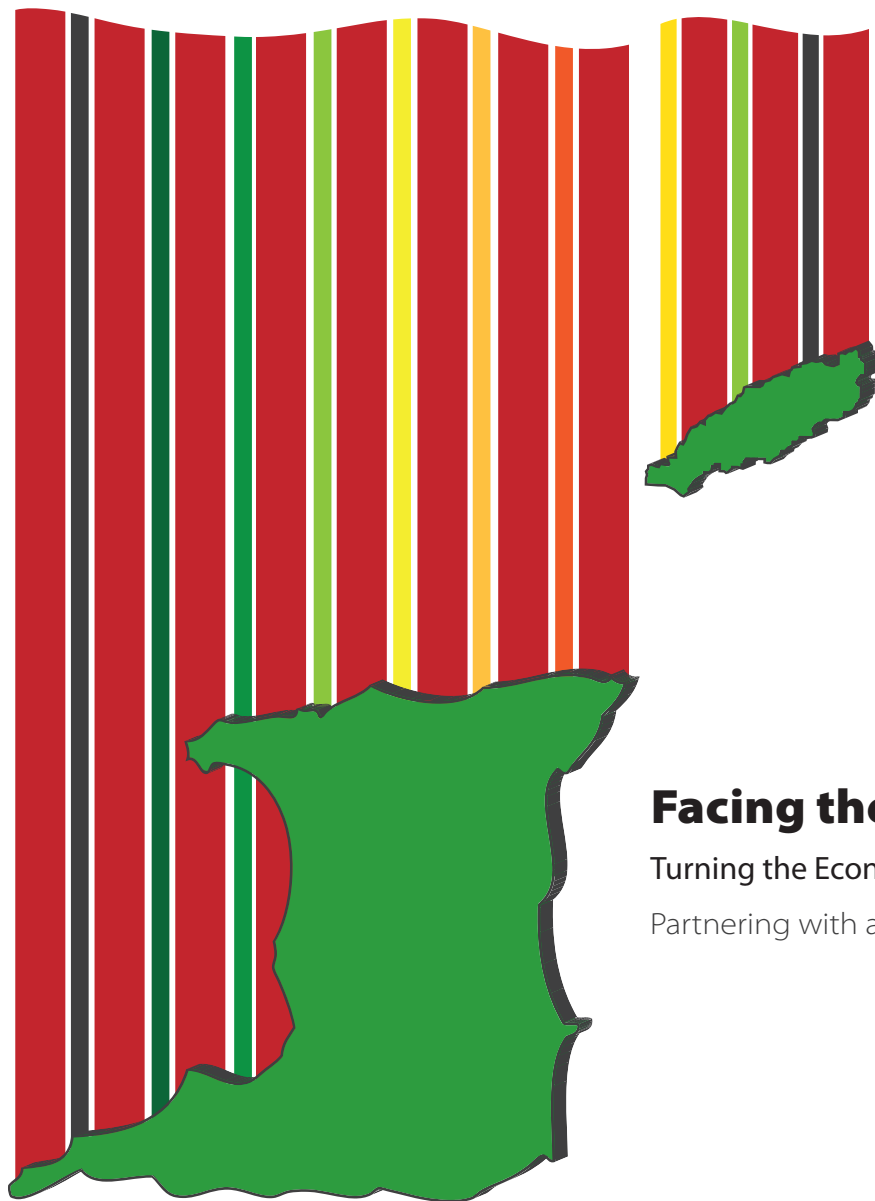


Moving from
PROMISES TO PERFORMANCE

The Underpinnings of the 2011 Budget



Facing the Issues

Turning the Economy Around

Partnering with all our People

The Honourable Winston Dookeran

Minister of Finance

30th September, 2010

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THE STATE OF THE ECONOMY

Pre-Election Speech, May 21, 2010

A Better Tomorrow

How shall we pay for the promise of a better tomorrow? The truth is the real resources that we have to muster is not the financial resources, as important as it will be, but it is a new energy that must be based on harnessing the values of a new leadership and a society that builds a sense of confidence and trust that a new leadership shall adhere to those values.

It is in that context that we are at a historical moment in our country when the underlying and fundamental crisis we are facing is a crisis of values, in which our society has gone wrong and we must put it right. To do so, we must of course address the hard issues of the economy and finance and you have seen in the Manifesto a great thrust towards sustainable development and the use of the word 'sustainable' is very deliberate.

For we are looking not only about today's generation, but we shall be looking at tomorrow's generation. We shall be the spokesperson of our citizens, not yet born and we shall leave them an inheritance better than the one we have in fact inherited ourselves.

Three Fundamental Pillars

Competitiveness, Inclusiveness and Expansionism

The three fundamental pillars on which we shall build that future is based on competitiveness, inclusiveness and expansionism.

First we have to find a way to expand our economy and to do that we have to exploit all the opportunities in the global world. Size and distance are no longer a constraint to development and Tobago has a great future.

We too would have to search for new opportunities with a revised foreign policy objective, focusing in a new world in which there is now a different political order and consequently, a different economic order.

We cannot stand still and be comforted by the world of yesterday because that world has fundamentally changed and will continue to change. In building an expansionist policy and economic front, we will have to explore how we deepen our Caribbean integration movement.

We will have to explore new avenues of the Latin America hemisphere so that we can create opportunities for our people and our productive sector to get involved in the global opportunities, the new outsourcing industries of the world and the new dimensions of financial products that are now part of the terrain of modern economics.

To do so, we must ensure that we have a very competitive economy, one that can, in fact, compete in that framework. We have the fundamentals for the creation of that competitive economy and we shall start first and foremost at the creation of a social compact between all of the partners in the society, be it labour, civil society, Government or business.

What the country will have to hold is not an expenditure pattern that we cannot afford, but we will have to share in the ownership of the burdens of new growth pains which we will have to undertake in the next few years.

Social compact will be the way we will start that new dialogue. But we won't have enough time to talk forever because society will have great expectations, and the discontent in society will be so high that we will almost have to deliver the day after we are installed into office.

Inclusiveness

But in such a delivery we must accept the third principle of our economic strategy which is inclusiveness. Inclusiveness is the new word that is used not only in economic terms, but in terms of politics. Inclusiveness must include all who have been traditionally left out, all those who remain victims of a vicious economic systems, all those who have been at the other end of a failed economic policy.

Where ever they fit they must now be the new beneficiaries of a new Trinidad and Tobago.

In the political sphere when we talk about coalition we are criticized for embarking on an experiment that is likely to fail. What really is a failure is the misunderstanding on the part of those who claim that politics, the new politics of inclusiveness in the Coalition Government as the best expression of a new Government, is likely to fail. Those who attack us for moving into the new politics are comfortable remaining in the politics of exclusiveness rather than the politics of inclusiveness in which we are engaged.

New Priorities

Basic Needs of Our People

It is in the context of these three fundamental principles – expansion, competitiveness and inclusiveness - that we will in fact embark on a number of individual strategies that will become a new departure point from the politics and economics of yesterday.

In the first instance, our priorities of expenditure will shift towards satisfying the basic needs of the people. Whether such basic needs reflect itself in needs for water, health, irrigation, education, or the needs of the market vendors, needs of the taxi drivers, needs of the rural poor, needs of the poor and dispossessed and the young people.

So our national expenditure program both within the Government and country will shift as the primary responsibility of the state to satisfy the basic needs of the people. Thereafter we shall build what we have to build to sustain the economy, but the economy cannot be sustained if the basic needs of the people are not satisfied.

We have looked carefully at all the ongoing projects that there are and each one is subject to the necessary forensic audits which must be done quickly. We cannot afford prolonged discussion on that but we must ensure that justice be done so that society can build trust. But we are committed to complete all the infrastructural projects currently in train in Tobago. We will have to draw on all the resources not least of which the resource of the people themselves and we will have to find a new

approach to involving the people in their development.

A New Development Path

Development cannot be imported. It is the philosophy in which we develop the new strategy. We will bring the necessary foreign investment as required. We will expand the trade opportunities but at the heart of it, development shall be the responsibility of the people of Trinidad and Tobago. They alone shall hold the reins of power in the development of Trinidad and Tobago.

To assist us we have committed ourselves to the establishment of an Economic Development Board staffed by individuals drawn from all aspects of life, be it academia, professional, civil society, labour, industry. We shall draw on their tremendous goodwill that exist today in all the metropolitan parts of the world where many of our residents are still residing and we will draw on their expertise as well as that of the Board itself.

Hard Work Ahead

The job ahead is not going to be as easy as we would like it to be, but it is not beyond our ability to handle. If and when we do leave office some years to come, we will not leave an inheritance similar to the one we shall inherit on May 24th.

Already we have rolled up our sleeves. Already the society has been energized. Already the society is waiting with expectations for the start of a new beginning and it is only but a start, and a start of a new beginning is what this country requires in the twenty first century.

Opening a New Political Space

What we are facing in Trinidad and Tobago is not an isolated event. Today all over the world we are finding new models of political governance are emerging. As you are aware in the United Kingdom they have recently installed the coalition government.

The term "New Politics" started in Trinidad and Tobago in earnest and critical platform a few years ago, even then I knew it was an

international development that was taking place. Now we have come home to see the realization of that and as we roll up our sleeves we know we have to grow, for when we grow our families grow and when our families grow, our community grows and community grows, our nation shall grow.

We are therefore in the new space in the politics of our times. The politics of a country where the space is now open, where the new start in the development of the country must be initiated. Where there is now development, growth and equity, where the Government will work for the people rather than have the people work to keep a Government in office.

The Current State of the Economy

International Context

The global economy continues to recover from 'The Great Recession', the worst economic downturn since the Great Depression of the 1930s triggered by the financial crisis beginning in the US in 2007. While the global economy has emerged somewhat from recession, recent developments with respect to the sovereign debt of some of the EU countries (Portugal, Italy, Ireland, Greece, Spain, and Hungary) has raised the possibility that the world may re-enter recessionary conditions, that is, there is a strong risk of an impending "double dip" recessionary effect. The ongoing debt crisis in Europe is threatening the stability of the global economy as the crisis has the distinct potential to spread beyond Europe to other regions of the world.

In the United States, the US Federal Reserve recently offered a somewhat grim outlook for the world's biggest economy. Given the scale and depth of the recession, the recovery is expected to be "moderate paced" with the unemployment rate in excess of 9 percent and projected to remain high for some time. Joblessness negatively affects consumer confidence and consumer spending, the latter of which accounts for approximately 60 percent of GDP of the US.

These conditions pose tremendous downside risks for the global economic recovery and the health and overall viability of the Trinidad and Tobago economy.

National and Sectoral Growth

A major policy objective of the Government has to be the urgent resumption of significant and sustainable economic growth. The major consequences of economic contraction include declining revenues, rising unemployment and the creation of dire social consequences for the citizenry. Trinidad and Tobago's economy grew

by as much as 13.5 percent in 2006, but slowed markedly to 2.3 percent in 2008. In 2009, the economy is projected to contract by 3.2 percent, and is expected to grow modestly by less than 1.0 percent in 2010.

Increased output has mostly been driven by energy sector activity which has grown on average by 8 percent between 2004 and 2008. In 2008, oil prices rose to a high of US\$147/barrel and natural gas US\$14/mmbtu. However, activity in the energy sector slowed in the latter half of 2008 with the onset of the financial crisis and the global economic downturn. Energy prices fell precipitously from their earlier highs due to waning demand, increased uncertainty and decreasing consumer confidence.

As activity in the energy sector slowed, so too did activity in the non-energy sector. This was due to the heavy reliance of the non-energy sector on government spending of its oil windfall. The non-energy sector naturally slowed in tandem with the energy sector. The manufacturing sector, which contributes less than 6 percent of GDP and which produces goods for export to the CARICOM market was significantly reduced in size as a result of the virtual collapse of the CARICOM market following the global economic downturn. In addition, the agricultural sector experienced zero growth in 2009.

The 2009/2010 National Budget was predicated using an oil price of US\$55/barrel and \$2.75/mmbtu for natural gas. Should there be any adverse variance from these prices due to uncertain international economic conditions the economy would inevitably become vulnerable to reduced energy revenues.

Inflation

Inflation continues its upward trend since reaching an all time low of 1.3 percent in December 2009. Headline inflation rose to 7.3 percent in April 2010 from 5.1 percent in March. Intense drought, which affected domestic food crop production, has been mainly responsible for higher headline inflation. Core inflation which filters out the impact of food prices also increased from 4.1 percent in March to

4.4 percent in April. The rise in the core inflation rate mainly reflected increases in the price of transport.

Looking forward, continuous widespread flooding, inadequate structural changes in the local agricultural sector, vulnerability/exposure to increases in international food commodity prices and liquidity challenges in the domestic financial system are potential risk factors to prices in the short to medium term. Long term sustainable agricultural policies designed to increase food production will positively impact on the agricultural sector and reduce food prices.

Employment

Employment conditions were affected by the weakening of the economy. The rate of unemployment rose to an average of 5.3 percent over the first three quarters of 2009, compared with 4.9 percent for the same period of 2008. The global economic downturn, that propelled a fall in energy prices, took its toll on private sector employment and a significant level of retrenchment took place within the sector. In 2010, retrenchment notices continue although at a slower pace than 2009.

The labour force of Trinidad & Tobago is just over 600,000 persons. Of those employed, about 60,000, or close to 10 percent of the labour force, are attached to programmes like CEPEP, URP, OJT, etc. In the case of CEPEP, the programme must be viewed in a development context and not necessarily within the confines of a financial issue. The risk of discontinuing these programmes without providing adequate sustainable substitute employment opportunities would be to propel the unemployment rate upwards sharply towards 15 to 20 percent.

Fiscal Balance

Over the 2009 fiscal year Trinidad and Tobago recorded its first deficit in seven years. This deficit amounted to \$7.4 billion or 5.3 percent of GDP as compared with a surplus of \$12.1 billion or 7.8 percent of GDP in fiscal year 2008. The deficit was a direct result of declining oil prices which substantially trimmed government revenues

without a concomitant decline in the level of spending by the previous administration. A further overall deficit of \$7.7 billion or 5.4 percent of GDP is projected for this fiscal year. This trend towards fiscal deficits contributes significantly to the country's indebtedness and if it is not reversed urgently could result in the virtual mortgaging of several generations to come.

It should be noted that for the first time since the late 1980s, a recurrent fiscal deficit of \$722 million (recurrent revenue of \$37,366 million less recurrent expenditure of \$36,648 million) has been projected for this fiscal year. This means that the country is now borrowing to finance recurrent expenditure, which includes components such as Wages and Salaries, Transfers and Subsidies and Interest Payments. If this situation is not curtailed, it poses tremendous downside risks for fiscal sustainability and debt management in the future. This is quite unlike borrowing to finance the Government's capital programmes which creates employment and generates economic activity.

Additionally, the fact that public sector wage negotiations are to be completed by the end of 2010 should also be factored into the fiscal equation. It should also be noted that the non-energy fiscal balance worsened in 2009; in 2008 fiscal year the non-energy fiscal deficit was \$25,657 million compared to a deficit of \$16,356 million in fiscal year 2006.

Cash Balances

Total Government Cash Balances declined steadily from \$17.7 billion at the end of fiscal year 2008 to \$9.7 billion at the end of fiscal year 2009 and further to \$5.43 billion as at June 2010. This was primarily due to the generation of the fiscal deficits which began in 2008. In simple terms the Government's balances in the Treasury declined substantially over the last two years as the previous administration sought to maintain its high expenditure levels in the face of drastically falling revenues.

Foreign Exchange Reserves

Approximately 90 percent of Trinidad and Tobago's foreign exchange earnings come from the energy sector. Most of this accrues to the government as foreign currency. The foreign reserves currently stand at some twelve months of import cover owing to the positive balance of payments generated by the energy sector during the last five years. However, the downturn in the economy has caused a reduction in the overall balance of payments.

For the first nine months of 2009, the preliminary data for the balance of payments show an overall deficit of US\$429.3 million compared with a surplus of US\$2,062 million in the same period in 2008. Exports fell significantly by 50 percent compared with the previous year while imports declined by 34 percent. There were significant capital outflows accounting for a deficit of over US\$2 billion during the period January to September. For 2009 as a whole, the reduction in reserves at the Central Bank reflected a balance of payments deficit of US\$712 million. Gross reserves decreased from US\$9,380 million in December 2008 to about US\$8,652 million in December 2009 - inclusive of an allocation for US\$ 435.2 million in Special Drawing Rights (SDRs) from the IMF.

Although oil prices have risen steadily to about US\$75 per barrel, the price of gas (which is our main revenue earner) has been weak and has averaged around US\$4/mmbtu. This price could fall even lower given the significant gas exports from Australia and Qatar and the large deposits of shale-gas in the US that are now being economically produced. Furthermore, there have been no significant energy funds in Trinidad & Tobago recently. Therefore in addition to falling prices, the revenues earned will drop because, potentially, lower quantities will be sold. This is made even more critical given that the present proved reserves could take us only 12 years into the future.

The Heritage and Stabilisation Fund (HSF)

As legislated, funds are to be transferred into the HSF at the end of every quarter and adjusted at the end of the fiscal year following a formula

relating the actual revenue from the energy sector to the budgeted revenue during the fiscal year such that at least 60% of the excess is transferred.

In fiscal 2007/8 TT \$6,588 million was transferred to the Fund. No funds were transferred in fiscal 2008/9. In May 2010 TT \$650 million was transferred to the HSF. As required by law, a further TT \$1.3 billion is projected to be deposited into the HSF in consideration of the prevailing energy prices during fiscal 2009/10.

Public Sector Debt

The country's Public Sector debt stock increased steadily from \$50 billion or 38 percent of GDP in 2007 to \$66 billion or 49 percent of GDP in 2009. At the end of April 2010 the Gross Public Sector Debt Stock amounted to \$68.2 billion or 51.1 percent of GDP. The country's debt stock as a percent of GDP has now passed the 50 percent threshold which economists use as the area of danger.

Of the Total Debt Stock, Central Government Debt increased steadily from \$24.7 billion in 2007 to \$38.5 billion in April 2010. External Debt grew marginally from \$9.3 billion in 2008 to \$9.8 billion in April 2010. Approximately 70 percent of this country's external debt is in US\$ dollar indicating the currency risk exposures.

Contingent Liabilities which comprise Government Guaranteed Debt and Letters of Comfort grew from \$17.3 billion in 2008 to \$19.7 billion as at April 2010. Contingent Debt represents the largest component of Domestic Debt (34 percent) followed by Bonds (30.1 percent) and Open Market Operations (24 percent).

Additionally it is important to note that for State Enterprises as at March 2010, Local Debt without Government Guarantee amounted to \$3.4 billion while non Government Guaranteed Foreign Debt amounted to \$9.0 billion. These figures are not included in the total public sector debt stock.

The debt servicing component represents a risk to future fiscal sustainability especially in a scenario

where the debt profile is marked by maturing of principal bullet bond obligations in any given year or consecutive fiscal years and declining revenues in light of fluctuating commodity prices, a key variable in determining this country's revenues. In addition the accelerated Debt to GDP ratio is being monitored and is of concern to International Credit Rating Agencies such as Standard and Poors and Moody's which have rated this country's Sovereign Debt as A (adequate protection to investors) and Baa1 (below average protection; considerable variability in risk due to economic conditions) respectively. A worsening of this ratio would present a downgrade risk thereby increasing this country's cost of borrowing.

Short term adjustments in this scenario include negotiation with borrowers on existing debt to extend or defer interest and principal repayments in the short term. A longer term maturity structure for external and domestic debt can be recommended as this could provide some protection in the budget balance in the short/medium term.

Moreover in the longer term structure currency risk can be reduced by issuing more domestic debt. A determination can be made as the existing percentage of external borrowing is on concessional terms with a view to increasing the share of concessional loan financing where possible. Where interest rate or currency rate exist the portfolio can be rebalanced using derivatives such as forward or future contracts to effectively hedge against adverse movements in these variables.

The Establishment of an Economic Development Board

The Minister of Finance together with the Ministers of Planning, Economic and Social Restructuring and Gender Affairs, Energy and Energy Affairs, Trade and Industry, and Labour, Small and Microenterprise Development have been updated on the state of the Trinidad and Tobago economy by both the Governor, Central Bank of Trinidad and Tobago and the Permanent

Secretary, Ministry of Finance.

Essentially, the presentations highlighted the challenging economic circumstances confronting policymakers in Trinidad and Tobago and in particular, the prospect of a continuing broad based decline in economic activity and the need to define a path to fiscal sustainability in the context of diminishing fiscal space given the imperative of maintaining an appropriate level of stimulus in order to pre-empt further deterioration of economic conditions. The fiscal implications of implementing Government's immediate policy were also explored.

In addition to the challenging fiscal situation, discussions also focused on issues that impacted the further development of the financial sector including the requirement for an early resolution of the CLICO/CL Financial matter. The Meeting also deliberated on the governance issues, particularly those relating to the state enterprise sector. The prospect for realizing significant savings from streamlining procurement practices was noted. The challenge of economic diversification and that of strengthening private sector participation in economic activity were also extensively discussed.

The Minister of Finance considers that, in light of these challenges, a new approach that will bring fresh ideas and new perspectives on how to respond to the current economic circumstances of the Trinidad and Tobago economy is necessary. In this context, therefore, the Minister of Finance proposes the establishment of an Economic Development Board (EDB) which will provide external and independent advisory inputs into the formulation of financial and economic policies to be pursued by Government. The EDB will reference and be guided by the seven pillars for sustainable development articulated in the Manifesto of the People's Partnership and in particular, Pillar 4: Connecting Trinidad and Tobago and Building the new economy, Pillar 5: A more diversified, knowledge intensive economy, and Pillar 6: Good Governance.

The Board will have the following core mandate:-

- To design a new framework for the economic development of the Trinidad and Tobago;

- To promote the alignment and strategic incorporation of existing and long term plans into the new T&T Development Framework;

- Formulate recommendations for the implementation and execution of these developmental plans;

- Advise the Government on domestic and international issues arising from changes in the economic environment.

The Minister of Finance is of the further view that the immediate work programme of the EAB should address the following priorities -:

i. Review Budget 2010 with a view to formulating recommendations for incorporating the short term policy agenda of Government;

ii. Finalize Medium Term Economic Programme including the policy initiatives to be incorporated in Budget 2011;

iii. Review Fiscal Regime for Energy Sector;

iv. Review the modalities of the Heritage and Stabilization Fund as they relate to reconciling stabilization and heritage components;

The Minister of Finance is satisfied that even as attention is being focused on revitalizing the economy, considerable effort must also be directed towards securing sustainable long term growth. This latter objective is contingent on achieving enhanced levels of national competitiveness. To this end, therefore, the Minister of Finance also proposes to strengthen the institutional arrangements to engender a more focused approach to building national competitiveness and the related dimension of innovation as envisaged in the Manifesto of the People's Partnership through the establishment of a National Competitiveness and Innovation Council (NCIC).

It is proposed that the core mandate of the NCIC be to advise the Government on how to develop a holistic competitiveness and innovation policy that will transform the economy by lowering its economic concentration ratio as well as improving its Global Competitiveness and innovation rank over the next ten years. Overall, the key objectives of the National Competitiveness and Innovation Council are as follows:-

(a) Provide critical support to Government in the execution of its policies and programmes as these relate to increasing public investment in human capital, generating industry relevant research, promoting industrial innovation, and enhancing co-ordination and simplification of the country's competitiveness, diversification and innovation support systems;

(b) Develop an Execution and Implementation Plan based on the numerous competitiveness and innovation studies completed in Trinidad and Tobago;

(c) Trigger organizational change in competitive, effective and innovative governance that will improve the Government's programme for sustainable development.

Appointment of a Select Committee to provide Financial Recommendations on CL Financial and CLICO

Background

In January 2009, CLICO Investment Bank (CIB) was unable to meet its liquidity requirements and was subsequently intervened by the Central Bank. Because of the significant inter-group exposure between CLICO and CIB, compounded by maturing short term liability products sold by CLICO (EFPA) at above market interest rates, CLICO also was unable to meet maturing policy holder claims. Firstly, as a result, Government and CL Financial entered into an MOU (January 30th) resulting in the revocation of CIB's licence and a transfer of third party liabilities to First Citizens Bank and secondly an agreement by the Government to finance the statutory deficit at CLICO.

In June 2009, CL Financial and the Government agreed that because of the significant shortfall in statutory assets and Government's willingness to lend CLICO the sums necessary to bridge the gap, CL Financial would appoint a new Board which the majority held by Government to exercise proper governance so that the assets owned by and managed by CL Financial would provide a source of repayment for GOTTs loan capital in CLICO, which is now approximately TT\$5 billion.

Current Position – CLICO

Consultants contracted by the Central Bank have concluded that policy holders can be repaid, principal only, no interest, over a five year period provided there is a further injection of capital. In addition, to this is the challenge of major debt restructuring that has economy-wide inputs that must be addressed.

CL Financial

On a group consolidated basis CL Financial may be technically bankrupt. However when CLICO and CIB are stripped from the consolidation, as they are under Section 44D of the Central Bank Act, the remaining assets e.g. Angostura and Lascelles de Mercado exhibit economic viability and appear attractive to global companies.

The key challenge is to:

- (i) ensure that non key strategic assets have the right management and financial plan to repay bank debt;
- (ii) Non- core strategic assets are quickly disposed;
- (iii) CL Financial repays CLICO its outstanding inter-group debt which will assist CLICO in discharging its liabilities.

Team members to the Select Committee

The Team Members to the Select Committee to provide Financial Recommendations on CLICO and CL Financial are as follows:

Steve Bideshi - Chairman

Wendell Mottley - Member

Colin Soo Ping Chow - Member

Terms of Reference

The team will recommend:

- (a) A preferred solution, from a Menu of options, for the repayment of CLICO's Traditional and non-traditional (EFPA) insurance liability products.
- (b) A financial re-organization plan for CL Financial that demonstrates financial stability and ensures full satisfaction of commercial bank and inter-company debt.
- (c) A clear path and timetable on how the Government of Trinidad and Tobago will exit its loan capital position and restore public confidence.

Caribbean Airlines Ltd (CAL) and Air Jamaica

The Minister of Finance is in receipt of information regarding recent initiatives taken by the previous administration relating to new arrangements between CAL and Air Jamaica. The Minister of Finance is of the view that there is an urgent need to clarify the precise nature and scope of these new arrangements particularly having regard to the possible significant level of fiscal resources involved, the relative lack of disclosure regarding the details of the new arrangements and the need to ensure that the resources of the country are utilized for the maximum benefit of its citizens.

To this end, the Minister of Finance proposes the establishment of a Working Committee to assess the status and implications of the CAL/Air Jamaica arrangements. The Working Committee will undertake the following-:

- (i) Conduct a comprehensive assessment of the operations of CAL with a view to identifying opportunities for improving the efficiency and profitability of the airline;
- (ii) Undertake a comprehensive cost/benefit evaluation of the proposed/new arrangements involving CAL and Air Jamaica from both a

financial and economic perspective;

(iii) Make recommendations regarding the preferred future strategic direction for CAL to secure maximum benefits for the citizens of Trinidad and Tobago in the short, medium and long term.

The Minister of Finance further, proposes that the Working Committee to assess the operations of CAL, examine the status and the implications of the CAL/Air Jamaica arrangements and to make recommendations regarding the preferred future direction for CAL should comprise persons with the competence to evaluate the commercial dimensions of the new arrangements, determine the wider economic impact that would emanate from the proposed arrangements and establish the technical considerations that would inform a determination of the preferred arrangements going forward. In this regard, the Minister of Finance proposes the following membership for the Committee-:

Mr. Conrad Aleong - Former CEO, BWIA

Mr. Selby Wilson - Management Consultant

Mr. Krishna Boodhai - CEO, ICATT

Other Issues

The Minister of Finance also indicated his intention to hold discussions on critical issues pertaining to the National Insurance Board. In addition, the Minister will meet with the Business Community, Civil Society and the Labour sector to initiate a Partnership Compact on issues of National Economic Management.

RISKS & CHALLENGES

The Economy

American Chamber of Commerce of Trinidad and Tobago, 28th July, 2010.

Background

How to get the economy right

We have witnessed three waves of reform in our development cycle over the last twenty-five (25) years. The first wave of reform was about “getting the macro-economic policies right,” culminating in the adoption of a floating exchange rate regime in 1993. Then we embarked on the second wave which can be described as “getting the institutions right” - a shift towards transfers and subsidies, now accounting for 14.9 percent of our GDP, having grown by an average annual percentage change of 15 percent between 2003/2004 and 2009/2010. At the same time, many of our institutions faltered.

The third wave in the development cycle is “to get the governance right” and it is with that impetus that the recent political change in Government took place - This current wave acquires a special meaning as it can influence sustained growth and inclusive development treating politics and economics as inseparable in the analysis of development. In this wave, the challenge is to ensure that “right politics will yield right outcomes.”

A Development Path

What is our starting point?

- 1.** The sharp decline in energy prices coupled with the slow recovery in the United States economy led to a pronounced economic slow-down and a rapid deterioration in the scale position;
- 2.** This was exacerbated by bad corporate governance and major regulatory lapses resulting in the near collapse of CL Financial and its subsidiaries including CLICO;
- 3.** Relatively low debt levels permitted the Government to accommodate a large scale

deficit and sustained economic activity, which otherwise would have even been weaker;

- 4.** The high level of foreign reserves permitted the Central Bank to intervene in the foreign exchange market and sustain the exchange rate, despite a nearly 50 percent decrease in export earnings;
- 5.** For 2009/2010, a deficit of 4.1 percent of GDP is being projected with a downside risk and at economic growth is the expected outcome;
- 6.** The overall deficit is likely to widen as the share of energy revenue to GDP falls. The debt burden (excluding open market operations) will rise to 48 percent of GDP in 2014/2015;
- 7.** After falling sharply, food inflation has again pushed the headline inflation rate upwards as food prices continue to rise despite a short drop in international food prices;
- 8.** Bank credit growth continues to decline notwithstanding high excess liquidity in the banking system.

What are our strengths?

The underlying strength of our economy can be measured by our capability to offset the risks facing us with concrete and realistic policy initiatives. Trinidad and Tobago has had a strong public resolve to put our books in order and pursue a programme of large scale consolidation. This necessitates a programme for increasing the revenue base, expanding the production space in the energy and non-energy sectors and converting our social expenditure to social investment.

Wriggle Room

There is still “wiggle room” for us to manage our economic prescription - to reverse the direction of our economic trends while building a competitive economy and enhancing our social strategy. These are the development goals that will set the agenda for “innovation, investment

and advancement” - the theme of a presentation used by the young people of our country in our ongoing Budget interaction.

As we continue to meet with the young, civil society, labor and business, we have growing confidence that the “wobble room” before us could be expanded to create a new confidence in our economic future. That confidence will require us to:

- 1.** Find innovative ways to “de-risk” business loans in the commercial banking system;
- 2.** Improve the tax regime to encourage exploration of oil and gas reserves, for after all, the reserve position of our energy reserves is a product of our investment;
- 3.** Mount an aggressive “investment strategy” to materialize “new investment” in a cluster-type development approach to our investment in the energy sector;
- 4.** Incubator Financing - we need to explore innovative ways to make “unbankable” transactions “bankable” by the use of risk sharing models which include “mentoring” by specialists and other young entrepreneurs a complete back office capability in IT, sales and financial management, legal and tax advice and small equity stakes. These models have been used successfully in South Africa and India, from where we shall seek technical advice for execution;
- 5.** Turning the corner on food production is a Caribbean-wide problem - and within the context of a regional approach to food sovereignty, revitalizing the financing of agriculture through the Agricultural Development Bank will commence; 6. The Public Sector Investment Programme (PSIP) will focus on capital formation to provide adequate and growing infrastructure for food production and competitiveness, and accessing the growing out-sourcing markets in the world;
- 7.** The state enterprise sector including the special purpose companies will be subject to

new governance accountability and the adoption of a “business risk radar” that anticipate threats, respond and adapt to effective investment that improve the performance of the enterprise. A wider restructuring exercise that incorporates public offerings and ownership is being

8. The Innovative and Competitive Council is soon to be established, the terms of which are as follows:

- (a)** Provide critical support to Government in the execution of its policies and programmes as these relate to increasing public investment in human capital, generating industry relevant research, promoting industrial innovation, and enhancing coordination and simplification of the country’s competitiveness, diversification and innovation support systems;
 - (b)** Develop an Execution and Implementation Plan based on the numerous competitiveness and innovation studies completed in Trinidad and Tobago;
 - (c)** Trigger organizational change in competitive, effective and innovative governance that will improve the country’s programme for sustainable development.
- 9.** We will also establish a Development Board to design a new framework and process for the economic development of the T&T economy.

Development Approach

Development is a process through which societies will widen the capabilities and facilitate investment in “nearby” goods, thus building linkages from within. This approach will require the design of a governance system for our industrial estates to promote a wider public management of these zones for cultural and service products. This would be within a self organizing system which trusts stakeholders to organize themselves according to their own self- interest.

The aim of this is to foster creativity with an emphasis on building capabilities (competences)

for development and inclusiveness. In this regard, a new synergy between communities and the state will be forged in what has been described as an open architecture for development.

Getting the direction right requires a paradigm shift, a shift from an industrial-based, technology-driven economy to a human-centred, knowledge driven economy. It requires a new Social Partnership between key stakeholders representing critical sectors of the society. It requires a new social consensus between Civil society, Labour, Business and Government. It demands a new commitment to a different development framework routed in the philosophical premise that development cannot be imported and must be sustained from within the economy.

Systematic Challenges

When this Government came into office economic indicators illustrated that there were systemic challenges that had to be dealt with. Essentially, if the baseline trajectory is allowed to continue, we run the risk of further destabilizing the economy similar to what has occurred in European nations such as Portugal, Italy, Ireland, Greece, Spain, and Hungary and indeed many of our counterparts including Jamaica. In fact the IMF has signaled that the ongoing debt crisis in Europe could act as catalyst for a “double dip” recessionary impact and we must be mindful of this with our policy prescriptions.

Regionally, the CARICOM Secretariat said that at least half of the 15-member grouping will record either zero or negative growth this year, with officials expressing concern that high unemployment and other factors which are likely to exacerbate the problems.

As we assess the risks ahead of us, there is “wiggle room”. From that, we have the huge tasks to rebuild a platform for growth, embrace a strategy for competitiveness, explore new frontiers for social investment and agree on an equation for scale consolidation. These are our challenges ahead. The time has come to meet

these challenges head on.

Minister of Finance Winston Dookeran's Question & Answer Segment at AMCHAM's Luncheon Meeting on Wednesday 28th July, 2010

Q: The Construction Industry in Trinidad and Tobago is on its knees as a result of the very slow and in many cases non-existing payments by Government or the HDC over the past ten months or more on contracts such as Victoria Keys and other low cost housing projects. Are you in a position to tell us when we can expect some of these long overdue payments?

A: I understand the problem and we have been faced with many bills that were not within their budgetary allocations. They are increasing in number and in size and we at the Ministry of Finance have been trying to work out and honour those commitments. I cannot put a time frame on that but I can tell you, we are making every effort to meet those commitments on a proper basis without disturbing our fiscal balance at this point in time. Hopefully, by budget day I'll be able to say more on that issue.

Q: The subsidies on fuel are currently \$2 billion. It's obvious that the country cannot afford this as is evident by the continuing late payment to manufacturers, successive Governments have avoided addressing the situation. The only recent attempt was the increase in the price of Premium. Is the reduction of subsidy cost a priority of the new Government?

A: I'll have to wait for the budget to answer that question but I understand the demands on the treasury and I also understand the need to ensure that there is a kind of equilibrium in the society on the question of cost of living. It all depends really on how we find the financing gap that is likely to emerge in the next year's budget and what we need to do to ensure that we can finance it without affecting our macroeconomic possibility. So I'll ask you to wait for some time for a specific answer as to what priorities we attach to the question of fuel subsidies.

Q: There is concern that the banks are “extremely dry of \$US.” Some intervention is urgently needed for our confidence in the US rate issue. Is this something that the Government will be addressing?

A: From my assessment of the situation I believe that the exchange rate is being properly managed and there are in fact adequate reserves available to support the exchange rate for some time to come. I do not foresee that as a major problem facing us but we will of course have to deal with it on a longer term basis but at this point I believe that the short falls are due to the cash flow arrangements rather than to structural issues and availability of resources.

Q: Is the Government thinking of diluting its shareholding in some of the Government owned companies? This would help in reducing fiscal deficit and also some liquidity in the system.

A: I did mention in my comments that the issue of public offerings to deepen the capital market and also deal with some of the issues with respect to the financing of development is being considered at this point. I wouldn't want to go much further than to say that it is not an option that we have ruled out.

Q: What are the Government's plans in relation to the implantation of the International Financial Centre and in fact depository receipts which were discussed with the previous Government?

A: The International Financial Centre is an idea that never should have been. The fact of the matter is that we do not have a serious institution for what has been called promoting investment in Trinidad and Tobago. Since the demise of TIDCO, there has been a missing link in the Government's institutional framework for promoting investment and we are aware of that. Some of it has been through the energy sector in the National Energy Corporation, a little is being done in the Ministry of Trade, some in the Ministry of Tourism, so it is our intention and I have set up a task force, a number of individuals both here and abroad to redesign the International Financial Centre concept into a broader concept that will now include investment promotion. I must say to you that we are exploring a new form of

investment promotion that will incorporate two components, the public sector component that will be offered to investors and secondly a very dynamic process of knocking down the doors of investors.

The time has come for us to knock on the doors both here and abroad, and in so doing anticipate that those in the world will join, be a equal partner in the process of acquiring new investment for Trinidad and Tobago. I have estimated that we need \$US 2billion of investment to start during the next year. Some of it will come through our public sector investment program. We've begun discussions with the International Financial Institute particularly the Inter-American Development Bank to work towards financing a public sector investment program. We expect further billion dollars in investment to be generated in the private sector. So therefore, the IFC will be converted from a prominent liability into an asset for the country to achieve the goal of investment as a result of the reorganization. That to I do not have the full details, the committee that has been working on it has expertise from abroad who have been associated with this project and sooner rather than later we would be in the position to announce the new initiative to promote investment in Trinidad and Tobago at the level of the institution. We will want to dialogue with you further to see how we can have the executing arm of that institution involve the private sector.

Q: What will be the role of E-Teck for the promotion?

A: Well I did mention that the Ministry of Trade and Industry is partly involved. E-Teck has been a sore point for the government not only because its buildings still remain incomplete and the bills continue to rise. So there is an immediate financial problem. There is also the problem that we have begun to discuss as to the use as an instrument for development in the future. It was meant to be that but it has not turned out to be that and therefore we would be looking at restructuring the E-Teck operation within the context of the investment plan of which I spoke to you earlier on. So that is being considered. The Minister of Planning and Social and Economic

Restructuring was just mandated to relook at E-Teck with that in mind.

Q: What is the Government's policy on the petroleum tax reduction for new oil development and exploration?

A: Well I did indicate that the whole question of results, the Scott Ryder Report and the public debate that has emerged on that issue have always assumed that there is some finite level of reserves and that will come sooner rather than later. We have said that the level of reserves is really a function of investment and if it can create the investment for exploration in the Oil and Gas Sector then we can deal with the issues of reserves more effectively and I didn't say that the Ministry of Energy is looking at how to encourage more production via the tax system for exploration and production.

Q: What can the new Government do to advance and implement meaningful local content policy?

A: Part of the development program that I suggested is to develop a strategy promoting what I referred to as "near-by products." Near-by products are likely to emerge from the current production structure and therefore we can build on that. Local content is part of it but we don't want to only utilize local content to build in firms that will supply it. We are saying that the vision should be larger than that and that the local content should be the base for building firms that could at least exploit other markets. We don't know whether it will be realistic but that is the direction in which we are considering at this point in time and in this regard we believe that we must search the opportunities in our market in Latin America and Brazil in particular.

Q: The Construction Industry employs close to 200,000 persons. Does this Government have plans to ensure sustained development that will stimulate jobs in the short and medium term?

A: Well there is a financing problem in the short term. There's no question about that but we have instructed our ministries with regards to the expansion of the public sector development

program to select as priorities such programs that have a large construction content and hopefully in the next fiscal year the public sector program will have a large construction content. What has happened is that the public sector investment programs have recurrent programs which do not generate capital, so we are trying to re-direct that program. How much of it will happen in the short term depends on our executing capability and our financing options. But we are very conscious that this economy will resume growth with a strong construction sector that is directed at not only employment but increasing competitiveness of the economy and we'll be very happy to encourage the development of investment projects and private investment. The time has come now for the private sector to develop an investment program for capital formation to supplement the public sector investment program.

Q: Relating to expenditure and the cash flow issues that are currently being experienced and the laptops for the school children of which it has been reported in the news 45 million, plus teacher training, support issues with respect to power, networking, security, is this something that the government would confer or phase in as a way to manage or create more "wiggle room" over a phased basis rather than all at once.

A: Generally speaking the mandate which we have from the electorate must be phased over time subject of course as we said to the financial situation but the attention of engaged much attention. The Ministry of Education is about to engage in a competitive bidding process on this matter. I think the issues that you raised are within the realm of that process to determine. The exact cost of it I don't know, I have had no submissions from the Minister on that as yet but it is a commitment that we would like to keep. In the context of our long term commitment to ensuring that information is available to everyone in the society, we start with the school system because the distinction between poverty and wealth really lies with the use of information so we're really trying to set at the same time the infrastructure that is required for social investment in the country.

Q: What measures are being implemented to

avoid corruption or the perception there of in these new strategies, boards and councils?

A: Of course it is an issue that has engaged the society. What we have done so far is to introduce for deliberations in parliament a bill and we intend to find ways to enforce that bill so that is the first step we have taking in this regard. The second step that we have taken is and I mentioned it in my presentation that we are designing new corporate governance for the new state-owned enterprises that will allow for a more transparent accountability of their actions over time. The third of course, has to deal with the value system in the country itself and the toleration of that system that tends to support issues of corruption too easily, we will have to introduce measures to address this. So those are the issues and we'll continue to account to the people on our performance.

Q: What are government's plans for unraveling CLICO's intergroup indebtedness and communicating a way forward and what is the time frame for implementing the regulatory change to prevent this situation from reoccurring?

A: Well as you are aware the government has established a high level technical committee which did some intensive work on the complex issues that we had to face up with and it involves a lot of things that you have mentioned. The deliberations by committees are still on-going and in due course we'll be able to come up with our approach to that problem. It is very complex, it is very large, it involves a large share of the Gross Domestic Product of this country and we have to navigate the solution to win public confidence but not at the cost of having a real economic solution. I can't say too much on that issue at this point but it won't be very long I hope that we'll be able to outline our approach to it.

Q: With the new push to Corporate Governance several State and special purpose companies are without boards. When can we expect these appointments?

A: It is an ongoing process but it will accelerate from now on.

National Sovereignty and Security

FINANCIAL CRIMES

9th August 2010 Conference co-hosted with the International Institute for Governance and Risk Initiative

New Crime Fighting Initiatives

Under the Peoples Partnership Government and within the context of our planning for fighting and preventing financial crimes, we have been able as a country to put in place a new institutional infrastructure. The Anti Corruption Terrorism Act, which now criminalizes the financing of terror, the Proceeds of Criminal Act and the Financial Intelligence unit Trinidad and Tobago Act that is directly under the prevue of the Ministry of Finance have all recently been put into place.

We recognize that it is necessary not only to have the legislative authority in place, but to be able to have the enforcement capability and the political will without which the risk of failure in this particular area becomes larger. We do not intend to fail as we are determined to take a serious approach towards cleaning up the society's institutions from financial crimes and at the same time join in our partners in the Caribbean to acknowledge the regional international nature of this problem.

Vulnerability of Small States

There's much more than legislation and enforcement measures required. What is required is a higher level of political will not only here in Trinidad and Tobago but throughout the region to deal specifically with this problem. Not only because it threatens the very institutions of self-governance in the country, but it also touches on the very aspect of the maintenance of the sovereignty of the region.

We are a small state and small states are seen to be fragile in the international criminal order of today. We're a vulnerable state, vulnerable states are easy to penetrate and difficult to keep; and those who wish to penetrate it may. It is because of these reasons and since we are well aware that

this is an international problem of immense proportion, the United Nations Office on Drugs and Crime has estimated that the worldwide illegal drug revenues now exceeds 320 billion US dollars per year. Not only is this figure enormous in size but it also reflects the growing rate of the criminal industry worldwide that must be stopped and the place that we can stop it is right here in Trinidad and Tobago.

It is in that context therefore, that these frightening figures and staggering growth gives much vent to the view that organized criminal groups that control large amounts of this money must now not only be prevented from targeting governments and institutions but we must also remove the economic forces that keep them alive.

Crime & Economy

The integrity of our institutions is clearly affected when our financial institutions, our regulatory bodies and our law enforcement bodies find the very integrity in the social objective being affected. In addition to the integrity of our institutions, there is the issue of the productivity of the economy that is affected by the growth of this industry. In the very allocation of our resources we spend too much money fighting unnecessary situations, where our allocations should be on resources that would bring about more emphasis on poverty issues, more emphasis on growth and stability issues. We spend far too much money as a nation in fighting off terrorist activities in the local scene as well as security issues.

Our allocation of resources is therefore distorted. But not only within the local borders of our country does this happen, our capital inflow for long term development in finance is also affected by the increasing growth of the financial crimes industry in our country.

Anti-Money Laundering

Over and above all of that are the very values of our society, as it taps the problems of corruption, we must deal with these issues to ensure that new values must now be embraced in the 21st century in the context of the global climate.

Corruption must not be tolerated and steps must be taken by the institutions' law enforcement mechanisms and by the economic actors who must stop financing and allowing the financing of the criminal industry to take place. This is why prevention is so important and one of the mandates of this forum is to deal with prevention of financial crime. It is in this context our government is intensifying its efforts to establish robust and effective anti-money laundering systems to counter terrorist financing and to establish sustainable regulatory infrastructure for the prevention of financial crimes.

Financial Intelligence Unit

This is why in Trinidad and Tobago we are building the Financial Intelligence Unit. This unit has been in existence for a few months dating back to 2009 when it was first established. We are seeking to provide it with the highest state of technology, staffing it with the right skilled personnel, seeking advice in counsel from many international experts including your institute and many others as we try to provide the necessary framework for a sound functioning and effective Financial Intelligence Unit. We shall stand, shoulder to shoulder, with all of you who are in this room from parts of the Caribbean and the world as we engage in the new assault against financial crime in our societies.

Egmont Group Membership

In this regard, Trinidad and Tobago has applied for membership in the Egmont group of FIUs and we hope that our application will be considered and approved in 2011 when the plenary session of the Egmont group meets next June. That group would establish the credentials of the highest standards of professionalism that we must adapt and give us the credentials to claim that.

Next week we shall be welcoming in our midst those two countries, that have promoted us for membership, the British Virgin Islands and the Bahamas. We look forward to using the forum in June of next year to have our application for membership in the Egmont group approved and in so doing allow us to join in the ranks of those nations in the world who have established the

highest standards for the fighting and prevention of financial crimes in Trinidad and Tobago. Clearly, this problem has a deep international dimension and it's not a problem that can be fought only within the national borders of any one country. This view was so well expressed by the Managing Director or rather the Deputy Managing Director of the International Monetary Fund when he said, "Global financial stability inches on the collective action at the international level but also on the effectiveness of national systems. Robust anti-money laundering and combating the financing of terrorism regimes are important pillars of the international regulatory and supervisory system. And which is part and parcel of our current efforts to strengthen the global financial framework."

International Cooperation & Conferences

We concur with these views and that is why we are very pleased that an international conference of this quality is taking place in Trinidad and Tobago at this time. It is a time when we are taking an assault on all our social, economic and political problems which we face but none of least has to do with the issue of financial crimes. Therefore, this forum on governance, regulation and financial crime prevention will provide us with a rich exchange of ideas, a rich sharing of experiences among the various participants who are here; and in the final analysis, a designing of an approach that will be able to create better enforcement, stronger political will, and more effective results.

Until our society becomes safe again, not from the violence of crime but from financial crimes that provides the source of the criminal industry, we will not be able to embark with the same amount of confidence that we will like to deal with the problems of development, growth and poverty eradication. This is an essential prerequisite in the governance of our country at this time.

ENTREPRENEURIAL ECONOMY

*Post Budget Forum, 9th September, 2010,
Revised Statement*

Citizen Participation

The greatest inspiration from this budget came from our interactive sessions prior to the budget. This year we were able to meet with many groups, individually and collectively. And during these sessions it became clear they were speaking not only in terms of what they would like to see in the budget for themselves, but what the country needs to have in this budget. These citizens were more interested in the environment which we should create so that each individual can grow and realize his/her full potential.

Dynamics of the Budget: Premises & Approach

It is in that context, therefore, the budget has been predicated on the four following premises of removing current uncertainties, setting conditions for growth, building a culture of entrepreneurship and redirecting people-centred social programmes. Based on these premises the budget also provides a development approach. Let us first look at the four premises and then some critical aspects of the development path for Trinidad & Tobago

1. Removing Uncertainties

The first premise of the budget is that if we want to move ahead, we must clear the slate and remove critical uncertainties that have become burdensome for the people of this country and indeed very burdensome for the public finances of the nation. And therefore, our first approach was to deal with these uncertainties some of which you have heard about already in the budget. These of course, include CLICO, Hindu Credit Union, Alutrint & Rapid Rail and others.

2. Setting Conditions for Growth

The second premise was to set the condition for the resumption of growth in the economy; it is

true that we have had some successes for many years. In this regard, within recent times, particularly since 2007 we have found that the economy began to stumble and when we came into office, the stumbling continued. Our cash balances in the country's treasury deteriorated significantly from 17 billion in 2008 to just over 5 billion when we came into office and it has further deteriorated somewhat in the last four months.

We are in a very fragile financial situation and therefore, the way to get out of this is to find the mechanism for us to resume growth in the economy and to resume growth, we need investment and to get investment we need an environment that would be able to generate the enthusiasm for that investment. Therefore, a large number of our measures were meant to provide that environment, so that investment can take place.

Public Sector Investment Programme & Growth

We will have a substantial investment in the Public Sector Investment Programme (PSIP) directed at triggering growth in the economy. In preparation of the PSIP, we chose those projects that would generate construction activity, so that we can trigger the growth process, given the fact that there has been a slack in the construction industry over that last two years and that in any society, it is public works that generates the growth.

In addition, we need a fiscal framework that will support investment other than in the energy sector. To that extent a lot of emphasis has been placed providing that framework for the manufacturing and services sectors. We need to restore the confidence of work prospects of a number of sectors.

Bids for Exploration of Oil and Gas

That has been under some concern especially in light of the fact that firms which come to bid for exploring new oil and gas has been reducing substantially and of late, there were none. Our fiscal regime was not sufficiently attractive and therefore, we had to do something, we ring fenced, the exploration aspect of the energy

sector and established a new incentive programme that would provide at least the interest and certainly the hope that there will be now, many more investment projects.

On the same day that the budget was delivered, the bids were open in the first rounds, The Minister of Energy informed us that a number of bidders were seen this time around which was a good sign as we start the new fiscal year.

3. Building a Culture of Entrepreneurship

The third premise of the Budget is building a deep foundation on what we call a culture of entrepreneurship across the land. We stumbled in our development focus over the years, through not developing the entrepreneurial capability in the society at large.

We had relied far too often on a state directed development strategy and now we must move towards a people directed development strategy. But to do that, we needed to ensure that the people are equipped to handle the job and therefore, we began a search for an entrepreneurial capability in the country.

Traditional Entrepreneurial Class

The traditional entrepreneurial class sometimes referred to as the private sector must now become more entrepreneurial and more risk taking and we must now set the economic environment for them to do so. This environment was set on two grounds. There is indeed excess credit capacity in the banking system and we created a supportive environment with respect to the interest rate policy as well as incentive programmes to encourage the use of that credit facility. And we hope that the private sector now will see the opportunities of taking more risk without at all compromising their stability in the financing.

New Class of Entrepreneurs

But perhaps, the more revolutionary aspect of the budget has to do with the creation of a new class of entrepreneurs, particularly among the young population. We have the confidence that

the people in the country will respond to that, but to do so, they need a helping hand.

East Port of Spain

One of the projects that we have identified has to do with the East Port of Spain region which we felt has been underdeveloped far too long; and that there was need for a new entrepreneurial spirit in that area. To that end, we have ear-marked some new initiatives, one that will call upon the universities of Trinidad and Tobago, along with Civil Society and the Government and indeed, the community that is affected to design an entrepreneurial plan. Hopefully, we would be able to move toward the creation of what has sometimes been referred to as the old Havana in big cities of the world or in all cities of the world. There are parts of the cities that are in fact, resuscitated to create the spirit of the cities. But we will do so by creating opportunities in arts, in culture, in music and in sports.

Entrepreneurship & Business Incubators

The idea here is to create an innovative approach to entrepreneurship and as a start we have located a sum for this rather small, 10 million dollars where individuals who may have ideas but may not have worked out any feasibility plans, may go and receive a very small loan from the banking sector under the guidance of the criteria to be established by the government; and this therefore, is attempting to encourage innovative thinking in a commercial way. And in so doing, we would also establish a framework of what we call business incubators.

A business incubator is a technique that has been used very effectively in both South Africa and also in India. A large part of the economic success in India within recent times have been attributed to the fact that they have developed a very vibrant small businesses sector and that has been promoted to some extent and has been anchored by the business incubator system. We therefore intend to make substantial use of the business incubator approach.

Support from Financial Institutions

Financing of agricultural entrepreneurship and financing of entrepreneurship this is perhaps the

most important innovation in the Budget. Our financing institutions focused on development whether it is the Business Development Company, the Development Bank and the Agricultural Development Bank will now be geared towards supporting financially small business. To some extent these institutions have lost their social focus and they appeared to have not been responding to the social requirements of their original purpose. It is therefore, necessary to stream line them towards delivering what they are supposed to do which is to provide opportunities for the small business people.

Energy and Agriculture

The path of development is based on a revitalized energy sector, is based on a renewed agricultural sector so that our efficiency problem could be tackled at its roots. And to deal with the issue of inflation and higher prices, we indicated in the budget that we will do it on both the level of affecting the aggregate demand of the economy, and also affecting the supply. So we want to increase food production in this country. We want to make agriculture profitable.

Public Offerings: Development owned by the People

We also of course, want to increase energy production in the country and then we'll sustain that by the new impetus which at some time will be referred to as the On-shore Economy as opposed to the enclave economy. In the past, instead of becoming more resilient over the 20 years of yesterday, our economy has become less resilient. Instead of becoming less exposed to the international financial system and all that may happen we have become more exposed.

To build of resilience can only come if development is owned by the people. It is in that context, we have introduced the programmes of public offerings of state enterprises. Not all state enterprises, because we do believe there is a strategic objective to be achieved by many enterprises.

Changing Role of the State: Catalyst

But even those in which we shall introduce public offerings, there is still the need for public

direction because the role of the state has now changed from becoming the director of development and owner of the development process to really being a catalyst for development. In so doing, we have introduced the intention to improve the stock market performance in the country and to build a domestic capital market by having more shares being placed in that market so there would be more activity.

Domestic Capital Market: Increasing Activity

Within the last year or two, the activity levels in the domestic capital market has dropped significantly and one indicator of economic activity and progress is the level of activity in the domestic capital market. Therefore the issue of public offerings is not only in terms of sharing the ownership of this country's wealth but also in terms of regenerating the markets that would ensure that we can sustain this overtime. We have already set up technical teams to analyze how we go about this particular initiative of sharing the ownership of this country on a wider basis. We are hoping that the individuals in this country will get an incentive programme eventually to support their share in the ownership.

Other New Entrepreneurial Industries

The following four areas will now be placed on a foundation of becoming viable industries and it is in that context we paid a lot of attention to providing support to what hither to now was not given support, the fashion industry, the design industry, the recycling of waste industry, and the ship building industry hopefully, more ideas can come.

4. Redirecting People-Centred Social Programmes

The purpose of our people-centred social programmes is to assure inclusive development and maintain a stable society. Our budget proposes a number of measures which deals with poverty reduction, our pension system, housing, sports and youth programmes and others. It also

outlines a taxpayers rights and responsibility charter.

The fourth premise of the budget deals with the issue of the current situation with the people. We were very conscious to ensure that the people's interest as they exist today is maintained. And in that sense we have not interfered with the size of the budget that has been devoted to what has been called social programmes but we have indicated that many of these programmes need to be re-defined and re-directed to achieve a better objective. We have not at all interfered with any of these programmes and in fact, we said that they ought to be expanded. But we believe that in expansion, there must be a redirection of it while maintaining the welfare of the people,

Improving Security: The Police Service

Dealing with crime has also been a concern and we have accelerated the program of support for crime prevention and maintain a high cost of expenditure in that area. But the whole crime situation also requires a more holistic approach and that is why we introduced measures that involve a large social component in our trust to fight crime. . All the transformation exercises in the past have been structured within the context of the state-reached solutions.

Of course, there is also a strong enforcement component and while we recognize that the entire protective services are important, at this stage we have placed a focus on the police service by giving them a financial incentive. An energized police service with a sense of satisfaction in our view is one of the important ingredients that we must set into place to deal frontally with the issue of crime which continues to be a vexing problem for all of us. We feel confident that we will be able with these new measures including use of bicycles, having more police presence throughout this country and by the use of a genuine programme of community policing that we can make a difference.

Engaging Young People: GATE

What we are now suggesting is a solution that engages society in finding the outcomes and

that is the fundamental philosophical difference between this budget and previous budget it has done in the past. We have also indicated in our programme that we are particularly interested in ensuring that the young among us do get more opportunities.

We will extend the GATE programme now to include vocational training. The young people who came to us told us while they are happy with the GATE programme; they believed that there was too much abuse in it. We said that this is something we would have to deal with. Consequently, we will streamline the programme to ensure that it does not lose focus and become ineffective in the long run.

Partnering with the People

Tax Collection Government Debt

Finally, we believe that the tax situation in this country somehow has lost its focus. There are many arrears that are now on the books that the government has not been able to honour. The figures that were given were in the order of 2.8 billion dollars in the Value Added Tax. There were also arrears with respect to contractors and other creditors that the government has not been able to honour. We want to get back to the time when government debt is as good as gold.

Tax Amnesty

While the government must honour its debt commitment, the people must also honour their commitment. This is a golden opportunity to pay up the taxes. We will have an amnesty from now until next May and ask the people of this country who have not for one reason or the other been able to meet the commitments to the treasury that they do so. The incentive to do so will be to give them waivers with respect to penalties and interest. That is a very large part of the problem of non-payment. Penalties and interest have grown so high that many tax payers default.

We believe this tax amnesty programme will win the support of our country especially in a climate of a new patriotism and in which there is going to be a new relationship between the government and its people. The partnership approach that we have adopted in this exercise is

based on the new thinking that government must indeed be a catalyst to development but government must now engage the people in a direct way to bring about the development of the country.

While there is no new taxation, we have been able to get more out of the same money, than previous governments. This is one reason why we feel a greater sense of confidence. But our fiscal deficit of 7.7 billion dollars represents 5.48% of GDP and is not beyond bounds. We would have liked to keep that to less than 5%. If we get substantial progress in the collection of tax arrears, it will wipe out our deficit all together. We look forward to that by the people of Trinidad and Tobago.

“NOT WHAT I CAN GET BUT WHAT I CAN BE”

Trinidad and Tobago Chamber of Industry and Commerce, 9th September 2010

A Change in Perspective

A change in perspective has come to the country and it can best be summarized in terms of what people saw budgets to be in the past and what they expect it to be in the future. In the past, the question that was asked often was “What can I get from this budget?” And I believe the philosophical difference now is that people are not asking what they can get but they’re asking what THEY CAN BE. What I can be depends largely on a change in attitude and on the changing of the role of government in Trinidad and Tobago. Consequently, we should view this budget in terms of “What I Can Be” not “What I Can Get”.

New Entrepreneurship

The underlying assumption in the budget and fundamental philosophical shift in terms of the change in perspective has been the new role for entrepreneurship.* Unfortunately, the traditional private business sector tends to be risk adverse and has little interest to move into the development part given the choice between commercial profitability and development dividends. The entrepreneurship that we are seeking requires the traditional business sector to become more prone to taking risk. It also calls upon the creation of a new entrepreneurial class where we must give a helping hand to make them walk. It has become absolutely necessary to do that, to assure this country that we can move towards the resumption of growth on a more sustained basis.

Underlying many of our measures that have been put into place is the creation of a new entrepreneurship in Trinidad and Tobago. This new entrepreneurship calls upon the private sector to change its own perspective towards this country...*not what I can get but to what I can be.* This new entrepreneurship is an active small business sector and the creative industry in

Trinidad and Tobago. The creative industry is reflected in art, in culture, in so many areas in which this country has a natural talent. And this budget presentation placed a fair amount of emphasis on creating the conditions for that new entrepreneurship among the small business grouping in the country; linking education to business opportunities, the incubator system, the creation of opportunities for the small business sector.

Now the job is to get on with the investment in the private sector. The conditions for that are right. In the first place, there is excess liquidity and the banking sector is looking for projects that can work. Secondly, our fiscal regime is providing all the elbow room that is required for action to take place and thirdly, there is a change in the perspective of the country moving from “what I can get” to “what can I be.” That therefore, is the philosophical underpinnings upon which this budget has been based.

Sustainable Growth: What this Country Can Be Sustaining this growth however, is also important. Triggering it is important to get the whole process restarted. Sustaining it requires a three to five year frame and it is in that context we pointed out a new direction for the sustainability of the growth process.

Public Sector Investment Programme

Triggering the growth was an important part of the thinking behind the economic strategies for the Public Sector Investment Programme (PSIP). We were careful in choosing the projects we placed in the PSIP giving a bias towards what we call “mortar and bricks” projects. We want to generate more activity in the construction sector; consequently, 70% of the PSIP is generated towards construction activity and is the basis for triggering some element of growth in this economy. It will be supported by other initiatives taken including tax measures to create an environment where the business sector will get sufficient incentives from the public authorities

Agricultural Development Bank

The two areas that were given immediate action in terms of our fiscal perspectives were of course

the energy sector and the agricultural sector. Apart from some of the other measures that have been put into place we have taken the bold step of reducing the interest rate available to farmers through the Agricultural Development Bank (ADB).

In a way we have deviated from traditional market rate argument and we have suggested that the ADB now have a more supportive 'rate regime'. As we have lowered the rates, we have done that on the premise that the ADB must in fact pay for its own expenses. This is why we have kept the rate between three to five percent, lowering it from the existing six to eight percent. We do not want the ADB or any other development financial institutions to rely on the treasury for support. Therefore, their charge now will be to at least break-even but at the same time we want their social purpose to be directed to increasing production in the country.

Growth Poles

So energy production and food production are the two key areas in which a new regime has now been put into place. Hopefully the sustaining of the growth will take place by the identification of new areas of economic activity and that is why we have worked very carefully to design a programme that will encourage new kinds of industries, whether it is the recycling business or the ship building business or wherever it may occur. We have identified five growth poles in the country that we believe will do two things. It will be able to create an opportunity for special attention to areas that have special economic needs. And those growth poles therefore will form the basis for a new incentive programme. The growth poles can develop the entrepreneurial potentials of this country and allow it WHAT IT CAN BE.

All the various measures with respect to the free trade zone including a ninety percent accelerated allowance are aimed at increasing activity in these free trade zones. Within that context there's an economic philosophy that we must remove the anti-export bias in the system and create a pro-export bias. This will also have the ability to induce foreign investment to a

larger extent in the country and removing the cap therefore was in recognition of the need to become more relevant to the dire political situation that we are facing.

Risk: What I Can Be

A country that is accustomed to seeing a budget never delivered in practice will obviously have a sense of skepticism as to whether or not we can make this perspective shift. And that while we will do so in the context of our fiscal environment, whether the people will feel confident enough to do it themselves is the risk.

Because given the situation in the country now, in the global arena, as well as in terms of our lack of confidence in our system, we must take some bold risks. Since the perspective of this country is moving from what I can get to WHAT I CAN BE then this risk is less than we might expect. One risk that has emerged is our revenue situation. There are two aspects to that risk. One is that some of the assumptions we have made may or may not be realized with respect to the external situation and whether there will be a double dip recession or not are matters in the radar screen for us. But we are hoping to build insulation against the negative impact of a double dip recession that the world may face in the next two years. That's a major global issue. The other risk that we are facing is whether or not our tax revenue will be sustainable and indeed if such an impact were to affect our revenue situation we will have to handle that.

Tax Collection & Amnesty

The budget arithmetic is proposed to be a 5.5 percent deficit. We do believe that we must move back to a balanced budget but this will take this sometime hence most of what we've done in this year's budget is really predicated on a medium term range and we shall move in that direction. The tax amnesty in my view is a very important measure. It is true that we have had two or three such amnesties before but we believe at this time that this was a very important source of revenue. The tax arrears figures amount to about thirteen billion dollars. Now that's a very large number but what is active amounts to about seven billion dollars. If everyone paid their taxes then we

would have no deficit in Trinidad and Tobago. Let us make the call for compliance and let us take it seriously.

Taxpayers Covenant

We are introducing a new covenant between the taxpayers and the government with very basic principles where we can have what is normally required in a normal tax system- including no harassment but also including enforcement if in fact there are those who do not wish to pay. And in that context I want to suggest that this is a part of not what I can get but WHAT I CAN BE. Because in the final analysis what I can be depends on the wider environment and what I can get depends largely on me. And therefore we now have to realize that the fortunes of the wider environment are indeed going to be more important to who I am than the fortunes of my individual situation. It is in that kind of context therefore that the risk that we are taking is based on the presumption that the people will now engage in a new beginning, in a new perspective and in so doing people can change the economic fortunes.

We are in Charge of Change

There is still a lot to be done and there are risks of execution ahead of us. In a society that is prepared to blame and not take responsibility, execution becomes a greater challenge and may require change. Who is in charge of this change? The responsibility to change is a necessary responsibility of leadership. It is our responsibility to change, rather than to complain and blame. One cannot sit as head of an institution and not take the necessary steps to change it. We must move away from the psychology of blaming.

In the past, many governmental institutions were allowed to not take responsibility for their actions. Many state institutions have lost their social focus and their leadership does not feel compelled to be accountable and responsible for ensuring that the social focus is in fact achieved. Whether it is in the development finance institutions, the small business development companies, wherever it is there is a tendency that "government must do it for us." In the budget

there are many measures for improving the efficiency and returning to social focus and accountability for so doing. It is not only a financial accountability, but accountability in the context of integrity in the sense of social purpose in achieving certain goals. What we are in fact accountable for is delivering the goods and services for which your institution was in fact set up.

The objective philosophy of this budget is not what I can get but WHAT I CAN BE. And it is in that context, we are creating the environment so that the people - whether they are young, old or in the market as productive workers will now have a condition 'to be' rather than 'to get'. For example, with respect to the rationalization of the housing institutional infrastructure, a new trust is being placed on the agenda which is home ownership by first time homeowners. We thought that it is time now to bring about a new sense of responsibility.

A New Partnership

The fundamental philosophy we have embarked on is to get a new direction, to trigger growth, to sustain growth and to increase efficiencies in the public institutions. Now we cannot achieve this in any one year but what we attempted to do was set up the framework-the basis upon which we shall move from here on.

It is in that context therefore that within the budget there is another philosophical shift. There is a call for partnership. For example, in the budget statement we encourage that the Artists Coalition of Trinidad and Tobago and the Association of Psychologists should partner in the establishment of trauma centres. Throughout the budget there are many opportunities for a new partnership. This is not to deny the role of the state- far from it. We believe that the state continue to be the economic catalyst for development in Trinidad and Tobago. It must continue to drive the process of economic development but it can no longer be the only instrument for doing that. So therefore, a new partnership is to be developed with all those who are engaged in doing their own activities whether it is in the Arts sector or any other

sector.

There is one particular process that was well received and it had to do with the design industry. We are hoping to explore this untouched market and to introduce some measures in the garment industry. But this will now create opportunities to explore export of their products. We will provide support to those in the garment industry who can exploit a growing world market. So there is a movement from the dependence on the energy sector and the reliance on government funding to the creation of an environment to support something different.

We also indicated we will implement measures to tap into the world's outsourcing industry. The world's outsourcing industry is growing at perhaps its fastest rate and we should as a small economy tap into this industry whether it is in the field of IT, Education or Medical Services. No doubt that this will not happen next year, but underlying the budget these are the kinds of directional changes needed. It may look farfetched in the eyes of the skeptical society we believe that we were placed in a position that if we did not take these directional changes now then we will all remain looking at the budget to see what we can get and not *WHAT WE CAN BE*.

CLICO/BAICO

The Government's Proposal

Media Briefing 28th September 2010

Thank You very much our acting Prime Minister and our Attorney General and members of the media.

Since the announcement in the budget debate, of the line of action the government intends to take based on the principle of fiscal responsibility and also on the principle of satisfying the legitimate needs of our people, there has been a debate taking place in the country, and rightfully so. We intend, in the Ministry of Finance, from time to time, to have an update on the issues before us. This will allow us to do our part in bringing to this debate the information from the perspective of the Government of Trinidad and Tobago whose primary responsibility is to have a common satisfaction of all the people of Trinidad and Tobago.

Let me start by outlining some very basic facts, you are well aware that the previous administration had committed, somewhere in the order of \$7.3 billion, in an unstructured approach to dealing with the issue. In the last three months after we had analyzed in great detail, what was before us in this problem of fiscal stability in the country, we recognized that the problem was indeed significantly larger than what was first anticipated. And in so doing we marshaled our technical resources together, in order to find the right solution. There are many dimensions to this problem but today we speak largely on the economic solution. What we have found is that in order to deal with the short term depositors, it is required for the government to make a commitment of \$12.3 billion. Remember a billion dollars is one thousand million dollars, and in order to honour that we have made provision in the 2010/2011 Budget for \$3.3 billion. Let me at the outset say that if we did not have to make that provision, our deficit of \$7.7 billion would have been \$3.3 billion less. And I hope that will shed some light as to how this particular problem affects the total financial formula of the Government's stability programme.

We've been told that there has been a guarantee that was given by the previous Government, and that we in the People's Partnership Government are not honouring that guarantee. Well let me first say, that a guarantee can only become effective in our system if there was a parliamentary appropriation of the funds. And I can say at this point, that even the \$7.3 billion that the previous Government had committed, 5 of which was directly and 2.3 was through the Central Bank, there was no appropriate budgetary allocation for it. So a guarantee cannot be a guarantee if it was not backed up by the funds. Those funds would not have been sufficient in any event. Therefore, what we were faced with is to establish clearly, new offerings to the people who are affected. And these offerings are based on the assumption that we can deal with this problem. But we first must pay consideration to those who have been involved either as policyholders of life and annuities and pension fund or as short term depositors.

Our approach was therefore based on providing two things. One that we intend to separate the traditional insurance business from the short term depositors. And in so doing, 225,000 persons who would have had policies of a traditional nature, will now find that their policies would be fully funded. And therefore there should be no concern in terms of any loss on their part. We have been able to do that by separating the traditional policy business from the short term investments that were made. So at the outset there are 225,000 persons whose policies will be honoured. In order to do that, we have taken the decision that we will bring together the CLICO operation and British American (BAICO) and start a restructuring process. That in itself was a decision based on a commitment to the people against the technical advice that the 2 institutions we are dealing with were insolvent. So as a Government we took the risk of taking these insolvent institutions and nurturing them back to some form of health. It will take some time. But this is what we had to do to protect the 225,000 policy holders of a traditional nature.

With respect to those who had short term investments, and there were approximately 28,000 such persons, according to our preliminary estimates, half of those or near to half of those in the vicinity of 40 to 50 percent, would have had deposits of less than \$75,000. So in our commitment to ensure that the small investors were protected, we decided that we shall provide a cash outlay of \$75,000 to all the investors. Not only those who had investments of less than \$75,000 but also those who had investments of more than \$75,000. That takes care of a further 10,000 individuals at the \$75,000 and below. What we are therefore left with, is those who would have had investments of over 75,000 dollars which amounted in total to \$12.6 billion. We organized a very creative plan that we shall provide to them 20 one-year bonds or to put it another way, a 20 year bond in installments each year. And therefore the burden on the treasury will be considerably reduced by this measure. Let me say that if we had not done that, then we would have had to cut our expenditure for the basic needs of the people. Whether it be roads or bridges or pensions or whatever it may be. Or we would have had to go to a very high level of fiscal deficit. So in our view we had to take a fiscally responsible position; preserve the well being of our people. We did not cut any of our social expenditure programmes because we believe that those programmes while they must be transformed and quickly so, must also at the same time provide transition support. In other words our priorities that we established in the budget to move towards basic needs was a policy direction and therefore if one were to not to adhere to that policy priority we would have had to cut such programmes or increase our debt or perhaps increase our taxation and so retard the prospect of economic growth in Trinidad and Tobago.

But let me explain very quickly the 20 year bond issue. There have been some confusing comments on this issue. The 20 year bonds will be given to those who had investments of over \$75,000 and they will be allowed to cash in their bond each year at par. So in other words, if you were to cash in your bond in the first year for the first year bond at the end of the year you will be

able to get 100 percent. There is no interest that will accrue but in any event, today's interest rates are very depressed and are in the order of 0.1 percent for bonds. If however individuals were to require cash before the year ends for the first one year bond, they can do so by discounting it in the financial system which includes the banks and the brokers.

Yesterday I met with the banks and the brokerage community and we discussed with them what was a technically-determined yield curve. That is to say, what will be the discount rate if individuals were to cash in their bond in the first year? If they were to cash in all their bonds for the 20 years in the first year then clearly the rate would have varied from between 62 to 68 percent. If however, they were to cash in only that first year bond they will get a return in the order of 95 cents. We are continuing our discussions with the banking community and the brokerage community to ascertain whether they can make that better. But in layman's terms, you can get your one year bond cashed before it's due at the end of the year in the order of 95 cents. That is why many of you who have looked at this model we have put into place are amazed at how we can offer such a generous and fair deal to depositors to whom we shall be refunding their principal. Not their interest in the future, but their principal. And we expect that that rate will be the rate that can apply for the first five years. Beyond that, under the yield curve, the rate will become less attractive. Bear in mind also that these bonds can be used as security for borrowing funds and they can be used for any kind of collateral that individual may wish to provide.

It is important to note that these bonds are sovereign bonds. It is not guaranteed bonds to an enterprise like CLICO. It is now sovereign bonds. In other words, it is the bonds that have the first claim on the Government treasury. There is therefore no risk of default. So when I said that the previous Government had given utterances of guarantees without even allocating money in the budget much less to provide the instruments for that guarantee, there is a falsehood to the statement that there were guarantees. There

were guarantees in utterances admittedly by the Governor of the Central Bank, by the then Finance Minister, by the then CLICO executive manager. But these guarantees had no backing, either in terms of the allocation of funds through the parliament or certainly in any other way. And there is no way that the Central Bank can really guarantee these funds without the Government; and the Government commitment was made. But it took one year later for some of those funds to be made available and during the course of that year no steps were taken to really provide a guarantee. So what I am saying, those who have been arguing that this Government is not honouring the guarantee that the last Government has made, let us put that to a lie. What we have done instead, we have allocated in our budget \$3.2 billion for 2010/2011 and we will be issuing bonds so that the individual will have certainty now of getting back his principal, albeit over some years. But as I said, he can trade it as he sees fit in the market.

The third issue that has arisen is why doesn't the government simply sell the assets of CL financial and CLICO and pay these fifteen thousand people. In the first instance, let me let you know that most of the assets are encumbered. And the previous Government for 18 months could not do anything about it because they too had recognized, having wrongly diagnosed the problem as a liquidity one, that they could not sell the assets; most of which were encumbered. And therefore, as I pointed out in the budget statement, the net assets were in the order of \$17 billion and the net liability was in the order of \$23 billion of the CL Financial Group. So that is also a false argument that has been made by those that have been arguing with passion that that is an option. And even if it were an option, it would have been irresponsible on the part of the Government to engage in a fire sale of assets that belong essentially to the people of Trinidad and Tobago. It is also our intention to look at that in terms of its commercial possibilities. There are also other partners and other owners that are involved. It is not Government owned. So that argument, I want to put a lie to that - that could not happen.

What we have agreed to do is to start a full assessment, now that we have established firm influence in CL Financial and in CLICO, as to the state of affairs and take appropriate commercial decisions as we move on. In the long run we intend to protect the public purse and at the same time satisfy the needs of the people.

The fourth point that I wanted to raise, and as an example; there is an investment in Florida which, I am told, was based on a loan by CL financial of about US\$450 million, the value of which, today, is in the order of US\$150 million. So if we were to sell that investment, as an example, we would have sold it and still have to maintain, and when I say we I mean CL Financial of which the Government has an interest now, US\$300 million in debt. So let us not fool our people that this is a situation where we can simply sell the assets and repay depositors. And that is but one example. As we go deeper and deeper into this situation we expect that there would be even more problems ahead of us.

I have already had calls from Caribbean Ministers of Finance who too have been affected by this multibillion dollar mistake on the part of the Government and on the part of the corporate managers at the time, who are seeking an urgent meeting with me to discuss the implication of the CLICO fiasco to the Caribbean economies. To date we have not met, but very shortly I hope that we can start addressing them because our Caribbean neighbours are important to us. What solutions can we come up with the? I do not know at this stage. My response when I got the request early on is to say let me deal with the situation at home; let me see light in the darkness that I have inherited before I start looking at light in other people's darkness. So that is one of the further situations we have to deal with in the future. I did say in parliament that this was not the end of the story. This was just simply the start of a solution that has put our country's entire financial system at risk and has also placed 10 percent of the economy in problems. Now I have no doubt that we will be able to overcome. But we can only do so if we take a sensible approach and reflect a genuine commitment to deal with this matter. That is why

we have premised a solution on the principles of fiscal responsibility on one hand and satisfying the legitimate concerns for reviving the financial sector and those who have been affected. What more can you give other than to provide funding for the principal of those who had invested over a period of time that will satisfy the national requirements and who can use that, if they wish, as entrepreneurs of their own to secure new investment opportunities because their principal is being protected. And in any event, I repeat, the current rate of interest for bonds is very low. I was told in the order of .1 percent. So there is nothing that they are losing and it amazes me when I hear those cries in the wilderness that they are losing.

We recognize that there are some individuals who may have hardship situations. We do not expect it to be many – and these are genuinely hardship situations. To that extent, we are considering a special window to deal with cases who have genuine hardship and by that I mean matters of life and death and living. But that will not in any way deviate us from pursuing for what is clearly our model for resuscitation of the financial sector. Funding a major hole that has developed, is an inheritance we would not have liked to have had but it is an inheritance that we will convert into possibilities for the future.

We have two major risks ahead of us and I will share that with you now. In our attempt to reestablish the CLICO/BAT operation as an ongoing operation given the state of its affairs today, it will be a major task. But we do that also with the view of protecting the workers and the agents for here is a company that had lost its growth potential because for 18 months and more the previous administration did nothing on that score. Waiting, waiting for some solution to come like manna from the sky. And when I came into this office 4 months ago, one of the very first things as Minister of Finance I did was to take to cabinet a note, I believe that it was on June the 7th, appointing a high level technical team to in order to look into this issue with a sense of professionalism, with a sense of objectivity and with a sense of identifying how the nation's

interest can be protected. Six weeks later, on July 20th that committee reported, made recommendations, and may I just for the benefit of the population point out what were the options.

The first option they said, let the companies liquidate. Liquidation – there is nothing you can do. In a financial sense the companies were no longer viable. If we were to adopt that option then clearly the policy holders whom today form the traditional policy holders and can go home with a sense of relief, would have really been in real trouble. The second option which they pointed out was to continue pouring in money. The previous Government had poured in \$7 billion and now you have to pour in a further \$12 billion, proceed with that plan. Not only would it have thrown the public finances into total disarray, but it would have created a lack of confidence in the financial stability of Trinidad and Tobago. Following the government's programme in the past was a recipe to bankrupt Trinidad and Tobago. Neither I nor the Cabinet of the People's Partnership will ever take the risk of bankrupting Trinidad and Tobago. And the third option, which is the option that we eventually agreed upon, is to satisfy the small investors, protect the policy holders of life policies and provide a mechanism to finance over a period of time what has turned out to be the 20 year bond.

I thought these were the key issues that have emerged. There is a little issue that has cropped up over the weekend about the legality of the Minister of Finance taking such action. There was never any doubt in my mind nor is there any doubt now as to my legitimate function as the Minister of Finance to speak to parliament about the allocation and appropriation of funds for a specific purpose. I say no more. It is an absurd argument and it really deserves a silent answer.

At this stage I wish to also announce because within the last week we have begun to look into the affairs of both CLICO and CL Financial in greater depth, now that we have to take on this task in addition to what else we have to do. And I want to thank a former Minister of Finance Mr.

Gerald Yetming who cabinet has recently agreed to appoint as the Chairman of CL Financial and CLICO. He has started his work with the same kind of passion that he worked with many years ago as Minister of Finance of this country.

I think that is all I can say at this point and I will be happy to elaborate further if you so wish.

Thank You.

