue collection offices will generate a financial benefit of US$4.78 million, accrued in 2018, as a result of the opportunity cost of the funds promptly released from the suspense account. In this regards, the benefit is calculated based on the return investment from only 30 days, in commercial banks, of the annual average amounts idle in the suspense accounts, in addition to the benefit from the use of the aforementioned return investment to amortize the public debt. The project's financial analysis presented an Internal Rate of Return of 5% with a Net Present Value of US$21.57 million in 2035 (20 years).

[42] This consultancy will include: (i) gap/fit analysis; (ii) process definition; (iii) support for transition to the new CoA; (iv) design and implementation of software package customization; (v) interfaces; installation, and configuration; (vi) pilot and full deployment acceptance services; (vii) short-term help desk and field support services; (viii) system administration and security services; (ix) management dashboards and reporting; (x) web/portal services; (xi) asset management services; and (xii) project management services.

[43] This will include software licenses, maintenance, and support.

[44] To include servers, cabinets, system software licenses, etc, as well as warranty, support, and delivery costs.

[45] It is not anticipated that laptops and printers will be required for every LM that will use the IFMIS solution but only for those LM whose existing machines are at end-of-life at the time of IFMIS implementation.

[46] This was the average balance in constant prices of the Suspense Account from 2001 to 2014.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

2.1 This project will be financed through a Specific Investment Loan for an estimated cost of US$40 million. The loan will be financed completely from the Bank's Ordinary Capital resources. The project has a five year disbursement period. Table 3 provides a breakdown by components and source of financing.

Table 3. Project total budget (in US$)*

Categories*	IDB	Local	Total	%
1. Direct Costs	36,757,803	0.00	36,757,803	91.89
1.1 Component I. Support for PFM Modernization	8,506,000	0.00	8,506,000	21.27
1.2 Component II. Support for IFMIS implementation	28,251,803	0.00	28,251,803	70.63
2. Project Administration	1,060,000	0.00	1,060,000	2.65
3. Evaluation	120,000	0.00	120,000	.3
4. Contingency	2,062,197	0.00	2,062,197	5.15
Total/Percentage (%)	**40,000,000**	**0.00**	**40,000,000**	**100**

* The financing costs will be paid by the borrower outside of the program.

B. Environmental and Social Safeguard Risks

2.2 In accordance with the Environment and Safeguards Compliance Policy (OP-703), this project is classified as Category "C". There are no negative social or environmental risks associated with proposed activities.

C. Fiduciary Risk

2.3 Based on the IDB's December 2014 institutional and financial management assessment of the MoFE, the project has a medium fiduciary risk (see Annex III). Table 4 shows the identified fiduciary risks and related mitigation actions.

Table 4. Fiduciary risks and mitigation measures

Fiduciary risk	Mitigation measure
Lack of clear assignment of roles and responsibilities impair project execution.	Approved Operations Manual including financial management, reporting, risk management and performance monitoring and supervision provisions.
Lack of adequate systems to support accurate and timely accounting and financial reporting.	Acquisition of an automated accounting system.
Errors and delays in procurement processes due to unfamiliarity with IDB policies as well as financial management and reporting procedures.	Training on IDB fiduciary procedures for PFMMU and recruitment of experienced fiduciary officers to support PFMMU.

2.4 Supervision and mitigation actions will focus on strengthening the PFMMU's accounting and financial reporting system, procurement process, and implementation capacity as it relates to familiarity with IDB fiduciary policies and procedures.

D. Other Key Issues and Risks

2.5 **Risks and mitigation measures**. A risk assessment was carried out by the project team, with the participation of the project stakeholders, through which three key risks were identified. Each identified risk was given a medium risk rating and the overall project risk was assessed as medium. Table 5 presents those risks and related mitigation measures not assessed in Section II-C.

Table 5. Summary of risks and mitigation measures

Risk	Mitigation Measure
Delay in project implementation due to staff resistance to proposed changes.	To mitigate this risk, the Project foresees hiring of change management experts to develop and implement, in coordination with the Executing Agency (EA) and Project Implementing Unit (PIU), a change management strategy, including stakeholder coordination and communication, to guide and support proposed changes.
Delay in project implementation due to 2015 national elections shifting political focus.	To mitigate this risk, the MoFE will hire a full-time, dedicated project implementation team, including the chief technical coordinator, one finance officer, and one procurement officer to ensure project and PFM reform continuity during the electoral season. This mitigation measure is a special contractual condition precedent to project eligibility.

2.6 **Sustainability**. This project is part of a comprehensive, Cabinet-approved PFM reform strategy that follows 5 years of government PFM modernization efforts. Given these antecedents, the institutionalization of a mechanism to continue to push forward PFM reform through the establishment of the PFMMU, and the PFM reform strategy, which clearly confirms the government’s intent to continue PFM modernization, this project has a strong likelihood of not only achieving expected results but also sustaining them after project completion.

III. Implementation and Management Plan

A. Summary of Implementation Arrangements

3.1 The Borrower is the Republic of Trinidad and Tobago. The EA is the MoFE, which will be responsible for the administration of the resources and procurement processes of the program. The PFMMU, established in the MoFE, will serve as the PIU and oversee project execution. The PIU will be responsible for overall project administration, including planning, budgeting, accounting, procurement implementation, and monitoring; and will include a full-time, dedicated finance and procurement officers. Project coordination and project management will be carried out by the PFMMU’s chief technical coordinator. A Project Steering Committee (PSC) comprised of officials from the MoFE and MPSD will be established and will provide oversight of the project’s execution, monitor the progress of activities, provide direction, support the project and assist in clearing any bottlenecks that may arise.

3.2 This operation is the third IDB-financed project to be led by MoFE,[47] and the second operation to be implemented by the PFMMU. Notwithstanding, this operation is the first investment loan to be implemented by the MoFE and the IDB will provide training and guidance to support execution.

3.3 PIU responsibilities include: (i) Annual Operating Plan (AOP) preparation and implementation;[48] (ii) financial administration, accounting, and preparation of budgets and disbursement requests; (iii) annual procurement plan preparation and procurement of goods and services; (iv) preparation of technical reports and financial statements; (v) monitoring of project activity progress, environmental and social safeguards compliance, and actual and planned results variance; (vi) selection and hiring of the external audit firm and implementation of recommendations; (vii) hiring of consultants to conduct external evaluations; and (viii) serving as liaison to IDB.

3.4 The procurement of all goods and services will be conducted in accordance with the Policies for the Procurement of Works and Goods (GN-2349-9) and the Policies for the Selection and Contracting of Consultants financed by the IDB (GN-2350-9). As specified in Annex III, procurement of goods and consulting services will be subject to ex-ante review and IDB no objection and disbursements will be reviewed on an ex-post basis.[49] IDB will periodically assess procurement and financial procedures through inspection visits. The general level of risk may evolve depending on the results of said visits.

3.5 **Special contractual conditions prior to the first disbursement: (i) presentation of evidence that the borrower, through the MoFE, has hired the chief technical coordinator,[50] who will also serve as the project manager, one procurement officer, and one finance officer pursuant to professional profiles satisfactory to the Bank; and (ii) presentation of evidence that the MoFE has approved, with the prior non-objection of the Bank, an operations manual for the project, including inter alia administrative, procurement, financial management (budgeting, cash management, payment/disbursement, procedures to ensure proper operation and maintenance of Bank-financed assets, accounting and reporting) policies, procedures and other internal control requirements to define overall project management**.

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[47] The first two operations to be implemented by the MoFE were 2479/OC-TT and ATN/OC-13062-TT.

[48] The AOP, presented by November 30th each year, will detail implementation plans for the following year, and include annual goals, budget, and implementation schedule for each programmed activity. The AOP for the first year is contained in the Project Execution Plan.

[49] The PIU will work with iGovTT to ensure that technical specifications for the IFMIS comply with government ICT standards. iGovTT is a government agency responsible for the provision of ICT consulting and support services to government, including review of all e-government initiatives to ensure compliance with relevant government standards.

[50] As the chief technical coordinator must be hired prior to project eligibility, it is anticipated that his contract would be financed initially with government resources; which would be reimbursed with loan resources through retroactive financing after the project reaches eligibility.

3.6 **Retroactive financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval for eligible expenditures associated with Component I and II as well as project administration, up to an amount of US$2 million (5% of the proposed loan amount), provided that all the requirements set out in the loan agreement are substantially met. These expenses must have been incurred or on after November 25, 2014 (approval date of the project profile), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.

B. Summary of Arrangements for Monitoring Results

3.7 **Monitoring and reporting**. The Bank and the MoFE have agreed to use the results matrix, the monitoring and evaluation plan, the FA and the PEFA as the principal elements for monitoring the program. The program supervision and monitoring system will include: (i) analysis of the technical and financial reports; (ii) annual monitoring meetings; and (iii) midterm and final evaluations. In addition, the system will include routine inspection visits normally carried by the IDB Trinidad and Tobago Country Office. The MoFE will present semiannual technical and financial progress reports. In addition, it will present annually: (i) an assessment of the AOP for the year; (ii) the AOP for the upcoming year; and (iii) audited financial statements.[51] The information from these documents will serve as input for the annual monitoring meetings and inspection visits.

3.8 Annual monitoring meetings will start at the end of the first year of execution, with a focus on the timing of procurement and contracting; the AOP for the following year; and compliance with the project's results framework indicators, Risk Matrix, and the OM Throughout project implementation and to support project monitoring, the PIU will collect, store, and retain information, reports, and documents produced under the project. These will serve as inputs to the Bank's PCR, which is discussed in greater depth in 3.9.

3.9 **Evaluation.** The EA shall hire an independent external consultant to conduct one mid-term evaluation and one final evaluation.[52] The Monitoring and Evaluation Plan provides further information on the evaluations' methodologies.

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[51] Annual financial statements may be carried out by the Auditor General of the Republic of Trinidad and Tobago or an external audit firm. The financial statements audited will be presented to the Bank within 120 days after the closing of each fiscal year of the EA. The last of these reports will be submitted within 120 days following the date stipulated for the final disbursement of the financing, acceptable to the Bank and the Auditor General of the Republic of Trinidad and Tobago.

[52] The mid-term, reflective evaluation will be conducted upon disbursement of 60% of loan resources. The final reflective and economic evaluations upon disbursement of 90% of loan resources The Bank will commence preparation of a PCR when 95% of loan resources have been disbursed, to evaluate achievement of project outputs and outcomes. This evaluation will focus on: (i) verifying the degree of compliance with the results matrix indicators for the program and its several components; (ii) taking stock of the success and shortcomings of project's design and execution; and (iii) recommending corrective or monitoring measures for future projects of a similar nature.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to small and vulnerable countries.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	Public financial systems implemented or upgraded.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2638	To support the Government's reform agenda aimed at improving transparency, efficiency and effectiveness of public expenditure, including SOEs.	
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.6		10
3. Evidence-based Assessment & Solution	8.4	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	2.4		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	C		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank provided support to the Government through TC ATN/OC-13062.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The program diagnosis takes into account Trinidad's and Tobago country characteristics in the area of project intervention. The diagnosis provides a clear identification of the general problem to be addressed by the project (i.e. "improve the efficiency and effectiveness of the Government to allocate public resources for public service delivery") and includes sufficient information to facilitate the understanding of the nature and scope of the development challenges being addressed. The specific problems (i.e. "(i) strategic allocation of public resources; (ii) independence in the control and stewardship of public resources; and (iii) information management") are clearly identified and the link on how the specific problems contribute to the main problem is clear. The identification of the main determinants of the problems is supported with evidence and magnitudes of deficiencies are provided for most of the main factors.

The proposed interventions (i.e. "development and implementation of a new budget classification based on a Government Finance Statistics (GFS)-compliant COA", "development and implementation of a change management strategy", "train-the-trainer programs", etc.) are clearly linked to the problems identified in the diagnosis. The proposal does not include specific empirical evidence on the effectiveness of the interventions (solutions) proposed.

The program has vertical logic. The connection of the proposed solutions to the identified development problems is clear. Outcome and output indicators are SMART. The results matrix and the monitoring and evaluation plan of the project include a specific source of data for each outcome indicator.

The project has a financial analysis that estimates a NPV and an IRR of the project of 21.6$ million and 5% in 20 years, respectively. The assumptions used in the analysis are reasonable and clearly spelled out. The economic benefits seem to be adequately identified and quantified. Sensitivity analysis is performed and includes some of the key variables that could affect project costs, benefits and assumptions.

The M&E plan provides annual targets for most of the output indicators. The evaluation plan proposes a reflexive and an ex-post financial analysis evaluation.

RESULTS MATRIX

Program objective: The general objective of this project is to improve the efficiency and effectiveness of the Government of the Republic of Trinidad and Tobago to allocate public resources. The project's specific objectives are to improve: (i) strategic allocation of public resources; (ii) control and stewardship of public resources; and (iii) information management for decision making.

EXPECTED OUTCOMES

Indicators	Unit of Measure	Baseline		Targets					Source/Means of verification	Remarks
		Value	Year	2015	2016	2017	2018	2019		
1. Increase strategicness in the allocation of public resources										
PEFA performance indicator 5 classification of the budget.	PEFA Score	C	2014			C+		B	Public Financial management Performance Measurement Frame work (PEFA) Report to be provided by the MoFE.	
PEFA performance indicator 12 multiyear perspective in fiscal planning, expenditure policy, and budgeting.	PEFA Score	C+	2014			B		B+	Public Financial management Performance Measurement Frame work (PEFA) Report to be provided by the MoFE.	
2. Increase independence in the control and stewardship of public resources										
PEFA performance indicator 21 effectiveness of Internal Audit.	PEFA Score	C	2014			C+		B	Public Financial management Performance Measurement Frame work (PEFA) Report to be provided by the MoFE.	
3. Increase the effectiveness of information management										
PEFA performance indicator 22 timeliness and	PEFA Score	B	2008					B+	Public Financial management Performance Measurement Frame	According to the definition of the PEFA indicator the suspense account is part of the

Indicators	Unit of Measure	Baseline		Targets					Source/Means of verification	Remarks
		Value	Year	2015	2016	2017	2018	2019		
regularity of Bank reconciliation.									work (PEFA) Report to be provided by the MoFE.	measurement.
Annual balance of the suspense account in constant prices.	TT$ billion	6.241	Average 2001 to 2014					0.0 FY 2019 /2020	Annual Financial Statement Report prepared by the Auditor General's Office.	
Intermediate Outcome										
LM using the Integrated Financial Management System (IFMIS).	Percentage	0	2015	IFMIS functional specification and bidding process performed	10 IFMIS implemented as a pilot in 10% LM	40	50	100	Report from the MoFE generated using IFMIS, showing the Financial Statement of the 34 LM. In 2017, the IFMIS will be piloted in three Ministries prior to full roll out.	

OUTPUTS

Output	Cost (US$)	Unit of measure	Base line	2015 Cost US$	2015 opt.	2016 Cost US$	2016 opt	2017 Cost US$	2017 opt	2018 Cost US$	2018 opt	2019 Cost US$	2019 opt	Target	Sources/Means of Verification
			2013											2019	
1.1 Chart of Accounts (CoA) with Government Financial Statistics (GFS) -compliant	1.7 million	CoA GFS-compliant	0	170,000	0	340,000	0	510,000	1	340,000	0	340,000	0	1	IMF Article IV - 2017 attesting that TT adopted a CoA GFS-compliant.

Output	Cost (US$)	Unit of measure	Base line	2015 Cost US$	2015 opt.	2016 Cost US$	2016 opt	2017 Cost US$	2017 opt	2018 Cost US$	2018 opt	2019 Cost US$	2019 opt	Target	Sources/Means of Verification
			2013											2019	
budget classification[1] implemented.															
1.2(a) PFM train-the-trainer program for budget preparation, budget execution, and project planning and management designed.	6,3 Million	Package (methodology and materials)	0	315,000	1	630,000	0	945,000	0	630,000	0	630,000	0	1	MoFE-approved course package (with the methodology and materials), presented to the Bank.
1.2(b) PFM train-the-trainer courses for budget preparation, budget execution, and project planning and management held.		Number of courses	0	315,000	0	630,000	5	945,000	5	630,000	0	630,000	0	10	Report from the MoFE attesting that the courses have been held (including the expenses report of the courses).
1.3 Internal audit framework elaborated.	397,500	Internal audit framework	0	39,750	1	79,500	0	119,250	0	79,500	0	79,500	0	1	Internal Audit Framework presented to the Bank.
1.4 Amendments to	353,500	Regulatory package	0	35,350	1	70,700	0	106,050	0	70,700	0	70,700	0	1	Amendment and

[1] GFS is the budget classification system recommended by the IMF and is considered the best practice for budget classification.

Output	Cost (US$)	Unit of measure	Base line 2013	2015 Cost US$	2015 opt.	2016 Cost US$	2016 opt	2017 Cost US$	2017 opt	2018 Cost US$	2018 opt	2019 Cost US$	2019 opt	Target 2019	Sources/Means of Verification
the Exchequer and Audit Act and package with all other regulatory changes needed[2] for allowing the implementation of a GFS-compliant CoA drafted.															regulatory changes package presented to the Bank.
1.5 IFMIS designed.	588,000	IFMIS	0	58,800	1	117,600	0	176,400	0	117,600	0	117,600	0	1	External expert report evaluating the new IFMIS (the new IFMIS conceptual design should satisfy the different requirements dictated by each jurisdiction's budget and accounting[3])
Total estimated costs of outputs and intermediate outcome (Components I &II)														**US$36,757,803**	
Total estimated costs for Evaluation, Audit, Project Administration, and Contingencies														**US$3,242,197**	
Total estimated Project cost														**US$40,000,000**	

[2] As determined by the Project-financed report analyzing all the regulatory changes required to allow for the implementation of a GFS-compliant CoA.
[3] Requirements as defined in an approved report carried out by the MoFE in 2012 and presented to the Bank (IDBDocs #39373855).

FIDUCIARY ARRANGEMENTS

Country:	The Republic of Trinidad and Tobago
Project:	Support to Strengthen Trinidad and Tobago's Public Financial Management System (TT-L1042)
Executing Agency:	Ministry of Finance and the Economy (MoFE)
Prepared by:	Shirley Gayle, Fiduciary Procurement Specialist and Gregory Dunbar, Fiduciary Financial Management Specialist

I. EXECUTIVE SUMMARY

1.1 Since 2005, the Government of the Republic of Trinidad and Tobago has been making steady strides towards improving the transparency, efficiency and cost-effectiveness of Public Financial Management (PFM) framework within which public money is managed.

1.2 Cabinet has agreed to multi-annual planning horizons and on annual budget ceilings; however ceilings have not yet been agreed or reflected in the annual Call Circular that heralds the start of the formal Budget Cycle. A Single Treasury Account, which includes development financing, is maintained but only for Central Government. The process for accounting and reporting continues to be manual and heavily paper-based, which negatively impacts efficiencies, accuracy and timeliness of reporting for decision-making. However, the outcome of this operation is expected to strengthen the budgeting, accounting and reporting and decision-making processes. The Office of the Auditor General for Trinidad and Tobago has been improving its capabilities, tools and techniques to deliver its mandate with institutional strengthening provided via ATN/FI-12795-TT (TT-T1024). Other oversight arms, such as the Public Accounts Committee (PAC) of Parliament, chaired by a member of the Opposition, appears under resourced, which may account for the significant backlog in the reviews of both audited and unaudited accounts of public entities.

1.3 The Government has taken clear actions to address deficits in PFM. In 2010, the Cabinet appointed a PFM Modernisation Unit (PFMMU) to lead a broad-based PFM reform. The PFMMU prepared a draft PFM reform strategy which has been approved by Cabinet. The procurement framework is being overhauled, the Public Procurement and Disposal of Public Property (No. 2) Bill, 2014 was passed by the Parliament on December 5, 2014. The Regulations necessary to make it operational, now have to be formulated and approved by Parliament. The new legislation proposes a decentralized procurement system overseen by a Regulator.

1.4 The Bank's methodology for Project Risk Assessment was utilized to identify the fiduciary risks and to determine the corresponding risk response. The Institutional Capacity Assessment System (ICAS or SECI) methodology was used to evaluate the fiduciary capacity of the Executing Agency (EA) and more specifically, the PFMMU, which is a Cabinet-established unit within the MoFE that has been designated to serve as the Project Implementing Unit for this project as well as the larger Government PFM reform agenda. The MoFE's capacity through the PFMMU to execute the proposed project suggests a medium risk level with respect to overall financial and procurement management, the areas of internal control; financial planning and budgeting; accounting and financial reporting systems. It is anticipated that after implementation of certain risk responses, the risk will be further reduced. It should be noted that the budget, treasury and external audit sub-systems have been cleared by the Bank for use during execution and supervision of Bank-financed operations. The area of accounting and reporting is usually augmented by the use of off-the-shelf accounting software to support Bank-financed operations.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

2.1 The MoFE is established within the public sector architecture with a clear mandate[1] to efficiently and effectively manage the economy of Trinidad and Tobago through the development and implementation of innovative policies to the benefit of all citizens. Some experience in the execution of Bank-financed operations has been acquired through its continued work in the design and implementation of two projects: (i) ATN/OC-13062-TT (TT-T1018), which is supporting the PFM reform agenda of the Government and has financed the diagnostic studies that informed the design of this loan operation; and (ii) 2479/OC-TT, a policy based loan operation that supported (a) policy design and public investment management; (b) public procurement; and (c) PFM and audit.

2.2 The proposed operation will be implemented through the PFMMU. The PFMMU will be expanded as necessary to ensure it has the requisite capacity to implement the loan.

2.3 The Permanent Secretary (PS) of the MoFE will be the responsible officer for this operation; supported by the PFMMU. The role of the PFMMU will be outlined in the Project's Operations Manual (OM) to document pertinent roles and responsibilities as well as the policies and procedures related to fiduciary and technical operation. The OM will also establish the reporting relations among the MoFE and the PFMMU. With respect to Procurement, the Central Tenders' Board or its equivalent, the Ministerial Committee, and the PS will provide the requisite approvals in keeping with prevailing thresholds. The National Information Communication and Technology Company Limited (iGovTT)[2] will provide technical guidance to the technical specifications outlined in the procurement documents for acquisition of the integrated financial management information system, as necessary, to the Ministry, given the proposed project's heavy

[1] Source: MoFE Website
[2] IGovTT is a special purpose Government company under the Ministry of Science and Technology, mandated to design, procure, manage, implement and maintain, as requested, enterprise-wide major ICT solutions for Government,

concentration on Information Technology. As a Ministry, the financial management arrangements for the MoFE are governed by the Exchequer and Audit Act and the Financial Regulations made thereunder; the Financial Instructions, 1965, the Financial Regulations (Stores) and Circulars issued by the Minister of Finance.

2.4 The procurement function in the MoFE is carried out by the respective Divisions. Purchases are guided by the Central Tenders Board Act 1961 as well as the thresholds granted to Permanent Secretaries by Cabinet. The PS has authority to approve procurement of goods up to TT$1 Million and can approve consultancy services up to the limit of TT$0.5 Million. A Ministerial Tenders Committee can be used for the procurement of goods for contracts in excess of TT$1 Million, but less than TT$2 Million and for consultancy services in excess of TT$0.5 Million, but less than TT$2 Million, and above TT$2 Million through the Central Tenders Board. The PS has delegated authority by way of purchasing thresholds to the Heads of Divisions. This is the approval structure that the project's procurement will follow while adhering to the IDB's policies. The Ministry does not have an internal Procedures Manual for procurement; however, Circulars 5 and 6 issued by the PS in 2012 give instructions for the procurement of goods and services including the monetary thresholds and the limits for Department Heads.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

3.1 The Project Team, in consultation with MoFE and other stakeholders, has identified the major risks that are likely to affect the proposed project. The parties have also jointly developed a preliminary Risk Mitigation Matrix which outlines the risk responses to be taken. The main mitigation measures for fiduciary arrangements will include: definition and establishment of the functions, roles and responsibilities of the major entities for the execution of the project, before eligibility date; formal and informal training processes for the fiduciary officers, and the acquisition, installation, customization and deployment of an off-the-shelf accounting system to supplement recording and reporting on the financial transactions of the proposed loan and the installation of adequate capacity in financial management and procurement. The MoFE will document and formalise all these arrangements, including key processes such as budget, payment/disbursement and procurement, in the OM, which will be a condition Precedent to First Disbursement. Other measures to respond to the broader project risk are incorporated as institutional strengthening activities throughout the other components of the project and outlined in the initial Risk Matrix for the project. The Bank will provide fiduciary support and supervision on these institutional arrangements while providing continual training and advice on Bank's policies, procedures and practices as needed. The level of the fiduciary risk will be monitored during execution through a supervision plan designed for such purpose and through the annual financial audit exercise.

3.2 A joint review of the matrix will be undertaken annually, and any necessary additional mitigating actions will be adopted. The overall financial management risk rating of the EA is Medium for all execution areas. The implementation of the mitigation actions indicated below can further reduce the risk level for the execution of the project.

Risks Identified	Probability	Severity	Impact	Mitigating Measures
Lack of clear assignment of roles and responsibilities impairing project execution.	Low	High	Medium	Operations Manual to be developed, incorporating an Organizational Chart with defined and elaborated roles and responsibilities of the MoFE and PFMMU and coordination with other key functionaries involved in execution for operations and financial management, reporting, risk management and performance monitoring and supervision.
Lack of adequate systems to support accurate and timely accounting and financial reporting	Low	High	Medium	An accounting system that will integrate and facilitate the financial reporting and budgeting under the project, according to source of funding and categories of investments (at a minimum) will be implemented for the project.
Errors and delays in procurement processes due to unfamiliarity with IDB policies as well as financial management and reporting procedures.	Medium	High	Medium	Training on Bank's financial management and procurement procedures will be provided to the expanded PFMMU. Recruitment of experienced procurement and financial management officers to support PFMMU.

IV. Aspects to be Considered in the Special Conditions of the Contract

4.1 The following Fiduciary Arrangements should be considered in the special conditions to complement the conditions appearing in the Bank's General Conditions to sovereign guaranteed investment operations:

A. Special Contractual Conditions prior to the first disbursement include:

4.2 Presentation of evidence that the Borrower, through MoFE, has hired the chief technical coordinator, who will serve as the project manager, one procurement officer, and one finance officer pursuant to professional profiles satisfactory to the Bank.

4.3 Presentation of evidence that MoFE has approved, with the prior non-objection of the Bank, an OM for the project, including inter alia administrative, procurement, financial management (budgeting, cash management, payment/disbursement, procedures to ensure proper operation and maintenance of Bank-financed assets, accounting and reporting) policies, procedures and other internal control requirements to define overall project management.

B. Exchange rate

4.4 For purposes of justification of expenses to the Bank (including reimbursements), where the project expenses have been incurred in local currency, the equivalent amount to be reported in the project currency, shall be determined using the effective exchange rate on the payment date, without regard to the source of the financing used.

C. Financial reports and audit financial statements

4.5 The MoFE will be required to submit annual audited financial statements of the project within 120 days following the closing of each fiscal year. The last of these audited financial statements shall be presented by MoFE no later than 120 days following the date stipulated for the final disbursement of the Financing. The financial statement audits will be conducted in accordance with the Bank's policies and will be carried out by a firm of independent public accountants acceptable to the Bank and the Auditor General of the Republic of Trinidad and Tobago, where such appointment has been accepted.

V. Requirements and Agreements for Execution of Procurement

5.1 The procurement fiduciary arrangements establish the conditions applicable to all procurement execution activities in the project. **Procurement Execution: Staff:** The PFMMU in the MoFE shall be staffed with a Procurement Officer, experienced in procurement. **Procurement of Works Goods and Non-Consulting Services:** Procurement under the project will be governed by the policies contained in GN2349-9 Policies for the Procurement of Goods and Works. The Procurement Plan indicates the procedures to be used for the contracting of works, goods, and services generated under the project. The processes subject to National Competitive Bidding (NCB) may be executed through the use of National Bidding Documents satisfactory to the Bank. Where these are not available, the Bank's Standard Bidding Documents will be used. Review of technical specifications during the preparation of the selection process, is the responsibility of the project sector specialist. **Procurement of Information Technology (IT) Systems**: Procurement of the Integrated Financial Management Information System (IFMIS) and any other IT systems will be done in keeping with the policies referenced above. **Selection and Contracting of Consultants**: Procurement of Consulting services will be conducted in accordance with GN-2350-9 Policies for the Selection and Contracting of Consultants. The Procurement Plan indicates the procedure to be used for the contracting of consulting services. Review of Terms of Reference for the selection of consulting services is the responsibility of the project sector specialist. **Selection of Individual Consultants:** Individual Consultants will be selected in accordance with the policy for Selection of Consultants referenced above. **Sole Source Selection:** The use of sole source selection may be permitted with appropriate justification according to the Bank's policies and with the Bank's non-objection. **Training:** The detailed procurement plan indicates the consultancy services to which training and workshops are applicable. As per GN-2350-9 if the assignment includes an important component for training or transfer of knowledge to Borrower staff or national consultants, the TOR shall indicate the objectives, nature, scope, and goals of the training project, including details on trainers and trainees, skills to be transferred, time frame, and monitoring and evaluation arrangements. The cost for the training project shall be included in the consultant's contract and in the budget for the assignment.

5.2 **Retroactive financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval for eligible expenditures associated with Component I and II as well as project administration, up to an amount of US$2 million (5% of the proposed loan amount), provided that all the requirements set out in the loan agreement are substantially met. These expenses must have been incurred or on after November 25, 2014 (approval date of the project profile), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.

5.3 **Procurement Plan and supervision (PP):** See link.

5.4 **Procurement Supervision.** The procurement plan of the project covering the duration of project execution is attached. It indicates the procedures to be used for the procurement of goods, the contracting of works or services, and the method of selecting consultants, for each contract or group of contracts. It also indicates cases requiring prequalification; the estimated cost of each contract or group of contracts; the requirement for prior or post review modality by the Bank. Ex ante supervision will be maintained from project inception. Once the PFMMU staff is in place and orientated, the supervision modality may be revisited with the IDB Project Team Leader and the required supervision modality revised, if appropriate and evidence is presented to demonstrate capacity to perform under a different supervision modality. Where ex post is applied, reviews will be performed at least once per year but may be done more frequently if the volume of procurement activities under the ex post review modality warrants. The ex post review process will include at least one physical inspection visit.

5.5 The procurement plan will be updated annually or as necessary, as required by the Bank.

A. Records and Files

5.6 The MoFE (through the PFMMU) shall maintain the files and records of the project. All records and files will be maintained by the Executing Agency, according to accepted best practices, and be kept for up to three years beyond the end of the operation's execution period.

5.7 Country Thresholds for Procurement (in US$'000s) www.iadb.org/procurement.

Goods	Consulting Services
International Competitive Bidding	Short Lists Solely by Internationals/ ICB
≥250	<200

VI. SPECIFIC FIDUCIARY ARRANGEMENTS FOR FINANCIAL MANAGEMENT

A. Programming and Budget

6.1 In keeping with Section 3, subsection (5) of National Development (Inter-American Development Bank) Loans Act Chapter 71.07 it is a requirement that a copy of the Loan Agreement is laid before Parliament. The Ministry of Planning and Sustainable Development, as the Focal Point for IDB lending, will liaise with the MoFE to facilitate the assignment of a Budget Line Item in the annual Budget Cycle of the Government of the Republic of Trinidad and Tobago for this operation to open the way for drawdowns under the proposed loan.

6.2 The Borrower will commit to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the unfettered execution of the project; as determined by the project's operative instruments such as the Annual Operating Plan, the Financial Plan and the Procurement Plan. The PFMMU will liaise with the MoFE to ensure its liquidity needs are sent forward as part of the Ministry's annual submission to the annual budget process.

B. Accounting and Financial Information Systems

6.3 Project accounting will be completed under the cash basis, in accordance with International Financial Reporting Standards and the Exchequer and Audit Act and (related) Financial Regulations to the Exchequer and Audit Act of the Republic of Trinidad and Tobago. Given the paper-based system that is used by Central Government and its inherent limitations, the accounting system will be augmented by the use of off-the-shelf accounting software to be acquired with or reimbursed from loan funding. The accounting software will record and classify all financial transactions by component, provide information related to: planned vs. actual financial execution and generate: Statements of Cash Flows; Cumulative Investments; and list of Commitments.

6.4 **Treasury: Disbursements and flow of Funds.** The MoFE will establish, exclusively for the project, a separate bank account, denominated in US Dollars, at the Central Bank of Trinidad and Tobago for the management of the project resources. The 18-month financial plan (included in the first Annual Operations Plan) will serve as the basis for the disbursement of funds to the MoFE to cover the project's liquidity needs. The main disbursement methodology will be the Advance of Funds. Other disbursement methodologies that will be used are the Reimbursements (to Borrower or Executing Agency, for which a separate banking information separate the Special Bank Account will be provided), Direct Payment to Supplier; and Reimbursement against a Letter of Credit. Disbursements will be reviewed within the ex post modality, except for Requests for Direct Payment to Suppliers, which will be review on an ex-ante basis.

6.5 **Internal Control and Internal Audit.** The management of the project, at both the level of the MoFE and the PFMMU, will assume the responsibility for designing and implementing a sound system of internal controls for the project. Given the limited presence of codified policies and procedures, the agreed system of internal controls will be documented in the OM and will provide reasonable assurance that: (i) the project funds are used for their intended purpose; (ii) project assets are properly safeguarded as outlined in the Financial Regulations (Stores); (iii) project transactions, decisions and activities are properly authorized, documented, recorded and supported; and (iv) project transactions are executed in accordance with the established policies, practices and procedures delineated in the legal agreements. In addition, proper segregation of duties, approval authority levels for signature of contracts, commitment of funds, reception of goods and services and payment to suppliers and beneficiaries should be arranged adequately and completely captured in the accounting system and records of the project. It was also agreed, in keeping with the Financial Regulations, the MoFE’s Internal Audit Unit will provide oversight of the Financial Management of the project through its annual audit plan with particular reference to the project’s cash resources.

6.6 **External Control and Reporting.** As an eligible entity to audit Bank-financed operations, the Auditor General for Trinidad and Tobago will be included as an option, along with independent private audit firms, for the conduct of the Financial Audits of the project. Audits will be performed in accordance with Bank’s Guidelines for Financial Reports and External Audit and the International Standards on Auditing or the equivalent. The EA, through the PFMMU, will be responsible for contracting of an external auditor eligible to the Bank to perform the project audit as follows: (i) an annual financial audit of the project to be submitted within 120 days of the end of fiscal year; (ii) a quarterly review of expenditures included in disbursement requests to be submitted within 20 days following the end of each calendar quarter; and (iii) one final financial audit of the project to be submitted within 120 days after the date of last disbursement.

6.7 **Financial Supervision Plan.** Financial Supervision will be informed by the initial and subsequently assessed risk of the project and the MoFE. Financial, Accounting and Institutional Inspection visits will be conducted at least once per year to ascertain the proper functioning of the accounting systems, and the adequacy of the internal control system and follow up the fiduciary risk initially assessed.

6.8 **Execution Mechanism.** The Borrower has designated the MoFE as Executing Agency, with oversight responsibility for all matters related to the project, and with direct responsibility for the administration of loan financing and the procurement processes. The PFMMU, headed by the chief technical coordinator, will be responsible for actual implementation; including the overall administration of resources and coordination and execution of project activities. The PFMMU will also have one procurement officer and one finance officer. The Internal Audit Unit of the MoFE will provide financial management oversight, via its annual plan, especially in the area of cash management and compliance.

6.9 Specific responsibilities of the PFMMU will include: (i) preparation, implementation and coordination of the AOPs; (ii) preparation of budgets, project accounting, including disbursements and reimbursement of project funds; (iii) preparation of the project's Procurement Plan, (iv) coordination of the preparation of technical reports, progress and financial reports; (v) monitoring of the progress of project activities and analysis of variances of actual results against plans; (vi) hiring the external audit and ensuring that the approved recommendations are implemented; (vii) facilitation of external evaluations of the project and ensuring, in collaboration with the participating entities, that the approved recommendations are implemented; and (viii) serving as a liaison for the project with the Bank.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/15

Trinidad and Tobago. Loan ____/OC-TT to the Republic of Trinidad and Tobago
Support to Strengthen Trinidad and Tobago's Public Financial Management System

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Trinidad and Tobago, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a project for the support to strengthen Trinidad and Tobago's public financial management system. Such financing will be for an amount of up to US$40,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___________)

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