

ANNEX

1. IDENTIFICATION

Title	Support to Enabling Competitive Business in Trinidad and Tobago		
Cris Number	021434		
Total cost	EUR 16 340 000 (64% of NIP) – (A-Envelope)		
Aid method / Method of implementation	Sector Policy Support Programme: Sector budget support (centralised management);		
DAC-code	15110	Sector	Economic and Development Policy

2. RATIONALE AND COUNTRY CONTEXT

2.1. Country context and rationale for SPSP

2.1.1. Economic and social situation and poverty analysis

Trinidad and Tobago has one of the highest per capita incomes in Latin America and the Caribbean. The energy sector accounts for circa 39% of gross domestic produce (GDP), about 90% of exports and circa 49% of government revenues. Surging energy prices and an expansion of industrial capacity have helped sustain robust economic activity. The growth in the non-energy sector is being supported by high public infrastructure spending and rapid credit growth which has fuelled private spending and inflation. According to the 2005 Poverty Survey 17% of the population live below the poverty line.

2.1.2. National development policy

The Draft National Strategic Plan (NSP) is Trinidad and Tobago's Strategy for achieving developed country status by 2020. This Government-approved document has five development pillars: 1) Developing Innovative People; 2) Nurturing a Caring Society; 3) Enabling Competitive Business; 4) Investing in Sound Infrastructure and Environment; 5) Promoting Effective Government. The NSP serves as a comprehensive national development platform. It has achieved a reasonable degree of ownership through the involvement of a cross section of stakeholders within society, and drawing on the deliberations of 28 sub-committees. The Plan is compliant with cross cutting issues of good governance, human rights, gender equality and the environment.

The Operational Plan 2007-2010 sets the National Strategic Plan into action, with defined goals, and profiles of the major projects to be undertaken during the planned period. It assigns responsibilities to ministries and prescribes indicators to measure progress. The Operational Plan is to be systematically revised and improved every four years. The current operational plan coming to an end in 2010, an operational plan for 2011-2014 is under development.

2.2. Sector context: policies and challenges

2.2.1. Sector context and strategy

The underlying priority of NSP is to diversify the economy away from its dependence on the energy sector. A significant number of family and individually owned micro, small and medium-sized enterprises (MSMEs) in the local market have business processes which tend to be less advanced than in the developed world and entrepreneurs tend to be more comfortable trading in traditional markets rather than accessing non-traditional markets. Government support mechanisms for the business environment have been perceived as inadequate. Under the annual World Economic Forum Global Competitiveness Reports, although recording some improvement between the two last reports, Trinidad and Tobago has demonstrated a drop from 65th place in 2000 to 86th in 2009.

The 'Support to Enabling Competitive Business' is a horizontal cross cutting sector in relation to Sector Budget Support programmes, which falls under the NSP development pillar 'Enabling Competitive Business'. The sector policy has the following 3 goals aiming to improve the investment climate and to enhance the competitiveness of the private sector:

- 1) **Maintaining macroeconomic stability** by ensuring that the social and political environments are stable to create an enabling environment where businesses can become more competitive.
- 2) **Creating an attractive business climate** for investors and to encourage competitive businesses to start and grow through a mix of policies and support services.
- 3) **Diversifying the economy** by developing non-energy manufacturing and services industries and enhancing the competitiveness of these economic players.

The sector strategy analyses the main challenges of the sector and establishes the broad priorities to promoting private sector led growth in Trinidad and Tobago over the period 2007-2020. The NSP Operational Plans identifies the medium term means to approaching the goal and the Activity plan for Enabling Competitive Business complements it by summarising the activities for the goals 2 and 3. The plan is accompanied by relevant annual target indicators and has special focus on the capacity of the institutions involved to implement the strategy.

2.2.2. Assessment of the sector budget and its medium term financial perspectives

The annual budget process occurs within a pre-announced resource envelope based on a three year perspective, developed under the framework of the International Monetary Fund (IMF) Article IV consultations. For the 2010 budget statement, 3-year global fiscal forecasts were prepared for the first time and are presented as a percent of GDP for Revenue (broken down in Energy and Non Energy) and Expenditure (Current & Capital). The NSP Operational Plan 2007-2010 makes an attempt to present medium term sector budget by translating the National Strategic Plan into 3-year operational plans, with a capital budget. However, it does not include recurrent expenditure implications.

The sector budget for Enabling Competitive Business (ECB) is derived from the initiatives of the Ministry of Trade and Industry (MTI) and Ministry of Labour and Small and Micro Enterprise Development (MLSMED) to support the economic transition of Trinidad and Tobago. Current figures indicate that despite a fall in energy prices during the global financial crisis and a reduction of funds allocated to various development projects, there was still an increase of approximately 115% from TT\$ 221,965,416 committed in 2009 to TT\$ 477,328,840.00 in 2010. This demonstrates the Government's firm commitment towards improving the business environment. A four-year EUR 16 340 000 EU support would, on average, contribute some 8% to the annual budget of the European Central Bank (ECB) strategy.

The budget covers all main areas of the strategy: non-energy industry and cluster development, assistance to private sector organisations, MLSMED's micro and small enterprise responsibilities, and transfers for capital and current expenditure from the MTI and the MLSMED to the implementing agencies (Business Development Company (BDC), Evolving TecKnologies (eTecK), Trinidad and Tobago Bureau of Standards (TTBS), Export Import Bank of China (EXIMBANK), National Entrepreneurship Development Company Limited (NEDCO)), which, while all public agencies with their budget included in the sector strategy, cover some of their expenditure through their income generating activities.

2.2.3. Assessment of institutional capacity

The Policy and Strategy Directorate under the Ministry of Trade and Industry provides oversight to the implementation of enabling competitive business. The Ministry has strong leadership, transparent working methods and has established contacts with the private sector and universities for policy dialogue. The Enterprise Development Division (EDD) of the Ministry of Labour and Small and Micro Enterprise Development (MLSMED) is responsible for the development of the small and micro enterprise sector, but needs to strengthen its management capacity for sector support. The main constraint on the National Strategic Plan development agenda has been the implementation capacity.

2.2.4. Sector Coordination

The **Policy and Strategy Directorate under the Ministry of Trade and Industry (MTI)** has the overall responsibility for monitoring the implementation of strategies deployed for enabling competitive business. **The Standing Committee on Business Development (SCBD)**, comprising key private sector organisations responsible for business growth and development in Trinidad and Tobago as well as Government Ministries, oversees the areas pertaining to competitive business. SCBD is scheduled to meet monthly and has gained momentum from end of 2009 after low level of activity in 2008. The **National Monitoring Committee for Enabling Competitive Business (CECB)**, consisting of the key technical level representatives of The Standing Committee on Business Development (SCBD), academia and development partners, monitors the implementation of the Activity Plan for Enabling Competitive Business. It serves as a platform for dialogue among stakeholders and to address emerging concerns regarding the business environment.

2.2.5. Overall framework for performance monitoring

The Activity Plan for Enabling Competitive Business serves as a tool for monitoring the strategy. It comprises 13 indicators to measure the effectiveness of the strategy and will guide the analysis on the implementation of the sector strategy.

The Ministry of Planning, Economic and Social Restructuring and Gender Affairs (MPESRGA) produces an annual progress report on the NSP, which is informed by the input from monitoring and evaluation (M/E) units at implementing ministries. MTI collates the reports for enabling competitive business, provided by implementing agencies.

Recognising the need to improve the performance management framework in the public service, the government has launched a programme to strengthen the M/E units in the ministries.

2.2.6. Macroeconomic framework

Benefiting from a booming energy sector, real gross domestic product (GDP) growth averaged 9% over the period 2002-2007; per capita income doubled; both the unemployment rate and the public debt ratio were halved; and the country became a net external creditor, with one of the strongest credit ratings in the region. At the same time, high energy prices fuelled government spending. Growth for 2008 was 2.3% but is estimated to have contracted by 3.2% in 2009.

According to the International Monetary Fund (IMF), although not immune, Trinidad and Tobago is better placed than many countries to weather the international financial crisis. External vulnerability is low as a result of large fiscal and external surpluses, large international reserves and low debt ratios.

2.2.7. Public Financial Management

The 2008 Public Expenditure and Financial Accountability (PEFA) assessment confirms that the annual budgetary cycle, budgetary control, accounting, recording and reporting generally work well and provide trustworthy data, although accounting systems are largely manual and old fashioned. Recent improvements include a new tax database and steps to introduce an integrated financial management information system, output based budgeting.

2.3. Eligibility for budget support

The NSP Pillar “Enabling Competitive Business” identifies the goals to be achieved, strategies to be employed, assigns the ministries in charge and specifies the performance indicators. An Activity plan with indicators serves as a tool for monitoring the implementation of the strategy.

The 2008 IMF Article IV consultation confirmed solid macroeconomic basis. The macroeconomic policy is conducive to maintaining stability and is not expected to put the sector objectives at risk.

The Public Financial Management (PFM) is deemed satisfactory and several improvements in the field are underway. A PFM action plan was submitted by the Ministry of Finance in March 2010.

2.4. Lessons learnt

The sector budget support (SBS) programmes for Tertiary Education and Accompanying Measures for Sugar Protocol have contributed to the EU being recognised as a partner in sector development through policy dialogue. However, these programmes have highlighted the need for reserving funding for technical assistance to allow flexibility and to support the policy dialogue. Technical Assistance throughout the duration of the Tertiary Education programme could have contributed to smoother implementation.

The 8th EDF funding to the Caribbean Business Services Limited (CBSL) demonstrated that while services for SMEs are vital to develop competitiveness, job creation and export capacity, a more structural approach is required to ensure continuity of the support. The final report of the project also recommends tackling the weaknesses in the policy framework and addressing obstacles for exports.

2.5. Complementary actions

This programme builds on various ongoing and past EU initiatives in Trinidad and Tobago and the Caribbean region:

- the 8th EDF project for the Caribbean Business Services Limited
- the 9th EDF SBS programme for the Non-University Tertiary Education Sector
- Accompanying Measures for Sugar Protocol (AMSP) for diversifying from sugar production
- the 10th EDF SBS programme on ‘Good and Effective Governance’

- the 9th EDF Caribbean Trade and Private Sector Development programme

The programme supports Trinidad and Tobago's efforts towards the CARIFORUM-EU Economic Partnership Agreement (EPA) commitments and follows the CARIFORUM Competitiveness and Innovation Programme, with potential to support the Business Support Organisations (BSOs), Investment Promotion Agencies and ministries in implementing the strategy, as well as to enhance networking and dialogue between stakeholders.

2.6. Donor coordination

The Inter American Development Bank (IADB) and the United Nations Development Programme (UNDP) have interventions related to this programme. Donor coordination happens through thematic committees. For enabling competitive business, the National Monitoring Committee for Enabling Competitive Business, the Expanded Millennium Development Goals (MDG) Theme Group and the structures for coordinating PFM activities in Trinidad and Tobago are relevant. The Delegation also holds regular coordination meetings with the EU Member States (MS) present in Port of Spain. EU MS do not have bilateral programmes in T&T.

The Ministry of Planning, Economic and Social Restructuring and Gender Affairs records cooperation with development partners in the annual Public Sector Investment Programme and monitors that loan and grant funds are channelled in keeping with the priorities of the National Strategic Plan (NSP).

3. DESCRIPTION

3.1. Objectives

The purpose of this programme is to support the Government in the economic transition to a modern and sustainable economy that is less dependent on the energy sector. The specific objective is to improve the business environment in Trinidad and Tobago by improving strategic management of the agencies involved and providing more effective services and support for entrepreneurs and investors.

3.2. Expected results and main activities

Overall, the programme will contribute to an improvement in the business climate and competitiveness of the economy. The programme will reinforce the partnership among government, universities and the private sector in the area of market-driven research; support the Government of Trinidad and Tobago in strengthening structures for an integrated approach in delivering services to private sector and civil society organisations; support the Government in improving the policy and regulatory framework for enabling competitive business; as well as improve the business development services to strengthen the micro and small and medium enterprise (MSME) sector and to promote direct investment. The interventions under the strategy aim at increasing levels of foreign and domestic investment and improvements in the competitiveness and ease of doing business.

Increasing the implementation capacity of the Ministries, Departments and Agencies in the areas of strategic management, monitoring and evaluation is one of the key components of this SBSP. An allocation has been made under the Technical Assistance and Studies budget line to support institutional capacity building in Monitoring and Evaluation among implementing line ministries.

3.3. Risks and assumptions

The key assumption is the Government's continued commitment to supporting the competitive business environment. The specific approaches to economic transition may, however, vary significantly as opportunities and priorities are bound to shift in a rapidly-changing global market. There is also a degree of risk related to the lengthy process for the approval of the Financing Agreement (FA). In view of previous delays in the signature of the Financing Agreement (FA) by the Government of Trinidad and Tobago, the EU Delegation, the Attorney General of Trinidad and Tobago and the National Authorising Officer (NAO) have agreed upon a system to accelerate the approval and signing of the FAs.

3.4. Stakeholders

The ministries most relevant to the areas of Enabling Competitive Business include:

- **The Ministry of Trade and Industry (MTI)** hosts the secretariat for the SCBD, has responsibility for Foreign Direct Investment and BSOs supporting SMEs and investment.
- **The Ministry of Labour and Small and Micro Enterprise Development (MLSMED)** is responsible for the development of micro and small enterprises.

- **The Ministry of Planning, Economic and Social Restructuring and Gender Affairs (MPESRGA)**, has an overall monitoring role for the implementation of the NSP as well as of the National Indicative Programme.

Other stakeholders include:

- Private sector actors, such as the T&T Manufacturers Association and the Chambers of Industry & Commerce
- The University of the West Indies (UWI) and the University of Trinidad and Tobago (UTT)

3.5. Crosscutting Issues

Trinidad and Tobago meets most international standards in regards to gender issues. Support to enabling competitive business may provide enhanced opportunities for the problem group of young, under-educated males who may not be taking advantage of the widening educational opportunities. Interventions in the institutional and regulatory frameworks, to be carried out in close consultation with civil society, should contribute to improving aspects of good governance such as accountability and transparency. Environmental considerations are increasingly taken into consideration in sector policies. While awareness has been increasing, the enforcement across the board should be reinforced through the strengthened implementation of the sector strategy.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Centralised management for fixed and variable tranches (whereby the transfers of resources from the EU to the national treasury are made after the agreed conditions for payments have been respected) and for the Technical Assistance, Studies, Visibility and Evaluation. No grants will be awarded under the programme.

4.2. Procurement procedures

Contracts: All contracts implementing the action under budget lines for studies and technical assistance (EUR 1 950 000), evaluation (EUR 120 000) and visibility (EUR 110 000) must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by EDF. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Articles 20 of Annex IV of the Cotonou Agreement.

Suspensive Clause: In order to support the strategic management component of the programme, and ensure timely reporting and implementation of the monitoring and evaluation (M/E) frameworks for this sector strategy, tendering will be initiated for Technical Assistance before the Financing Decision has been taken under suspensive clause (Cotonou Agreement Annex IV Article 19), which will allow signature of the service contract directly after the signature of the Financing Agreement.

4.3. Budget and calendar

The following is the budget and the indicative time schedule for the disbursements:

Item	Amount in €million	Financial year
1 st Fixed tranche	3.6	F/Y I
1st Variable tranche	2.5	F/Y II
2 nd Fixed tranche	2.5	FY III
2nd Variable tranche	2.5	F/Y III
3rd Variable tranche	3.0	F/Y IV
Technical Assistance, Studies	1.95	Starting F/Y I
Visibility	0.11	F/Y I
Evaluation	0.12	
Contingencies*	0.06	
Total	16.34	

* The European Union's contribution to the 'Contingencies' heading may be used only with prior agreement of the Commission

The operational duration of the Financing Agreement shall commence on the entry into force of the Financing Agreement and end 60 months after this date.

4.4. Performance monitoring and criteria for disbursement

The fixed and variable tranches (in total EUR 14 100 000) will be disbursed as “untargeted” Sector Budget Support. Each request for payment will be submitted by the National Authorising Officer. All payments are subject to the Delegation’s assessment that the following eligibility criteria are met:

- (1) *Stability oriented macro-economic policies are being implemented*: assessment will be based upon, among others, the IMF Article IV consultation staff report.
- (2) *Credible and relevant programme to improve public financial management*: assessments will be based on PFM reviews and reports on progress of the Action Plan for Improvement of PFM.
- (3) *Satisfactory progress in the implementation of the sector strategy for ‘Enabling Competitive Business’*: assessment will be evaluated on the basis of progress reports compiled by the MTI.

4.5. Evaluation

A mid-term and a final evaluation will be conducted for this SBSP.

4.6. Communication and visibility

Reports done under the programme will be available to the public. Releases of funds and reports are to be accompanied by media coverage. The Government will also include information about the programme in its Internet web pages.