

Trinidad & Tobago

PLAN OF OPERATIONS

I. Basic Data

Project Name:	Strengthening the Financial Sector Regulatory and Supervisory Framework in Trinidad and Tobago	
Project Number:	TT-CC2008	
Compete Caribbean Pillar:	Business Climate and Competitiveness Enhancement Facility (BCCE)	
Compete Caribbean Focus Area:	Business Climate and Competitiveness Enhancement Technical Cooperation	
Project Team:	STEVENSON, CLAUDIA KETTERER, JUAN ANTONIO BRATHWAITE, NEECA N. TERAN BARRIENTOS, ANDREA CAROLINA MORRIS, DIEGO ABUELAFIA, EMMANUEL RAPSON, LEANNE MICHELLE MASSINI, MARINA IWASA, MIE CASTILLO-RUIZ, PAZ WILSON, JOHN R.A. SCOTT, CHRISTINE ANN SHIWRAM-KULPA, NALINI	Team Leader Alternate Team Leader Operations Analyst Team Member Team Member Team Member Team Member Team Member Team Member Gender Specialist Environment Specialist M&E Specialist Procurement Specialist
Target Beneficiaries:	Government, private sector institutions and the general populace of Trinidad and Tobago	
Counterpart Agency:	Ministry of Finance of Trinidad and Tobago	
General Objective:	The ultimate goal is to foster sustainable economic growth and enhance competitiveness in Trinidad and Tobago. The general objective is to improve the enabling environment for business development, trade, and integration.	
Specific Objectives:	The specific objective is to support the GOTT's efforts to reform its financial sector regulatory and supervisory framework.	
Execution Period:	12 month(s)	
Financing plan:	Compete Caribbean: Local Counterpart: Total:	\$58,800.00 \$14,000.00 \$72,800.00

II. Background and Justification

A. Problem Statement

In 2009, the macroeconomic context of Trinidad and Tobago (TT) was challenging for the domestic financial system as the impact of the global recession continued around the world for most of the year. As a result, the Trinidad and Tobago economy is estimated to have contracted after a long period of expansion, precipitating an increase in unemployment.

The more difficult economic environment could present challenges for the stability of the financial sector, which is relatively well developed and has been a catalyst for economic growth.

Business Climate Improvement: Investor confidence as measured by foreign direct investment (FDI) was negatively affected by the CLICO fiasco and the financial crisis which revealed cracks in TT's financial system. Net inflows of FDI amounted to US\$410 million for the first nine months of 2009 compared with US\$1.8 billion for the same period a year earlier. This significant decrease highlights the importance financial system stability has for TT's business and investment environment. Strengthening financial regulation, particularly of under-regulated non-bank financial institutions, will enhance the environment for investment by increasing domestic savings, facilitating competitive interest rates, and making financial system data more transparent. In this context, a TC aimed at assessing weaknesses in TT's financial sector regulation and supervision that results in an action plan that enables reform will contribute to business climate improvement and should result in increased investor confidence in the country.

The banking sector has shown resilience and remains fundamentally stable in front of the macroeconomic downturn combined with contagion from CL Financial, reflecting its strong capitalization and conservative lending. Although regulation and supervision of banks have been strengthened through the 2008 Financial Institutions Act (FIA), effective supervision of this sector would require additional measures, such as well established consolidated supervision practices, more accurate capital requirements for sovereign, market and operational risks, etc.

In the insurance sector, larger insurance companies are sound and well capitalized, although it has been affected by the collapse of CLICO. However, financial instability in the insurance sector has become a concern and the Central Bank is attempting to mitigate this threat by working with the industry to strengthen and update prudential requirements in line with international best practices. The outdated Insurance Act (IA) imposes several restrictions for an appropriate supervision and regulation of the sector, even after a special amendment to the IA was introduced in 2009 to allow the CBTT to deal with troubled institutions.

Given the significance of the investment activities of the pension sector to overall macroeconomic growth and development, the CBTT started to supervise and regulate private pension plans, rolled out new reporting requirements in 2008 and increased efforts to obtain timely submission of annual filings from private pension plans. Despite the steps taken by the CBTT to reform existing legislation and improve disclosure and reporting, no specific pension's legislation is in place other than the Insurance Act. A new Occupational Pension Act for the industry CBTT is in the process of being developed. The new Act will set higher reporting and disclosure standards for pension plans and will improve the communication process between plan sponsors and members.

Regarding other non-bank financial sector, weak supervision of the credit unions is still an issue despite 10 years of efforts to improve regulation and supervision of the sector. Credit unions are under the regulation of an institutionally and technically weak registrar of co-operatives under the Ministry of Labour and Small and Micro Enterprise Development.

There is also the need for more regulation and oversight of mutual funds. The Securities and Exchange Commission does not have the authority to propose laws or issue regulations and lacks prosecution and investigative powers.

Summarizing, key risk factors within the financial system in Trinidad and Tobago include: (i) outdated regulation of insurance companies which is complicated by their size, regional scale of operations and complex organizational structures; (ii) weakness of credit union regulation and supervision; (iii) absence of financial supervision and regulation of mutual fund operations, the largest being the state controlled Unit Trust Corporation; (iv) credit union exposure to investments in CLICO's quasi insurance investment products; (v) lack of specific regulation for private and public pensions, investment guidelines are outdated; and (vi) perception in the national community that failures will be mitigated by state intervention, or otherwise an extremely heavy dependence on the state to monitor and manage financial risk.

In this context, the GOTT has asked the support of the Bank for undertaking the much needed process of financial sector reform in the country.

With this purpose, the proposed technical cooperation:

- i. Will provide support for conducting an extensive assessment of the regulatory and supervisory reforms needed to overcome the challenges imposed by the risks factors aforementioned, and defining a roadmap for the introduction of these reforms as well as technical support for its implementation.
- ii. Is aligned with the objectives set out by the Compete Caribbean, in particular with the objective of sub-component 2.1: "to reduce or eliminate constraints to private sector development", by financing technical work to support the drafting and implementation of policies and regulations, as well as institutional strengthening activities.

B. Coordination and Synergies

Coordination with Country/Regional Priorities

The global financial crisis has exposed TT's financial system's vulnerabilities to systemic risk and has underscored the need for more sophisticated financial regulation. The recent crisis has highlighted GOTT's limited institutional capabilities to identify systemic risks and to propose adequate prudential measures in the financial sector. Financial sector reform is a priority of the GOTT according to the MoF's 2011 budget and Letter of Request (see Annex VII). The GOTT and the CBTT have embarked on a wide range of reforms to improve regulation of insurance companies and to enhance supervision of other actors in the financial sector.

The objective of IDB's interventions will be to strengthen financial sector supervision and, by extension, the stability of the sector by (i) supporting the GOTT and CBTT in reforming the regulatory and supervisory framework for the financial sector; and (ii) strengthening the institutional capacity of the Government in the area of risk identification and management. The present technical cooperation addresses the measures necessary to support financial regulatory and supervisory reform.

Poverty Reduction: The data on number of holders of deposit-type financial instruments within the system demonstrates a very high concentration amongst credit unions and the state controlled Unit Trust Corporation's mutual fund operations, which collectively account for some 900,000 accounts in a domestic population of 1.3 million. The credit union sector and Unit Trust Corporation trace their mandates and origins to the need to provide investment opportunities and access to credit to lower and middle income groups thereby increasing financial equity within the system.

Additionally, insurance giants, in particular the troubled Colonial Life Insurance Company, CLICO, have targeted this group of depositors through an aggressive force of mobile insurance agents. This resulted in a significant base of policy holders and investors in the company's quasi insurance products. The average income level within this pool of depositors ranges from \$3000-\$5000 TT per month. It is noteworthy that this group is likely to also represent 56% of the local population estimated to have little or no risk coverage on person or property.

2.16 These facts evidence that the lower income population of Trinidad and Tobago is highly vulnerable to financial risk. In this context, TC aimed at strengthening financial sector regulation and supervision and improving risk management in this sector will support and protect the integrity and savings of low and middle income citizens.

Regional Support and Integration: The largest financial institutions active in Trinidad and Tobago are regional in scope, including the two dominant insurance companies SAGICOR and Guardian Holdings Ltd as well as the beleaguered CLICO. Of the 8 commercial banks active in Trinidad and Tobago, only one; First Citizens Bank has operations solely in Trinidad and Tobago; the international banks Scotiabank, Royal Bank of Canada have extensive networks in the Caribbean as do the locally owned Republic Bank Ltd, Development Finance Ltd and First Caribbean Ltd. For almost all of these institutions, Trinidad and Tobago is the base of their operations and a hub of business.

Trinidad and Tobago is widely regarded within the Caribbean market as the centre for raising debt for private sector development, despite some paring down of external exposures by the domestic financial sector over the past two years. The wider Caribbean region is vulnerable to risk in the financial system of Trinidad and Tobago.

2.19 Failure to mitigate risk in the financial sector would result in significant contagion effects throughout the Caribbean region, as demonstrated by the recent case of CLICO. Even before the fall of CLICO, Central Bank regulators of the region began a dialogue on the urgent need to: (i) collectively upgrade supervision practices; (ii) strengthen technical capacity of regulatory bodies; and (iii) create mechanisms for sharing information and, where appropriate, scarce technical resources.

Coordination with Donors

The IDB is working in close coordination with the IMF, which conducted the 2010 Article IV Consultation and the first ever Financial Stability Module (FSM) under the Financial Sector Assessment Program (FSAP) from October 25 to November 9, 2010.

Coordination with Other Bank Initiatives

The IDB's Country Strategy with Trinidad and Tobago for the period of 2011-2015 (which will be in effect from August 2011 to December 2015) recognizes the significant development challenge TT faces in transitioning its economy into a post-hydrocarbon model, while continuing to improve its standard of living. This transition requires ambitious reforms in a number of areas: (i) private sector development; (ii) financial sector regulation; (iii) public sector management; (iv) education; (v) social protection; (vi) climate change; (vii) energy; (viii) water and sanitation; and (ix) transport. The financial sector regulation component of the strategy identifies the need to support the GOTT and CBTT in reforming the regulatory and supervisory framework and strengthening the institutional capacity of GOTT in the area of risk identification and management.

The country strategy with Trinidad and Tobago contributes to the fulfillment of the IDB's 9th General Capital Increase (GCI-9) as the increased level of engagement that it represents will contribute to the goal of supporting small and vulnerable countries.

The IDB is currently preparing a related technical cooperation to develop and upgrade methodologies for the overall assessment of the financial stability of the Caribbean region, including financial soundness indicators and early warning systems. These financial stability indicators and early warning systems are expected to contribute to upgrading of national financial stability reports and financial risk management in the region. A policy based loan (PBL) for financial sector reform is expected to be prepared for 1Q2012.

III. Project Objectives and Description

A. General Objectives

The ultimate goal is to foster sustainable economic growth and enhance competitiveness in Trinidad and Tobago. The general objective is to improve the enabling environment for business development, trade, and integration.

B. Specific Objectives

The specific objective is to support the GOTT's efforts to reform its financial sector regulatory and supervisory framework.

C. Expected Results

The expected results of the TC will be an approved action plan to support implementation of priority reforms of the TT financial sector.

IV. Project Components

Component Name	Description
1: Reform Needs Assessment and Action Plan	<p>There is limited information on the gravity of the limitations of TT's current financial regulatory and supervisory system. The project will finance the hiring of two consultants (one international; one national) that will provide better understanding of TT's financial system structure and its challenges. Two consultants are required for this project given the expansive scope of necessary financial sector reforms and weaknesses highlighted by recent IMF findings and the collapse of CL Financial. A national consultant is required to provide intimate color on the political scheme underlying the existing financial system and to ensure that the Bank's recommendations are consistent with the GOTT's reform program. The national consultant's assessment of the realities of TT's financial sector and politics will provide the framework for a financial sector reform action plan. The international consultant will assess TT's financial sector reform needs based on IMF recommendations, international best practices, and previous Bank operations in the Caribbean. The international consultant's assessments, together with those of the national consultant, will be combined to produce a comprehensive financial sector reform action plan and to identify any other needs for financial sector strengthening. The two consultants will conduct due diligence to assess the legislative processes for the financial system and provide assessment of the status of recommendations made by the IMF. The two consultants will work together to:</p> <ul style="list-style-type: none"> i. Carry out an extensive assessment of the regulatory and supervisory reforms needed in the country, building on the recommendations of the International Monetary Fund Financial Sector Assessment Program Report (FSAP), international best practices and the realities of Trinidad's financial sector. ii. Provide technical support for the implementation of financial sector reforms. This would include the definition of an action plan for the introduction of these reforms, technical assistance regulatory bodies and the identification of needs to further strengthening of these entities.

V. Cost and Financing/Budget

	CC	TT-MOF		Grand Total
	Cash	Cash	Kind	
1 Reform Needs Assessment and Action Plan	\$56,000.00	\$14,000.00	\$0.00	\$70,000.00
	\$56,000.00	\$14,000.00	\$0.00	\$70,000.00
2 Final Evaluation Component	\$0.00	\$0.00	\$0.00	\$0.00
	\$0.00	\$0.00	\$0.00	\$0.00
3 Contingencies Component	\$2,800.00			\$2,800.00
	\$2,800.00			\$2,800.00
Grand Total	\$58,800.00	\$14,000.00	\$0.00	\$72,800.00

VI. Executing Arrangements

The technical responsibility for this operation will be on ICF/CMF. The execution of the technical cooperation will be coordinated with the Ministry of Finance through a series of virtual meetings and missions to the Country, when required. To facilitate coordination, the consultants to be hired with the resources of operation will present periodic reports to the Bank (ICF/CMF through Compete Caribbean). One of the consultants will also report to the Ministry of Finance, since he/she will be embedded in the structure of the Ministry.

VII. Monitoring and Evaluation

A. Monitoring Description

The international and national consultants will work under the supervision of ICF/CMF. The monitoring of the program will be based on the implementation of the Results Framework (Annex I).

B. Technical and Basic Responsibility

ICF/CMF will have technical responsibility, which will be coordinated by Juan Ketterer (ICF/CMF) as team leader and Claudia Stevenson (ICF/CMF), as alternate team leader.

C. Evaluations/Progress and Final Report

The team leader will prepare and submit project progress reports to the CC-PCU within 30 days of the completion of each semester and a project completion report within 30 days of final disbursement.

VIII. Benefits and Risks

A. Benefits and Impact

The TC will directly contribute to the strengthening and stabilization of TT's financial system and reduce vulnerability to exogenous shocks by (i) assessing the current state of financial regulation and supervision; and (ii) supporting, recommending, and implementing regulatory and supervisory reforms, building on the recommendations of the IMF FSAP, international best practices, and the realities of TT's financial sector. The impact of this TC will be increased investor confidence as a result of the improved financial sector regulatory and supervisory framework. This should lead to increased foreign direct investment (FDI) which will contribute to sustainable economic growth and competitiveness in Trinidad and Tobago.

B. Risks and Mitigation Measures

The main risk of this operation would be an hypothetical lack of engagement of the GOTT, which could derive in insufficient information to determine the extent and urgency of financial sector reforms needed and/or the failure to introduce them. This risk is mitigated by the fact that the Ministry of Finance has itself requested the technical cooperation, and it will be part of the coordination of the Program's execution.

IX. Recommendation

STEVENSON, CLAUDIA, Team Leader of the current Project, recommends the approval of the operation and the use of CC resources up to \$58,800.00

X. Approval

Approved By:

FERNANDEZ DANVILA, MATEO

Executive Director.

COMPETE CARIBBEAN

Date of Approval:

6/3/2011

Annex I - Description of Project Components and Activities

Component Name	Description
1: Reform Needs Assessment and Action Plan	<p>There is limited information on the gravity of the limitations of TT's current financial regulatory and supervisory system. The project will finance the hiring of two consultants (one international; one national) that will provide better understanding of TT's financial system structure and its challenges. Two consultants are required for this project given the expansive scope of necessary financial sector reforms and weaknesses highlighted by recent IMF findings and the collapse of CL Financial. A national consultant is required to provide intimate color on the political scheme underlying the existing financial system and to ensure that the Bank's recommendations are consistent with the GOTT's reform program. The national consultant's assessment of the realities of TT's financial sector and politics will provide the framework for a financial sector reform action plan. The international consultant will assess TT's financial sector reform needs based on IMF recommendations, international best practices, and previous Bank operations in the Caribbean. The international consultant's assessments, together with those of the national consultant, will be combined to produce a comprehensive financial sector reform action plan and to identify any other needs for financial sector strengthening. The two consultants will conduct due diligence to assess the legislative processes for the financial system and provide assessment of the status of recommendations made by the IMF. The two consultants will work together to: i. Carry out an extensive assessment of the regulatory and supervisory reforms needed in the country, building on the recommendations of the International Monetary Fund Financial Sector Assessment Program Report (FSAP), international best practices and the realities of Trinidad's financial sector.ii. Provide technical support for the implementation of financial sector reforms. include the definition of an action plan for the introduction of these reforms, technical assistance regulatory bodies and the identification of needs to further strengthening of these entities.</p>
1.A: International Consultancy to Develop Report	This activity refers to an international consultancy
1.A.1: International Consultancy	US\$600/day*50days + US\$996.5*3 trips in airfare and Hotel + US\$175/day in perdiem
1.B: National Consultancy to Develop Report	This activity refers to a national consultancy
1.B.1: National Consultancy	US\$437.5/day*80days
2: Final Evaluation Component	Project Final Evaluation
2.A: Final Evaluation	Project Final Evaluation
3: Contingencies Component	Project Contingencies
3.A: Contingencies (5,00%)	Project Contingencies

Project Detailed Budget

	CC	TT-MOF		Grand Total
	Cash	Cash	Kind	
1 Reform Needs Assessment and Action Plan	\$56,000.00	\$14,000.00	\$0.00	\$70,000.00
	\$56,000.00	\$14,000.00	\$0.00	\$70,000.00
1.A International Consultancy to Develop Report	\$35,000.00	\$0.00	\$0.00	\$35,000.00
1.A.1 International Consultancy	\$35,000.00	\$0.00	\$0.00	\$35,000.00
1.B National Consultancy to Develop Report	\$21,000.00	\$14,000.00	\$0.00	\$35,000.00
1.B.1 National Consultancy	\$21,000.00	\$14,000.00	\$0.00	\$35,000.00
2 Final Evaluation Component	\$0.00	\$0.00	\$0.00	\$0.00
	\$0.00	\$0.00	\$0.00	\$0.00
2.A Final Evaluation	\$0.00	\$0.00	\$0.00	\$0.00
	\$0.00	\$0.00	\$0.00	\$0.00
3 Contingencies Component	\$2,800.00			\$2,800.00
	\$2,800.00			\$2,800.00
3.A Contingencies (5,00%)	\$2,800.00			\$2,800.00
	\$2,800.00			\$2,800.00
Grand Total	\$58,800.00	\$14,000.00	\$0.00	\$72,800.00

Annex III - Results Framework**General and Specific Objectives:**

The ultimate goal is to foster sustainable economic growth and enhance competitiveness in Trinidad and Tobago. The general objective is to improve the enabling environment for business development, trade, and integration.

The specific objective is to support the GOTT's efforts to reform its financial sector regulatory and supervisory framework.

Indicator	Unit of Measure	Baseline	Goal	Means of Verification	Comments
Impact - Increased investor confidence as a result of improved financial sector regulatory and supervisory framework					
Change in FDI inflows	%	N/A (2012)	N/A (2015)	IMF Article IV	The measurement unit refers to the annual % increase (over 2009 base year)
Legislation in support of financial reforms presented in parliament	#	0.00 (2012)	1.00 (2015)	GOTT Ministry of Finance	The legislation was presented to Parliament in 2011. However, the Bill is still under revision and discussion.
Outcome 1 - Agreement by GOTT on Priority Reforms for the Financial Sector					
N/A	docs	0.00 (2012)	1.00 (2012)		A Policy Matrix on Reforms was agreed with the IDB and the GOTT in the form of a Policy Based Loan
Output Reform Analysis and Institutional Needs Assessment					
N/A	docs	0.00 (2012)	1.00 (2012)	N/A	
Output Draft Action Plan					
N/A	docs	0.00 (2012)	1.00 (2012)	N/A	

Annex IV - Procurement Plan

Activity Description	Estimated Contract Cost	Procurement Method	CC Financing	Counter-part Financing	Pre-qualification	Estimated Notice Month	Estimated Completion Month	Comments
1 Reform Needs Assessment and Action Plan								
International Consultancy to Develop Report	\$35,000.00	QCII	100.00%	0.00%	No			
National Consultancy to Develop Report	\$35,000.00	QCNI	60.00%	40.00%	No			

Annex V - Supporting Documentation

Document Name	Link
Gender Equality Strategy:	Gender Equality Strategy
Environmental Sustainability Strategy:	Environmental Sustainability Strategy
Preparation Expenses Report:	PO Preparation Expenses Report
Other:	PO Preparation Expenses Report