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TRINIDAD AND TOBAGO

SELECTED ISSUES

September 2018

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August 6, 2018

Approved By
Western Hemisphere Department

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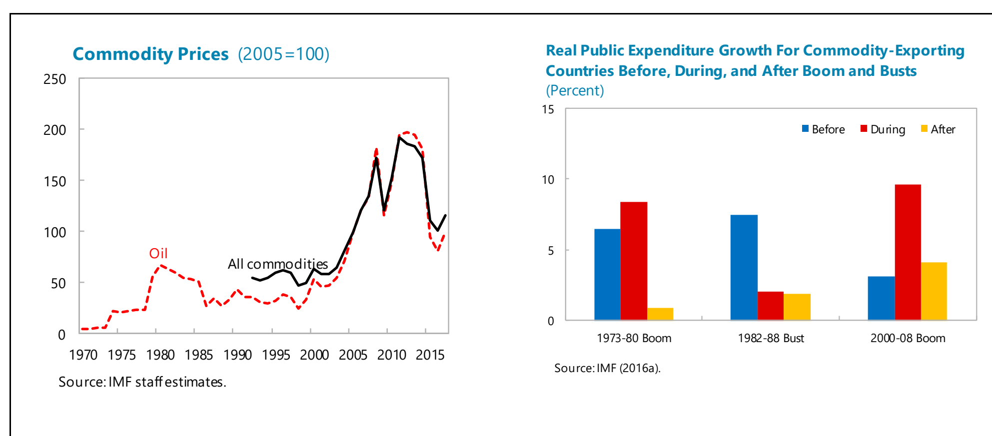
ADJUSTING TO COMMODITY SHOCKS: COUNTRY EXPERIENCES[1]

With commodity resources being non-renewable, developing a long-term strategy can help avoid unsustainable policies and ensure greater intergenerational equity. Recent country experiences highlight the benefits of precautionary buffers in smoothing fiscal adjustment process. Prudent and countercyclical fiscal policy implementation, structural reforms, and economic diversification can help contain the impact of commodity price booms and busts.

A. Unique Challenges

1. Resource-rich economies face unique challenges associated with highly volatile revenues. Commodity prices can fluctuate drastically and shocks can be large and persistent. Since resource-rich countries tend to rely heavily on commodity revenues to fund their budgets, price fluctuations can lead to procyclical movements in government spending, resulting in booms and busts. This volatility in expenditures can result in a destabilizing fiscal policy and undermine economic growth (IMF 2015a; Gelb and associates 1998). Also, high uncertainty related to the valuation of resource wealth and the volatility of key resource revenue make it difficult to assess the appropriate fiscal stance.



2. Resource-rich countries tend to be at a higher risk of having to undertake a large fiscal adjustment. The pace and size of the adjustment will depend on several factors, including the magnitude of the commodity price shock, its impact on the budget, and the availability of buffers. Recent commodity booms were followed by a sharp, but short-lived, fall in commodity prices. Countries managed to smooth the shock thanks to their accumulated buffers, but expenditures were nevertheless significantly cut in many cases (Angola, Republic of Congo, Ecuador, Kuwait, Kazakhstan, Iran, Saudi Arabia, and Venezuela) and economic growth decelerated.

[1] Prepared by Abdullah AlHassan. This annex draws on IMF (2015a and 2016a). Also see Chapter 2 of the April 2018 REO for a comparison with Latin American and Caribbean experiences.

B. Overall Strategy

3. Adjustments undertaken through fiscal policy action need to be considered within the wider macro-financial context (Box 1). While a flexible exchange rate has been found to mitigate growth losses after a shock for more diversified economies (IMF 2016b, and Baba *et al.* 2015), preserving a peg can provide a helpful anchor for highly undiversified economies but only if large financial buffers exist and/or credible fiscal adjustments are possible in the face of persistent shocks (IMF 2016c; Husain *et al.* 2015). It is important that robust monetary policy frameworks and well-developed money and foreign exchange markets are in place to mitigate potential risks, including higher inflation and deteriorating balance sheets. Further, large swings in commodity prices can lead to deterioration in household and corporate balance sheets with negative spillovers into the financial system, potentially affecting fiscal adjustment, in the event of government bailout or intervention in the financial system. Appropriately coordinated macro-financial policies can help mitigate financial sector vulnerabilities and their fiscal consequences.

4. The adjustment is set out in a medium-term fiscal strategy with clear objectives. Fiscal policy should be guided by formal medium-term fiscal objectives. The overarching objectives and policies needed to achieve them are clearly established and well communicated. Social dialogue and broad political support enhance the likelihood of sustained implementation of reforms (IMF 2015b). The strategy would include steps to achieve sustainable fiscal targets (e.g., non-resource primary fiscal balance (Norway, Timor-Leste), structural balance (Chile, Colombia)) and identify sources of financing to smooth the adjustment process. Given that fiscal slippages can come from state-owned enterprises (SOEs), expanding targets to the whole public sector is advisable.

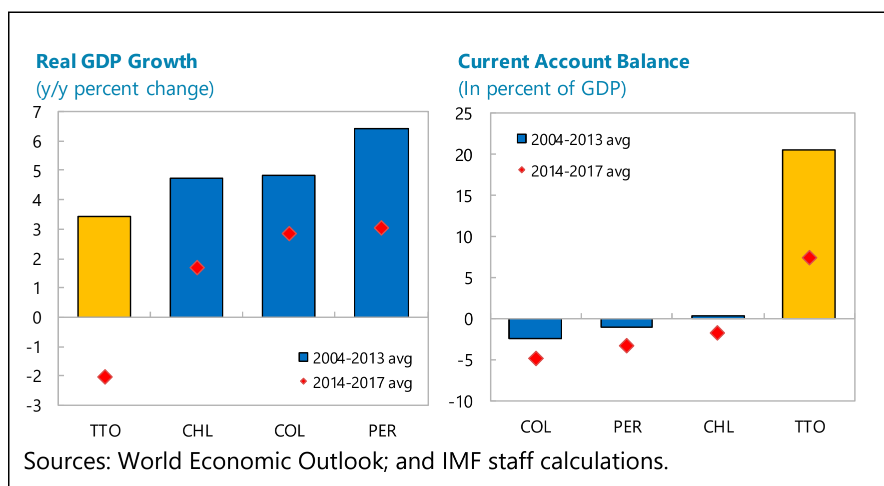
5. Countries with fiscal buffers can focus on a smoother, growth-friendly adjustment process. Even countries with sizable buffers may need to undertake significant (albeit gradual) adjustments as fiscal deficits may become too large to sustain over the medium term. For example, only a few countries (e.g., Norway and UAE) could withstand the 2014–15 fall in oil prices with sufficiently large buffers to shield their budget. Still, sizable buffers allow countries to consolidate at a slower pace, protect priority areas, and focus on reforms of higher quality. The speed of the adjustment should consider the impact on growth (e.g., fiscal multipliers) and the need to converge to a sustainable debt position. Further, the choice between drawing down financial assets and borrowing will depend on the portfolio of assets, its respective returns, the cost of borrowing, and management of risks and trade-offs between the different assets and liabilities.

6. Resource-rich countries with more diversified economies and tax bases are better prepared to weather commodity-related shocks. To the contrary, oil export-dependent economies experienced a massive shift from large budget surpluses, averaging 4½ percent of GDP in 2012, to deficits of 10¼ percent of GDP in 2015. In heavily commodity-dependent economies, large commodity price shocks can also trigger problems in other vulnerable sectors (e.g., the financial system, especially where financial institutions have large exposures to the commodity

sector), which may require faster/larger fiscal adjustment to be able to manage contingent financial liabilities.

Box 1. Adjusting to Commodity Shocks: Country Experiences from Latin America

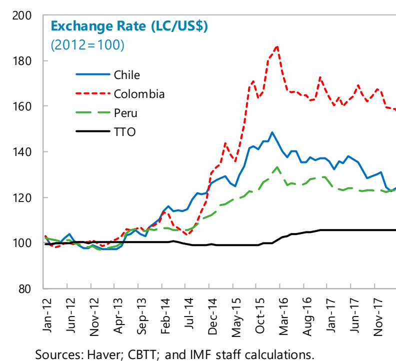
Resource-rich economies face unique challenges associated with highly volatile revenues. Since these economies tend to rely heavily on commodity revenues to fund their budgets, price fluctuations can lead to procyclical movements in government spending, resulting in booms and busts. Thus, they are at a higher risk of having to undertake large adjustments. The pace and size of the adjustments have been contingent on several factors, including the magnitude of the commodity price shock, its impact on the internal and external imbalances, the availability of buffers, and the macroeconomic policy mix.



Sources: World Economic Outlook; and IMF staff calculations.

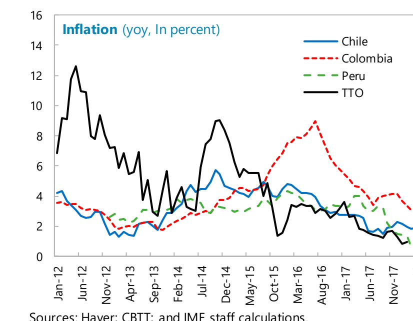
In responding to commodity shocks, the experience of resource-rich countries (Chile, Colombia, Peru, Trinidad and Tobago) has varied.

- ***Exchange rate:*** Given the flexible exchange rate regime, the nominal exchange rate depreciated by around 20 percent during June 2014 to June 2016 for Chile and Peru, while it depreciated significantly for Colombia, by 60 percent, due to the role of its exchange rate regime as the first line of defense against external shocks. Given the stabilized exchange rate arrangement in Trinidad and Tobago, the currency remained broadly stable since the 7-percent depreciation in 2016.



Sources: Haver; CBTT; and IMF staff calculations.

- ***Monetary policy:*** All countries (except for Trinidad and Tobago) have inflation targeting regimes. Although inflation in Chile was outside the inflation target band (2-4 percent) for about 2 years (April 2014 to June 2016), the policy rate was held steady at 3.5 percent to support economic recovery. In Colombia, as inflation was pushed outside the inflation target band (2-4 percent) given the large nominal depreciation of the exchange rate, the policy rate was tightened from 4.5 to 7.75 percent, and then eased in 2017 as inflation pressure subdued. Although Peru's inflation was outside its target of 2 percent (with +/-1 percent), monetary policy was tightened

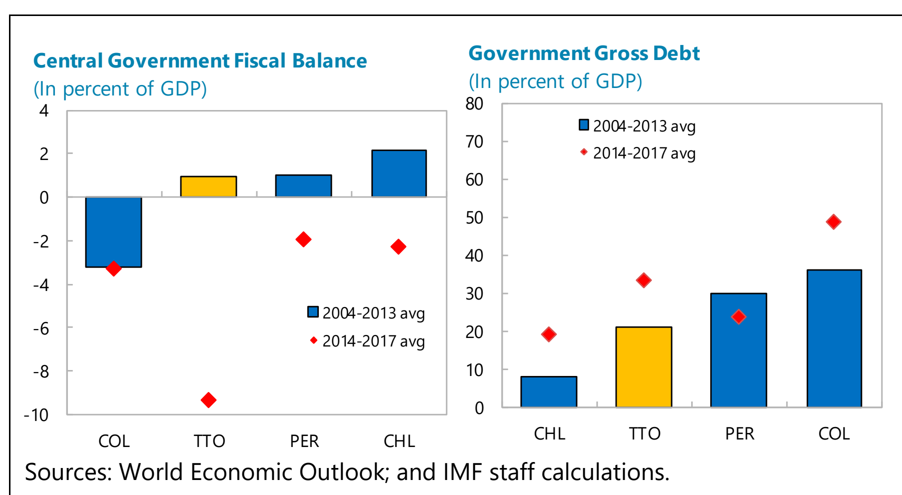


Sources: Haver; CBTT; and IMF staff calculations.

Box 1. Adjusting to Commodity Shocks: Country Experiences from Latin America (Concluded)

given passthrough from currency depreciation and food supply shocks. In Trinidad and Tobago, the monetary policy stance has been to strike a balance between supporting the recovery and safeguarding against FX market pressure.

- ***Fiscal policy:*** Chile's strong net public-asset position and credibility of the structural balance rule allowed for countercyclical fiscal policy to ease the sharp growth slowdown. To address negative output gap and weak domestic demand, temporary fiscal loosening was justified in Peru due to prudent fiscal policy in the past and low net public debt. Though Colombia initially tightened fiscal policy (2015-16) to demonstrate its commitment to the fiscal rule, it has some fiscal space for additional peace expenditure while protecting the credibility of the fiscal rule. In Trinidad and Tobago, despite strong financial buffers, the authorities adopted a number of measures to address the fiscal imbalance, given the absence of a multi-year fiscal framework and formal fiscal rules. However, some measures have been delayed in implementation due to legislative constraints and institutional capacity.



Sources: World Economic Outlook; and IMF staff calculations.

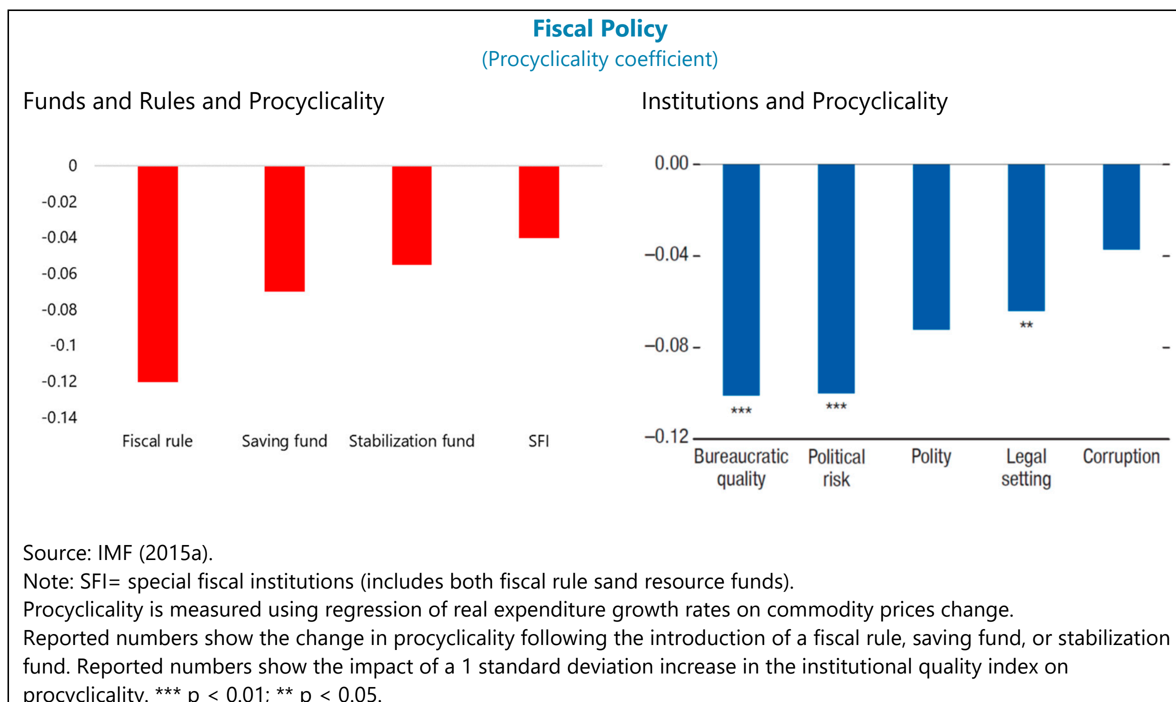
- ***Structural reforms:*** To complement other macroeconomic policies, Chile, Colombia, and Peru adopted a set of structural reforms to enhance competitiveness and increase productivity, including in the areas of business climate, education and labor markets, renewable energy, and public-private infrastructure investment. There has been limited progress in advancing the structural reform agenda in Trinidad and Tobago.

Key messages: Financial buffers and appropriate institutions (such as fiscal rules and saving funds) can help accommodative macroeconomic policy mix to support economic activity in responding to commodity shocks and to minimize the adverse impact on growth and macroeconomic stability. Exchange rate flexibility was an effective shock absorber and facilitated adjustments. Structural reforms constitute an essential complement to these short-term actions, to lift potential growth over the medium term.

7. Strong fiscal institutions are needed to help achieve and sustain the fiscal adjustment. In particular, in many countries, this will include a need to strengthen public financial management (PFM). Effective expenditure controls are critical to implement the fiscal adjustment, but also to ensure fiscal discipline and implementation of sound fiscal policy (Pattanayak 2016). Further, although the use of resource funds and fiscal rules (e.g., Botswana, Chile, Norway) have had varying levels of success in reducing the procyclicality of government expenditures to commodity prices (with fiscal rules having a larger impact than resource funds), empirical evidence suggests that better

institutions do help limit procyclicality; the lack of success of rules and funds in some cases (Azerbaijan, Kazakhstan, Libya) may owe more to the underlying weaknesses of the institutional frameworks than to the rules themselves.

Fiscal Policy
(Procyclicality coefficient)



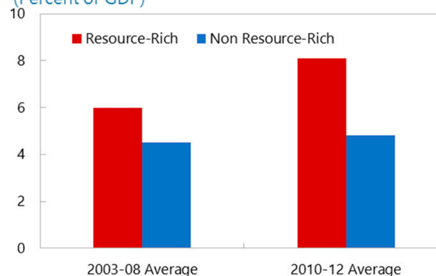
Source: IMF (2015a).
Note: SFI= special fiscal institutions (includes both fiscal rule sand resource funds).
Procyclicality is measured using regression of real expenditure growth rates on commodity prices change.
Reported numbers show the change in procyclicality following the introduction of a fiscal rule, saving fund, or stabilization fund. Reported numbers show the impact of a 1 standard deviation increase in the institutional quality index on procyclicality. *** $p < 0.01$; ** $p < 0.05$.

C. Composition of the Fiscal Adjustment

8. Different adjustment strategies may be feasible depending on the needed size of the adjustment and country-specific circumstances.

- ***Expenditures:*** Reforming public expenditures requires a comprehensive evaluation of the size and functions of the state and institutional reforms. An expenditure review that examines the cost-effectiveness of different policy interventions can help identify priority areas (e.g., on health or education) and eliminate others (e.g., ill-targeted and costly transfers and subsidies). Many countries have already initiated energy subsidy reforms (Angola, Cameroon, Iran, Saudi Arabia, United Arab Emirates). Further, resource-rich countries tend to scale up public investment during booms compared to other countries. If efficiency of public investment is low, then cuts in such investment could be appropriate and may have limited impact on domestic activity (given a large import component) and long-term economic growth. Nonetheless, the cuts should be accompanied by efforts to enhance the efficiency of public investment. In the short run, current expenditure cuts should focus on the larger spending

Capital Expenditures Are Higher In Resource-Rich Countries During Commodity Booms
(Percent of GDP)



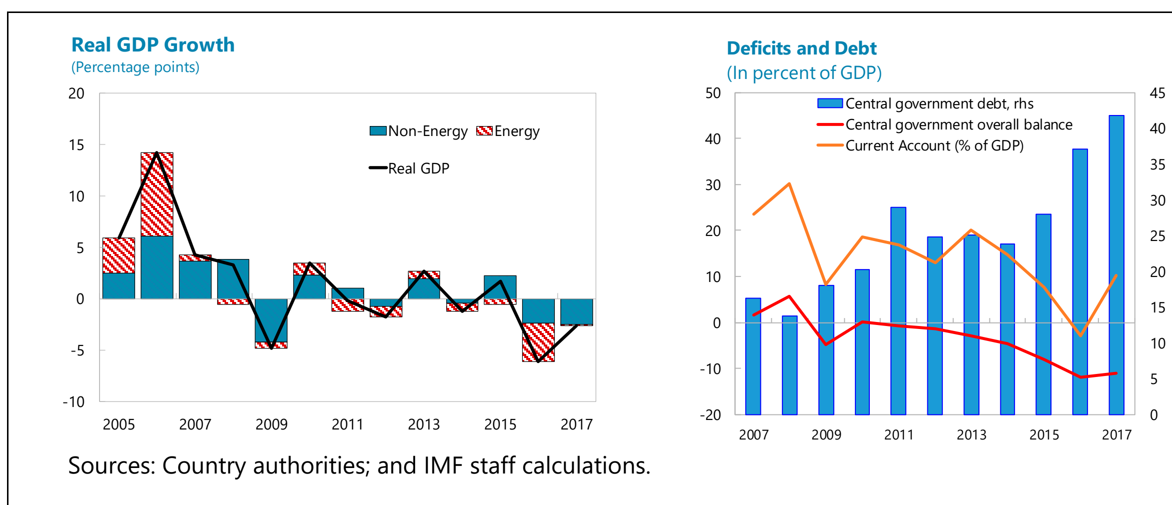
Source: IMF (2016a).

items. Across-the-board cuts should be avoided since they are neither efficient nor welfare enhancing (IMF 2014).

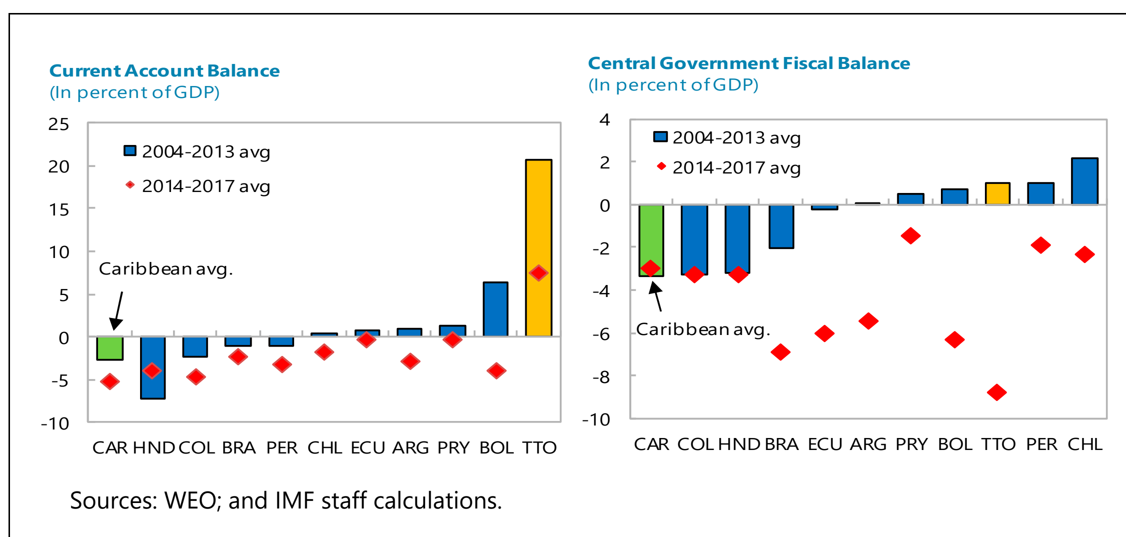
- ***Revenues:*** Increasing non-resource revenues should be a part of the fiscal adjustment strategy. Such revenues are critical to lowering the vulnerability of the budget to commodity prices. Building effective tax systems takes time and effort through: substantial investments in building effective tax administration to ensure compliance and educating taxpayers on both the general need for, and precise nature of, changes in the tax system. Direct taxes, including income and property taxation, and a broad-based VAT (recently introduced in the Gulf Cooperation Council) could lead to effective revenue mobilization and improve the efficiency of taxation—if properly designed and administrated, this should not affect investment decisions. The reforms can be complemented by selective excise tax on goods, such as tobacco and soft drinks (Saudi Arabia), which are generally good sources of revenue, have public-health rationale, and expand fiscal space to fund priority investments and programs. Also, privatization of SOEs (e.g., Malaysia) could play a role in the adjustment, by providing up-front resources and/or removing persistent drains on the budget in the case of loss-making SOEs.

D. Implications for Trinidad and Tobago

9. Trinidad and Tobago has faced several years of weak or negative growth on the back of terms-of-trade and energy supply shocks. These shocks led to sharp deteriorations in the country's internal and external balances, exceeding that in most other commodity exporters in the region. The fundamental sources of the fiscal problem are two-fold: (i) the government's "core" revenues (defined as revenue from taxation, royalties, and customs duties) have been persistently lower compared to the period before the energy shock in 2014, reflecting low energy prices and production, as well as fiscal incentives to attract investment in the energy sector; and (ii) spending in the form of transfers and subsidies have risen to levels that can no longer be sustained by those core revenues; transfers and subsidies are very high by regional standards.



Sources: Country authorities; and IMF staff calculations.



Sources: WEO; and IMF staff calculations.

10. The government has adopted several measures to address imbalances and restore confidence. Although the government has built substantial financial buffers through foreign exchange reserves, Heritage and Stabilization Fund (HSF) assets, and large shareholdings of some profitable domestic companies over the years, it has embarked on fiscal reforms to achieve fiscal sustainability and restore external balance, as well as avoiding depleting the country's financial buffers. These reforms include a range of revenue and spending measures (Annex III, Staff Report),[2] as well as allowing a small exchange rate adjustment, while maintaining a neutral monetary policy stance to strike a balance between supporting economic recovery and safeguarding against FX market pressure.

11. While these reforms are positive steps toward fiscal sustainability, a comprehensive medium-term fiscal framework (MTFF) is needed to prepare for future boom-bust cycles in commodity prices. While there are currently two "soft" fiscal objectives (limiting public sector debt to no more than 65 percent of GDP and budget balance by 2020), these are not articulated in a MTFF. Inflows and outflows of the HSF, which could provide a countercyclical policy tool, are neither linked to fiscal indicators nor based on assessment of longer-term fiscal sustainability. A consistent mix of fiscal, monetary, exchange rate, and structural reforms can help contain the impact of commodity price booms and busts.

12. Going forward, fiscal policy should be guided by a MTFF. A well-designed fiscal framework that takes into account potential uncertainties associated with commodity cycles can help improve fiscal management. Countercyclical policy implementation would help smooth the impact of commodity-induced sharp fluctuations in the economy. Toward this objective, the HSF should be integrated with the MTFF to act as a countercyclical policy tool, and flows in and out of the HSF should be guided by an appropriately-designed fiscal target linked to the MTFF, to help reduce procyclicality in fiscal policy implementation. Further, with the sharp decline in capital expenditure in recent years, growth-enhancing public investment should be protected from expenditure cutbacks, helping to offset some of the negative growth impact of fiscal adjustment.

[2] Some reforms have been delayed due to legislative constraints and institutional capacity.

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THE HERITAGE AND STABILIZATION FUND: KEY ISSUES[1]

Trinidad and Tobago is one of the very few Caribbean countries with a natural-resource-revenue fund. The Heritage and Stabilization Fund (HSF) has well-defined objectives, a sound governance structure, and a relatively conservative investment portfolio. Nonetheless, inflow and outflows rules are not directly linked to fiscal indicator(s) or the sovereign balance sheet. Such rules need to be reassessed and more closely linked to a medium-term fiscal framework, improving its potential as a countercyclical tool. The fund should be considered within a sovereign asset-liability management framework.

A. Objectives

1. **The Heritage and Stabilization Fund (HSF) aims to save and invest energy revenue in excess of budgetary projections.** In March 2007, the Parliament passed the Heritage and Stabilization Fund Act (hereafter the Act) replacing the Revenue Stabilization Fund (IRSF) with the HSF. The IRSF was set up in 2000 to promote fiscal discipline, cushion the impact on the budget and the economy of unexpected drops in oil prices, and strengthen public sector savings.[2] Further, the HSF is separate from the overall foreign exchange reserves of Trinidad and Tobago.

2. **The HSF has stabilization and long-term savings objectives.** In terms of stabilization, the fund aims to cushion the impact of revenue downturns caused by falls in the prices of oil or natural gas, and help sustain expenditure during such periods. In terms of savings, the fund aims to generate a store of wealth that will generate income to support expenditure when revenue declines as a result of the depletion of petroleum resources. It also aims at providing a heritage for future generations.

B. Governance and Transparency

3. **The governance structure is well defined, with clear roles and responsibilities of the different governing bodies.**

- The Minister of Finance approves deposits and withdrawals from the fund in accordance with the Act, and provides audited annual financial statements to parliament.
- The Board of Governors for the HSF, comprising five members, decides on the fund's investment objectives and determines the fund's operational and investment guidelines. It also reviews the performance of the fund and submits quarterly and annual investment report on the operation and performance of the fund to the Minister of Finance.

[1] Prepared by Abdullah AlHassan.

[2] Trinidad and Tobago—Selected Issues, "The Heritage and Stabilization Fund: Key Issues for the 2012 Review." March 2012.

- The Central Bank of Trinidad and Tobago (CBTT) is the operational manager, in charge of investing the HSF's assets consistent with a Strategic Asset Allocation (SAA). It also provides reports on the assets and investment performance of the HSF on a regular basis to the Board of Governors.
- Parliament has the ultimate oversight of the fund, which it exercises through the review of annual reports and audited financial statements.

4. The review of the HSF legislation has not been finalized. The Act requires the Minister of Finance to review the HSF legislation and submit a report to Parliament every five years. The first review was due by 2012 but so far has not been completed.[3] The 2017 review has been initiated.

5. The reporting by the HSF on its operations and performance has been transparent. This include the public disclosure of financial information on a quarterly basis. The HSF's annual financial statements are externally audited and published. Also, as a member of the International Forum of Sovereign Wealth Funds (IFSWF) since 2012, the HSF produced a self-assessment against the Santiago Principles.[4]

C. Inflow and Outflow Rules

6. Inflow rules into the HSF are open to interpretation. The Act sets out the mechanism for deposits from the budget to the HSF. Section 13 stipulates for any quarter of the financial year that petroleum revenues exceeding the estimated petroleum revenue (EPR) by more than 10 percent shall be deposited into the HSF.[5] If the quarterly excess is less than 10 percent, deposits are made at the discretion of the Finance Minister. On the other hand, Section 14 states that a minimum of 60 percent of the aggregate excess revenues must be deposited in a financial year.

7. Outflow rules are related to petroleum revenue shortfalls, and can only take place the year after the shortfall. Section 15 of the Act states that when the petroleum revenues collected in any financial year are less than the EPR for that year by at least 10 percent, withdrawals can be made from the fund, up to the lesser of: 60 percent of the shortfall; or 25 percent of the fund's balance at the beginning of that year. However, no withdrawal can be made that would cause the fund's assets to fall below US$1 billion. Since the period considered is the financial year, withdrawals are only permitted in the year following the shortfall in revenue. The Act does not require parliamentary approval for withdrawals.

[3] In late 2012, the Board reviewed the Act and delivered a report to the MoF "Policy Proposal Document on the HSF with Suggested Amendments to the HSF Act (2007)," and submitted an updated proposal in late 2014.

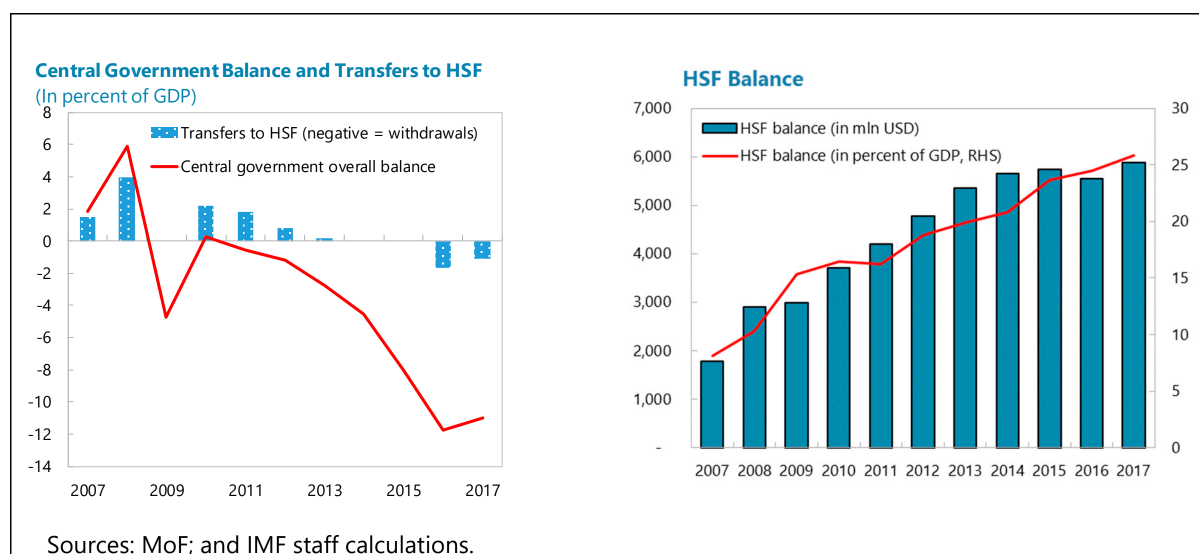
[4] Santiago Principles self-assessment: http://www.ifswf.org/assessment/tt

[5] The EPR is calculated on the basis of an 11-year centered moving average of crude oil and gas prices, with 5 years of history and 5 years of projections in addition to prices for the current year.

D. Assets and Performance

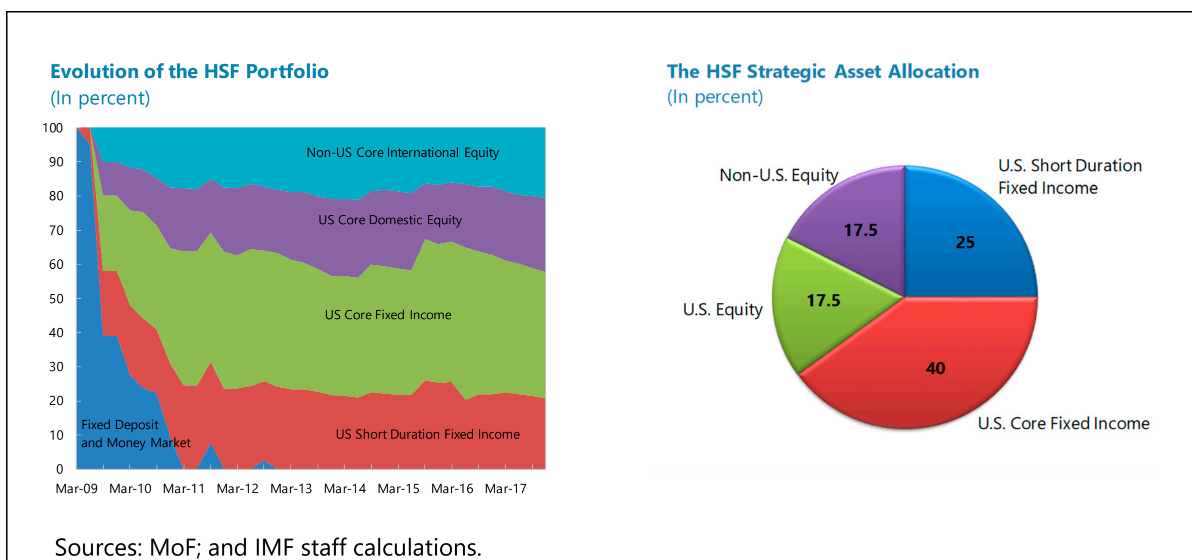
8. The resources of the HSF comprise the initial transfers from the IRSF and the budget, and returns on the fund's assets. Following the initial capital injection with assets of the IRSF, four of the six transfers from the Budget to the fund since its inception in 2007 were made despite the deficit in the overall fiscal balance (i.e., resulting in borrowing to save). There were two withdrawals from the fund in 2016 and 2017, amounting to US$628 million (equivalent to about 3 percent of GDP).

9. The HSFs' assets rose quickly following the establishment of the fund, and have stabilized in recent years. Since its inception 10 years ago, total assets increased from about US$1.8 billion at end-September 2007 to US$5.9 billion at end-December 2017. The ratio of HSF assets to GDP has been rising since 2014 despite relative stability in the U.S. value of the fund, mainly because of the decline of GDP in U.S. dollars.



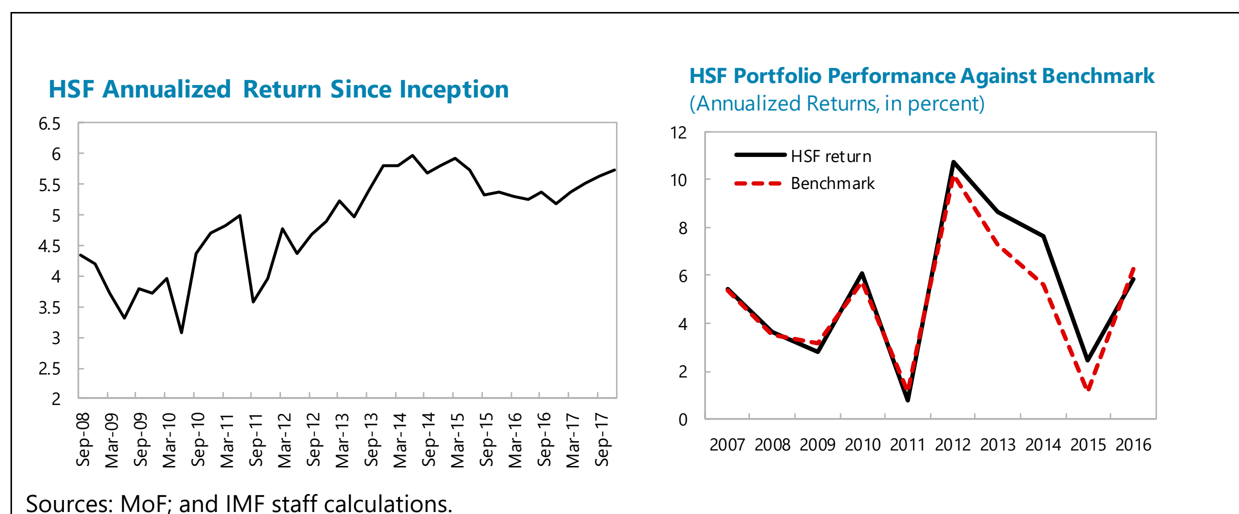
Sources: MoF; and IMF staff calculations.

10. The HSF portfolio is diversified. The HSF portfolio was highly concentrated in short-term assets up to August 2009, reflecting a conservative investment strategy in the face of global financial market turmoil. The HSF's investments are guided by the SAA, with the aim to maintain sufficient liquidity for potential withdrawals, while also preserving and augmenting its long-term real value. The SAA consists of a portfolio of 65 percent fixed-income securities and 35 percent equities.



Sources: MoF; and IMF staff calculations.

11. The return on HSF assets have largely tracked, or been higher than, the corresponding return on the benchmark portfolio. As of December 2017, the annualized rate of return since inception was 5.72 percent, which was higher than the annualized rate of return on the benchmark portfolio by 61 basis points. Annual rates of return have ranged from 0.8 percent (2011) to 10.7 percent (2012). The standard deviation of the annual rates of return was 3.1 percent.



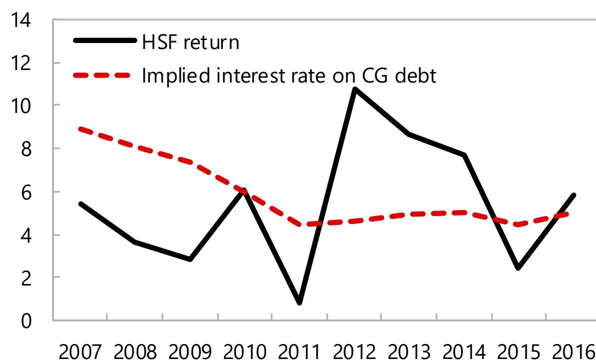
Sources: MoF; and IMF staff calculations.

E. Issues and Recommendations

12. The HSF needs to be considered in the context of sovereign assets and liabilities management. The HSF, as an instrument for savings, is only one element of government finances and the sovereign balance sheet, and its role should be assessed in the broader context of the sovereign asset and liability management. Given declining energy reserves, the medium-term fiscal framework (MTFF) will need to specify an appropriate balance between saving, consuming, and investing energy revenue, including in the HSF. The evolution of other items on the sovereign balance sheet, such as official foreign reserves and public debt, will also need to be considered in developing a comprehensive approach to building savings for future generations.

13. The HSF operations should be rooted within the MTFF to guide fiscal policy implementation through commodity cycles. While the HSF provides financial buffers to draw on in periods of adverse shocks, the rules governing inflows and outflows are neither linked to fiscal indicators (e.g., overall balance, non-energy balance) nor based on assessments of longer-term fiscal sustainability, limiting its potential as a countercyclical tool. This has resulted in building up assets in the HSF and accumulating debt at the same time. Therefore, transfers to the HSF should be derived from rules that would ensure: the accumulation of assets in the HSF reflect actual improvements in the sovereign balance sheet; and limit situations where saving in the fund can possibly result in a buildup of expensive debt relative to the return from fund investments. Table 1 presents different inflow/outflow rules for SWFs that are tailor made to reflect the appropriate fiscal policy strategies of each individual country.[1]

HSF Portfolio Annual Return vs Implied Interest Rate of CG debt (in percent)



Sources: Ministry of Finance; and IMF staff calculations.

14. Accordingly, the HSF should be fully integrated with the MTFF along with formal fiscal targets that guide policy, with transfers to/from the HSF linked to an appropriate fiscal rule. Tailored TA could determine a specific rule that ensures fiscal sustainability and implementation of countercyclical fiscal policy. Further, the authorities should also consider adopting an asset-liability management framework. Public debt and the HSF need to be managed in an integrated framework, to limit situations where the authorities may need to borrow to save into the HSF (e.g., when running a fiscal deficit).

Table 1. Inflow and Outflow Rules of Selected Sovereign Wealth Funds

	Inflow rule	**Outflow rule**
Australia: Pension Reserve Fund	Contributions to the Future Fund and Nation-building Funds come from the Australian government's budget surpluses. The Future Fund has also received contributions resulting from the proceeds of the sale of the government's stake in Telstra in late 2006 and approximately 2 billion shares in Telstra remaining after this sale process. Also, it received contributions from a combination of budget surpluses, proceeds from the sale of the government's holding of Telstra and the transfer of remaining Telstra shares. The	Withdrawals from the Fund occur only once the superannuation liability is fully offset or from July 1, 2020, whichever is the earlier, except for the purpose of meeting operating costs or unless the Future Fund's balance exceeds the target asset level as defined by the Future Fund Act. They are determined by the government, subject to the advice of the relevant Advisory Board and oversight of the maximum spending from the funds by Parliament. The Board must take all reasonable steps to ensure that, during a financial year, the amount of money standing to the credit of the Fund Account is sufficient to cover the purpose.

[1] See AlHassan et al. (2018). "Commodity-based Sovereign Wealth Funds: Managing Financial Flows in the Context of the Sovereign Balance Sheet." IMF WP 18/26.

Table 1. Inflow and Outflow Rules of Selected Sovereign Wealth Funds (Continued)

	Finance Minister may have certain discretionary transfers from time to time.	The Fund Account is a Special Account for the purposes of the Financial Management and Accountability Act 1997.
Canada (Alberta): Savings Fund	Initially: annual transfers of 30 percent of non-renewable resources. Until 1982, it retained all investment income. In 1984, it was reduced to 15 percent and to 0 percent in 1987. Since 1987: automatic annual payments apart from inflation-proofing to the Fund were stopped. From time to time, ad hoc capital was transferred to the fund primarily based on budget surpluses. The Fund has a legislated provision for retaining a portion of its income as protection against inflation. The annual amount forecast to be retained from investment income in the Fund for inflation-proofing is $304 million. ALM approach: Assets and income of the Heritage Fund are fully consolidated with the assets and revenue of the province.	Initially all income was retained. Since 1982, the investment income earned by the Heritage Fund, less the amount retained in the fund for inflation proofing, is transferred to the province's main operating fund, the General Revenue Fund, to help pay for priority programs (essential to programs like health care and education) and keep taxes low. The Minister of Finance may charge a cost, expense, or other payment to the Heritage Fund if in the opinion of the Minister the cost, expense, or other payment was incurred or paid in respect of the Heritage Fund.
Chile (ESSF): Stabilization Fund	Effective fiscal surpluses above 0.5 percent of GDP.	• To support counter-cyclical fiscal policies to complement fiscal revenue as needed and in order to finance authorized public expenditures in the case of a fiscal deficit, for the regular or extraordinary amortization of public debt, and for financing the annual contribution to the Pension Fund PRF.
New Zealand: Savings Fund Pension Reserve Fund	• The establishing legislation for the Fund includes a funding formula from which an annual government contribution is derived. Contributions are to be made during the early period of the Fund, while the cost of superannuation is relatively low, and invested by the Guardians to build the Fund. The contributions come from tax revenue.	• After 2020, if the required annual capital contribution is less than 0, the Minister may require a capital withdrawal to be made from the Fund up to that amount and paid into a Crown Bank Account. • At a certain point—currently from around 2035—the government will begin making withdrawals from the Fund in line with the funding formula to help smooth the cost of superannuation over time.
	• The contributions were suspended in July 2009 as the government prioritized debt reduction in the wake of the Global Financial Crisis. Under the funding formula, the calculated annual contributions in each period incorporate the Fund balance and therefore the expected future contributions reflect the contribution cessation, among other factors.	• Money may be paid out of the Fund to pay any fee that is payable to an investment manager or custodian in respect of the Fund, meet any other obligations that are directly related to the operation of the Fund, and pay the taxation liabilities arising in respect of the Fund.

Table 1. Inflow and Outflow Rules of Selected Sovereign Wealth Funds (Continued)		
Norway: Stabilization and Savings Fund	• The inflows to the fund are defined in legislation and include the net cash flow to the government from the petroleum sector in addition to the returns on the fund's investments. • The net cash flow includes taxes and duties on petroleum companies as well as net cash flows from the government's direct participation in the petroleum sector and dividends from Statoil.	• The outflow from the fund is a transfer to cover the non-oil deficit of the central government budget, defined as the difference between total expenditures and non-oil revenues. • According to the so-called "spending rule," the non-oil budget deficit should be on average 3 percent of the fund over time, which corresponds to the estimated real return on the Fund.
Kuwait (GRF and FGF): Stabilization and Savings Funds	• The GRF is the main treasurer for the government and receives all revenues (including all oil revenues) from which all State budgetary expenditures are paid. • FGF (established in 1976 with 50 percent of the GRF balance): annual transfer of 10 percent of all State revenues; all investment income is reinvested, including 10 percent of the net income of the GRF.	• GFR: transfers to pay the State budgetary expenditures sanctioned by law. • FGF: No assets (withdrawals) can be withdrawn from the FGF unless authorized by specific legislation.
U.S. (Alaska): Savings Fund	• At least 25 percent of all mineral lease rentals, royalties, royalty sales proceeds, federal mineral revenue-sharing payments, and bonuses.	• The entire Fund is managed as a single investment pool. However, for accounting purposes it is divided into two parts: principal (the non-spendable funds) and the earnings reserve (assigned funds). The Alaska Constitution says that the principal may not be spent. The earnings in the earnings reserve may be spent by the Legislature for any public purpose, including the Permanent Fund Dividend distribution. • The Legislature decides how Fund income is used. To date, the Legislature has: • inflation-proofed Fund principal, • paid dividends to qualified applicants, • made special appropriations to the principal, and paid for some Fund-related state expenses • Of the spending that has occurred from the Fund, most of it has been for dividends to qualified Alaska residents.
UAE Abu Dhabi Investment Authority	• The government of Abu Dhabi provides funds to the Abu Dhabi Investment Authority (ADIA) on periodic basis that are surplus to its budgetary requirements and other funding commitments.	• ADIA is required to make available to the government of Abu Dhabi, as needed, the financial resources to secure and maintain the future welfare of the Emirate. In practice, such withdrawals have occurred infrequently and usually during periods of extreme or prolonged weakness in commodity prices.
		• In anticipating any withdrawals, ADIA manages its fund in such a way as to ensure there is a sufficient level of short-term liquidity to meet any anticipated funding requests from the government. • ADIA is not involved with nor has any visibility on matters relating to the spending requirements of the government of the Emirate of Abu Dhabi.

Table 1. Inflow and Outflow Rules of Selected Sovereign Wealth Funds (Concluded)

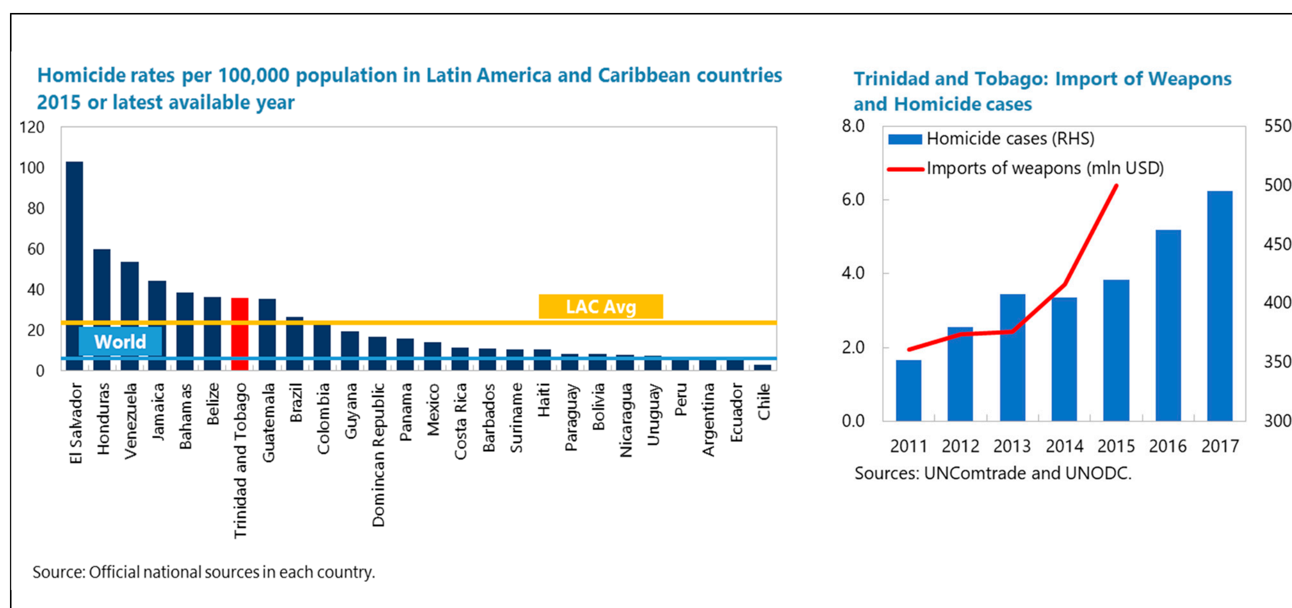
Timor-Leste: Petroleum Fund	Income from upstream (and downstream) petroleum activities enters the Petroleum Fund, mainly from: (1) tax revenues, (2) first tranche petroleum and oil profit, (3) investment returns, and (4) other types of revenues such as pipeline rental.	• The Petroleum Fund's only expenditure is a transfer to the central government budget (based on the Estimated Sustainable Income, calculated as 3 percent of total petroleum wealth), payment of operational management fees, and refunds of overpaid taxation. By the Petroleum Fund Law, the transfer to the State budget requires an explicit decision of Parliament. • Outflows are electronic transfers to the credit of a single State Budget account, as approved by Parliament for the Fiscal Year. • No transfer from the Petroleum Fund in the Fiscal Year unless the government has first provided Parliament with reports: specifying the Estimated Sustainable Income for the Fiscal Year for which the transfer is made; specifying the Estimated Sustainable Income for the preceding Fiscal Year; and from the Independent Auditor certifying the amount of the Estimated Sustainable Income. • Transfers from the Petroleum Fund by the Central Bank in the Fiscal Year take place after publication of the budget law. • The Central Bank is entitled to deduct, by direct debit of the Petroleum Fund account, any reasonable management expenses, as provided for in the operational management agreement.

TACKLING CRIME IN TRINIDAD AND TOBAGO[1]

Crime in Trinidad and Tobago is multi-faceted and like in most countries, it imposes economic and social costs. The victims of violent crime are predominantly the youth. Such crimes also negatively impact the business environment. A balanced approach to deal with crime should include prevention and crime-control programs.

A. Topography

1. **Statistics show that the homicide rate in Trinidad and Tobago is high on an international and regional scale**. At 36 homicide cases per 100,000 population in 2017, this is almost 6 times higher than the world average and 1.5 times above the Latin America and Caribbean (LAC) region average.[2] The situation continued to deteriorate in recent years due to an increase in the availability of illegal firearms and spill-overs from regional neighbors.



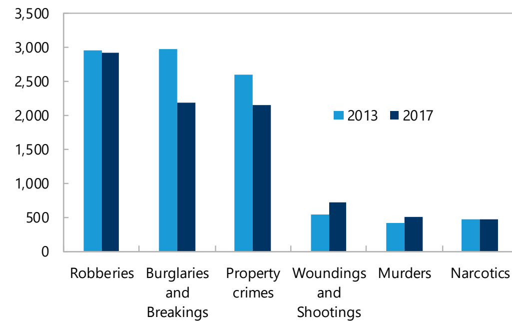
2. **Youth are the most affected by violent crime, both as victims and as perpetrators**. Homicide victims are predominantly youth between the ages of 18 and 35, and 60 percent of homicide arrests involve young people between 15 and 34 years old (Sutton, H. and I. Ruprah, 2017).

[1] Prepared by Abdullah AlHassan and Lulu Shui.

[2] When compared globally, the LAC region ranks top in violent crimes and has the world's highest homicide rates (Sutton, van Dijk, and van Kesteren, 2017).

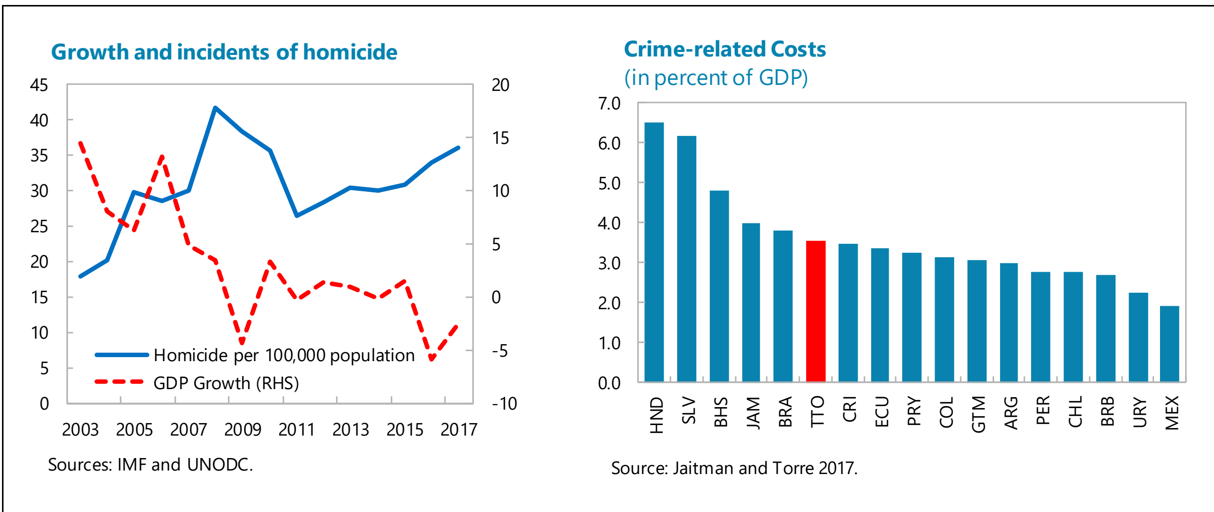
As of end 2017, most reported crimes remain high compared to 2013. Robberies, burglaries, and property crimes are the main violent crimes. Though burglaries and property crimes declined by about 20 percent, shootings and murders increased by 30 and 20 percent, respectively. Further, a weak economy, gang activities, as well as corruption, contribute partially to the vicious cycle of low growth, lack of economic opportunities, and higher crime rates among young people.

Trinidad and Tobago: Total Number of Crime by Offence Type



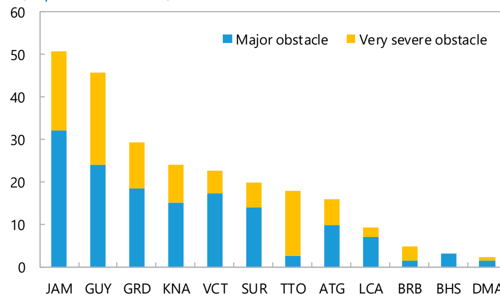
Source: Trinidad and Tobago Police Service.

3. **Crime has significant social and economic costs**. The direct crime-related costs in Trinidad and Tobago, which includes public and private spending on policing and securities, medical expenses, judicial procedures and forgone income, is about 3.5 percent of GDP, about the Latin American and Caribbean average, and compared to 2 percent in advanced economies (Jaitman and Torre 2017). Indirect costs include loss of productivity, distortions in resource allocation, and perception of safety, which affect investment.



4. **Security-related issues have been identified as negatively affecting private sector performance.** Almost 20 percent of firms indicated crime as a major or severe obstacle in conducting business in Trinidad and Tobago. Also, over 85 percent of firms in Trinidad and Tobago pay for security at the cost of around 2 percent of sales (Sutton, H., I. Ruprah and L. Alvarez, 2017). A study from the Inter-American Development Bank shows that a 10 percent reduction in crime can increase firms' sales by 4 percent (Ruprah and Sierra 2016).

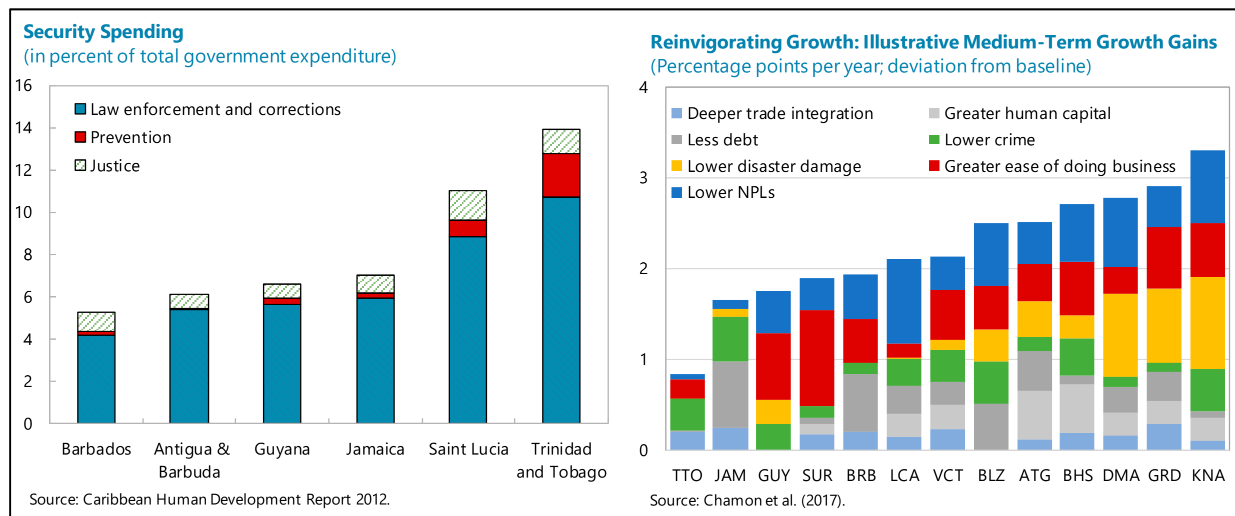
Crime as a Major or Severe Obstacle to the Private Sector
(in percent of firms)



Source: Producticity, Technology, and Innovation Survey, 2014.

B. Fighting Crime

5. Efforts to fight crime should balance crime-control programs and preventive measures. Security spending in Trinidad and Tobago, like in many other Caribbean countries, is concentrated more on law enforcement and correction than prevention. It also represents a large share in percent of government expenditure compared to other Caribbean countries. Lowering crime can have important growth benefits (about 0.35 percent of GDP in Trinidad and Tobago; Chamon et al. 2017).



6. Addressing the vicious cycle of elevated levels of youth unemployment and high crime requires a multi-pronged approach, balancing policing and preventions. Such measures include focusing on education and community-based initiatives involving partnership with key stakeholders, including civil society (parenting and mentoring programs, urban renewal programs, and victims' support), the private sector (through training at-risk youth, building corporate social responsibility, and sponsoring victimization surveys, as only about half of crimes are reported to the public agencies).

7. The government is putting crime reduction and increasing detection rate as its top priority. The authorities are adopting a preventative approach to tackling crimes by:

- Hotspot policing to reduce criminal activities in communities.

- Partnering together with different stakeholders to identify and deter criminal activities, including, among others: A National Crime Prevention Program in 2018 that will integrate community involvement with traditional stakeholders, including law enforcement and government ministries, to provide a more holistic approach to stopping crime. Trinidad and Tobago Police Service has already implemented some of these community-based ideas by offering programs (e.g., sports through the Police Youth Clubs, Drug Awareness, Community Crime Prevention Program, school lectures and workshops with NGOs).

- Building capacity of the police services, including a crime management system to analyze statistics to effectively fight crimes. A police manpower audit committee was set up in 2017 to maximize resource utilization.

- Collaboration among national security agencies, especially in the areas of transitional crimes, money laundering, cybercrime, and human trafficking. The government also acquired new naval vessels for maritime enforcement, and with U.S. assistance will establish a border control system to better monitor international travelers.

- A media campaign to increase citizens' awareness about security-related issues.

8. Country experiences show that there is scope to enhance collaboration across entities involved in fighting crimes. For instance, Violence Prevention Alliance—as a network for organizations working to prevent violence—has a multi-point strategy to bring peace to some of Jamaica's toughest communities. The Pacifying Police Unit was established in the City of Rio De Janeiro in Brazil in 2008, which aimed to reclaim territories controlled by gangs, leading to a reduction in city homicide rate (down by 43 percent) by 2012. In Colombia, the IADB along with private sector and academia have initiated a project to the test the value of Big Data in analyzing the causes of crime, and then develop more effective intentions to prevent crime.

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