

**OPENING REMARKS OF SENATOR THE HONOURABLE LARRY HOWAI, ON THE  
OCCASION OF THE SEMINAR ON PUBLIC SECTOR BUDGET: BEST PRACTICE AND  
MODERNISATION, JUNE 28, 2013, LA LUNE ROOM, FINANCE BUILDING**

*Your Excellency, Fernando Ayala, Ambassador of Chile*

*Your Excellencies and Heads of Diplomatic Missions*

*Resident Representative of the Inter-American Development Bank, Ms Michelle  
Cross Fenty*

*Members of the Media*

*Ladies and Gentlemen,*

Good morning and welcome. It gives me great pleasure to open this most timely Seminar on Public Sector Budgeting which touches on the heart of the conduct of Government business.

The budget is the primary instrument which gives life to the aspirations of the Government. It is one of the major

mechanisms through which Governments can effect improvements in the quality of life of citizens.

In pursuing these objectives, it is also necessary to ensure that procurement processes are transparent and can easily link into accountability mechanisms. This provides robust support in eliminating the elements and factors that fuel corruption and other behaviours which impede progress and erode public confidence in the governance process.

### **The Example of Chile**

Chile is a shining example in the Latin American and Caribbean Region of an economy that has instituted tight controls in budgeting.

I believe that it was in 2000, that the then President of Chile introduced a fiscal rule based on a structural surplus of 1 percent of GDP to reaffirm the country's commitment to fiscal responsibility. This new system avoided pro-cyclical policy bias in public finances, allowed for an evaluation of the macroeconomic impact of fiscal policy and ensured fiscal discipline and sustainability.

Chile's fiscal prudence has allowed the Government to implement a powerful stimulus package in an attempt to mitigate the effects of the recent global economic crisis. Its Government and Central Bank continue to work together to optimize the use of the resources from the country's Social Stabilization Fund.

As a direct result of prudent fiscal management and the implementation of supporting monetary policy, in 2010, Moody's raised Chile's foreign debt rating to Aa3 from A1, which positioned Chile as the only Latin American country rated at that level or its equivalent.

Moody's cited that the upgrade was due to years of solid macroeconomic policies, including a structural fiscal surplus rule meant to smooth Government revenues and expenditures.

Your Excellency, I am sure that tremendous efforts were made to facilitate these measures, both politically and socially, and the results have shown that the sacrifice was not in vain.

The example of Chile makes for a very good model that many of us in CARICOM may wish to give a close look, and is also the case study upon which this Seminar today is built.

## Issues to be addressed in Trinidad and Tobago's System of Budgeting

Over the years, Trinidad and Tobago has been making incremental improvements in the public financial management system which will impact the National Budget system.

In 2008 the Public Expenditure Financial Accountability Framework or PEFA as it is called, facilitated by one of our donor partners, the European Union, highlighted several weaknesses particularly in our multi-year planning process.

Among the comments put forward in support of the assessment were:

1. The budget classification in Trinidad and Tobago remains principally focused on a line-item budget structure and, in their opinion, was not capable of supporting a policy-based budgeting process based on expected outputs;
2. The Public Financial Management (PFM) systems demonstrate some capacity for allocating resources in accordance with priorities, however challenges exist, with regard to measuring the effectiveness of the expenditures;

3. The Minister of Finance informs Line Ministers of their budget allocations at the close of the budget cycle. This, however, allows limited opportunities for the adjustment of departmental budgets.

While these findings suggested that our budgeting needed to be brought into greater alignment with emerging practices in modern budgeting, the change processes require time and effort.

I have, nevertheless, informed the European Union that I am willing to undergo an update of the PEFA so that we are all on the same page as to what improvements we have made in the overall public financial management system. I expect that update to commence in the new fiscal year.

In recent years, the EU has sought to add motivation to Trinidad and Tobago's efforts towards the modernisation of our public financial management systems by tying the disbursements in grant resources to incremental changes particularly in our planning of the budget.

To build up our capacity to modernise our public financial management systems, the Government of Trinidad and Tobago is currently partnering with the Inter-American Development Bank in addressing much of the weaknesses highlighted in the PEFA report.

At this juncture, I wish to thank you, Ms Cross Fenty and your staff at the IDB for your patience and meticulous guidance of the Ministry of Finance and the Economy in this area.

## Strengthening our Planning Function

This Government recognises that to meet our objectives, the budgeting system should provide a strong link between our policies and the allocation of resources through the budget.

As many policies may not be implemented in the near term, we recognise that the process of preparing the annual budget should be couched within a medium term fiscal perspective beyond the budget year.

In the case of Trinidad and Tobago, I have noticed that this is especially necessary as the discretionary portion of our annual budget is small and there is little space for the introduction of new and strategic programmes.

The Economic Management Division is charged with the responsibility of providing the medium term economic framework within which to couch the annual budgets. The International Monetary Fund, through its Caribbean Regional Technical Assistance Centre, CARTAC has provided training in financial programming to build capacity in this area and fully entrench the medium term planning perspective in the preparation of the annual budget.

It is my intention to utilise the results of the Medium Term Economic Framework to guide budgetary action in the medium term.

### **Fiscal position**

Ladies and gentlemen, over the last few years we ran a fiscal deficit to inject a needed stimulus by providing

economic and social infrastructure that would set the economy on to a growth trajectory. You will recall my fiscal position announced in my presentation of the 2013 Budget, to work towards the achievement of balanced budget by 2016, as well as for maintaining debt sustainability.

## Revenue

Adopting this fiscal position implies the pursuit of measures to increase revenue, and we engaged technical expertise for the proposal of measures to augment our revenue intake.

The proposed measures include all three (3) of the medium term revenue initiatives announced in the 2013 Budget. A committee of technocrats within the Ministry of Finance and the Economy is exploring options to improve the Government's revenue intake in the near term while

focussing on improvements in efficiency and revenue collection.

In her presentation, this afternoon, the Chairman, Board of Inland Revenue will touch on the current strategies the Board has adopted to reduce the revenue gap and some of the challenges they experience in fulfilling their mandate.

## **Expenditure**

Earlier in my presentation, I alluded to the trend in the global economy for planning for results that Governments want to achieve. In planning for results, many jurisdictions have adopted Performance-informed budgeting. This is one area in which we are partnering with the IDB.

While I am eager to implement this system I hasten to add, however, that this will only be done when I am confident that the government's apparatus has developed the capacity

and the management information system, to facilitate its effective use.

We are also working with the Ministry of Planning and Sustainable Development, again in partnership with the IDB, to filter more growth-enhancing projects into the Public Sector Investment Programme. We have been advised by consultants procured to review our capital budget, that we need to improve the screening of the projects at the level of the Line Ministry, as there is a general lack of readiness for implementation and an over reliance on the 'rate of expenditure' as a measure of project performance during implementation.

In preparation for the upcoming budget and beyond we shall consider mechanisms for formal and effective development and management of projects in the public sector.

## Closing

As I come to the end of this brief presentation, I must again thank you, Your Excellency, and Ms Fenty for your initiative in staging this most timely seminar.

I congratulate all the speakers who have endorsed this seminar by taking the time today to share their knowledge and experience. And I also thank you, the participants for setting aside the next few hours to benefit from this very important event. I look forward to an interesting discussion and fruitful deliberations. I thank you.